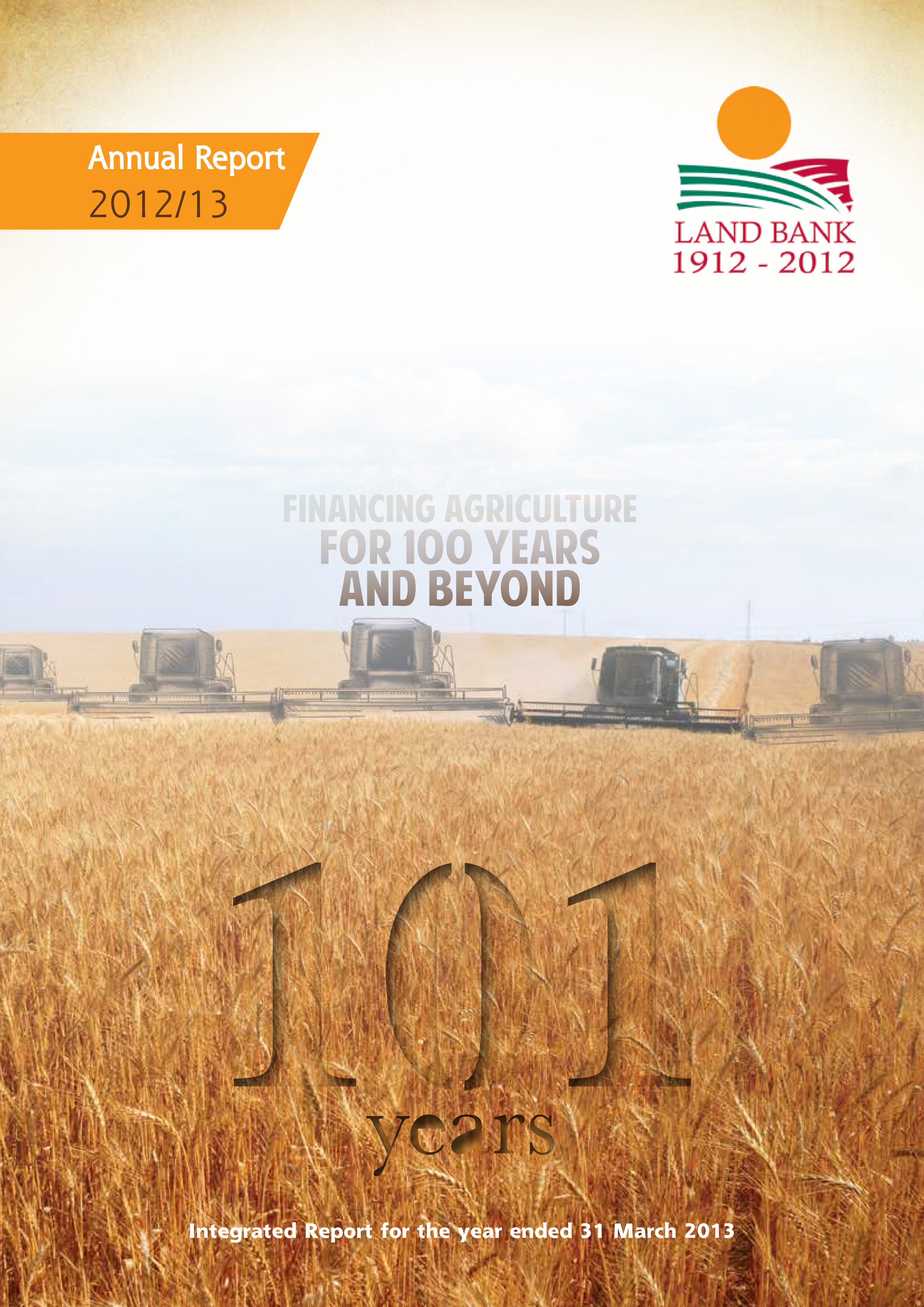
Annual Report 2012/13

LAND BANK
1912 - 2012



FINANCING AGRICULTURE FOR 100 YEARS AND BEYOND

101 years

Integrated Report for the year ended 31 March 2013

Contents

Contents Pg

Message from the Minister of Finance

Pravin Gordhan
Minister of Finance

Agriculture, the primary economic activity in the rural areas, can be a significant contributor to the target of 11 million jobs that the National Development Plan projects can be created between now and 2030. By implementing a few key initiatives, agriculture can create close to 1 million jobs between now and 2030.

These initiatives include:

- The expansion of irrigated agriculture through better use of existing water resources and developing new water schemes.
- The use of some underused land in communal areas and land-reform projects for commercial production.
- The support of commercial agriculture sectors and regions that have the highest potential for growth and employment.
- The support for job creation in the upstream and downstream industries. Potential employment will come from the growth in output resulting from the first three strategies.
- Finding creative combinations between opportunities. For example, emphasis should be placed on land that has the potential to benefit from irrigation infrastructure; priority should be given to successful farmers in communal areas, which would support further improvement of the area; and industries and areas with high potential to create jobs should receive the most support. All these will increase collaboration between existing farmers and the beneficiaries of land reform.
- Developing strategies that give new entrants access to product value chains and support from better-resourced players.

But farming is not easy. So, reversing the decline of the agricultural sector will take much sweat and toil. And as the NDP points out, creating jobs in agriculture will require credible programmes, sound implementation, significant resources and stronger institutions, such as agriculture departments in local and provincial government.

It is against this background that the performance of an institution such as the Land Bank must be measured. It is four years since the beginning of the deepest recession the world has experienced in more than 80 years. The global economy is still under pressure and the South African economy has slowed down. The agricultural sector is, inevitably, lagging. Despite these adverse conditions, the Land Bank is forging ahead. It is in a better financial position than it was a few years ago. A solid foundation has been laid for good corporate governance, and the Bank's Board and management enjoy strong relationships with the Ministry of Finance and other related government departments.

Importantly, the Bank is making strides in delivering on its development mandate. Since 2009, the Bank has disbursed R1.58 billion and launched several initiatives to achieve the target of R6 billion disbursed by 2016/17. The Bank has also done much to help emerging farmers who have been unable to service their Bank loans, identifying farms that can be resuscitated and taking steps to help achieve this. It is clear that the Bank is taking care to maintain the delicate balance between development and financial sustainability – which is important because the Bank's sustainability is closely linked to that of the agricultural sector.

The Bank now has to place environmental issues high on its agenda. The Board has approved an environmental and social sustainability programme, with deliverable targets pegged to the Bank's ambitious 2016 Corporate Landscape plan. I look forward to tracking its progress in achieving these targets.

Much has been achieved over years, but there is still much to be done. I would like to see the Bank play a larger role in the economy through rural development initiatives, creating jobs and reducing the inequalities in our society in decades to come.

A financially stronger, a well-managed and governed Land Bank will contribute significantly to the reversal of the decline in the agriculture sector, the promotion of food production and the raising of rural incomes and jobs.

Pravin Gordhan
Minister of Finance

Message from the Chairperson

Ben Ngubane
Chaiperson of the Board

South Africa's agricultural sector faced many challenges in 2012/13. The weakening exchange rate, stunted economic growth and negative economic developments in the Eurozone, agriculture's main export destination, led to sector uncertainty. Labour disputes resulted in financial constraints, especially in the Western Cape, and business costs skyrocketed.

As the primary development finance institution for the sector, the Land Bank played a crucial role in supporting the sector during this time, focusing on agricultural recovery and development while pursuing its own financial sustainability and institutional stability. The bank disbursed a total amount of about R34.6 billion during the 2012/13 financial year. As a result, the bank's performing loan book grew by 26.2 percent in the past year, increasing from R21 billion in 2011/12 to R26.5 billion in 2012/13, while its non-performing loans declined to 4.9 percent (2011/12: 6.4 percent). Investor appetite for Land Bank bonds grew and the bank managed its liquidity prudently. Clients that had left the bank continued to return and the bank continues to attract people with appropriate skills.

The bank sharpened its development focus. By the end of the financial year 2012/13 the Retail Emerging Markets (REM) division had disbursed a cumulatve total of about R247.5 million. The goal of REM is to provide a tailored service to help emerging farmers graduate to being fully fledged commercial farmers. Since the 2010/11 financial year, the bank has disbursed a total of R1.58 billion to developing farmers. Initiatives that provide emerging farmers with concessionary lending rates and improved skills are also yielding results.

The bank's partnerships with the Ministry of Finance, the Department of Agriculture, Forestry and Fisheries, and the Department of Rural Development and Land Reform helped it progress towards achieving the targets set in the 2016 Corporate Landscape. The bank also received unwavering support from the parliamentary portfolio committees of Finance, Agriculture and Rural Development. It is this approach of working together that will ensure a sustainable Land Bank into the future.

The bank enjoyed a solid leadership structure during 2012/13, with all positions in the Board of Directors and Board committees on Audit, Risk, Credit Risk, Human Resources and Remuneration filled for the duration of the year. In March 2013, it was announced that the Chief executive officer, Phakamani Hadebe, would not renew his contract when it expires in December 2013. It is largely thanks to Mr Hadebe's exceptional work that the bank has recovered from previous mismanagement and now stands ready to help the agricultural sector reach its potential. As chairperson of the Board, I would like to thank the Minister for his unwavering support for our endeavours and Mr Hadebe for his diligence, leadership and vision. I would also like to thank the Land Bank management and staff for their dedication in realising the objectives of this institution.

Ben Ngubane
Chairperson: Land Bank Board of Directors

Report of the Chief executive officer

Phakamani Hadebe
Chief executive officer

The past year has been challenging economically, both in South Africa and internationally. Now, more than ever, it is important for the country to develop a robust agricultural sector that is able to support economic growth, contribute to employment, help promote equality and – crucially – ensure food security.

The Land Bank, by providing loans to help establish emerging farmers and support established farmers in times of expansion or difficulty, plays an important part in creating such a sector. Without development finance institutions like the Land Bank, South African agriculture would be untenably vulnerable to the vagaries of drought, floods, market changes and exchange-rate fluctuations. Small scale farmers would struggle to survive and established farmers would struggle to maintain their operations. Neither would they be able to grow or contribute to the country to their full potential.

To live up to its responsibilities, the Land Bank needs to demonstrate innovation, operational efficiency, strong governance and a keen understanding of the environment in which it operates and the risks it faces as a development financial institution. It needs to balance its developmental mandate with the need to remain financially viable, and it needs to balance the agriculture sector's short-term needs with its long-term development goals.

The bank is making solid progress towards becoming such an organisation. Over the past five years, it has been working hard to resolve issues of previous mismanagement and stabilise its core operations. It has put in place systems for management and human capital development, and a funding strategy. What remains now is to implement and refine these systems while honing the company's focus on sustainability and development.

Highlights of 2012/13

During the past financial year, the bank:

- **Grew its group net profit by 88.7 percent,** from R161.4 million in 2011/12 to R304.6 million in 2012/13. Buoyed by stock-market performance, the group's investment income increased by R97.2 million to R188.1 million (2011/12: R90.9 million) on the back of LBLIC's investment portfolio. Cost-containment initiatives, a sustainable loan-book growth strategy and a well-managed borrowing plan all contributed to this performance.

- **Grew its performing loan book by 26.2 percent,** from R21 billion in 2011/12 to R26.5 billion in 2012/13. This is particularly laudable given the growth levels experienced in the previous year: in 2011/12, the performing loan book grew by a substantial 54.5 percent.

- **Grew its market share to 30 percent** from 28 percent at the end of 2011/12.

- **Reduced its non-performing loan book to 4.9 percent** of the total loan book (including insolvencies but excluding the discontinued operations - Land Bank Development Finance unit), down from 6.4 percent in 2011/12.

- **Accelerated the disbursement of loans to emerging farmers** by finalising partnerships with four intermediaries in the finance, development and agricultural sectors to identify suitable applicants and administratively manage the disbursements. A further four partners have been identified. By the end of the financial year, R139 million had been disbursed through these partnerships. The bank also directly disbursed R24 million to emerging farmers during the year.

- **Launched a project to resuscitate distressed farms** and so help struggling emerging farmers succeed and meet loan repayments. In 2012/13, the Emerging Farmer Support Facility, as the project is known, resuscitated 16 of the 238 farms identified for resuscitation. An additional 65 were offered to the Department of Rural Development and Land Reform, 37 loans were settled and 16 belong to deceased estates.

- **Enhanced its risk-management strategy** by including risk-management metrics in leadership's key performance targets and training more than 150 key personnel regarding the bank's operational risk methodology.

- **Contributed about R38.4 billion to the country's gross domestic product** (GDP), which translates to 18 258 new employment opportunities, as calculated by the Social Accounting Matrix model.

- **Updated the 2016 Corporate Landscape to reflect greater focus** on environmental and social issues, and approved an environmental and social sustainability programme.

- **Conducted an employee climate survey**, the results of which will be available in the next year. This survey will help it better understand the challenges its staff members face so that it can put in place measures to improve its organisational culture.

Despite these achievements, there remains room for improvement, particularly with regard to the bank's employment equity performance. Although the bank's broad-based black economic empowerment (B-BBEE) rating improved from level 5 at the end of 2010/11 to level 2 by the end of 2011/12, the bank was unable to reach its internal employment equity targets for African, Coloured and Indian employees in 2012/13. This is largely due to the fact that the turnover of African, Coloured and Indian staff remains unacceptably high. The bank aims to pursue level 1 status from 2013/14 by encouraging various business units to allocate their spend in a manner that will promote and support B-BBEE objectives, and ensuring and monitoring proper recording and reporting of the units' pertinent spending including recruitment activities.

It is hoped that the employment climate survey results will help guide the bank in terms of the new focus area, and that tertiary-education bursaries and company-sponsored studies for permanent employees will render dividends in the years to come.

The bank also needs to improve its service-delivery performance. It was unable to meet its 15-day turnaround target for loan applications in 2012/13, reporting an average turnaround time of 35 days. A month is a long time for a farmer who is just starting out or trying to expand his or her business. For some, significantly shortening the loan turnaround time might make the difference between success and failure. Any measures that can improve this turnaround time must be implemented and maintained.

Report of the Chief executive officer

Focus areas in 2012/13

Even as it puts the necessary building blocks in place, the bank needs to maintain focus on its sustainability goals and developmental mandate. It needs to ensure that it will operate prudently over the medium and long term, strategically growing its operations so that it is in a position to further help reduce inequality in South Africa by promoting economic growth, creating jobs and ensuring food security for all.

Financial sustainability

The National Treasury transferred R200 million to the bank as the fourth tranche of its recapitalisation programme.

The year under review was marked by amplified capital requirements due to the business's accelerated growth. This exerted pressure on the bank's balance sheet. Although the bank managed to maintain a capital adequacy ratio of 24.4 percent, which is above the agreed 20 percent, this area requires shareholder attention. The bank has started engaging government on this critical matter.

The cost-to-income ratio is another ongoing focus area. Although the target of 80.9 percent was surpassed, reporting a ratio of 67.7 percent, there is no room for complacency. The bank will continue its cost-containment efforts to ensure that expenditure remains in check.

During 2012/13, the bank consistently maintained liquidity above the minimum of 7.5 percent of short-term liabilities, as agreed with the National Treasury.

Risk management

The updated enterprise risk-management framework was successfully implemented in 2012/13. Specifically:

- A King III risk-management plan and an integrated annual report disclosure checklist have been implemented.
- Design of quantitative risk management models has commenced.
- An enterprise-wide risk-appetite framework has been designed and approved. New thresholds for 2013/14 have been finalised.
- The Ethics strategy has been approved.
- The new credit risk scoring and pricing models for loan facilities have been approved.

Remedial measures have been put in place to address areas of concern.

Enhanced business platform

In 2012/13, the bank embarked on a three-year project (2012/13–2014/15) to upgrade its information and communication technology (ICT) infrastructure and ensure that its employees are sufficiently equipped to support the bank's operations.

It also continued the rollout of SAP systems to enable the business to better manage workflow, automate account functions and generate appropriate reports. These upgrades will be a focus area in the medium term.

Legacy issues

Resolving ongoing legacy issues continues to consume valuable time and resources. The completion of forensic investigations and litigation continue to receive priority.

Disposing assets in the discontinued Land Bank Development Finance unit portfolio continues to receive attention. In 2012/13, the portfolio's net assets decreased marginally, to R143.9 million (2011/12: R144.2 million) following the partial recovery from one of the clients.

Medium-term outlook

The Minister of Finance approved the bank's medium-term corporate plan during the year under review. The plan, which came into effect on 1 April 2013, includes the 2016 Corporate Landscape, which provides a view of where the bank aims to be in 2016/17.

The medium-term corporate plan outlines the bank's strategy to grow sustainably. It sets out seven top-level strategic objectives for the period leading up to 2016, as depicted in Figure 1.

Figure 1: Pillars of Land Bank's sustainability framework

1 Implement development as core to business

2	3	4	5	6
Maintain financial sustainability and secure affordable funding	Provide a sustainable pipeline of critical skills in support of sustainability	Implement systems and drive research and innovation	Improve service delivery	Ensure partnerships and stakeholder engagement

7 Ensure good governance, risk management and compliance

Beyond 2013

The Land Bank celebrated its centenary in 2012/13. During that time, the bank has had to face many challenges. Some of them were caused by external factors like the oppressive apartheid regime, while others, particularly in later years, originated from within the organisation itself. The bank has largely managed to navigate the turbulence. Some challenges remain, but it is on the right path to a sustainable, responsible future.

On behalf of the management and staff of the Land Bank, I would like to thank the ministers of Finance; Agriculture, Forestry and Fisheries; and Rural Development and Land Reform and their respective departments for their invaluable contributions. Parliament's portfolio committees on Finance, Agriculture, Rural development, and the Standing Committee on Public Accounts were also very supportive. I would also like to express a deep sense of gratitude to our new and old clients for the trust they have put in the Land Bank.

I would like to thank the members of the Board for their guidance and oversight, without which the bank would not have the solid foundation on which it stands today.

Finally, I would like to thank the Land Bank's management and staff for their hard work and dedication. Ultimately, their commitment is the fuel that will propel this Bank on its journey towards sustainability.

The bank's focus on increasing its impact on develoment is expected to bring a new set of challenges considering the operating environment. While most of the risks that arise internally can be managed with the available fifteen, the bank needs to develop specific tools in order to respond to some of the external environmental risks that directly affect agriculture. These can be categorised into production related risks and market related risks. Production related risks refer to risks arising in the production environment including the changing global weather pattern. Market related risks include those arising as a result of changes in the market environment including changes in prices. To ensure sustainability of the business, the bank will continue to enhance its risk management processes to ensure that these risks inherent in the business environment are managed properly. The section on "Governance, risk mangement and compliance" provides more detail on the policy environment and processes, including those related to credit in this regard.

Phakamani Hadebe
Chief executive officer

Report of the Audit committee

Tryphosa Ramano
Chairperson: Audit committee

In terms of Regulation 27(1) of the Public Finance Management Act (1999), as amended, the Audit committee reports that it has discharged its responsibilities as contained in the Audit committee charter.

The Audit committee meets quarterly and additional meetings are held as and when required. Committee meetings are held before Board meetings to ensure that all critical issues highlighted are brought to the attention of the directors in good time. Minutes of committee meetings are available to the Board as a whole as and when required.

In executing its duties during the reporting period, the committee has:

- Reviewed the effectiveness of the internal control systems.
- Considered the risk areas of the group's operations covered in the scope of internal and external audits.
- Assessed the adequacy, reliability and accuracy of financial information provided by management.
- Considered accounting and auditing concerns identified as a result of internal and external audits.
- Assessed compliance with applicable legal and regulatory requirements.
- Reviewed the effectiveness of the internal audit and forensic department, including its annual plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- Considered all factors and risks that may affect the integrity of integrated reporting, including factors that may predispose management to present a misleading picture, significant judgments and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information.
- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirmed that the accounting policies used are appropriate.
- Reviewed the expertise, resources and experience of the bank's finance function.
- Provided a channel of communication between the Board and management, the risk division, internal auditors, external auditors and the compliance officer.
- Received regular reporting from each of the above functions and monitored timely resolutions of issues or concerns raised by management.

- Liaised with the Board committees and met as required with the regulators and separately with the internal and external auditors.
- Performed such other functions as required from time to time by the National Treasury in the regulations relating to public entities.
- Ensured that a combined assurance model was applied to provide a coordinated approach to all assurance activities.
- Ensured that the combined assurance received was appropriate to address all the significant risks faced by the Land Bank.

The committee has access to all sources of information that it may require from within the group. In addition, the committee or its individual members may, if they deem it necessary in the course of discharging their responsibilities, seek guidance and counsel from external experts at the group's cost. The committee has authority to invite any person that it deems necessary in the discharge of its duties, including group employees/officers and external advisors, to attend its meetings.

The committee is pleased to report that nothing came to its attention suggesting that any material breakdown had occurred in the functioning of the group systems, procedures and controls that could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements. Any control deficiencies identified by the internal and external auditors were brought to the attention of the committee and corrective action taken by management. Where internal controls did not operate effectively throughout the year, compensating controls or corrective action or both were used to eliminate or reduce risks. This ensured that the group's assets were safeguarded and proper accounting records maintained.

The committee's assessment is that the overall control environment of the group is effective. This assessment is supported by a written report from the group's internal audit function.

The committee believes that the financial controls adequately ensure that the financial records may be relied on to prepare the group's annual financial statements and the accountability for assets and liabilities is maintained. This view is based on the information and explanations provided by management about the internal control environment and the integrity of information, as well as the findings of, and discussions with the independent internal and external auditors on the results of their audits.

The committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

The committee evaluated the Land Bank's group annual financial statements for the year ended 31 March 2013. Based on the information provided there, the committee believes that the financial statements comply, in all material respects, with the relevant provisions of the Public Finance Management Act and International Financial Reporting Standards.

The committee evaluated specifically the information that should be disclosed in terms of King III for integrated reporting and found that it is contained in a number of statements in the annual report. The committee reviewed the integrated report information as disclosed in the annual report.

The committee concurs that it is appropriate to prepare the group financial statements on a going-concern basis. The committee therefore recommends that the financial statements as submitted be approved.

T Tryphosa

Tryphosa Ramano
Chairperson: Audit committee

Report of the Auditor-General

REPORT OF THE AUDITOR-GENERAL TO THE PARLIAMENT ON LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Land and Agricultural Development Bank of South Africa and its subsidiaries set out on pages 82 to 227, which comprise the consolidated and separate statement of financial position as at 31 March 2013, the consolidated and separate statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

The accounting authority's responsibility for the consolidated financial statements

2. The Board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008), 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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Land and Agricultural Development Bank of South Africa and its subsidiaries as at 31 March 2013, and their statement of comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008).

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 38 to the consolidated financial statements, the corresponding figures for 31 March 2012 and 31 March 2011 have been restated as a result of errors and reclassifications discovered during 2013 in the consolidated financial statements of the Land and Agricultural Development Bank of South Africa at, and for the years ended, 31 March 2012 and 31 March 2011.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

9. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 18 to 29 of the annual report.

10. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

11. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

12. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA.

Internal control

13. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

OTHER REPORTS

Investigations

14. A number of matters are currently being investigated relating to historical IT system implementation irregularities, Land for Development Finance Unit irregularities, irregularities in respect of AgriBEE and Mafisa funds administered on behalf of the Department of Agriculture, Fisheries and Forestry and the attempted fraudulent transfer of money from the Land Bank's main bank account.

Agreed-upon procedures engagements

15. As requested by the Land and Agricultural Development Bank of South Africa, agreed upon procedures were performed during the year under review concerning compliance with the Securities Services Act of South Africa, 2004 (Act No.36 of 2004) and compliance with the National Credit Act of South Africa, 2005 (Act No.34 of 2005). These reports covered the period 1 April 2011 to 31 March 2012 and were issued on 30 September 2012.

Auditor-General

Pretoria
31 July 2013

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Business activities and performance

The Land Bank Group provides retail and wholesale finance to emerging and commercial farmers. It also provides short- and long-term insurance services to the wider agricultural sector through its subsidiary companies, the Land Bank Insurance (SOC) Limited and the Land Bank Life Insurance Company Limited.

The Land Bank is wholly owned by government. It receives its revenue from agricultural loans (production and mortgage loans) to both emerging and commercial farmers and large agribusinesses as well as interest earned on cash at bank. Its insurance portfolio also generates significant income from investments.

Mandate and objectives

The bank's objectives flow from the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002) (the Land Bank Act) and are aligned with government's developmental goals and the country's socioeconomic needs. The bank is expected to play a pivotal role in advancing agriculture and rural development. Its broad mandate, as expressed in the act, is to promote:

- Equitable ownership of agricultural land, particularly by historically disadvantaged people
- Agrarian reform, land redistribution or development programmes for historically disadvantaged people
- Land access for agricultural purposes
- Agricultural entrepreneurship
- Removal of the legacy of racial and gender discrimination in agriculture
- Productivity, profitability, investment and innovation in agriculture
- Growth of the agricultural sector and better use of land
- Environmental sustainability of land and related natural resources
- Rural development and job creation
- Commercial agriculture
- Food security.

Development activities

The bank fulfils its development mandate by disbursing short-, medium- and long-term loans to the agricultural sector and providing targeted support for farmers. Loans are disbursed through three divisions:

- The **Retail Emerging Markets** division caters for emerging farmers who are unable to secure funding from conventional markets. This unit disbursed more than R240 million by 2012/13 and will play a critical role in the bank's future development-finance strategy.
- The **Retail Commercial Banking** division provides funding to development and commercial clients, including small and medium-sized companies, and farmers that have progressed from the development stage. It operates through a network of 27 agricultural finance centres across all provinces.
- The **Business & Corporate Banking** division provides wholesale funding to agri-businesses and cooperatives. In many instances, these cooperatives on-lend funds to their customer base. The division operates through offices in Cape Town and Pretoria.

Each division has an internal target for disbursement. Combined, the shareholder target for the bank was to disburse R550 million in development funding in 2012/13 (2011/12: R450 million). In addition to disbursing loans, the bank runs the following programmes to help emerging farmers access funding and succeed in their operations:

- The **Wholesale Finance Facility** allows intermediaries to on-lend Land Bank financing to qualifying loan applicants at a lower cost by capping the interest rate at 4 percent. It is a joint initiative with the Department of Agriculture, Forestry and Fisheries.
- The **Emerging Farmer Support Facility** aims to help farmers that have been unable to service their bank debt recover by identifying distressed farms with the potential to be resuscitated and implementing steps to achieve this.

These instruments enhance the bank's reach to its key development clients while reducing financing, outreach and management risks. See "Development performance" on p47 for more information on the performance of these divisions and programmes, its corporate social investment initiatives, and how development performance is measured.

Insurance activities

The Land Bank's insurance subsidiary, the Land Bank Insurance Company, was restructured in the year under review to comply with legislation. The company was renamed the Land Bank Life Insurance Company Limited and two new entities – Land Bank Insurance Services (SOC) Limited (LBIS) and Land Bank Insurance (SOC) Limited – were registered. LBIS is the holding company for the Land Bank Insurance (SOC) Limited and Land Bank Life Insurance Company.

LBIS will have its own board, mostly consisting of Land Bank Board members. Its subsidiaries have applied for licences to operate. The licenses are expected to be issued during 2013/14.

The Land Bank Insurance (SOC) Limited offers short-term insurance on fixed property, moveable assets and liabilities to the agricultural sector in general, and to the bank's clients in particular. The Land Bank Life Insurance Company offers long-term insurance (life and disability cover). The addition of these products represents a major shift in the company's sales and marketing strategy.

Business activities and performance

Summary of key performance indicators

The following table summarises the Land Bank's performance on key indicators contained in the shareholder's compact (government targets), as at 31 March 2013.

Key	
Status indicator	**Definition**
Achieved	100% completed
Substantially achieved	More than 80% but less than 100% completed/achieved
Partially achieved	More than 50% but less than 80% completed/achieved
Not achieved	Less than 50% completed/achieved

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Guarantee conditions	100% of guarantee conditions met 1. Maintain a capital adequacy ratio of at least 20%.	Including the government guarantee: 24.4% Excluding the government guarantee: 21.1% The ratio includes the cash injections of R1 billion in December 2009, R750 million in November 2010, R400 million in May 2011, R350 million in October 2011 and R200 million in April 2012. The remaining guarantee in place at 31 March 2013 amounts to R803 million.	Achieved
	2. Quarterly report on the progress made in implementing the turnaround strategy.	The bank submitted quarterly progress reports to the National Treasury on the turnaround strategy measured against key performance indicators.	Achieved
	3. Projected annual cash flow statements & quarterly cash flow performance reports	The bank made quarterly reports to the National Treasury on the actual and projected cash flow statement.	Achieved
	4. Quarterly progress reports on loan recoveries demonstrating sound management of the NPL's	The bank made quarterly reports to the National Treasury on loan recovery progress, demonstrating sound management of the non-performing loan book. The results achieved are disclosed under the recoveries and loan book quality key performance area.	Achieved
	5. Performance updates on its development indicators as contained in the development policy statement.	The bank provided the National Treasury with quarterly performance updates on its development indicators as contained in the development policy statement.	Achieved

<table>
<tr><th>Key performance area</th><th>Key performance indicator by 31 March 2013</th><th>Actual with explanations 31 March 2013</th><th>Status indicator at 31 March 2013</th></tr>
<tr><td>Portfolio committee undertakings</td><td><u>Portfolio committee undertakings</u>
(Agriculture: 9 July 2009)

Ministers dealing with Agriculture, Rural Development and Finance to work together to resolve the issues relating to development clients of the bank – the bank will implement a Value Chain Financing (VCF) Model (later called the Distressed Farms Resuscitation programme).</td><td><u>Implementation of the Distressed Farms Resuscitation programme</u>
• The bank performed re-evaluations of 238 distressed development farmers for the value chain-financing model. The reviews were performed to determine the status of the farms and from the information gathered, determine the intervention measures required in the different cases.
• Rabobank has been appointed to assist the Land Bank to restructure its distressed emerging farmer loan book.
• The final model has been agreed with the Deputy Director Generals (DG's) and the memorandum awaits go-ahead from the DG's.
• It is expected that the final phase of the training and implementation will be undertaken during the second quarter of 2014 when Rabobank will be back at the bank to provide assistance.
• However despite the delays, work has continued wherever possible and especially relating to abandoned farms and farms where beneficiaries have opted to quit. As agreed with the DRDLR, the Department is notified of the abandoned farms for purchase consideration. A portfolio of these farms has been notified to the National Land Acquisition Control Committee (NLACC) and the Provinces are assessing these farms for possible purchase and then approach NLACC for approval. Some farms are facing beneficiary disputes and/or disagreements.

While the Rabobank Project is not at implementation stage yet, Land Bank has identified 14 farms for resuscitation/restructuring. Progress on the 14 farms earmarked by the bank for resuscitation/restructuring in 2012/2013 has been satisfactorily.

<table>
<tr><th>Status</th><th># of farms</th></tr>
<tr><td>Repayment plans in place and owner keeping to terms</td><td>2</td></tr>
<tr><td>DRDLR likely to purchase the farms due to either a land claim, farmer want to exit farming or farm not suitable for farming</td><td>4</td></tr>
<tr><td>Property being transferred to DRDLR</td><td>1</td></tr>
<tr><td>Bank will foreclose on the farms – owner not keeping to terms</td><td>2</td></tr>
<tr><td>Loans settled and accounts closed</td><td>3</td></tr>
<tr><td>Options being considered, owners abandoned farm or farming not viable</td><td>1</td></tr>
<tr><td>Resuscitation assessment started or in progress</td><td>1</td></tr>
</table>

Summary of the full portfolio of farms:
<table>
<tr><th># of farms</th><th>Status at 31 March 2013</th></tr>
<tr><td>283</td><td>Declared distressed at 30 June 2009</td></tr>
<tr><td>65</td><td>Offered To DRDLR to consider</td></tr>
<tr><td>16</td><td>Deceased estates</td></tr>
<tr><td>16</td><td>Accounts Regularised/Restructured</td></tr>
<tr><td>37</td><td>Loans settled</td></tr>
<tr><td>149</td><td>Still outstanding</td></tr>
</table>

A great number of small loan accounts (53% in number) still require attention.</td><td>Partially achieved</td></tr>
</table>

Business activities and performance

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
		Operationalise a wholesale development financing facility (WFF) using agri-businesses as intermediaries The bank has developed a WFF to fast track the financing of development farmers through intermediaries. • The DAFF has confirmed their support for the WFF project and to this affect provided funding to the value of R20 million in 2011/2012 and R30 million in 2012/2013. • WFF product documentation has been finalised and approved by EXCO. The new documentation provides for the inclusion of 3 categories of intermediaries namely, Established, Developing and Agencies, to promote black owned/managed intermediaries as they are characterised by weaker financial positions. • Three wholesale development finance deals were finalised and the bank's Operations business unit has been tasked with the management and implementation of the deals. • For the 2013 financial year the bank disbursed R239 million (2012: R101.7 million) through WFF and has exceeded the full year target of R122 million by 96%.	Achieved
Development			
Implement development as core to business	R550 million – total disbursements	RCB R117.9 million REM R163.0 million B&CB R373.7 million Total R654.6 million	Achieved
Financial sustainability and affordable funding			
Growth in the loan book (gross)	15%	Gross book 24.1% The bank's sustained concerted efforts to grow the gross loan book made it possible to far exceed the set target for loan book growth for 2013.	Achieved
Cost to income ratio	80.9% (continuing operations)	67.7% The bank was able to contain costs through continued focus on cost containment projects.	Achieved

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Capital adequacy ratio	20% (Corporate landscape target 34%)	Including the government guarantee: 24.4% Excluding the government guarantee: 21.1% The ratio includes the cash injections of R1 billion in December 2009, R750 million in November 2010, R400 million in May 2011, R350 million in October 2011 and R200 million in April 2012. The remaining guarantee in place at 31 March 2013 amounts to R803 million.	Achieved
Diversification of income streams (year-on-year increase)	8% Target: R34 million	Gross non-interest income from loan transactions R31.7 million The bank continues to make good progress in diversifying its income streams and achieved 93% of the target set for the year. A significant transaction with an Agri-related business largely contributed to the current year achievement.	Substantially achieved
Reduce non-performing loans	Reduce NPL's to 8% of total loan book	<u>Excluding LDFU:</u> Incl. insolvencies: 4.9% Excl. Insolvencies: 4.2% <u>Including LDFU:</u> Incl. insolvencies: 7.1% The bank's focussed efforts to continue to regularise non-performing loans kept the ratio well below the 8% target set for the year.	Achieved
Liquidity	Maintain liquidity as per the liquidity model	The bank, in consultation with the National Treasury, redefined its liquidity buffer during the year to a minimum of 7.5% of short term liabilities. The bank consistently maintained liquidity above the defined minimum level. At 31 March 2013 the ratio was 9%.	Achieved
	Interest income on surplus cash: Rate between 25 to 60 bps above overnight rates	The bank consistently maintained the interest income on surplus funds between 25 to 60 bps above the overnight rates. The ratio at 31 March 2013 was 47.3 bps.	Achieved
	Reduce the cost of funds to prime minus 2.5% Target: 6.5% and lower	The bank consistently maintained the cost of funds below prime less 2.5%. The average cost of funding for FY13 was 5.87% or 2.8% below prime.	Achieved
Financial plan: Net profit	R149.6 million	R154.3 million	Achieved

Business activities and performance

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Financial plan: Gross interest margin	34.4%	39.1%	Achieved
Financial plan: Net interest margin	3.4% or R842.5m	3.2% or R796.6 million. Bank achieved 95% of the full year target for net interest income, mainly due to the unanticipated 50 bps drop in the repo rate during the year under review.	Substantially achieved
Human Capital			
Ensure the provision of key talent in support of sustainable growth	Bank ranked within the top 10 Ideal Employer Survey (Magnet survey) in the public sector.	The bank achieved a ranking of 14th position within the Public Sector in the Magnet Communications "Ideal Employer Survey". Magnet Communications has since ceased to exist and future surveys (Students & Professionals) will now be undertaken by Universum Consulting. The bank will review its continued participation in the light of developments.	Not achieved
	Employee Value Proposition (EVP) established	The Employee Value Proposition has been developed and adopted by EXCO. The EVP will be entrenched in the organisation during FY 2014.	Achieved
Develop internal organisation capability in support of sustainability	2011 leadership effectiveness index increased by 20%	The leadership organisation effectiveness index increased from 3.28 to 3.96 (20.7%). Dimensions measured include organisation performance, business unit performance and employee engagement.	Achieved
Model organisation design on best practice	70% of staff actively engaged in climate survey 75% of CWS (Critical Workforce Segmentation) actively engaged in climate survey	The climate survey (Best Company to Work For) is scheduled to close in May 2013 with results expected to be published during the 2nd quarter of 2014. The outcome of the survey will be published during the 2014 financial year at which time the bank's achievement will be known.	Result could not be measured during the reporting period

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Entrench leading employee relations practices	90% of industrial relations disputes adjudicated internally	The bank continued to be challenged by inadequate capacity and capability to adjudicate industrial relations matters internally and as a result only 59% on industrial relations matters were adjudicated internally. Furthermore, the programme roll-out to train internal chairpersons was delayed to allow implementation of the FFF transfers at the AFCs. The roll-out of the industrial relations chairperson's programme is planned for the 2014 financial year.	Partially achieved
Develop an integrated total rewards model	Performance and reward practices fully aligned to industry standards	The following Performance Management & Rewards interventions have been implemented to ensure alignment with industry standards: • Performance Management system • Job Evaluation system introduced • Rewards philosophy and strategy developed • Pay scales developed • Short Term Incentive scheme introduced	Achieved
Employment equity			
Emphasis on employment equity	Achieve company employment equity transformation targets: ACI 63% White 37%	ACI – 57.6% White 42.6% The target of 63% ACI was not achieved due to staff turnover being mainly ACI employees.	Not achieved
	PWD 3%	PWD – 5.1% The bank exceeded its target for people with disability by 70%.	Achieved

Business activities and performance

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Information technology			
Enable the business through the implementation of appropriate technologies	Customer Relationship Management (CRM)	A cost/benefit analysis has shown that it was not viable for the bank to implement a fully fledged CRM system. In response, CRM functionality pertaining to complaints and leads handling in the Client Service Call Centre has been implemented to improve customer feedback and relationship management.	Achieved
	Business Warehouse/ Intelligence (reporting)	The process is underway to install SAP Business Warehouse and the automation of the monthly management accounts will be a key deliverable. The implementation of SAP Business Warehouse is complete and four of the targeted six reports are in an advance stage of development and testing is in progress. The project is on track to be completed by the end of May 2013. The reason for the bank partially completing the project by 31 March 2013 is due to internal challenges and as a result of the project commencing later than originally planned.	Partially achieved
	Document management	SharePoint 2010, the bank's document management system, was successfully implemented during the year.	Achieved
	SAP workflow	The bank is in the process of rolling out workflow functionality for the SAP banking processes. The project commenced in January 2013 and is an 18 month project anticipated to be completed by June 2014. The reason for the bank only partially achieving the set target is because of internal challenges, including the time and resource requirements being bigger than originally anticipated and the project that started much later than originally planned.	Partially achieved

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Support the business with adequate ICT capacity (infrastructure and skills)	Replace Storage Area Network (SAN) 2013 to 2015 Review and ensure that ICT infrastructure can adequately support the bank	The replacement of the bank's aging Storage Area Network units at the main data centre and disaster recovery site has been completed as planned during the 2013 financial year.	Achieved
	2013 to 2015 Implement Enterprise Project Management Office (PMO)	The bank's target for 2013 was to conclude the mandate and terms of reference as well as the implementation roadmap for a PMO by 31 March 2013.	Achieved
	2013 to 2015 IT Org structure and capacity aligned to Land Bank requirements	The bank concluded the bi-annual review of the organisational structure. The bank is in the process to fill critical vacancies and maintained a critical vacancy rate below its target of 20%.	Achieved
Research and Innovation			
Scanning of the environment	Increase turnaround time and quality feedback on operational and strategic use by 10%	The bank's target was to increase its stakeholders' rating from a baseline score of 3.44 to 3.79 (by 10%). The bank achieved a score of 3.85% which is an increase of 12%.	Achieved
Advice and advocacy	Increased visibility and positive feedback (with reduced negative feedback) on support to stakeholders by 10%	The bank's targets were to establish and formalise links with two research institutions, deliver 9 external presentations to drive research and innovations and to formally establish a baseline rating for stakeholder feedback including a 10% improvement.	Achieved
Research publications	Documented & published history of the Land Bank –with enhanced position of the Land Bank	The book on the history of the Land Bank was successfully launched on the 23rd of April 2013 at the Bytes Technology Conference Centre in Midrand.	Achieved
Service delivery improvement			
Streamline retail operations and credit business processes	15-day maximum loan application response time	The turnaround time on retail loan applications is being monitored via a tracking tool which has been in operation since the previous financial year. The bank's average loan application response time was 35 days against a target of 15 days and is measured from the time a complete application is received by the AFC until the credit decision taken at head office is communicated to the HUB. Although the bank has made good progress formalise the monitoring of turnaround time, more work is required to achieve set turnaround time targets.	Not achieved

Business activities and performance

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
AFC network operations	HUBS fully optimised and customer centricity embedded	The project to ensure the implementation of Fit for Future (FFF) recommendations in terms of classification and configuration of AFC's has been achieved. The FFF "Ways of Work" have been incorporated into performance contracts across RCB. SAP and HR Systems have been updated with new naming conventions. A process to ensure compliance across RCB at AFC's and Hubs is in place.	Achieved
Enhance product offerings	Internal client requirement survey completed	The bank completed an internal process to assess current product offerings and made recommendations for improvement. Recommendations will be considered and assessed for implementation during the next financial period.	Achieved
Partnerships and stakeholder engagement			
Stakeholder platforms and channels	Publish stakeholder-centric strategic information using print and electronic media platforms of the Land Bank	The bank exceeded its target of 5 interviews and 5 articles for publication on print and electronic platforms.	Achieved
	Publish and distribute the Social Report Package and ERBI research reports	The Social Report Package has been completed and printed and will be distributed with the 2013 annual report. The ERMI research reports have been published and distributed.	Achieved
	Quarterly internal newsletter	Quarterly newsletters have been published and circulated to Bank employees.	Achieved
Formalise service delivery partnerships	Partnerships in finance, development and agriculture sectors	The bank has made good progress to forge partnerships in finance, development and agricultural sectors. To this end the bank, at 31 March 2013, has identified 10 potential partners and concluded agreements with 4 partners by way of intermediary agreements for development funding. There have been disbursements to the total value of R239 million and disbursements in the pipeline for 4 other partners.	Achieved

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Public Information Centre	Publish corporate and agricultural economic information positioning the Land Bank as a knowledge institution optimising the electronic and print platforms.	The target was to publish two reports in FY13, namely the 2012 Annual Report and the Land Bank history book. • The annual report was published in August 2012 • The book on the history of the Land Bank was successfully launched on the 23rd of April 2013 at the Bytes Technology Conference Centre in Midrand.	Achieved
Governance, risk management and compliance			
Integrate enterprise-wide risk management	Embedded risk management (ERM) culture	<u>Performance agreements</u> The bank's process of embedding a risk management culture is clearly articulating accountability through the performance agreements of executives. The performance agreements for all Chiefs, Heads and Senior Managers have been aligned to include risk management KPIs. <u>All characteristics of repeatable maturity level embedded & 20% of defined maturity level obtained (2016 landscape)</u> The bank had appointed a service provider to provide capacity to achieve the set targets. The ERM division with the assistance of the Service Provider has completed the agreed deliverables by 31 March 2013 which included: • Reassessed ERM framework • Operational risk registers • Strategic risk registers and • all risk registers captured and automated on CURA (Bank's risk management system). <u>Operational Risk Training</u> The bank committed to train 150 employees with regards to the bank's operational risk methodology and approach. Operational risk training was intensified throughout the bank resulting in achievement of 380, which is more than the target of 150 employees. <u>Operational Risk Assessments (ORA's)</u> 51 risk assessments have been completed for the various business areas with the majority being the 31 conducted for the AFCs.	Achieved
Ensure statutory and regulatory compliance	Enhanced compliance monitoring	The KPI's from a compliance perspective for 2012/2013 included King III, quarterly monitoring of compliance with Bank-wide laws and regulations, roll out of a legislative checklist for AFC's specific to CPA and FICA legislation, assessment of the impact of the new Companies Act and the bank's response and ethics awareness and training.	Achieved

Business activities and performance

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
Identify and quantify relevant strategic and operational risks	Review risk appetite framework (RAF) This includes • Implement pricing as per credit models • Formulation of Corporate Plan Targets using Business Sustainability Scenario Model (BSSM)	The RAF thresholds have been revised and approved in May 2012 and is operational. Monitoring takes place on a quarterly basis and results are tabled at both the Audit and Risk Committees on a quarterly basis. The credit models have been developed and implemented during FY13. The sustainability model was presented at the Board strategy session on the 9th of November 2012 and finalised at the Board meeting on 27 November. The Corporate Plan targets for FY14 and beyond have been formalised using the BSSM.	Achieved
	Review of risk registers (operational and strategic risk)	The KPI was achieved and entailed: • The monitoring of strategic and operational risk registers with quarterly reporting to the Audit and Risk committees and the Board. • Review of the strategic risks for 2012/2013. The review is aligned with the strategic planning process which deliverable (Corporate Plan) was submitted to National Treasury on 28 February 2013. • The compilation of an emerging risk report to be tabled bi-annually at EXCO and the Audit and Risk committees – the first submission was tabled at the Audit and Risk Committee in November 2012 and February 2013.	Achieved
	IT governance strategy implementation & monitoring	Improving IT Governance has been a priority this past year. A Governance Framework was approved and a comprehensive 3 year Improvement Plan was put in place. Provision was made in the 2013/14 budget for the necessary resources to to support the personnel aspects. To this end, an ICT governance manager has been appointed and recruitment is underway for a security specialist. In addition, all six ICT policies were reviewed and tabled at EXCO this past year. Sound, steady progress has been made against the IT Governance Improvement Plan and the progress is reported to the Risk Committee on a quarterly basis. Several tools are in the process of being procured to support the need for end-point and e-mail encryption.	Achieved
Internal audit			
Sustainability of the internal Audit (IA) function	Proposal regarding status of IA function and resource strategy finalised	The recommendation on the status of IA function and resource strategy was presented and approved by the bank's Audit Committee.	Achieved

Key performance area	Key performance indicator by 31 March 2013	Actual with explanations 31 March 2013	Status indicator at 31 March 2013
	60% application of the Land Bank IA methodology	The application of Land Bank Internal Audit Methodology was achieved through the quality review process conducted on each file. All the internal audit engagement undertaken and reported on in terms of the approved internal audit plan was in terms of the Land Bank's IA methodology as confirmed through the quality review process.	Achieved
Service quality	Establish a record of client complaints capturing framework	Client satisfaction was assessed after each engagement through an audit service questionnaire, formalisation of complaints received in a dashboard and quarterly reporting to the Audit Committee. Audit service questionnaires (ASQ) were received back for all audits concluded and reported on during the year. No complaints were received.	Achieved
	Results of the external quality assessment done by Institute of Internal Audit (IIA)	The quality review by the IIA has been completed as planned. The maturity level of the function has been assessed as "generally conforms".	Achieved
Processes	Exception reports of (computer assisted audit techniques) CAATS on 100% audits in the audit plan	The KPI involves the performance of computer assisted audit techniques for all financial audits. CAATS were used during the financial audits as planned.	Achieved
	Full utilisation of electronic work papers module of teammate in audit working papers	The Land Bank implemented an electronic work paper model (Teammate) in the previous financial year. All core audits completed during FY13 have been completed on the internal audit tool "Teammate". Specialist audits were completed on the outsource partner's own work paper model.	Achieved
	Combined assurance framework based on the risk register	A combined assurance framework and matrix was formulated and approved by the Audit Committee.	Achieved

Standing Committee on Public Accounts resolutions

The Bank currently does not have any unresolved Standing Committee on Public Accounts resolutions.

Stakeholder engagement

The Bank constantly seeks to improve how it relates with its partners and stakeholders. These relationships have been invaluable in helping the bank achieve its objectives. During 2012/13, the bank undertook a detailed review of its approach to stakeholder management to help formulate an optimal framework and ensure mutually beneficial relationships. The framework being developed will guide the bank in terms of formulating adequate responses to stakeholder concerns in order to ensure optimum value add and improved quality of those relationships. Key stakeholders in the Land Bank business include the shareholder and its entities, investors, clients and various categories of partners that assist the bank in delivering on its mandate.

Financial performance

South Africa's economy remained under pressure during 2012/13, reflecting global trends due to its trade exposure to the Eurozone and other major economic players. Protracted labour unrest in local mining and agricultural industries further compounded these economic challenges and reduced investor confidence.

During July 2012, the South African Reserve Bank reduced the repo rate to 5 percent in an effort to stimulate economic growth. As the Land Bank's revenue base is heavily dependent on interest income, it remains sensitive to movements in the repo rate. Increased unsecured lending in the country continues to be a concern – at the end of the 2012 final quarter, unsecured debt had increased to over R400 billion, making up about 21.7 percent of total credit granted.

Despite these challenges, the Land Bank is prevailing due to its effective strategies and continued government support. During 2012/13, the National Treasury transferred R200 million to the Land Bank in line with government's recapitalisation initiative. This brings the total funds transferred to the bank to R2.7 billion since the government announced its R3.5 billion guarantee in 2009/10. A further R300 million was received from the National Treasury after year-end, leaving a balance of R503 million on the guarantee.

Despite the sluggish economy and low interest rates, the Land Bank Group achieved a net profit of R304.6 million in 2012/13, increasing by R143.2 million, or 88.7 percent, from 2011/12 (R161.4 million). Buoyed by stock-market performance, the group's investment income increased by R97.2 million to R188.1 million (2011/12: R90.9 million). Cost-containment initiatives, sustainable loan-book growth strategies and a well-managed borrowing plan all contributed to the bank's strong 2012/13 financial performance. The bank's gross loan book increased by 24.1 percent to R27.8 billion (2011/12: R22.4 billion), of which the performing portion grew by 26.2 percent to R26.5 billion (2011/12: R21 billion).

Banking operations contributed R154.3 million (2011/12: R207 million) towards group profit. Excluding the intergroup dividend of R100 million received from

LBLIC in 2011/12, the profit from banking operations increased by R47.4 million (44.3 percent).

LBLIC's contribution increased to R150.3 million (2011/12: R54.4 million) due to improved market conditions and positive investment returns.

The Board is confident that the group will be a going concern for the foreseeable future.

See Figure 2 below

Internal performance targets

The Land Bank Group submits a corporate plan to the National Treasury annually. The plan contains key performance and strategic targets informed by the bank's mandate. The key financial performance targets set for 2012/13 are set out in the following table:

Table 1: Key financial performance targets, 2012/13

Key performance indicator	2012/13 Actual	2012/13 Target
Gross interest margin	39.1%	34.4%
Net interest margin	3.2%	3.4%
Cost-to-income ratio	67.7%	80.9%
Capital adequacy	24.4%	20%
Non-performing loans	4.9%	8%

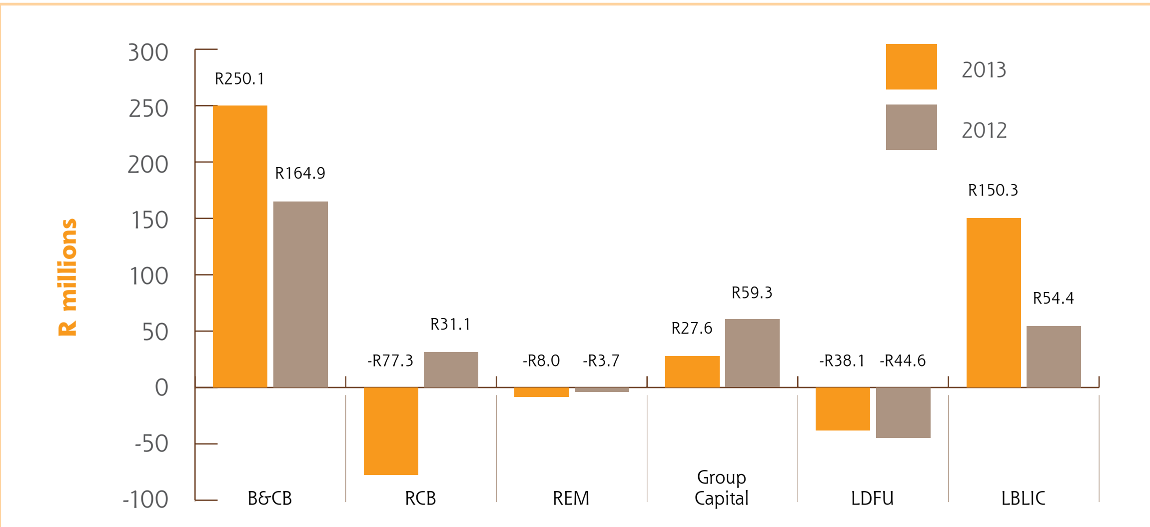
With the exception of the net interest margin target, all key targets were exceeded. The percentages of non-performing loans and the cost-to-income ratio were significantly ahead of target. The net interest margin of 3.2 percent was 0.2 percent below target (in absolute terms), mainly due to a 50-basis-point cut in the repo rate that the bank had not anticipated in its planning. The Land Bank's funding liabilities take between six and 12 months to re-price after rate changes.

The capital adequacy ratio of 24.4 percent (2011/12: 30.1 percent) is getting closer to the 20 percent target ratio required by National Treasury. The decline in the capital adequacy ratio is the result of increased funding liabilities to fund the growing loan book. The bank is engaging the National Treasury on the matter. Notwithstanding, this is still far above the minimum requirement for commercial banks according to Basel III and the Land Bank also compares favourably with other DFIs both domestic and international.

Banking Operations

Banking operations achieved a total comprehensive income of R154.3 million (2011/12: R207 million). In the year under review, no dividend was received from LBLIC (2011/12: R100 million). When excluding the 2011/12 intergroup dividend, the profit from banking operations increased by R47.4 million (44.3 percent). In the same period, operating income from

*Figure 2: Group total comprehensive income/(loss) **



* All numbers are before eliminating the effect of inter-company transcations.

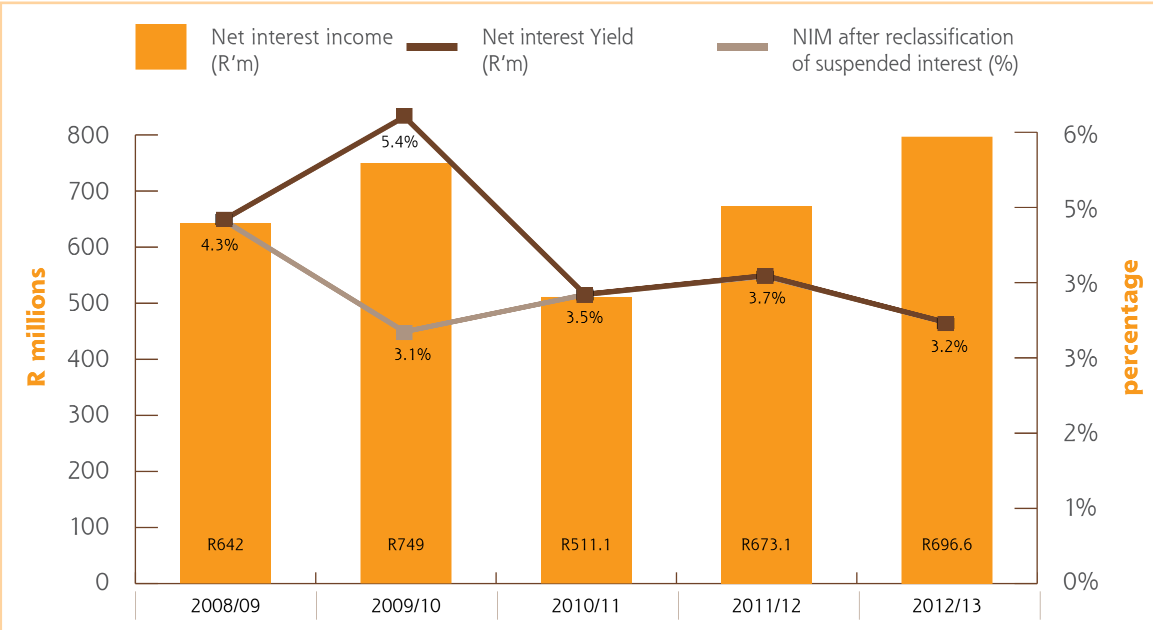
Financial performance

banking activities increased by 2.7 percent to R727.7 million (2011/12: R708.3 million). Operating expenses declined by 0.3 percent to R543.5 million (2011/12: R544.9 million). The bank's cost-containment initiatives contributed to the marginal decrease in operating costs.

Table 2: Salient features

	2012/13 (R million)	2011/12 (R million)	Variance
Net interest income	796.6	673.1	18.3%
Impairment (charges)/releases	(75)	3.6	(+100%)
Non-interest income	6.2	31.6	(80.4%)
Investment income	53.6	124.7	(57%)
Fair value gains/losses	(12.5)	(12.7)	0.2%
Operating expenses	(543.5)	(544.9)	(0.3%)
Non-trading capital items	(10.1)	23	(+100%)
Discontinued operations	(38.1)	(44.6)	(14.6%)
Other comprehensive income/(loss)	0.5	(25.8)	+100%
Cash and cash equivalent	1 676.7	1 787.1	(6.2%)
Loans and advances	26 968.7	21 555.6	25.1%
Funding liabilities	22 953.5	17 864.9	28.5%

Figure 3: Net interest margins



Net interest income

Net interest income increased by 18.3 percent to R796.6 million (2011/12: R673.1 million). Significant growth in the loan book, anchored by a well-managed funding strategy, resulted in increased interest revenue and contained funding costs. Improved market perceptions of the Land Bank allows for a more diversified investor base and relatively affordable funding, while government support through capital injections continues to reduce funding costs.

See Figure 3 on previous page

Impairments

Net impairment charges for 2012/13 were R75 million, comparing unfavourably to the 2011/12 net impairment release of R3.6 million. Increases in impairment provisions across the bank's loan portfolio and interest claims adjustments contributed to the adverse movements in net impairments. The bank continues to apply prudent credit policies to reduce the prevalence of non-performing loans and limit the increase in impairments. The bank continues with its collection efforts on non-performing loans, but recovery rates are declining as more complex recoveries replace less cumbersome ones.

Table 3: Impairments

	2012/13 (R million)	2011/12 (R million)	Variance
Net impairment (charges)/releases	(75)	3.6	(+100%)
Total (charges)/releases	**(75)**	**3.6**	**(+100%)**

Non-interest income

Account admin fee and commission income increased by R6.6 million (18.5 percent) from R35.6 million in 2011/12 to R42.2 million in 2012/13. However, growth in the acquired loan book resulted in increased administration fees, which led to an overall decline in non-interest income of 80.4 percent to R6.2 million (2011/12: R31.6 million).

Acquired loan book administration fees are charged as a percentage of the average monthly loan balances. Although the improved fee income (as a result of revised fees and charges policies) is masked by the administration fee expenses, there is a net benefit in revenue growth stemming from the loan book growth. This resulted in increased net interest income. Fees from the issuing of loans increased by 9.6 percent to R34.7 million (2011/12: R31.6 million). The bank will continue to diversify its income streams to increase the contribution of non-interest income towards total revenue, and to ensure that fee income is commensurate with risk.

Table 4: Non-interest income

	2012/13 (R million)	2011/12 (R million)	Variance
Fee and commission income	(15.3)	22.7	(+100%)
Account admin fee and commission income	42.2	35.6	18.5%
Account admin fee expense	(57.5)	(12.9)	+100%
Other (sundry income, investment property rentals and income from properties in possession)	21.5	8.9	+100%
Total	**6.2**	**31.6**	**(80.4%)**

Investment income

Investment income declined from R124.7 million in 2011/12 to R53.6 million in 2012/13. The figure for the previous reporting period was complemented by a R100 million inter-group dividend. When excluding this dividend, investment income increased by R28.9 million (in excess of 100 percent) from R24.7 million in 2011/12. Improved stock-market performance resulted in increased unrealised fair value gains, influencing the overall investment income.

Table 5: Investment income

	2012/13 (R million)	2011/12 (R million)	Variance
Unrealised fair value gains	28.6	6.5	+100%
Dividends	3.9	104.6	(96.3%)
Realised gains	17.0	10.1	68.3%
Interest	5.7	4.6	23.9%
Investment management fees	(1.5)	(1.1)	36.4%
Total	**53.6**	**124.7**	**(57%)**

Financial performance

Fair value losses

Fair value losses on trading and funding instruments declined marginally to R12.5 million from the 2011/12 loss of R12.7 million. These losses are attributable to the re-pricing of floating rate notes that respond to the movement in the Johannesburg Interbank Agreed Rate.

Table 6: Fair value losses

	2012/13 (R million)	2011/12 (R million)	Variance
Held for trading			
Swaps	(0.9)	(6.1)	(85.2%)
Market making assets	(0.9)	(0.5)	80%
Designated through profit and loss			
Promissory notes	-	(5.8)	(+100%)
Floating rate notes	(10.7)	(0.3)	+100%
Total	**(12.5)**	**(12.7)**	**0.2%**

Operating expenses

Total operating expenses declined marginally by R1.4 million (0.3 percent) to R543.5 million (2011/12: R544.9 million). The following table highlights notable movements in operating expenses for 2012/13. Staff-related costs increased by 3.7 percent to R357.1 million (2011/12: R344.5 million). Amortisation costs have remained relatively unchanged as there were no major ICT software projects implemented in 2012/13. In 2011/12, the bank implemented the SAP core banking module and other risk-management systems, which increased amortisation costs. Legal fees declined by 31 percent to R16.7 million (2011/12: R24.2 million). In the year under review, no debtor's book was acquired.

Table 7: Notable movements in operating expenses

	2012/13 (R million)	2011/12 (R million)	Variance
Staff costs	357.1	344.5	3.7%
Amortisation of computer software	13.2	13.1	-
Professional fees	21.9	29.5	(25.8%)
Legal fees	16.7	24.2	(31%)
Other operating expenses*	134.7	133.5	0.9%
Total	**543.5**	**544.9**	**(0.3%)**

*Disclosed in Note 29 to the Annual Financial Statements

Fruitless and wasteful expenditure

The total cumulative fruitless and wasteful expenditure by 31 March 2013 amounted to about R8 000 (March 2012: R11 000). The expenditure incurred relates mainly to fines and penalties levied on late payments to municipalities for water and electricity, interest on overdue accounts and traffic fines.

Non-trading capital items

The significant decline in non-trading and capital items is attributable to the fair-value movements on investment properties.

Table 8: Non-trading capital items

	2012/13 (R million)	2011/12 (R million)	Variance
Fair value adjustments to investment property, land and buildings	(8.2)	27.8	(+100%)
Non-current assets held for sale fair value adjustment	(1.6)	0.9	(+100%)
(Loss)/profit on disposal of investment property and property and equipment	(0.3)	(5.9)	94.9%
Total	**(10.1)**	**23**	**(+100%)**

Discontinued operations

Discontinued operations reported a loss of R38.1 million, improving from the 2011/12 loss of R44.6 million. The losses are primarily due to the funding costs of the Land Bank Development Finance unit loan portfolio. The Land Bank Development Finance unit operation was discontinued in 2008/09 as the loans granted fell outside the bank's operating mandate.

Disposing assets in the discontinued portfolio continues to receive attention. In 2012/13, the portfolio's net assets marginally decreased to R143.9 million from R144.2 million in the last financial year following a partial recovery from one of the clients.

The discontinued portfolio remained stagnant during 2012/13, totalling R644.48 million on 31 March 2013. The portfolio can be segmented into two sectors, namely loans that can be collected through commercial settlements and those requiring legal intervention.

Commercial settlements during 2012/13

The bank agreed to a settlement with Emerald Sky at the end of December 2012. However, resolution of this matter is taking too long. The bank is reviewing its position on this matter. Negotiations with interested parties regarding the R372 million Amber Mountain exposure are under way.

No other settlement agreements were concluded during the course of 2012/13. Management is pursuing avenues to dispose of the remaining assets, but will only do so on favourable terms. Legalities and prevailing market conditions, among other factors, are delaying the process.

Loans requiring legal intervention during 2012/13

Idada Trading 61 (Pty) Ltd's insolvency process is still ongoing. As part of the process, Idada Trading has gone on auction. An offer of R11.5 million was received and accepted by the bank. The net estimated receipt after liquidation costs (18 percent) is R 9.4 million. To date R9.65 million has been received from the transaction. The account is currently fully provided for, based on this latest offer (effectively security value).

West Side Trading, which had a loan balance of R97.7 million on the portfolio, has been liquidated. Legal action to quantify the bank's claim and confirm its security position has been set in motion.

Since its reclassification as a discontinued operation, no interest income has been accrued or recognised on this book.

Other comprehensive income

The bank provides a post-retirement medical-aid benefit to those who were employees or pensioners of the bank at 1 December 2005. As this fund functions primarily as a defined benefit scheme, the bank is liable for fully funding it. The fund liability is subject to an annual actuarial valuation. The actuarial loss in 2012/13 was R22.7 million (2011/12: R30.6 million). Post-retirement medical-aid liability specialists are devising the most suitable strategy to remove the liability. The bank will ensure that the adopted strategy will not unduly disadvantage the affected parties.

The bank's land and buildings are revalued annually. In 2012/13, this amounted to R12.8 million (2011/12: R4.7 million). Gains on financial assets of R10.4 million relate to the fair-valuation movement on equity investments in a corporate client after a debt-to-equity swap was concluded.

Table 9: Other comprehensive income

	2012/13 (R million)	2011/12 (R million)	Variance
Actuarial loss on post-retirement medical aid liability	(22.7)	(30.6)	(25.8%)
Revaluation of land and buildings	12.8	4.7	+100%
Gains on financial assets at fair value through other comprehensive income	10.1	-	+100%
Total	**0.5**	**(25.8)**	**(100%)**

Financial performance

Cost to income

The cost-to-income ratio improved from 77.1 percent in 2011/12 to 67.7 percent in 2012/13 due to the bank's cost-containment and revenue-growth initiatives. The ratio exceeds the Corporate Plan target of 80.9 percent.

See Figure 4 below

Cash and cash equivalents

Cash and cash equivalents marginally decreased in 2012/13 to R1.7 billion from R1.8 billion in 2011/12. Cash balances are primarily held to provide the bank with a sufficient liquidity buffer for perceived refinancing risk. The liquidity committee advises on the optimal levels of cash to be held based on the bank's requirements and best-practice banking. The Land Bank's refinancing risk has been significantly reduced following successful investor diversification.

See Figure 5 on next page

Trade and other receivables

In 2012/13, trade and other receivables increased by 48.3 percent to R339.2 million (2011/12: R228.7 million). The increase is mainly attributable to intercompany transactions between the Land Bank and its wholly owned insurance services. In the period under review, the intercompany balance amounted to R269.4 million (2011/12: R179.4 million).

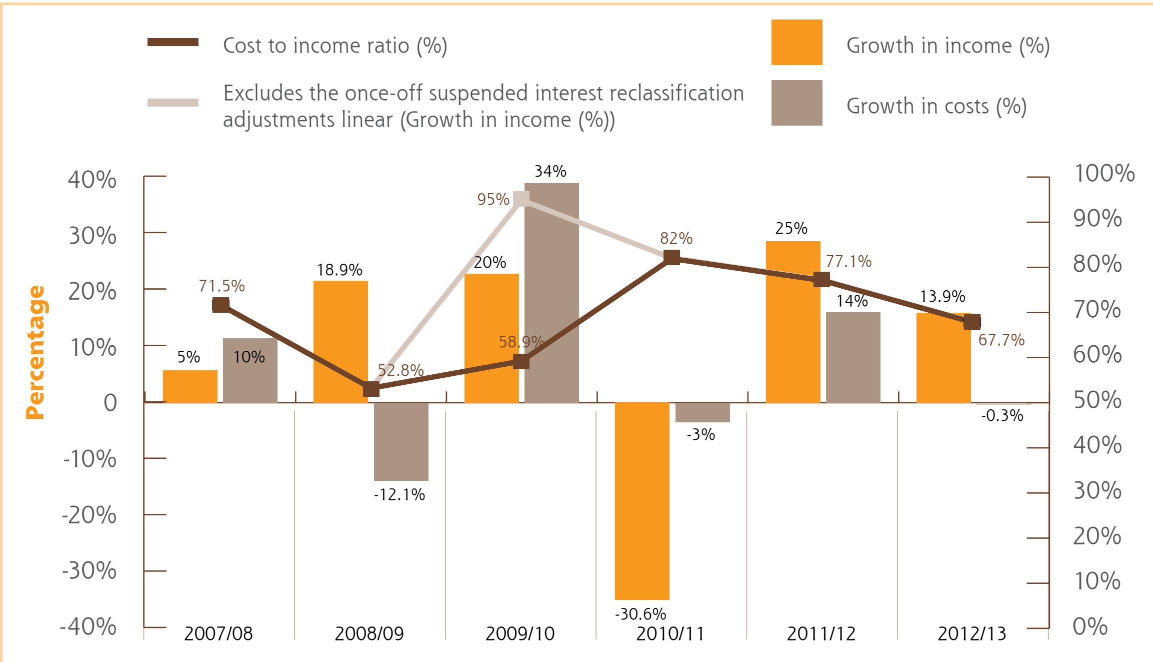
Repurchase agreements

Repurchase agreements cover any short positions that the bank might have experienced. At the end of the financial year, there were no short-term positions to be covered (2011/12: R6 million).

Non-current assets held for sale

Non-current assets held for sale include land and buildings earmarked for disposal, approved by the Minister of Finance. These assets increased to R52.3 million (2011/12: R15.5 million), mainly driven by the increased value of properties in possession – from R8 million in 2011/12 to R47.3 million in 2012/13. Additions to these properties amounted to R41.8

Figure 4: Cost-to-income ratio



million (2011/12: R0.5 million), whilst disposals amounted to R2.6 million in 2012/13 (2012: R39.5 million). A detailed account of these properties is provided under note 7.2 of the financials.

Investments

Medical-aid fund assets serving as a hedge for post-retirement medical aid liability make up the bulk of the Land Bank`s investment portfolio. These investments, classified as "fair value through profit and loss", are measured and disclosed at fair value. In 2012/13, the fair value of the portfolio increased by 17.6 percent to R285.1 million (2011/12: R242.5 million). This translates to a surplus of R1.2 million (2011/12: R13.6 million deficit) when compared to the relevant liability. Non-listed equities increased to R15.4 million (2011/12: R5 million), following a fair valuation at year-end. Overall, investments increased by R53 million (21.4 percent) to R300.5 million (2011/12: R247.5 million).

Loans and advances

Net loans and advances increased by R5.4 billion (25.1 percent) in the reporting period to R27 billion (2011/12: R21.6 billion).

Gross performing loans increased to R26.5 billion (2011/12: R21 billion). Business and Corporate Banking and Retail Commercial Banking contributed R4.7 billion and R611.7 million respectively towards the increase in the performing loan book. Retail Emerging Markets' contribution amounted to R145.8 million.

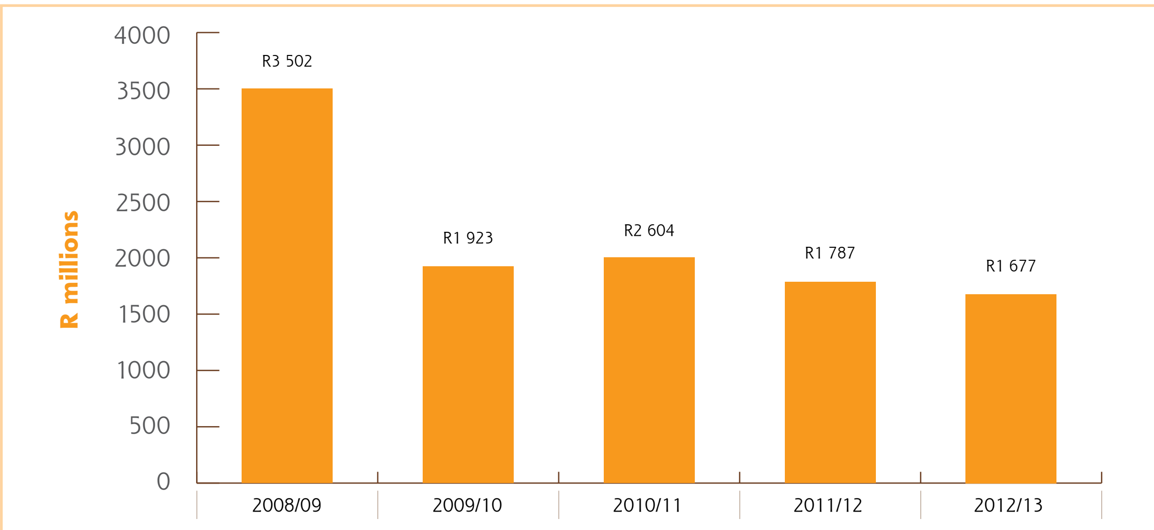
Collections on loans in arrears (including insolvencies) amounted to R154 million (2011/12: R792.1 million).

Non-performing loans decreased by R52.4 million (3.7 percent) from R1.429 billion in 2011/12 to R1.377 billion in 2012/13. This was achieved through collection and restructuring initiatives. The percentage of non-performing loans in the total loan book declined to 4.9 percent (2011/12: 6.4 percent).

Total impairments, which include provisions for suspended interest and administration fees, decreased marginally by R9 million (1 percent) to R875.6 million (2011/12: R884.6 million). Effective credit controls and monitoring initiatives continue to cushion the bank from the risk of increased bad debts.

See Figure 6 and 7 on next page

Figure 5: Cash and cash equivalents



Financial performance

Assets classified as held for sale

This category comprises the assets of the discontinued Land Bank Development Finance unit operations. All interest income on these loans has been suspended. The finalisation of some of the settlement agreements is ongoing. In 2012/13, net assets of the portfolio marginally decreased to R143.9 million (2011/12: R144.2 million) following a partial recovery from one of the clients. The directors' valauation of R200.6 million (2011/12: R200.6 million), based on valuations done by independent professional valuators, is dettermined with reference to the net realiseable values of underlying securities.

Figure 6: Loan-book performance

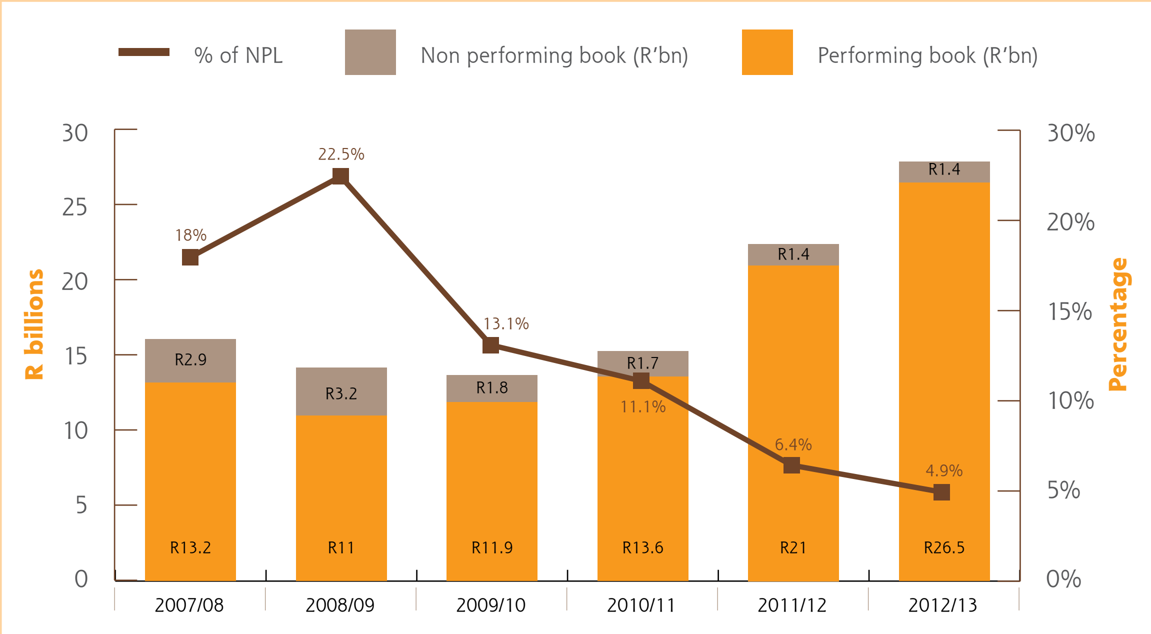
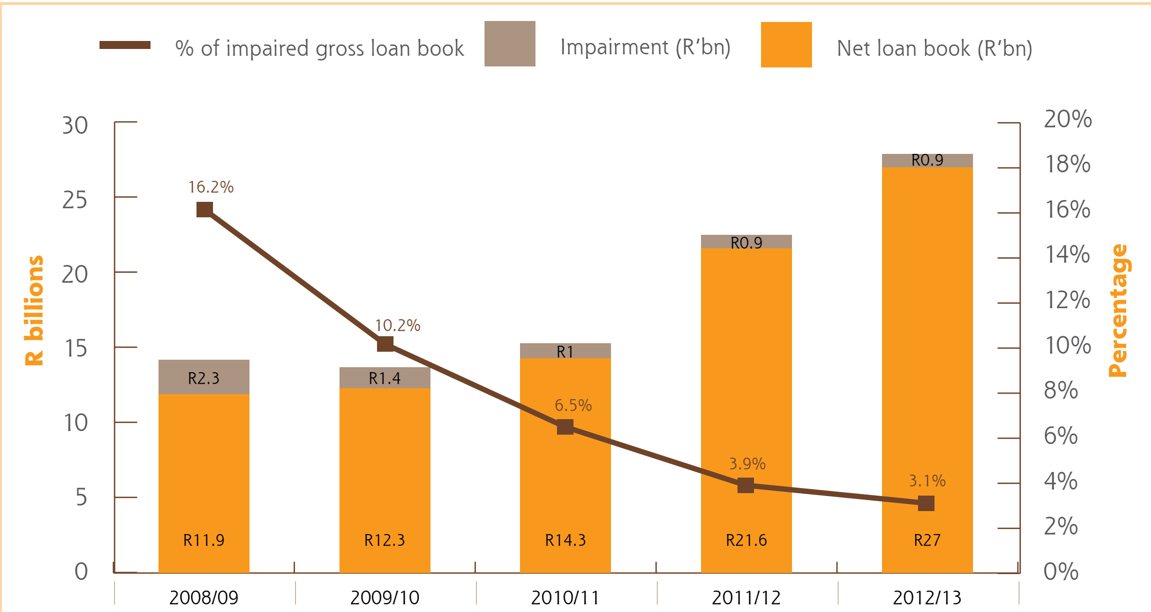


Figure 7: Impairments trend



AFGRI corporate lending book

The bank acquired the corporate lending book of GroCapital Financial Services (Pty) Ltd (GroCap), a wholly owned subsidiary of AFGRI Operations Ltd in the year under review.

In addition to acquiring GroCap's existing loans to corporates, which totalled R1.1 billion at the time, the deal also gave the bank right of first refusal on any loans originated by GroCap after the deal came into effect.

Since the deal came into effect, the total corporate lending book increased to R1.53 billion by 31 March 2013. The book is administered by GroCap on behalf of the bank in terms of a five-year service level agreement.

This deal is similar to the Land Bank's 2011/12 acquisition of Unigro Financial Services (Pty) Ltd's (Unigro's) farmer lending book. Unigro is also a wholly owned subsidiary of AFGRI Operations Ltd.

As with the corporate lending book acquisition, the deal saw the bank acquiring both the existing loans granted to farmers, which totalled R1.57 billion at the time, and the right of first refusal on any loans originated by Unigro after the deal came into effect. The farmer lending book is currently administered by Unigro on behalf of the bank in terms of a five-year service level agreement. It stood at R4 billion by 31 March 2013. Both acquisitions are expected to contribute towards the bank's financial sustainability.

Derivative financial instruments

Interest-rate swaps manage interest-rate mismatches between fixed and floating interest rates applicable to assets and liabilities.

Table 10: Derivative financial instruments

	2012/13 (R million)	2011/12 (R million)	Variance
Interest-rate swaps			
Liabilities	-	15.4	(+100%)

Intangible assets

Intangible assets declined to R42.2 million (2011/12: R54.6 million). Initially measured at cost, the value of intangible assets was reduced by accumulated amortisation and impairment losses. Amortisation costs during 2012/13 amounted to R13.2 million (2011/12: R13.1 million). Additions of R1.9 million (2011/12: R9.7 million) and disposals of R1.1 million (2011/12: nil) were recorded in the same period.

Investment properties

Investment properties consist of owned office buildings and property held for rental income. For the year under review, the value of these properties declined to R65.8 million (2011/12: R74 million) due to decreases in fair-value adjustments. Fair-value losses of R8.2 million (2011/12: R27.8 million gains) were recorded in 2012/13. There were no reclassifications to investment properties. In the previous financial year, R3.6 million in properties was reclassified from "property and equipment" to "investment properties".

Property and equipment

At the end of 2012/13, the net carrying value of property and equipment increased by R10.6 million (9.7 percent) to R119.3 million (2011/12: R108.7 million). Revaluation surpluses and additions contributed R22.4 million and R9.9 million respectively (2011/12: R23.4 million and R5.3 million). Devaluations on land and buildings amounted to R11.2 million (2011/12: R21.6 million) in the same period.

Financial performance

Capital and reserves

At the end of the financial year, the Land Bank had received a cumulative R2.7 billion from its R3.5 billion convertible guarantee from the National Treasury, reducing the guarantee to R800 million. Post year-end, a further R300 million was received, bringing the balance on the guarantee to R503 million.

See Figure 8 below

Capital adequacy

The capital adequacy ratio declined to 24.4 percent from 30.1 percent in 2011/12. This declining trend is in response to increased funding liabilities required to match the growing loan book. Funding liabilities increased by R5.1 billion (28.5 percent) to R23 billion (2011/12: R17.9 billion). The ratio, despite the decline, remains above the National Treasury requirement of 20 percent. The Land Bank is engaging the National Treasury to identify a suitable solution that will allow the bank to continue on its growth trajectory while remaining financially sustainable.

See Figure 9 on next page

Funding liabilities

The Land Bank participates in the open market by issuing debentures, promissory notes, floating rate notes, call bonds and bills. Total funding liabilities increased by R5.1 billion (28.5 percent) to R23 billion (2011/12: R17.9 billion) due to growth in the loan book. The Land Bank has improved its image following successive years of commendable performance. Investor diversification has also enabled the bank to borrow at affordable rates and contain refinancing risk.

See Figure 10A and 10B on next page

Provisions

Provisions increased by R12.2 million from R414.8 million in 2011/12 to R427 million in 2012/13. Additional provisions raised amounted to R119.6 million, while utilisations and reversals amounted to R91.9 million and R15.5 million respectively. Additional provisions include costs relating to administration fee claims (R34 million), legal fees on legacy matters and ongoing commercial transactions (R4.8 million), and staff-related costs (R70.5 million).

See Figure 11A and 11B on page 42

Figure 8: Capital and reserves (R billion)

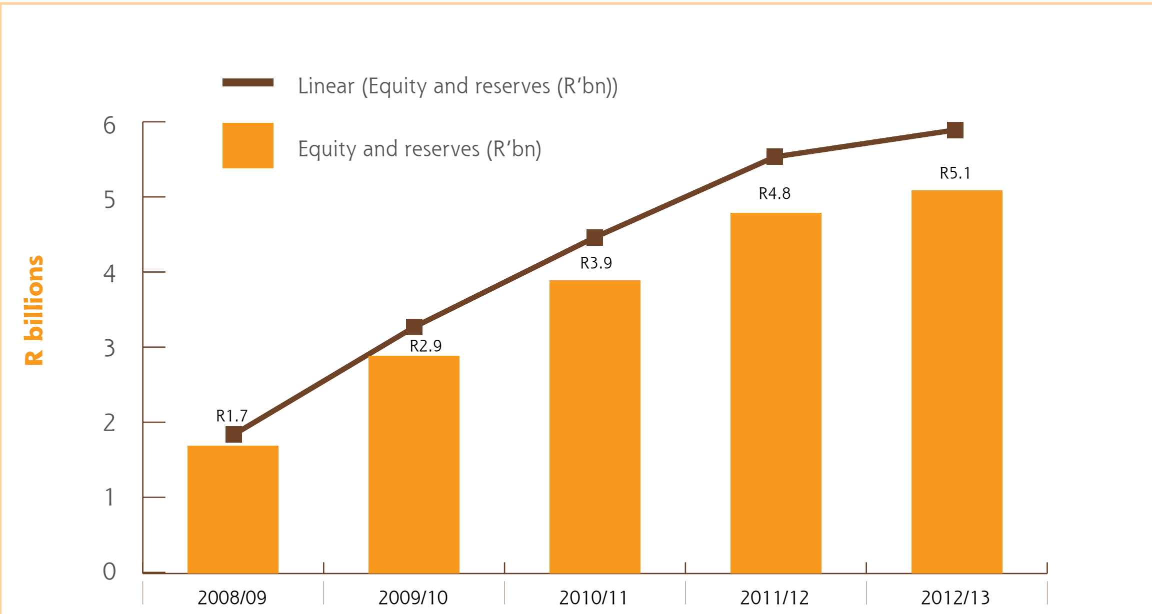


Figure 9: Capital adequacy

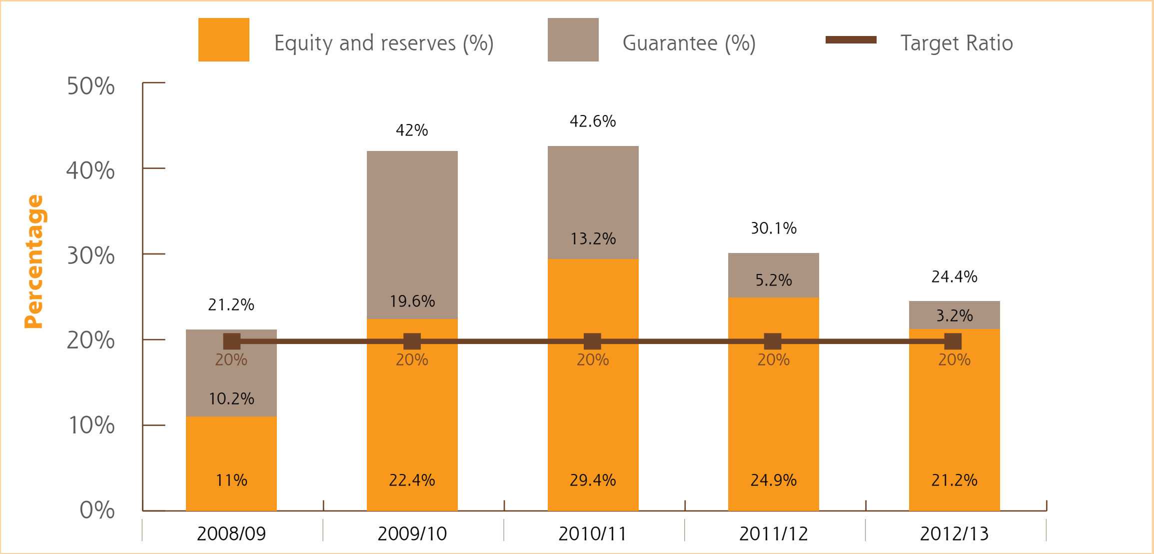


Figure 10A: Funding composition at 31 March 2013

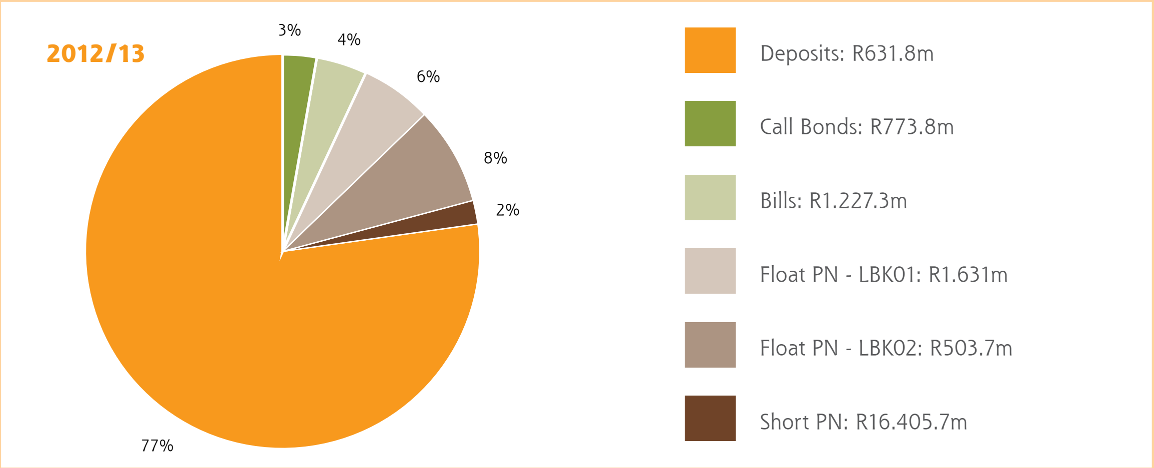
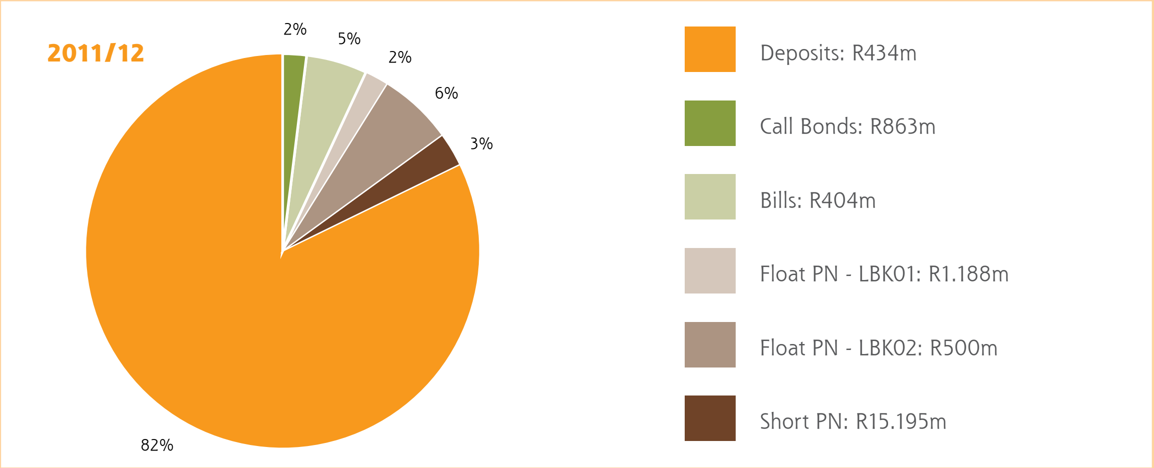


Figure 10B: Funding composition at 31 March 2012



Financial performance

Figure 11A: Provisions at 31 March 2013

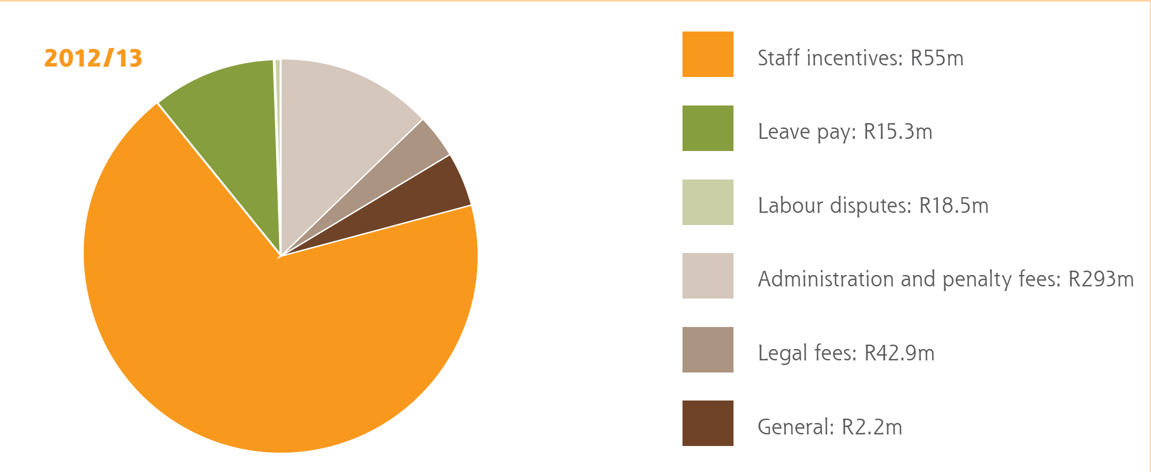
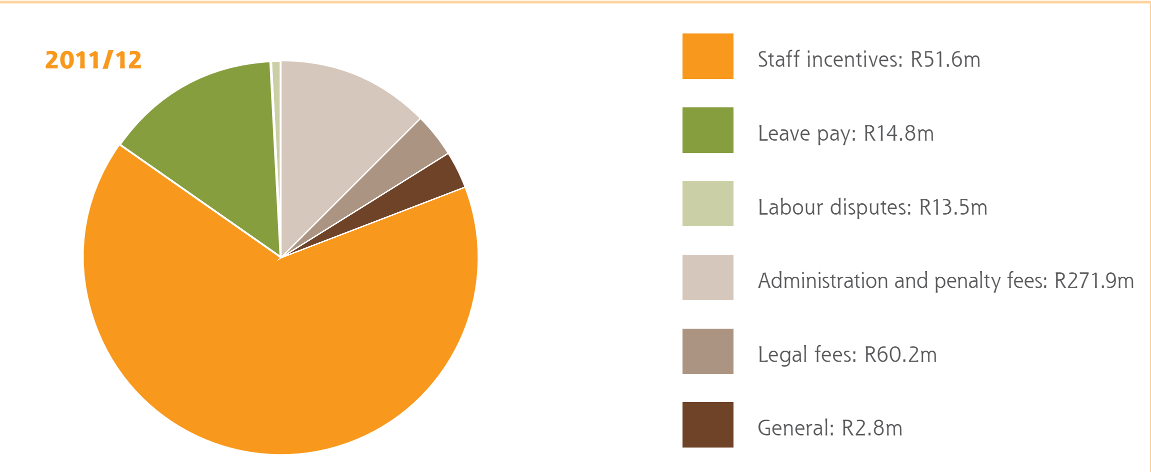


Figure 11B: Provisions at 31 March 2012



Supreme Court of Appeal rules in Land Bank's favour

In 2005, the bank entered into an agreement with a service provider to plan and implement a turnaround strategy for the bank that developed into a dispute. A second agreement was entered into to resolve the dispute. In the second agreement, the bank agreed to cede, subject to agreed-upon terms and conditions, written-off debtors to the value of about R123 million to the service provider.

A second dispute arose between the parties regarding the interpretation of the settlement agreement. Independent legal opinion indicated that the bank had complied with the settlement's provisions, as the bank did not have in its loan book debt that met the criteria described in the settlement.

The matter went to trial in March 2012. On 23 March 2012, judgement was delivered in favour of the bank. The Plaintiff appealed. The Supreme Court of Appeal heard the matter on 7 May 2013 and delivered its verdict on 5 June 2013, dismissing the Appellant's claim, with costs.

Segment performance

Table 11: Summary of segmental financial performance

	2012/13 (R million)	2011/12 (R million)	Variance
Net operating income/(loss)			
Business & Corporate Banking	239.9	164.9	45.5%
Retail Commercial Banking	(76.8)	31.6	(+100%)
Retail Emerging Markets	(8)	(3.7)	+100%
Group Capital	70.2	82.6	(15%)
Net operating income	**225.4**	**275.4**	**(18.2%)**
Non-trading and capital items	(10.1)	23	(+100%)
Indirect taxation	(23.4)	(21.1)	10.9%
Net profit from continuing operations	**191.9**	**277.3**	**(30.8%)**

Business & Corporate Banking

The Business & Corporate Banking division provides wholesale funding to agri-businesses and cooperatives. In many instances, these cooperatives on-lend funds to their customer base. The division operates through offices in Cape Town and Pretoria. The Business and Corporate Banking book is predominantly made up of short-term funding, with 79 percent of the book in the short-term maturity bracket.

Key points

- Operating expenses decreased by 2.7 percent
- Performing book increased by 27.2 percent.

Table 12: Business & Corporate Banking financial performance

	2012/13 (R million)	2011/12 (R million)	Variance
Net interest income	323.9	200.5	61.5%
Net impairment	(20.5)	(7.7)	(+100%)
Non-interest income/ (expense)	(37.9)	(1.7)	(+100%)
Operating income	**265.5**	**191.2**	**38.9%**
Operating expenses including depreciation and amortisation	(25.6)	(26.3)	2.7%
Net operating income	**239.9**	**164.9**	**45.5%**

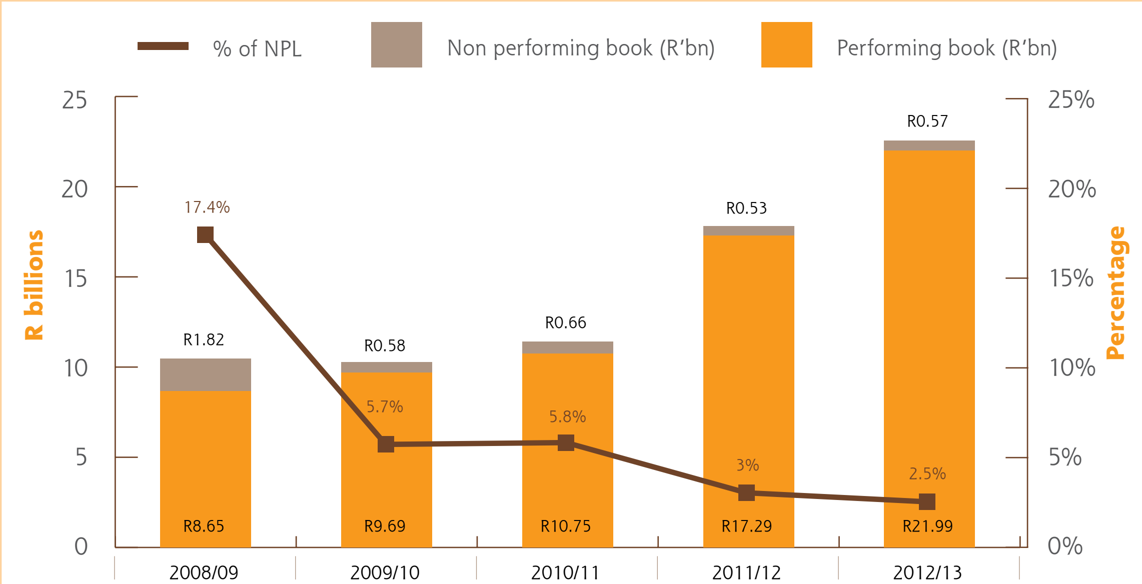
Net operating income increased by R75 million (45.5 percent) to R239.9 million (2011/12: R164.9 million). Despite a 50-basis-point cut in interest rates during the year, net interest income increased by R123.4 million (61.5 percent) to R323.9 million. This is attributable to the significant loan-book growth achieved during the year and a well-balanced funding strategy, anchored by strategic initiatives that combined both organic growth and debtors' acquisitions.

The performing loan book increased by R4.7 billion, from R17.3 billion in 2011/12 to R22 billion in the period under review. Non-performing loans increased marginally by R46.5 million to R574.1 million (2011/12: R527.6 million).

See Figure 12 next page

Financial performance

Figure 12: Business & Corporate Banking year-on-year performance



Retail Commercial Banking

During 2012/13, loans amounting to R1.2 billion (2011/12: R1.4 billion) were approved and disbursed. Collections on loans in arrears amounted to R145 million, decreasing by 58.9 percent from the previous financial year (2011/12: R353 million).

Key points

- Operating income declined by more than 100 percent
- Operating expenses increased by 10.1 percent
- Loan book grew by R512.8 million, or 11.4 percent
- Total of R145 million collected from outstanding arrears.

Table 13: Retail Commercial Banking financial performance

	2012/13 (R million)	2011/12 (R million)	Variance
Net interest income	150.3	172.3	(12.8%)
Net impairment	(50.9)	13.8	(+100%)
Non-interest income	15.4	19.7	(21.8%)
Operating income	**114.8**	**205.7**	**(44.2%)**
Operating expenses including depreciation and amortisation	(191.6)	(174.1)	10.1%
Net operating income	**(76.8)**	**31.6**	**(+100%)**

Retail Commercial Banking's net operating income declined by more than 100 percent to incur a loss of R76.8 million (2011/12: R31.6 million profit). The division was adversely affected by increased impairment provisions. These provisions were necessitated by a number of clients in distress. In the period under review, the division recorded impairment charges of R50.9 million (2011/12: R13.8 million impairment release), including provisions. Provisions for interest claims which increased in 2012/13 to R34 million (2011/12: R20.4 million). Gross loans increased by R512.9 million (2011/12: R640.8 million increase). This represents an increase of 11.4 percent.

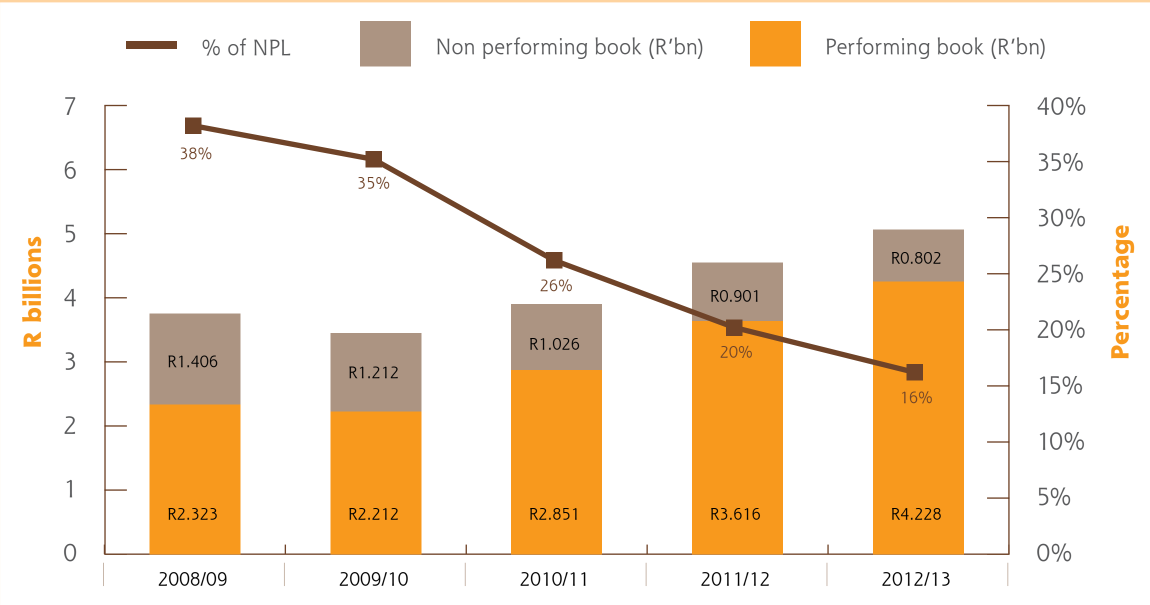
Performing loans increased by R611.7 million (16.9 percent) to R4.2 billion (2011/12: R3.6 billion), while non-performing loans declined by R98.9 million (11 percent) to R802.5 million (2011/12: R901.4 million). Management is closely monitoring this division in light of its losses. The bank is considering options to make the unit sustainable.

See Figure 13 on next page

Retail Emerging Markets (development)

Since its launch in 2010/11, the Retail Emerging Markets division has made strong progress. During

Figure 13: RCB year-on-year loan-book performance



2012/13, its loan book grew by R145.8 million (more than 100 percent) to R247.5 million (2011/12: R101.7 million). To mitigate the risk associated with this market segment, the bank launched the Wholesale Financing Facility, which allows farmers to access funding at an interest rate capped at 4 percent. The facility is run in partnership with the Department of Agriculture, Forestry and Fisheries. It also provides emerging farmers with skills and other support.

Total disbursements under the development loan book amounted to R654.7 million (2011/12: R752.2 million), exceeding the Corporate Plan target by R104.7 million (19 percent). Retail Emerging Markets contributed R163 million, while Retail Commercial Banking and Business and Corporate Banking contributed R117.9 million and R373.7 million respectively.

Group Capital

Group Capital provides support services to the bank's business divisions. It consists of the following support units: Treasury, Finance, Risk and Internal Audit, Information Technology, Corporate Strategy and Planning, Human Resources, the Chief executive officer's Office and the Legal and Board Secretariat.

Group Capital manages the bank's capital, cash and funding requirements through the Treasury unit. Funding is provided to the divisions through an internal transfer pricing model.

Key points

- Capital adequacy declined to 24.4 percent (2011/12: 30.1 percent)
- R200 million received as fourth tranche of recapitalisation
- Increased investor diversity
- Stabilised cost of funding
- Optimised liquidity.

Table 14: Group Capital financial performance

	2012/13 (R million)	2011/12 (R million)	Variance
Net interest income	325.7	301.5	8%
Non-interest income	21.9	13.6	61%
Operating income	**347.6**	**315.1**	**10.3%**
Other income	41.2	112	(63.2%)
Operating expenses including depreciation and amortisation	(318.5)	(344.5)	(7.5%)
Net operating income	**70.2**	**82.6**	**(15%)**

Financial performance

In 2012/13, Group Capital achieved a net operating profit of R70.2 million (2011/12: R82.6 million).

Group Capital performance continues to be sustained by cost-containment initiatives and increases in non-interest income and other income. Non-interest income is made up of rental income and once-off sundries. Investment income makes up the bulk of other income. Improved stock-market performance during 2012/13 contributed significantly to the overall profit.

Land Bank Life Insurance Company performance

LBLIC achieved a net profit of R150.3 million (2011/12: R54.4 million). As a result of the favourable stock-market performance during the reporting period, LBLIC investment income increased by R68.3 million (103 percent) to R134.5 million (2011/12: R66.2 million). This contributed significantly towards the overall profit. Underwriting results improved to a profit of R7 million from the 2011/12 loss of R15.3 million. Strategic and operational efforts are under way to ensure that underwriting operations become sustainable in the short to medium term. Total investments under management increased by 14.8 percent to R1 billion (2011/12: R893.2 million).

Table 15: LBLIC performance

	2012/13 (R million)	2011/12 (R million)	Variance
Gross premium income	6.1	183.9	(96.7%)
Net premium income	10.3	50.4	(79.6%)
Operating expenses	(8.5)	(8.3)	2.4%
Underwriting profit/(loss)	7	(15.3)	+100%
Investment income	134.5	66.2	+100%
Net profit	150.3	54.4	+100%
Investments	1 025.7	893.2	14.8%

Gross premium income

LBLIC ended its relationship with the contracted underwriter. As a result, gross premium income decreased significantly, from R183.9 million in 2011/12 to R5 million in 2012/13.

Operating expenses

Operating expenses increased marginally from R8.3 million in 2011/12 to R8.5 million in the year under review. Finalising registration of the bank's long- and short-term insurance subsidiaries will increase costs in the short to medium term.

Operating costs were allocated to short- and long-term insurance businesses on a proportionate basis, which is consistent with the previous financial year. Commission and administration costs are disclosed as part of underwriting results in the statement of comprehensive income and are not included as operating expenditure.

Investments

At the close of 2012/13, LBLIC had an investment book of R1.03 billion (2011/12: R893.2 million), which realised an investment return of 13.1 percent net of fees (2011/12: 7.1 percent).

Development performance

The Land Bank takes a fairly broad definition of development, focusing on emerging, established and commercial farmers. The bank believes that a strong agricultural sector and the realisation of national benefits of job-creation and food security – not to mention the bank's own financial sustainability – requires the success of all three levels of agriculture.

The bank has established a development model and framework that disburses funding to all three agricultural markets and provides additional support to emerging farmers. See "Business activities and performance" (p16) for a summary of these structures.

Disbursement

In the year under review, the bank disbursed R654.6 million (shareholder's target: R550 million) through the following divisions:

- R163 million (internal target: R122 million) to emerging farmers through the Retail Emerging Markets division.
- R117.9 million (internal target: R210.9 million) to small and medium-sized cooperatives and companies, and farmers that have progressed from the development stage through the Retail Commercial Banking division.
- R373.7 million (internal target: R217.1 million) to larger agri-businesses and cooperatives through the Business and Corporate Banking division.

Support programmes and facilities

Emerging Farmer Support Facility

The Emerging Farmer Support Facility, which was approved by Cabinet in 2011/12, was launched during the year under review. The programme aims to identify Bank clients who have defaulted on their loans but whose farms may be revived with appropriate interventions. Rabobank, a Dutch agriculture bank, provides the project with technical assistance.

By 31 March 2013, the bank had re-evaluated the 238 farms identified as likely candidates for resuscitation.

Development performance

Of these farms:

- 65 were offered to the Department of Rural Development and Land Reform for consideration
- 16 were deceased estates
- 16 have had their accounts regularised/ restructured
- 37 have settled their loans
- 149 loans are still outstanding.

Wholesale Finance Facility

The Wholesale Finance Facility is used to fast-track financing development farmers through intermediaries. The Department of Agriculture, Forestry and Fisheries confirmed its support for the project and provided R30 million in funding in 2012/13 (2011/12: R20 million).

The Executive Management committee approved the Wholesale Finance Facility product documentation, which provides for three categories of intermediary (established intermediaries, developing intermediaries and agencies) to promote black-owned or managed intermediaries, which tend to be characterised by a weaker financial position.

Three wholesale development finance deals were finalised during 2012/13 and the bank disbursed R139 million through the facility. Two of these deals have already resulted in 38 farms being financed, benefitting 1 117 families and creating 484 permanent and 1 201 seasonal jobs.

Corporate social investment

The bank's corporate social investment programme aims to support community projects to make them sustainable beyond the bank's involvement. The type of investment differs according to period and structure of the project. Some projects require additional assistance and protracted funding compared to others.

During 2012/13, the bank's corporate social investment programme supported two such projects, one in KwaZulu-Natal and one in Limpopo province. The projects emanated from the Land Bank Agricultural University Chair programme at the universities of Zululand and Venda. The project in KwaZulu-Natal supports the breeding of Nguni sheep for the benefit of the rural community of Kwa-Mthethwa. The Limpopo project supports an agro food-processing cooperative in Molemole.

The bank continues to work with the two universities on these projects with the aim of making them self-sustainable. The bank also contributes to other social development projects, specifically in the areas of health and education. The bank invested an equivalent of 1.2 percent of its profit in the last financial year to socioeconomic development projects against a target of 1 percent. The bank has targeted to increase this proportion to about 3 percent in the medium-term.

Measuring development impact

The bank uses the Social Accounting Matrix (SAM) to assess its development impact. In partnership with the Development Bank of Southern Africa, this approach was piloted in February 2011 and adjusted for inflation in December 2012. It has been used by development finance institutions in South Africa and internationally to monitor socioeconomic development impact at macro level.

Direct, indirect and induced impact

SAM estimates the direct, indirect and induced development impact the bank's lending has on the economy and society. Direct impact occurs within the agriculture sector and indirect impact occurs in diverse economic sectors linked to the agriculture sector. Induced impact is the chain reaction triggered by salaries and profits (less retained earnings) in the form of private consumer spending in the economy.

The variables selected to estimate the development impact of the bank's lending are as follows:

- GDP (value added to the national economy).
- Employment opportunities created or maintained

(the creation of jobs [in person years] during the construction phase and the number of permanent jobs created during the operational phase for the year under consideration [production phase]).
- Capital utilisation (the use of machinery, transport equipment, buildings and other social and economic infrastructure).
- Additional income accrued to households.
- Additional government revenue.

SAM estimates for 2012/13

The bank's loan approvals and disbursements during 2012/13 sparked considerable economic activity in the agriculture sector and beyond. SAM estimates these effects in the tables that follow. All figures are estimates.

Table 16: Impact of the bank's disbursements on GDP and job opportunities

Variable	Estimated impact of disbursements
GDP	R38.4 billion
New job opportunities	18 258

In the table above, one employment opportunity constitutes 240 days worked per year.

Table 17: Bank's direct and indirect impact on capital, household income and government revenue

Variable	Direct impact	Indirect impact
Capital employed due to loan approvals	R54.3 billion	R37.96 billion
Capital employed due to disbursements	R118.3 billion	R83.7 billion
Household income due to disbursements	R25.16 billion	R11.75 billion
Government spending due to disbursements	R12.26 billion	R5.71 billion

This development impact estimate excludes the bank's disbursement impact on social services provision (for example, health and education).

B-BBEE contribution

As a state-owned enterprise, the bank should promote transformation by attracting and supporting meaningful participation of people that can contribute to its broad-based black economic empowerment (B-BBEE) credentials.

The bank conducted its first B-BBEE verification in 2010/11, when it achieved contributor level 5. In 2011/12, it again underwent verification and achieved contributor level 2. This will be maintained by:

- Encouraging the various business units to allocate their expenditure in a manner that will promote and support B-BBEE objectives
- Ensuring and monitoring proper recording and reporting of all business units' pertinent spending
- Developing B-BBEE business plans for all the measured codes with specific targets to achieve for each year
- Promoting transformation by attracting and supporting meaningful participation of B-BBEE-compliant individuals and enterprises when doing business.

Human capital performance

In order to be sustainable, the bank needs to attract and retain the appropriately skilled staff. To achieve this, the bank focuses on the following:

- Human resources planning and employee relations
- Talent management
- Learning and development
- Performance and rewards management.

Human resources planning and employee relations

During 2012/13, the bank reviewed and restructured its agricultural finance centres to ensure that they are appropriately resourced to provide a full service, a partial service or a point of presence, as is applicable to their mandate. In cases where transfers were necessary, management consulted with the Finance Union (SASBO) before engaging with affected employees. The process began in January 2013 and will continue in 2013/14.

The bank took part in Deloitte's "Best Company to Work For" survey as a virtual participant. The results of this exercise were circulated throughout the bank. The bank's goal is to be ranked in the top three in its sector.

A number of wellness initiatives were rolled out across the bank in conjunction with the employee wellness programme's service provider. Participation in these programmes has been encouraging.

Talent management

Talent management received more attention in 2012/13 as the bank refined its succession planning and career-pathing for employees. This will continue to be a priority going forward.

Staff turnover for the reporting period was 8.2 percent. Exit interviews were conducted and the bank continues to monitor this figure.

Strategies to roll out job-shadowing and job rotation, and the development of an employee value proposition, reached an advanced stage during 2012/13.

Table 18: Transformation status

Category	2012/13	2011/12
Racial equity		
African, Coloured, Indian in management positions	68%	65%
African Coloured, Indian employees in company	57.6%	57%
Gender equity		
Women in management positions	26%	25%
Women in company	44.2%	43%
People with disabilities		
People with disabilities	5.1%	5%

The bank's African, Coloured and Indian employment equity profile at 31 March 2013 was 57.6 percent of a total of 581 staff. Of the total staff complement, 44.2 percent were women and 55.8 percent were men. As a result, the bank has adopted a 60/40 formula in favour of women for all future recruitment. People with disabilities accounted for 5.1 percent (30) of the staff complement.

Table 19A: Terminations in 2012/13 (Total terminations: 48)

Terminations 2012/13	Number	Percentage
Racial profile		
African, Coloured, Indian	37	77.1%
White	11	22.9%
Gender profile		
Women	18	37.5%
Men	30	62.5%

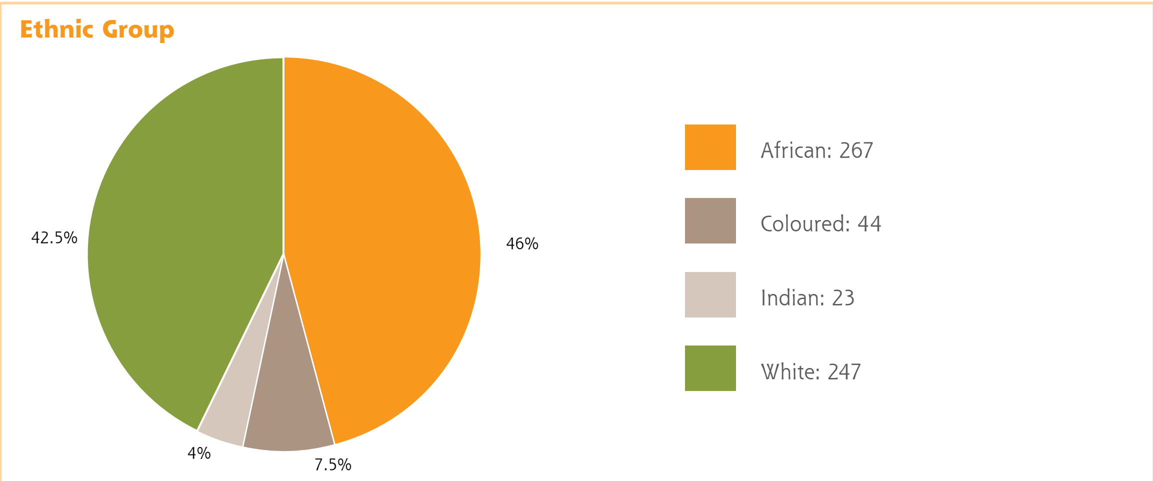
Table 19B: Appointments in 2012/13 (Total appointments: 36)

Appointments 2012/13	Number	Percentage
Racial profile		
African, Coloured, Indian	27	75%
White	9	25%
Gender profile		
Women	16	44.4%
Men	20	55.6%

The most prevalent reason advanced for termination at exit, is that of better prospects outside of the Land Bank. This can be attributed to the improvements that the bank has made over the past few years which have resulted in Land Bank staff being highly marketable.

See Figure 14 below
See Figure 15A and 15B on next page

Figure 14: Breakdown of staff by race



Human capital performance

Figure 15A: Breakdown of staff by gender and race

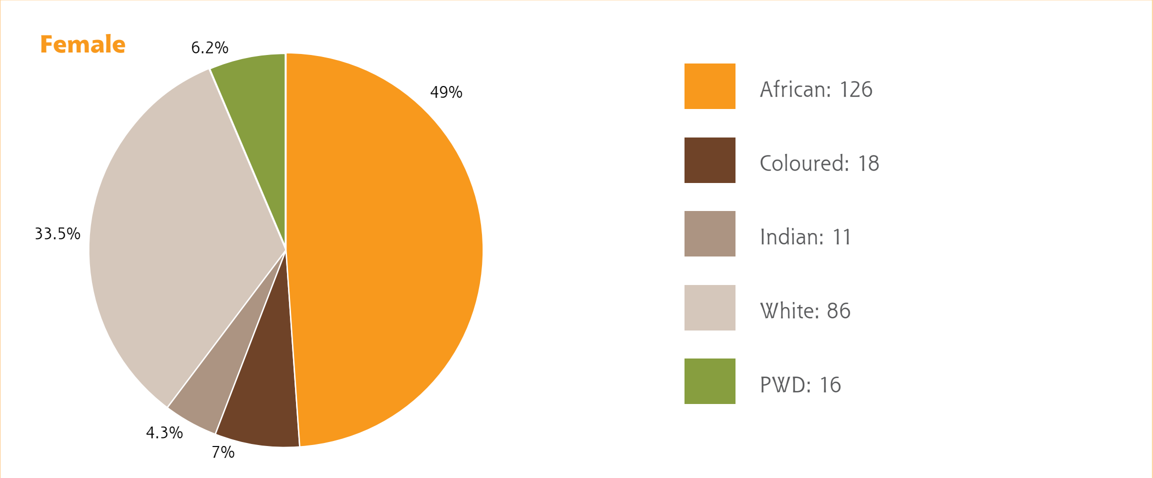
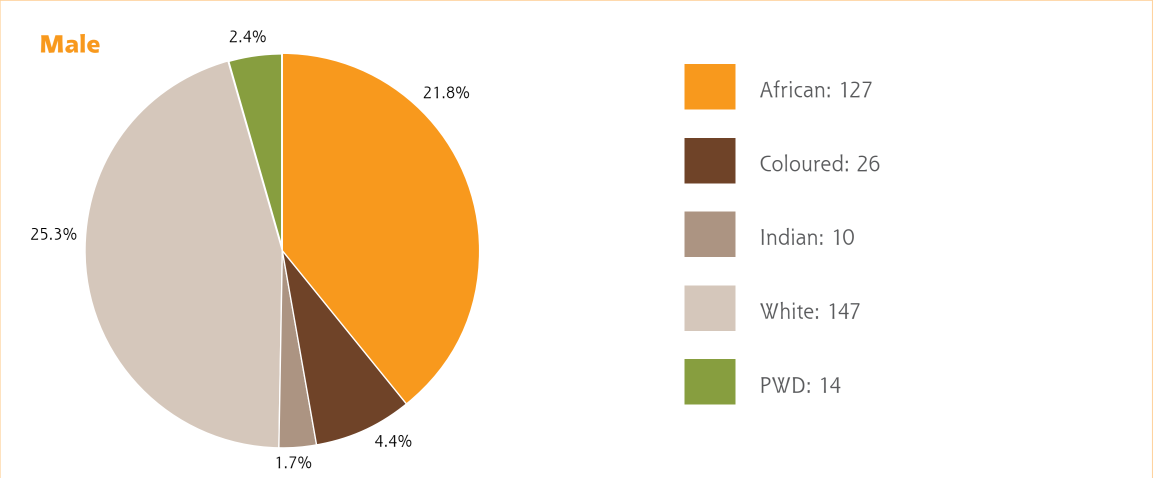


Figure 15B: Breakdown of staff by gender and race



Learning and development

The skills competency at agricultural finance centres was reassessed during the year under review. Since the last assessment in 2011/12, competency has improved by 4 percent, contributing to the bank's overall skills proficiency level of 3.2 out of 4 (2011/12: 3.06).

The registration of 32 learnerships significantly increased the skills-development component of the bank's B-BBEE scorecard, from 2.45 in 2011/12 to 13.75 out of 20. The bank defines learnerships as structured learning programmes during which the learner spends some time learning practical skills in the workplace, which results into a nationally recognised qualification. The intention is to equip individuals with skills to either acquire employment or enhance their skills. The duration of a typical learnership is 12 months (three months theory and nine months of workplace exposure), subject to a contractual agreement with an employer.

Funding for learnerships is provided by an employer, the sector education and training authority (BANKSETA) or a combination of the two.

Land Bank runs two learnerships, namely:

- National Certificate: Banking Services Advice NQF level 5 (interns)
- National Certificate: Business Administration Services NQF level 2 (office assistants).

Cross-functional training programmes were delivered at the bank's head office and agricultural finance centres, and leadership and development programmes continued to be rolled out to management.

A Bank employee has completed BANKSETA'S International Executive Development Programme. Another is registered for the 2013/14 programme.

Company-sponsored tertiary studies for permanent staff continued during the 2012/13 academic year. The following table provides a summary of learning and development courses attended by staff members from across the bank in 2012/13.

Table 20: Summary of training participants

Type of training	Number of participants 2012/13	Number of participants 2011/12
Leadership development	28	45
Technical training	110	94
Generic training	185	291
Staff study	38	60
Bursaries	10	11
Learnerships	32	18

The courses focused on the following:

- **Leadership courses** were targeted at developing management, middle management and executives.
- **Technical training** focused on SAP applications and development, office administration, company law and contracting, and courses on remuneration offered by the South African Reward Association.
- **Generic training** focused on project management, finance for non-financial management, Excel training, junior management training and financial wellness.
- **Staff study** constitutes certificates, degrees and diplomas in agriculture, finance, ICT and law, among other fields.
- **Bursaries** were given for degrees in agriculture-related studies and in the ICT field.
- **Learnerships** were awarded to people with disabilities (9), office assistants (15) and graduates (8).

Performance and rewards management

The Land Bank's performance-management programme links performance and rewards. In 2012/13, the bank implemented a job-evaluation system to ensure that grading is consistent with the relative worth of jobs.

Governance, risk management and compliance

The Land Bank has embedded governance, risk-management and compliance principles throughout the organisation. During 2012/13, the bank:

- Reviewed and updated enterprise risk-management framework and policy in line with international best practice and governance principles.
- Conducted 51 operational risk assessments throughout the organisation, which enhanced its strategic risk profile.
- Revisited the Board-approved strategies to achieve the 2016 Corporate Landscape.
- Embedded and maintained the enterprise-wide risk-appetite framework, with quarterly reports to management and the Board. Risk-tolerance levels were reviewed once during the year.
- Embedded an approved FICA compliance framework with internal rules. Reporting in terms of the act is done continuously.
- Piloted and implemented the credit risk scoring model and the pricing model for loan facilities.
- Approved a comprehensive ethics strategy to enhance stakeholder conduct and the bank's reputation.
- Approved an environmental and social sustainability programme.
- Added environmental, social and ethics reporting to the Risk committee's monitoring responsibilities.

The bank strives to incorporate best-practice principles in corporate governance, information technology (IT) governance, risk management and compliance. King III compliance obligations are managed using a detailed risk-management plan and an integrated annual report disclosure checklist.

Corporate Governance

Corporate governance encompasses the concepts of sound business principles and best practice, both of which are an integral part of the Land Bank's culture. The bank is committed to good governance, providing its shareholder and other stakeholders with the assurance that the group is managed with due consideration to risk and in compliance with best practice on a sound ethical foundation.

The Land Bank's corporate governance system consists of external regulations and codes, and internal principles. The governance framework enables the Board of Directors to provide risk oversight and counsel, while ensuring that regulatory requirements and risk tolerance levels are adhered to.

The Board discharges its duties through policies and frameworks, as well as through several Board committees and subcommittees. Executive management, together with these committees, manages the business through a system of internal controls. The bank complies with the governance requirements as contained in the Land Bank Act and the Public Finance Management Act (1999), and it subscribes to the King III guidelines.

The Land Bank holds itself accountable to the shareholder and stakeholders for its performance. The bank aims to enhance the accuracy, completeness and reliability of its annual financial and non-financial reporting through internal controls, assurance and independent audits. Reporting helps the shareholder and stakeholders assess the actions of the Board and management.

Board of Directors and executive management

The bank has a two-tier governance structure consisting of the Board of Directors and executive management. The two bodies are separate and only the Chief executive officer and Chief financial officer serve on both structures.

On behalf of the shareholder, the Board:

- Determines the group's overall strategy and helps develop the bank as a focused development finance institution
- Acts as the custodian of corporate governance
- Supervises executive management in its decisions and operations.

The Chief executive officer is responsible for the bank's day-to-day management, under the direction of the Board, and is supported by the executive management team. The team allocates resources, determines and implements strategies and policies, sets direction, ensures timely reporting and provides information to the Board and group stakeholders. The Executive committee delegates some of these responsibilities to sub-committees, chaired by members of the bank's executive and senior management.

See "Board, management and remuneration" for further information on the Board's members, committees and remuneration.

Policies, procedures, objectives and performance measurement

The bank's philosophy, policies, values and objectives are determined by the Board, with input and guidance from the Executive committee. Management is charged with the detailed planning and implementation of Board policy in accordance with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies through mandated reports from management, who are held accountable for their actions.

IT governance

IT governance focuses on the performance and risk management of IT systems and processes. The Risk committee assists the Board with this oversight responsibility. In line with developments in King III, where IT governance is elevated from a subsection to a dedicated chapter, the bank has adopted an IT governance model aligned with best practice. The Board has approved a framework, policy, charter and IT control framework to evaluate, direct and monitor IT governance.

Governance, risk management and compliance

IT governance framework

The IT governance framework defines how the bank ensures that its IT strategy is created, approved, reviewed and implemented in a manner that always aligns with the business strategy. The framework also defines the organisational structure, policies and procedures that are required to facilitate good governance and compliance in the areas of technology and information security management. From this framework, an IT governance improvement plan was developed to address identified weaknesses.

IT compliance

The IT governance manager acts as a risk champion for the IT department. The manager also facilitates frequent assessment of legal and regulatory compliance matters in cooperation with compliance and risk officers.

Governance of ethics

The bank's approach to business ethics is governed by the mandatory Code of Ethics and Business conduct, which commits the bank's non-executive directors, executive directors and employees to the highest standards of ethical behaviour. In addition to this code, the Executive committee has developed its own code of conduct subscribing and committing to the Land Bank's values. Executive management has set up a well-designed ethics strategy, which has been approved by the Board and will be rolled out in 2013/14.

Compliance with laws, rules, codes and standards

The Board, with support from the Audit and Risk committees, is responsible for ensuring that the group complies with applicable laws, non-binding rules, codes and standards.

The following key compliance objectives were achieved during 2012/13:

- Established a forum to monitor compliance obligations in terms of the Companies Act (2008)
- Strengthened the bank's governance framework by developing and reviewing all charters, policies procedures and processes
- Conducted ethics awareness campaigns in line with the ethics strategy.

Processes are in place to ensure that the Board is adequately informed of significant developments in applicable laws, rules, codes and standards. Compliance is an integral part of the bank's risk-management process. Management is responsible for implementing an effective compliance framework and processes. The bank also strives to comply with the highest professional standards of integrity and behaviour.

The bank is subject to extensive supervisory and regulatory governance from its shareholder. The National Treasury is the bank's lead regulator. The Land Bank Act, the Public Finance Management Act, National Treasury Regulations, the National Credit Act (2005) and the Financial Markets Act (2012) regulate the bank's business. Requests for information are dealt with according to the bank's Promotion of Access to Information Act (2000) manual. The bank's compliance department assists the Board and management in complying with all applicable statutory, regulatory and supervisory requirements. It also monitors and controls compliance risks. The compliance function forms part of the overall risk-governance structure. The compliance officer reports to the Audit and Risk committees every quarter.

The compliance function also relies on the expertise and capacity of other functions in the bank. Regular training is provided to ensure that all employees are familiar with their regulatory obligations. Business-unit compliance champions have been appointed to drive the process. This enables the compliance department to ensure that appropriate controls are designed, introduced and maintained. Adherence to controls is tested by either internal audit or the central compliance function. The department is also charged with developing and maintaining constructive working relationships with regulators and supervisory bodies.

There were no regulatory sanctions against the bank or penalties imposed as a result of non-compliance during the period under review.

Fraud prevention

The bank maintains a zero-tolerance approach to unethical or dishonest behaviour and any employee found to be acting unethically is subject to disciplinary action. The bank holds regular fraud-awareness campaigns, including newsletters, posters and presentations. A fraud hotline is available to employees and clients to report dishonesty. Anonymous tip-offs are investigated by the internal audit department, which reports to the Chief executive officer.

Investigation continues

Forensic investigations into mismanagement of funds involving the Land Bank Development Finance Unit, AgriBEE, Micro Agricultural Finance of South Africa – MAFISA – and the bank's IT unit continued during 2012/13. These units and agencies were separately accused of fraud and mismanagement in the years between 2006 and 2008. The cases are at different stages of investigation by authorities. Most have already resulted in arrests and subsequent court appearances.

Employee empowerment

The organisation ensures adequate and appropriate skills development through its various leadership-development programmes. Employees are also continuously offered opportunities for self-development. Individual competency assessments are conducted to ensure that employees are adequately equipped to perform their tasks.

Reporting

The Land Bank is committed to transparent reporting and disclosure. Information provided to our shareholder and stakeholders, including quarterly reports to the National Treasury, financial results and the annual report, are presented in a lucid and relevant manner to enable users to gain a clear and objective perspective of the group.

King III

The Board is committed to complying with the principles contained in King III. The bank has undertaken a thorough review of the code, and, where appropriate, the corporate governance structure has been amended to comply with it.

Risk management and internal control

Risk management is central to the bank's business as a going concern. The group has developed comprehensive systems and risk-management processes to control and monitor all Bank activities. While ultimate accountability for risk lies with the Board, the Enterprise Risk Management division and the relevant risk-management committees closely monitor risk.

The Land Bank uses an enterprise risk-management framework to set the risk-management strategy across the organisation. This is a structured and disciplined approach to risk management, aligning strategy, processes, people, technology and knowledge, which enables the bank to evaluate and manage the opportunities, threats and uncertainties that it faces. It aims to effectively balance risk and control. The framework consists of policies, methodologies, governance and reporting structures. It is based on ISO 31000, the Committee of Sponsoring Organisations governance principles, the King III code, the Land Bank Act and the Public Finance Management Act.

The primary objectives of the framework are to:

- Protect against possible losses
- Integrate risk management at all levels of decision-making
- Anticipate and mitigate risk events before they occur
- Ensure earnings stability
- Optimise the use of capital.

Governance, risk management and compliance

The bank maintains and continuously develops its formal risk policies and frameworks to help management address categories of risk associated with its risk appetite and business operations.

Focus areas in 2012/13

The bank focused on six categories of risk in 2012/13: operational risk, credit risk, liquidity risk, human capital risk, systems risk, and new business and sustainability risk.

Operational risk management

The Land Bank defines operational risk as the failure of people, processes, systems and the internal and external environments. The Operational Risk committee and the Board Risk Committee monitor operational risk governance and management according to an approved framework and policy.

A bottom-up approach to risk review has been carried out in each business area. Managers are responsible for managing and monitoring risks in their area of responsibility and recording these in the risk register.

During 2012/13, the Operational Risk department focused on rolling out risk assessments to the agricultural finance centres and conducting training on risk and controls, business continuity management, incident management and the risk tool (CURA). The following key areas were enhanced to ensure that risk management is embedded within business processes:

- Completed risk assessments for all agricultural finance centres, hubs, business units and specific departments. These risks were collated to form the basis for the strategic risk register.
- Approved the revised enterprise-wide risk-management framework and policy.
- Approved a business-continuity management strategy and policy, to be implemented in 2013/14. This will include a review of all head-office business-continuity plans. Plans will be developed for the agricultural finance centres.
- Performed risk monitoring and reporting through approved governance structures and the combined assurance forum.

Credit risk

Credit risk is the hazard that the bank will incur financial losses due to its customers, clients or counterparties failing to fulfil their contractual obligations. The bank regularly reviews the charters for the committees tasked with credit risk to improve governance.

Credit risk is guided by the Land Bank Act and managed by delegating the Board's authority, charters and credit policies that cover specific credit risks. The credit risk-management framework is reviewed annually to ensure that it is aligned with the latest best practice.

See Figure 16 on next page

The credit risk management process has five steps, as reflected in the figure above. The steps can be summarised as follows:

- Annually determine **risk appetite** for credit extension through the risk appetite framework and Corporate Plan to optimise returns while maintaining credit risk within predetermined limits.
- Maintain a process for **credit origination and assessment** to approve new credit facilities and renew existing facilities. Granting of credit should be in line with the bank's risk appetite.
- Conduct **credit modelling**, which entails credit-risk scoring of clients to determine the probability of default and to collect data to enable the bank to build a statistical model. The model calculates impairments of the Land Bank portfolio.
- Support and control **credit extension and maintenance**. This includes credit administration, disbursements, billing and repayments, maintenance of credit files and collateral documents.
- Manage the **credit portfolio**, collections, legal collections, provisions and write-off of credit.

Each step of the process is monitored by the Credit Risk Monitoring department, which reports to the Credit Risk Monitoring committee and Executive committee every month, and to the Board every quarter.

The Board reviews the credit concentration risk policy and limits every year. These limits are monitored monthly and reported to the Board quarterly. The risks associated with concentration or breach are identified and mitigated at an early stage within the different agricultural sectors.

Liquidity and market risk

The bank manages its market and liquidity operations within a Board-approved set of risk-tolerance levels, defined by the risk-appetite framework.

Liquidity risk – the inability to generate cash quickly at a reasonable cost – is inherent in all banking operations. The bank manages liquidity conservatively. The Treasury function manages the bank's assets and liabilities, balancing its liquidity and market risk exposures.

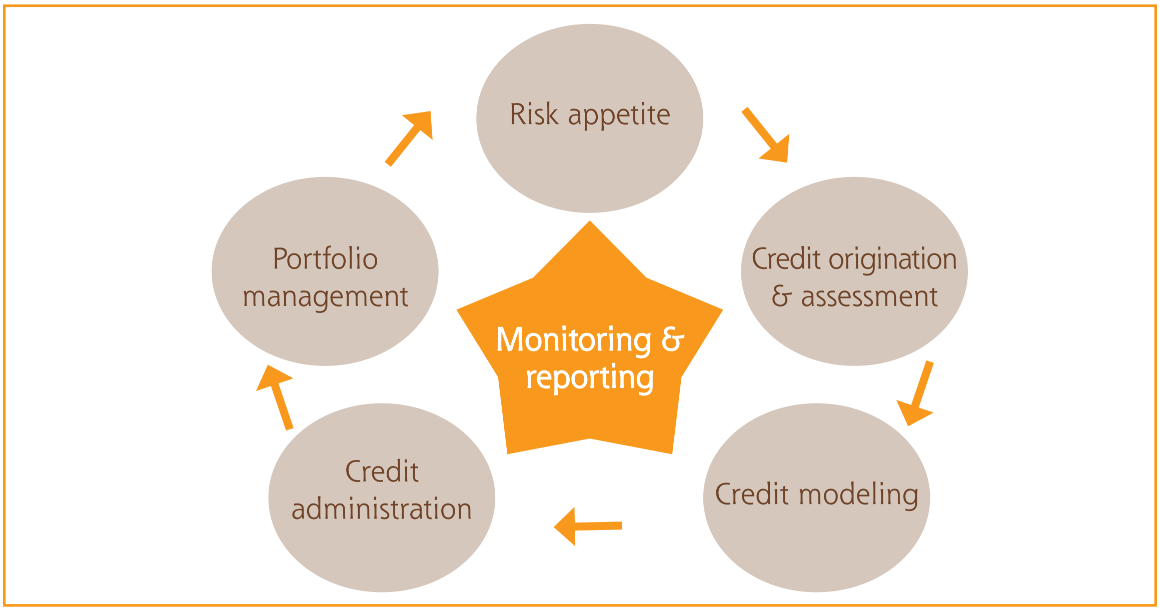
The Asset and Liability Committee (ALCO) assesses the probability that these risks might materialise and positions the bank's balance sheet to address these scenarios with minimum deterioration in performance and profitability.

The shareholder continued to recapitalise the bank during 2012/13, which contributed to a stronger capital base for sustainable growth.

To proactively manage the bank's liquidity, the Liquidity committee, a subcommittee of the Asset and Liability committee, uses a cash-flow model to determine the required range of liquidity to be maintained for a specified period. The following steps were also taken during the year under review:

- The bank continued to diversify and strengthen its investor base.
- The treasury policy framework was reviewed and approved by the Minister of Finance. The review ensures current market practice in the treasury risk environment.
- The bank issued a three-year floating rate note of R837 million (LBK02) in July 2012 under the Domestic Medium Term Note programme. This reduced the bank's refinancing risk.

Figure 16: Credit risk management



Governance, risk management and compliance

The bank continues to manage its exposure to interest-rate risk due to prime-linked assets, which are mainly funded by short-term liabilities.

Human capital risks

Attracting, developing and retaining staff remained a key focus during 2012/13. Staff turnover levels stabilised, and retention interventions such as succession planning and career-pathing received more attention.

Most senior-management vacancies and other critical roles were filled during the period under review. With the exception of the Chief executive officer, the executive team members were all converted to permanent employment. The human capital governance, risk-management and internal-control environments received renewed focus to ensure alignment with best practice.

Human-resource service-delivery channels were restructured in 2011/12, which enabled a more focused approach in addressing human capital risk in 2012/13. The bank has made considerable strides in addressing the risks in this category.

Systems risk

The bank focused on enhancing internal governance processes, based on audit findings that identified areas needing improvement. A complete end-to-end review of ICT-related risks was undertaken in 2012/13. This identified areas that need to receive special focus. Resources have also been dedicated to addressing business interruptions, disaster recovery and business-continuity management.

New business and sustainability risk

The bank is generating new business using the Wholesale Finance Facility, which mitigates risk in two ways: it provides a comprehensive project solution to ensure sustainability is provided, and it benefits from the bank's presence in rural areas. The Land Bank did not suffer any material losses as a result of unexpected or unusual new business risk during the reporting period.

The bank has reviewed its business and operating models, and conducted a thorough analysis of its future performance in critical areas using the business sustainability model. The model has improved the quality of projections and scenario-planning. It also specified the appropriate medium-term growth rate for the bank.

Risk-management process

The enterprise risk-management framework and policy have been enhanced and were approved by the Board in March 2013.

See figure 17 on next page

The Enterprise Risk Management division oversees the risk-management process. The internal auditors assist the Audit and Risk committees in evaluating the effectiveness of the risk-management process.

The bank's risk-management frameworks – including credit risk management, compliance, treasury, IT governance and enterprise risk management – are reviewed annually to ensure they conform to international best practice. The bank applies a practical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks that might affect it.

The Board is responsible for the risk-management process, assisted by the Audit and Risk committees. Management is responsible for managing risk, and designing and discharging appropriate processes in support of this function.

Risk governance

The enterprise risk-management framework and the risk-appetite framework ensure that the bank has a well-structured approach to risk management. Risks are identified, measured, monitored and responded to through various control mechanisms.

The risk-management process is designed to ensure that:

- All relevant risks are identified and evaluated, based on their potential impact and likelihood of occurrence.
- Risks and the required processes and controls to manage them are assessed in line with the bank's risk appetite.
- Appropriate management information and monitoring processes are in place so that necessary remedial action can be taken.

Annual risk assessments are conducted with business units and quarterly risk reports are submitted to the Risk committee.

Risk-management mechanisms

The bank has made considerable progress in implementing the risk-mitigation strategies outlined in the Corporate Plan. Risk-management implementation is monitored through risk management and governance mechanisms, as well as oversight bodies.

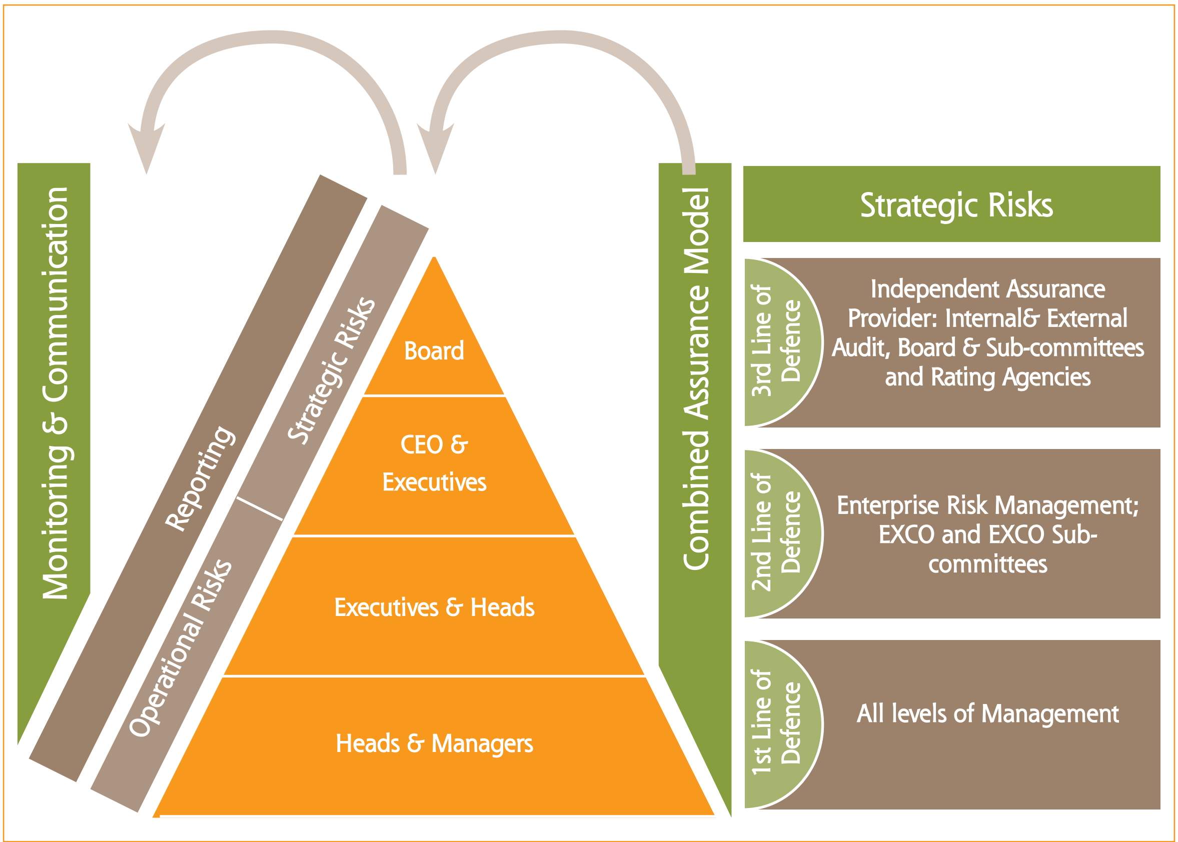
Risk committee

This committee oversees the bank's risk management. It reviews the risk-identification and evaluation processes, and it ensures that risk assessment is a continuous process. The committee oversees the management of these risks through subcommittees and other structures within the organisation.

The committee's main responsibilities are to:

- Conduct annual risk assessments
- Define the bank's risk appetite at least annually
- Perform roles set out in its charter.

Figure 17: Risk-management overview



Governance, risk management and compliance

Risk maturity

The bank has made significant progress in embedding a risk-management culture. However, more emphasis will be placed on prudent management of enterprise risk to achieve the 2016 Corporate Landscape.

The bank has institutionalised risk management as follows:

- The Board champions the process of risk management
- The Board Risk committee oversees risk-management processes
- The Chief risk officer coordinates risk-management functions
- The risk register is continually reviewed and aligned with corporate strategy
- Thresholds for key indicators in risk appetite are reviewed annually
- Internal and external audits review how the risk-management strategy is being discharged.

In 2013/14, the bank will continue to review risk-management processes in order to:

- Cover all business risks, which will include assessing key performance areas and compiling a risk register for each business unit.
- Align assurance recommendations from internal and external auditors.
- Implement developments in corporate governance, legislation and industry regulations.
- Refine the risk-appetite model using actual data to articulate the amount of risk the bank is willing to accept against defined risk-impact criteria.
- Review and enhance the enterprise risk-management framework in line with the latest developments in the risk environment.
- Monitor the implementation of the IT governance roadmap.
- Continuously monitor and evaluate performance.
- Train staff on risk-management principles.

Credit rating

Fitch ratings agency maintained the bank's rating on 20 March 2013 as F1+ for short term and AA over the long term. This is a very positive development, given the prevailing negative economic environment, which has led to downgrades for most financial services institutions.

Stress testing

The Land Bank has a stress-testing programme that helps the Board and management understand the business model's resilience. Stress testing is conducted for credit, liquidity, interest rate and business risk, as well as capital adequacy. It also plays a key role in changes to credit-granting rules and loan pricing. The risk-management function ensures that stress testing is embedded within operational processes so that it is intuitive, relevant and part of mainstream business activities.

Internal controls

Assurance

Both the external auditors and the internal audit department observe the highest levels of business and professional ethics. Management encourages regular coordination and consultation between the external and internal auditors to ensure an efficient audit process.

External audit

The Auditor-General South Africa audits and assesses the group's financial reporting and the adequacy of the internal controls over financial reporting processes. The Audit committee approves external audit fees in advance every year. The extent of the audit determines the fee.

Internal audit

The Land Bank has an independent internal audit department, which has direct access to the Board chairperson and the Audit committee. The department reports functionally to the audit committee and administratively to the Chief executive officer. The internal audit function has the necessary resources, budget, and standing authority within the bank to enable it to discharge its authority.

The internal audit function operates in accordance with a charter approved by the Audit committee. The charter formally defines the purpose, authority and responsibility of the internal audit function. The charter is aligned with the Institute of Internal Auditors' principles.

Internal audit forms an integral part of the combined assurance model and focuses on adding value to the operations of the bank. It performs the following functions:

- Evaluates the appropriateness of and adherence to company policies and procedures
- Prevents fraud, unethical behaviour and irregularities
- Produces quality management information
- Ensures sound business processes and associated controls.

The Internal Audit department annually submits a coverage plan and budget to the Audit Committee for approval. The plan encompasses the entire Bank and is prepared with the bank's strategic objectives in mind.

The internal auditors submit an annual assessment to the Audit committee on the system of internal controls. The operations environment is closely monitored to ensure that controls are adequate and operating effectively.

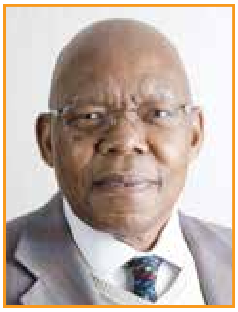
The bank is focused on developing centralised monitoring and continuous auditing. In this process, any deficiency detected in governance is referred to management for remedy. The implementation of audit recommendations is measured to ensure adequate results are realised.

The head of the internal audit department attends all Audit and Risk committee meetings and submits a report at each Audit committee meeting.

In 2013, an external effectiveness review was performed by the Institute of Internal Auditors. The results of the review were positive. The internal audit function was seen as "generally conforming" with the institute's standards and displaying an "established" maturity level.

Board, management and remuneration

Board Members as at 31 March 2013



Ben Ngubane, 71
Chairperson
Director since 1 January 2010 (non-executive)

Abdus Salam Mohammad Karaan, 45
Director since 1 January 2010 (non-executive)

Herman Daniël van Schalkwyk, 46
Deputy chairperson
Director since 5 March 2008. Term of office expired 4 July 2012 (non-executive)

Mmakeaya Magoro Tryphosa Ramano, 41
Director since 5 September 2011 (non-executive)

Modise John Motloba, 47
Director since 5 March 2008. Term of office expired 4 July 2012 (non-executive)

Leonora Qata, 54
Director since 5 March 2008. Term of office expired 4 March 2013 (non-executive)

Nomavuso Patience Mnxasana, 56
Director since 5 March 2008 (non-executive)

John Luscombe Purchase, 54
Director since 5 July 2012 (non-executive)

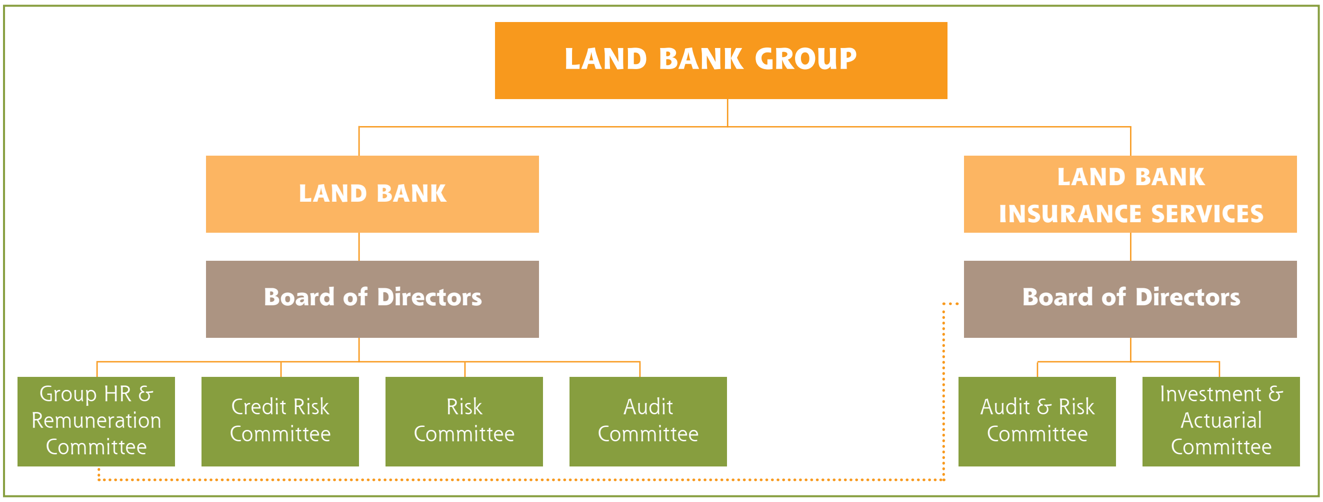
Shamila Singh, 54
Director since 5 September 2011 (non-executive)

Bafana Patrick Mathidi, 43
Director since 5 March 2008 (non-executive)

Sue Lund, 51
Director since 5 September 2011 (non-executive)

Johannes Theodorus Potgieter, 62
Director since 5 March 2008 (non-executive)

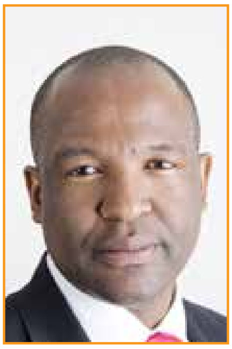
Please see "Annexure A: Land Bank Board of Directors' qualifications, directorships and memberships" for detailed information.



Executive Team as at 31 March 2013

Phakamani Hadebe
Chief executive officer
Member of the Board of directors

Mpumelelo Tyikwe
LBIS Managing director
Member of the LBIS Board of directors



Vincent Potloane
Group operations and investments officer

Lindiwe Mdlalose
Chief risk officer

Lebogang Serithi
Chief financial officer
Chief treasury officer (Acting)
Chief information officer (Acting)
Member of the Board of directors

Gregory van Wyk
Chief human resource officer
Chief strategy officer (Acting)

Jerome Mthembu
Chief legal officer

Board, management and remuneration

The Board's role and Charter

The Land Bank Board of Directors meets quarterly and provides strategic guidance to the Land Bank by:

- Instituting and approving institution-wide frameworks, policies and strategic plans
- Monitoring risk-management, internal controls and compliance
- Approving budgets for major capital expenditure and operations and monitoring adherence to them
- Ensuring proper conduct of the bank's operations.

The Board is guided by the Board Charter, which covers aspects such as the Board's constitution, directors' terms, remuneration guidelines and management of confidentiality and conflict of interest.

The charter requires that each new director attend a comprehensive training session on his or her rights and responsibilities, that existing directors attend regular training on the Land Bank's business environment, legislation and compliance matters to stay abreast of developments, and that the Board performs an annual performance self-assessment. The shareholder also performs an annual Board assessment in terms of the Shareholder's Compact.

Board composition

The Minister of Finance appoints the Land Bank's Board of Directors, most of which serve in a non-executive capacity. As at 31 March 2013, the Board had 12 members: 10 independent non-executive directors and two executive directors (the Chief executive officer and the Chief financial officer). It was chaired by an independent non-executive director. The roles of chairperson and Chief executive officer are separated. The Board may resolve to delegate any of its powers or duties to the Chief executive officer.

The minister determines each director's term of office, limited to five years. A director may be reappointed after his or her term has expired, subject to Land Bank Act requirements. Land Bank directors have freedom of affiliation to external association including social, cultural and political formations.

Board members have unrestricted access to all Land Bank information and documents, and are provided with comprehensive information packs before meetings.

Board committees

The Land Bank Act allows the Board to form committees to help it properly discharge its duties and responsibilities. All committees receive a charter from the Board, setting out their terms of reference and the context within which they are to function. Board committees are chaired by an independent non-executive director. In carrying out their duties, they are free to seek independent external professional advice. However, no external advisors were engaged during the reporting period. Ad-hoc committees are occasionally mandated to attend to specific business matters.

Four committees sat in 2012/13:

- The Audit committee
- The Risk committee
- The Human Resources and Remuneration committee
- The Credit Risk committee.

Audit committee

The Audit committee consists of five members (including the chairperson) who are independent non-executive directors. Non-members such as the Chief executive officer, Chief financial officer, internal and external auditors may attend meetings by invitation.

The committee's primary objective is to provide additional assurance regarding the quality and reliability of financial information used by the directors in discharging their duties. Specific responsibilities include:

- Satisfying the Board that adequate, appropriate financial and operating controls are in place.

- Ensuring compliance with appropriate standards of governance, reporting and other regulations.
- Reviewing and approving internal audit, risk and compliance activities, reports and findings.
- Reviewing annual financial statements and making recommendations about adoption.

The bank's internal audit function reports to the Audit committee. Both internal and external auditors have unrestricted access to the committee, ensuring that their independence is maintained at all times. The committee also meets independently with management to discuss relevant issues privately and independently.

The Audit committee satisfied its terms of reference for 2012/13 and has complied with its legal and regulatory responsibilities.

Risk committee

The Risk committee consists of five members (including the chairperson) who are independent non-executive directors. Non-members can attend by invitation. The committee is primarily responsible for ensuring that suitable risk-management practices, policies, resources and systems are in place and functioning effectively. It has to:

- Demonstrate effective discharge of corporate governance, risk management and Public Finance Management Act responsibilities.
- Demonstrate improved understanding of the bank, the risks that threaten it and how these are being managed. Potential risk areas include operational risks, market risks, liquidity risks, systems risks and strategic risks.
- Effectively drive the monitoring of risk-management activities within the bank.

The Risk committee satisfied its terms of reference for 2012/13.

Group Human Resources and Remuneration committee

The Group Human Resources and Remuneration Committee has five members (the Chief financial officer and four independent non-executive directors). Non-members may attend by invitation.

The committee ensures that the group's remuneration policies are properly implemented. Its main objective is to assure the Board that executives and employees are being fairly and competitively compensated, and that individuals are rewarded according to their contribution to the group's success. The committee oversees and reviews short-term incentive schemes and fringe benefits.

The Group Human Resources and Remuneration committee satisfied its terms of reference for 2012/13.

Credit Risk committee

The Credit Risk committee has four members and two alternative members. All members, including the chairperson, are independent non-executive directors. Non-members can attend by invitation.

The committee is primarily responsible for the credit risk-management process, credit strategy and the bank's credit risk-management policies. It considers annual reviews, credit-risk issues, policy matters, loan approvals and recommendations to the Board for approval.

The Credit Risk committee satisfied its terms of reference for 2012/13.

Board, management and remuneration

Committee membership and meetings

The following table indicates membership of the various Board committees.

Table 21: Land Bank Board and committee members for 2012/13

Land Bank Board	Audit Committee	Risk Committee	Credit Risk Committee	Human Resources and Remuneration Committee
Non-executive directors				
Ben Ngubane (chair)			X[1]	X
Herman van Schalkwyk (deputy chair)[2]			X	X
Mohammad Karaan	X		X	
Sue Lund	X	X	X[3]	
Patrick Mathidi	X	X	X[3]	
Nomavuso Mnxasana	X		X (chair)	
Modise Motloba[2]		X (chair)	X	
Theodorus Potgieter			X	X
John Purchase[1]				X
Nolwazi Qata[4]		X		X (chair)
Tryphosa Ramano	X (chair)	X		
Shamila Singh		X		X
Executive directors				
Phakamani Hadebe				
Lebogang Serithi [1]				

1 Appointed 5 July 2012
2 Term expired 4 July 2012
3 Alternate member of Credit Risk committee
4 Term expired 4 March 2013

All Board committees operate under written terms of reference confirmed by the Board. Ad hoc committees are also mandated to attend to specific business matters occasionally.

All Board committees are chaired by an independent non-executive Director and, in carrying out their duties, are free to seek independent external professional advice when necessary.

The Credit Risk Committee meets monthly and the Board committees meets quarterly. Special meetings are called when required.

Board and committee meetings

The Board and its committees each meet quarterly and as needed. The committees held the following number of meetings in 2012/13:

- Board of directors: 11 meetings
- Audit committee: 7 meetings
- Risk committee: 4 meetings
- Human Resources and Remuneration committee: 4 meetings
- Credit Risk committee: 12 meetings (meets monthly but special meetings can be arranged).

Table 22: Land Bank Board and committee meeting attendance

	Board Appointment and Resignation Date	Board 11 Meetings	Audit Committee 7 Meetings	Risk Committee 4 Meetings	Human Resources & Remuneration Committee 4 Meetings	Credit Risk Committee 12 Meetings
Non – executive directors						
JL Purchase	05 July 2012	7/8		3/3	1/2	
ASM Karaan	1 January 2010	10/11	6/7			8/12
BP Mathidi [1]	5 March 2008	11/11	6/7	3/4		2/2
NP Mnxasana	5 March 2008	10/11	6/7			12/12
MJ Motloba	Term expired 4 July 2012	2/3		1/1		1/3
BBS Ngubane	1 January 2010	9/11			0/4	4/9
JT Potgieter	5 March 2008	11/11			4/4	12/12
NML Qata	4 March 2013	8/9		3/4	3/4	
HD van Schalkwyk	Term expired 4 July 2012	2/3			1/1	2/3
MMT Ramano	05 September 2011	5/11	4/7	3/4		
SA Lund [1]	05 September 2011	11/11	7/7	3/4		6/6
S Singh	05 September 2011	10/11		4/4	4/4	
Executive directors						
PS Hadebe	18 July 2008	11/11	7/7	4/4	3/4	12/12
L Serithi	05 July 2012	7/8			1/2	

[1] Alternate member of the Credit Risk Committee

Board, management and remuneration

Land Bank Life Insurance Company Board of Directors

The LBLIC Board is mandated to carry out specific insurance operations delegated to it by the Land Bank Board of Directors. The LBLIC Board has adopted all Land Bank policies as far as they are applicable.

LBLIC Committees

As with the Land Bank, LBLIC may form committees to help it properly discharge its duties and responsibilities. Two LBLIC committees sat in 2012/13: the LBLIC Audit and Risk committee, and the Investment and Actuarial committee. The Land Bank's Human Resources and Remuneration committee extends its oversight to LBLIC.

LBLIC Audit and Risk committee

The LBLIC Audit and Risk committee has three members who are all independent non-executive directors. The committee meets at least quarterly to review financial and operating results, and to monitor adherence to risk-management practices and policies. Its main role is to help the LBLIC Board fulfil its responsibilities regarding:

- Financial and auditing oversight, as well as ensuring the overall quality and integrity of financial and actuarial reporting and internal control matters.
- Its enterprise risk-management framework and compliance.
- The performance of prescribed statutory requirements. This includes recommending an internal auditor for the LBLIC Board every three years, agreeing on the scope of the audit and budgeted audit fees in the annual internal and external audit plan presentation, and approving the final internal and external audit fees.

The LBLIC Audit and Risk committee satisfied its terms of reference for 2012/13.

Investment and Actuarial committee

The Investment and Actuarial committee has three members, all of whom are independent non-executive directors. The committee meets at least quarterly to review the performance of investment managers, the adherence to investment mandates and other policy matters. Its primary mandate includes:

- Implementing an investment strategy that sets out LBLIC's investment objectives, the nature and term of liabilities and the risks to which LBLIC's assets and liabilities are exposed.
- Appointing investment managers and establishing investment mandates with each manager.
- Setting guidelines to cover limitations on exposures to volatile assets, limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities, property and hedge funds.
- Monitoring the performance of investment managers, including compliance with mandates.
- Ensuring proper governance in the investment process.

The Investment and Actuarial committee satisfied its terms of reference for 2012/13.

LBLIC committee membership and meetings

The following table indicates membership of the various Board committees.

Table 23: LBLIC Board and committee members for 2012/13

LBLIC Board of Directors	LBLIC Audit and Risk committee	Investment and Actuarial committee
Non-executive directors		
Modise Motloba (chairperson) [1]		
Nomavuso Mnxasana (chairperson) [2]	X	X
Theodorus Potgieter	X	X
Nolwazi Qata [3]		
Ranti Mothapo	X	X
David Bergman	X	
Phakamani Hadebe		
Executive director		
Mpumelelo Tyikwe [4]		

[1] Chairperson - term of office expired on 04 July 2012

[2] Appointed Chairperson of the Board with effect from 05 July 2012 and resigned as member of the Audit and Risk Committee with effect from 05 July 2012

[3] Term of office expired on 04 March 2013

[4] Appointed as Managing Director with effect from 17 July 2012

LBLIC Board and committee meetings

The LBLIC committees held the following number of meetings in 2012/13:

- Board of Directors: 10 meetings
- Audit and Risk committee: 6 meetings
- Investment and Actuarial committee: 4 meetings.

Board self-assessments

The Office of the Company Secretary facilitated the self-assessments of the Land Bank Board, the Board committees and individual directors of both the Land Bank and LBLIC. The Board assessment showed that members are satisfied that good governance is generally practiced and that the Board functioned well in its oversight role.

Board, management and remuneration

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 24: Remuneration of Land Bank non-executive and executive directors for 2012/13 (R 000)

	Board	Audit	Risk	Credit Risk	Human Resources and Remuneration	Ad-hoc meetings	Cash salary	Performance bonus	Other benefits, fees and expenses	Total
Non-executive directors										
Ben Ngubane	736	-	-	69	-	-	-	-	1	807
Herman van Schalkwyk	76	-	-	28	14	-	-	-	5	123
Mohammad Karaan	250	83	-	111	-	8	-	-	4	457
Sue Lund [1]	284	111	42	111	-	8	-	-	10	566
Patrick Mathidi [2]	284	97	63	56	-	8	-	-	5	512
Nomavuso Mnxasana	267	97	-	196	-	16	-	-	3	580
Modise Motloba	76	-	22	14	-	32	-	-	1	145
Theodorus Potgieter	284	-	-	180	57	80	-	-	14	616
John Purchase	174	-	42	-	28	8	-	-	2	254
Nolwazi Qata	210	-	42	-	69	24	-	-	2	347
Tryphosa Ramano	200	139	42	-	-	32	-	-	3	416
Shamila Singh	267	-	56	-	56	32	-	-	20	430
Subtotal	**3 108**	**527**	**307**	**765**	**224**	**248**	**-**	**-**	**71**	**4 251**
Executive directors										
Phakamani Hadebe Chief executive officer	-	-	-	-	-	-	2 999	1 763	41	4 803
Lebogang Serithi Chief financial officer	-	-	-	-	-	-	1 789	873	58 [3]	2 720
Total	**3 108**	**527**	**307**	**765**	**224**	**248**	**4 788**	**2 636**	**170**	**11 774**

[1] Paid to Transnet Foundation

[2] Paid to Momentum Asset Management

[3] Includes R34,000 Group life, Capital disability, and Total & temporary disability benefits.

Table 25: Remuneration of Land Bank Insurance Services non-executive and executive directors for 2012/13 (R 000)

	Board	Audit and Risk	Investment and Actuarial	Ad-hoc meetings	Cash salary	Performance bonuses	Other benefits, fees and expenses	Total
Non-executive directors								
Modise Motloba	115	-	-	-	-	-	-	115
Nomavuso Mnxasana	404	27	27	8	-	-	-	466
Ranti Mothapo	150	45	62	32	-	-	6	295
Theodorus Potgieter	100	63	36	8	-	-	-	207
Nolwazi Qata	50	-	-	8	-	-	-	58
David Bergman	174	118	-	24	-	-	5	321
Subtotal	**993**	**252**	**125**	**80**	**-**	**-**	**11**	**1 462**
Executive director								
Mpumelelo Tyikwe [1]	-	-	-	-	1 345	-	52 [2]	1 415
Total	**993**	**252**	**125**	**80**	**1 345**	**-**	**63**	**2 877**

[1] Appointed Managing Director with effect from 17 July 2012

[2] Includes R34,000 Group life, Capital disability, and Total & temporary disability benefits.

Board, management and remuneration

Table 26: Remuneration of Land Bank non-executive and executive directors for 2011/12 (R 000) (for comparison)

	Board	Audit	Risk	Credit risk	Human Resources and Remuneration	Ad-hoc meetings	Cash salary	Performance bonuses	Other benefits, fees and expenses	Total
Non-executive directors										
Ben Ngubane	811	-	-	-	63	8	-	-	1	883
Herman van Schalkwyk	189	14	-	91	49	-	-	-	19	362
Jesmane Boggenboel	52	24	19	-	-	-	-	-	2	96
Mohammad Karaan	189	28	-	105	-	-	-	-	4	326
Patrick Mathidi [1]	206	118	63	-	-	-	-	-	3	389
Nomavuso Mnxasana	206	106	-	132	-	8	-	-	6	458
Modise Motloba	189	64	91	26	-	8	-	-	0	378
Johannes Mthimunye	89	57	32	32	-	-	-	-	-	209
Theodorus Potgieter	206	-	49	105	63	-	-	-	14	437
Nolwazi Qata	206	-	49	-	91	-	-	-	0	346
Tryphosa Ramano	102	45	14	-	-	-	-	-	3	164
Shamila Singh	119	-	14	-	14	-	-	-	7	154
Sue Lund [2]	119	28		-	-	-	-	-	2	149
Subtotal	**2 680**	**483**	**331**	**492**	**281**	**24**	**-**	**-**	**62**	**4 352**
Executive director										
Phakamani Hadebe							2 843	1 451	58	4 353
Total	**2 680**	**483**	**331**	**492**	**281**	**-**	**2 843**	**1 451**	**120**	**8 705**

[1] Paid to Momentum Asset Management

[2] Paid to Transnet Foundation

Table 27: Remuneration of Land Bank Insurance Services non-executive and executive directors for 2011/12 (R 000) (for comparison)

	Board	Audit and Risk	Investment and Actuarial	Ad-hoc meetings	Cash salary	Performance bonuses	Other benefits, fees and expenses	Total
Non-executive directors								
Modise Motloba	598	-	-	-	-	-	-	598
Jesmane Boggenboel	39	16	18	-	-	-	-	73
Coenraad de Jager	-	-	-	-	-	-	-	-
Mohammad Karaan	104	-	32	-	-	-	-	137
Nomavuso Mnxasana	117	60	41	-	-	-	-	218
Ranti Mothapo	154	74	50	8	-	-	6	293
Theodorus Potgieter	142	60	41	-	-	-	-	243
Nolwazi Qata	117	-	-	-	-	-	-	117
David Bergman	62	36	-	-	-	-	1	99
Subtotal	**1 334**	**245**	**183**	**8**	**-**	**-**	**7**	**1 778**
Executive director								
Phillip du Preez[1]					1 434	612	22	2 069
Total	**1 334**	**245**	**183**	**8**	**1 434**	**612**	**30**	**3 846**
Group Total	**4 014**	**245**	**183**	**8**	**4 278**	**2 063**	**150**	**12 551**

[1] Resigned on 31 January 2012

The combined total remuneration expenditure for the Land Bank and LBLIC directors was R14.6 million (2011/12: R12.6 million).

Board, management and remuneration

Executive officers and employees

Executive officers are not permitted to accept external remunerative work or Board appointments without the Chief executive officer's prior approval. Remuneration packages for executive officers consist of a guaranteed package with allowances, an annual performance bonus and Group life insurance. During the reporting period all executive officers converted to permanent employment contracts. The Land Bank does not enforce any restraint of trade in employment contracts.

Remuneration packages for other employees consist of a guaranteed package that includes pension and medical aid benefits, as well as an annual performance bonus. Employees are permitted to structure their salaries and benefits in accordance with legislation.

Salary packages and benefits are reviewed in accordance with national and industry benchmarks. Guaranteed packages for all employees are positioned at the market median. Exceptions to this are subject to Board approval.

Land Bank employment contracts are managed in terms of the bank's recruitment policy. Annual bonuses are discretionary and directly linked to the performance of the organisation, the business units and the individual.

Recognition programme

Employees that are seen as living the Land Bank's values are recognised through the recognition programme, Hlanganani Excellence Awards. These awards are held twice a year followed by an annual ceremony.

Table 28: Remuneration of Land Bank executive officers in 2012/13 (R 000)

Title	Basic salary	Bonus	Cellphone allowance	Other benefits [2]	Total
Vincent Potloane Group operations and investments officer	1 822	993	24	34	**2 873**
Jerome Mthembu Chief legal officer	1 632	732	24	34	**2 422**
Gregory van Wyk [1] Chief human resources officer and Acting Chief strategy officer	2 261	1 253	24	34	**3 572**
Lindiwe Mdlalose Chief risk officer	1 700	816	24	34	**2 574**
Total	**7 415**	**3 794**	**96**	**136**	**11 441**

[1] Acting Chief strategy officer from 1 August 2011, resigned from the Land Bank on 28 March 2013.

[2] Includes Group life, Capital disability, and Total & temporary disability benefits.

Table 29: Remuneration of Land Bank executive officers in 2011/12 (R 000) (for comparison)

Title	Basic salary	Bonus	Cellphone allowances	Termination benefit	Total
Vincent Potloane [1] Group operations and investments officer	1 730	545	24	-	**2 299**
Jerome Mthembu Chief legal officer	1 321	466	24	-	**1 811**
Wolf Meyer [2] Chief financial officer	399	534	6	84	**938**
Lebogang Serithi [3] Chief financial officer, Chief information officer and Chief treasury officer	1 535	529	24	-	**2 088**
Gregory van Wyk [4] Chief human resources officer and Chief strategy officer	2 134	798	24	-	**2 957**
Andrew Makenete [5] Chief strategy officer	586	-	8	43	**594**
Lindiwe Mdlalose Chief risk officer	1 405	461	24	-	**1 890**
Thagaran Govender [6] Chief information officer	1 812	561	22	21	**2 395**
Total	**10 922**	**3 894**	**156**	**148**	**14 972**

[1] Group operations and investment officer at 1 July 2011

[2] Resigned on 10 June 2011

[3] Chief finance officer and Chief treasury officer at 1 July 2011 and Chief information officer at 1 March 2012

[4] Acting Chief strategy officer from 1 August 2011, Resigned on 28 march 2013

[5] Resigned from 31 July 2011

[6] Resigned from 29 February 2012

Group Annual Financial Statements

for the year ended 31 March 2013

Index to the Annual Financial Statements of the Land Bank Group for the Year Ended 31 March 2013

These audited group annual financial statements were prepared by Land Bank Financial Reporting under the direction and supervision of the Chief Financial Officer, L Serithi CA(SA).

Group Annual Financial Statements

for the year ended 31 March 2013

General information

The following information pertains to the Land and Agricultural Development Bank of South Africa (Land Bank) and its subsidiaries, Land Bank Life Insurance Company[1] (LBLIC), Land Bank Insurance Services (SOC) Limited (LBIS) and Land Bank Insurance Company (SOC) Limited (LBIC) which entities are consolidated in the annual financial statements and represent the Land Bank Group:

1 Land Bank

1.1 Shareholder

National Treasury

1.2 Public entity

Governed by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002)

1.3 Auditor

The Auditor-General South Africa

1.4 Banker

ABSA Bank Limited

1.5 Financial year-end

31 March

1.6 Head office physical address

Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

1.7 Postal address

P O Box 375
Tshwane
0001

1.8 Company secretary

Nazir Ebrahim

1.9 Country of incorporation

South Africa

[1] The company has lodged an application with CIPC to have its name amended to include "SOC" therein.

Group Annual Financial Statements

for the year ended 31 March 2013

General information (continued)

2 Land Bank Life Insurance Company[1]

During the year under review Land Bank Insurance Company (LBIC)'s name was changed to Land Bank Life Insurance Company Limited (LBLIC), as part of a greater restructuring of the operations. As part of the restructuring two more companies, Land Bank Insurance Services (SOC) Limited (LBIS) as well as Land Bank Insurance Company (SOC) Limited (LBIC) have been incorporated, but are and will remain uncapitalised and dormant until such time that the relevant insurance licences have been granted by the Financial Services Board (FSB). LBIS will be the ultimate holding company, whilst LBIC and LBLIC will house the short-term and long-term insurance operations respectively. The Land and Agricultural Development Bank of South Africa (Land Bank) will be the ultimate holding company of the group.

2.1 Holding company
Land and Agricultural Development Bank of South Africa (Land Bank)

2.1.a Envisaged Group Shareholder
Land Bank Insurance Services (SOC) Limited, incorporated in South Africa

2.1.b Other Group Company
Land Bank Insurance Company (SOC) Limited, incorporated in South Africa

2.2 Company registration number
1954/003095/06

2.2.a Company registration number
2012/060770/30

2.2.b Company registration number
2012/115426/30

2.3 Auditor
The Auditor-General South Africa

2.4 Banker
ABSA Bank Limited

2.5 Financial year-end
31 March

2.6 Head office physical address
Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

2.7 Postal address
P O Box 375
Tshwane
0001

2.8 Public officer designate
Mpumi Tyikwe

2.9 Company secretary
Nazir Ebrahim

2.10 Country of incorporation
South Africa

[1] The company has lodged an application with CIPC to have its name amended to include "SOC" therein.

Group Annual Financial Statements

for the year ended 31 March 2013

Directors' Responsibility for the Group Annual Financial Statements

The directors are responsible for the preparation, integrity and objectivity of the group annual financial statements which conform to International Financial Reporting Standards (IFRS) and related information included in this annual report.

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 committee and various other risk-monitoring committees. Management enables the Directors to meet these responsibilities.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating with strict deadlines and an appropriate control framework.

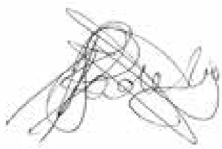
As part of the system of internal control, the group's internal audit function conducts operational, financial and specific audits. It is the responsibility of the Auditor-General South Africa to report on the fair presentation of the financial statements.

The group annual financial statements have been prepared in accordance with IFRS. The financial statements have been prepared under the historical-cost convention, as modified by the revaluation of certain financial instruments and properties.

The Directors believe that the group will be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the group annual financial statements.

The group annual financial statements for the year ended 31 March 2013 as set out on pages 82 to 227 were approved by the Board in terms of section 55(1)c of the Public Finance Management Act,1999 (Act No. 1 of 1999) on 31 July 2013 and signed on its behalf by:

Dr Ben Ngubane
Chairperson of the Board
Date: 31 July 2013



Phakamani Hadebe
Chief executive officer
Date: 31 July 2013

Group Annual Financial Statements

for the year ended 31 March 2013

Statement of Financial Position as at 31 March 2013

	Note	Group			Bank		
			Restated [1]	Restated [1]			
		2013	2012	2011	2013	2012	2011
		R'000	R'000	R'000	R'000	R'000	R'000
Assets							
Cash and cash equivalents	3	**1,891,383**	1,941,406	2,087,520	**1,676,715**	1,787,081	2,003,899
Trade and other receivables	4	**160,523**	227,289	334,645	**339,212**	228,745	189,166
Short-term insurance assets	5	**5,280**	81,375	101,736			
Repurchase agreements	6	**-**	6,032	-	**-**	6,032	-
Non-current assets held-for-sale	7	**52,332**	15,465	53,383	**52,332**	15,465	53,383
Investments	8	**1,326,163**	1,140,694	1,199,335	**300,487**	247,535	227,862
Market-making assets	9	**5,238**	-	-	**5,238**	-	-
Loans and advances	10	**26,968,735**	21,555,645	14,299,153	**26,968,735**	21,555,645	14,299,153
Assets of disposal group classified as held-for-sale	11	**143,873**	144,239	153,890	**143,873**	144,239	153,890
Derivative financial instruments	12	**-**	-	6,855	**-**	-	6,855
Long-term insurance assets	18	**985**	1,764	729			
Intangible assets	13	**42,206**	54,594	58,002	**42,206**	54,594	58,002
Investment properties	14	**65,800**	74,000	42,620	**65,800**	74,000	42,620
Property and equipment	15	**119,488**	108,903	113,675	**119,348**	108,749	113,675
Total assets		**30,782,006**	25,351,406	18,451,543	**29,713,946**	24,222,085	17,148,505
Equity and liabilities							
Capital and reserves		**6,131,064**	5,626,474	4,715,119	**5,185,003**	4,830,675	3,873,723
Distributable reserves	16	**5,995,615**	5,514,231	4,607,607	**5,049,554**	4,718,432	3,766,211
Non-distributable reserve	16	**135,449**	112,243	107,512	**135,449**	112,243	107,512
Liabilities							
Trade and other payables	17	**178,610**	299,286	363,550	**107,825**	116,113	83,337
Short-term insurance liabilities	5	**4,660**	102,940	134,939			
Derivative financial instruments	12	**-**	15,421	21,673	**-**	15,421	21,673
Long-term policy holders' liabilities	18	**45,291**	46,805	45,447			
Funding liabilities	19	**22,953,550**	17,864,948	11,877,749	**22,953,550**	17,864,948	11,877,749
Provisions	20	**428,271**	415,432	390,175	**427,008**	414,828	389,132
Post-retirement obligation	21	**283,890**	261,154	218,844	**283,890**	261,154	218,844
Liabilities directly associated with the assets classified as held-for-sale	22	**756,670**	718,946	684,047	**756,670**	718,946	684,047
Total equity and liabilities		**30,782,006**	25,351,406	18,451,543	**29,713,946**	24,222,085	17,148,505

[1] Certain numbers reported above do not correspond to the 2012 and 2011 group annual financial statements and reflect prior period error adjustments made as detailed in note 38.

Group Annual Financial Statements

for the year ended 31 March 2013

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2013

		Group		Bank	
			Restated [1]		
		2013	2012	2013	2012
	Note	R'000	R'000	R'000	R'000
Continuing operations					
Net interest income		805,278	676,005	796,554	673,100
Interest income	23	2,047,842	1,498,791	2,038,158	1,495,851
Interest expense	24	(1,242,564)	(822,786)	(1,241,604)	(822,751)
Net impairment (charges)/releases, claims and recoveries	10.4	(75,015)	3,595	(75,015)	3,595
Total income from lending activities		730,263	679,600	721,539	676,695
Non-interest income	25	5,483	31,420	6,183	31,557
Operating income from banking activities		735,746	711,020	727,722	708,252
Operating profit/(loss) from insurance activities	26	16,267	(6,249)		
Investment income	27	188,095	90,889	53,630	124,697
Fair value losses	28	(12,462)	(12,693)	(12,462)	(12,693)
Operating income		927,646	782,967	768,890	820,256
Operating expenses	29	(552,036)	(553,195)	(543,512)	(544,887)
Net operating income		375,610	229,772	225,378	275,369
Non-trading and capital items	30	(10,043)	23,035	(10,073)	23,035
Net profit before indirect taxation		365,567	252,807	215,305	298,404
Indirect taxation	31	(23,357)	(21,058)	(23,357)	(21,058)
Net profit from continuing operations		342,210	231,749	191,948	277,346
Discontinued operations					
Net loss from discontinued operations	22	(38,090)	(44,550)	(38,090)	(44,550)
Profit for the year		304,120	187,199	153,858	232,796
Other comprehensive income [2]					
Items that will not be reclassified to profit or loss					
Actuarial loss on the post-retirement medical aid liability		(22,736)	(30,575)	(22,736)	(30,575)
Gains on financial assets at fair value through other comprehensive income		10,400	-	10,400	-
Revaluation of land and buildings		12,806	4,731	12,806	4,731
Total other comprehensive profit/(loss) for the year		470	(25,844)	470	(25,844)
Total comprehensive income for the year		304,590	161,355	154,328	206,952

[1] Certain numbers reported above do not correspond to the 2012 and 2011 group annual financial statements and reflect prior period error adjustments made as detailed in note 38.
[2] Other comprehensive income are gross of tax. The group is exempt from income tax in terms of sections 10(1)(cA)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962).

Group Annual Financial Statements

for the year ended 31 March 2013

Statement of Changes in Equity for the year ended 31 March 2013

	Capital Fund	General Reserve	Insurance Reserve	Contingency Reserve	Mark-to-Market Reserve	Revaluation Reserve	Discontinued Operations	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group								
Balance at 31 March 2011	2,647,655	1,598,713	886,947	5,388	-	107,512	(530,157)	4,716,058
At 1 April 2011	2,647,655	1,598,713	886,947	5,388	-	107,512	(530,157)	4,716,058
Restatements [1]	-	-	(939)	-	-	-	-	(939)
Restated opening balance	2,647,655	1,598,713	886,008	5,388	-	107,512	(530,157)	4,715,119
Profit/(loss) for the year	-	177,346	54,403	-	-	-	(44,550)	187,199
Other comprehensive (loss)/income	-	(30,575)	-	-	-	4,731	-	(25,844)
Total comprehensive income/(loss)	2,647,655	1,745,484	940,411	5,388	-	112,243	(574,707)	4,876,474
Recapitalisation by National Treasury	750,000	-	-	-	-	-	-	750,000
Balance at 31 March 2012	3,397,655	1,745,484	940,411	5,388	-	112,243	(574,707)	5,626,474
At 1 April 2012	3,397,655	1,745,484	940,411	5,388	-	112,243	(574,707)	5,626,474
Profit/(loss) for the year	-	191,948	150,262	-	-	-	(38,090)	304,120
Other comprehensive (loss)/income	-	(22,736)		-	10,400	12,806	-	470
Total comprehensive income/(loss)	3,397,655	1,914,696	1,090,673	5,388	10,400	125,049	(612,797)	5,931,064
Recapitalisation by National Treasury	200,000	-	-	-	-	-	-	200,000
Transfer from the contingency reserve	-	-	5,388	(5,388)	-	-	-	-
Balance at 31 March 2013	3,597,655	1,914,696	1,096,061	-	10,400	125,049	(612,797)	6,131,064

[1] Refer to note 38 for an explanation on the LBLIC restatements.

Statement of Changes in Equity for the year ended 31 March 2013 (continued)

	Capital Fund	General Reserve	Mark-to-Market Reserve	Revaluation Reserve	Discontinued Operations	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Bank						
Balance at 31 March 2011	2,647,655	1,648,713	-	107,512	(530,157)	3,873,723
At 1 April 2011	2,647,655	1,648,713	-	107,512	(530,157)	3,873,723
Profit/(loss) for the year	-	277,346	-	-	(44,550)	232,796
Other comprehensive (loss)/income	-	(30,575)	-	4,731	-	(25,844)
Total comprehensive income/(loss)	2,647,655	1,895,484	-	112,243	(574,707)	4,080,675
Recapitalisation by National Treasury	750,000	-	-	-	-	750,000
Balance at 31 March 2012	3,397,655	1,895,484	-	112,243	(574,707)	4,830,675
At 1 April 2012	3,397,655	1,895,484	-	112,243	(574,707)	4,830,675
Profit/(loss) for the year	-	191,948	-	-	(38,090)	153,858
Other comprehensive (loss)/income	-	(22,736)	10,400	12,806	-	470
Total comprehensive income/(loss)	3,397,655	2,064,696	10,400	125,049	(612,797)	4,985,003
Recapitalisation by National Treasury	200,000	-	-	-	-	200,000
Balance at 31 March 2013	3,597,655	2,064,696	10,400	125,049	(612,797)	5,185,003

Group Annual Financial Statements

for the year ended 31 March 2013

Statement of Cash Flows for the year ended 31 March 2013

		Group		Bank	
			Restated [1]		
		2013	2012	2013	2012
	Note	R'000	R'000	R'000	R'000
Net profit from continuing operations [2]		**319,475**	201,175	**169,212**	246,772
Net loss from discontinued operations		**(38,090)**	(44,550)	**(38,090)**	(44,550)
		281,385	156,625	**131,122**	202,222
Adjustment to reconcile profit to net cash flows					
Non-cash items:		**1,137,820**	817,639	**1,268,730**	778,239
Interest expense	23	**1,242,564**	822,786	**1,241,604**	822,751
Fair value movement of financial instruments	27, 28	**(142,660)**	(46,321)	**(33,151)**	(3,882)
Dividend income	27	**(17,191)**	(17,939)	**(3,877)**	(104,600)
Interest income	27	**(28,439)**	(29,449)	**(5,676)**	(4,592)
Fund management fees	29	**13,099**	11,511	**-**	-
Depreciation and impairment of property and equipment	15	**11,710**	10,517	**11,666**	10,458
Transfers in of property and equipment	15	**(32)**	(212)	**-**	-
Fair value adjustments (properties in possession)	30	**8,200**	(27,752)	**8,200**	(27,752)
Amortisation and impairment of intangibles	13	**13,160**	13,132	**13,160**	13,132
Fair value movement in policy holders' liabilities	18	**(25)**	(195)		
Fair value adjustment on non-current assets held-for-sale	7, 30	**1,543**	(899)	**1,543**	(899)
Adjustment of revaluation reserve	30	**-**	(163)	**-**	(163)
Movement in provisions	20	**12,842**	34,534	**12,182**	25,697
Movement in post-retirement obligation	21	**22,736**	42,310	**22,736**	42,310
Loss on disposal of property and equipment	30	**(172)**	636	**(172)**	636
Loss on disposal of properties in possession	30	**490**	5,154	**490**	5,154
Loss on sale of LBLIC (formerly LBIC) shares	30	**-**	-	**30**	-
Impairment of other assets	30	**(5)**	(11)	**(5)**	(11)
Working capital adjustments:		**(76,805)**	5,133	**(118,755)**	(6,803)
Decrease/(increase) in trade and other receivables	4	**66,766**	157,355	**(110,467)**	(39,579)
(Decrease)/increase in trade and other payables	17	**(120,676)**	(173,101)	**(8,288)**	32,776
(Decrease)/increase in short-term and long-term insurance liability	5	**(99,769)**	1,553		
Decrease in short-term and long-term insurance assets	5	**76,874**	19,326		
Cash flows from operating activities		**1,342,400**	979,397	**1,281,097**	973,658

Group Annual Financial Statements

for the year ended 31 March 2013

Statement of Cash Flows for the year ended 31 March 2013 (continued)

		Group		Bank	
			Restated [1]		
		2013	2012	2013	2012
	Note	R'000	R'000	R'000	R'000
Cash flows from operations		**(6,646,679)**	(8,069,628)	**(6,645,719)**	(8,069,593)
Interest paid	24	**(1,242,564)**	(822,786)	**(1,241,604)**	(822,751)
Increase in funding to clients	10	**(5,404,115)**	(7,246,842)	**(5,404,115)**	(7,246,842)
Cash flow from investing activities		**(23,614)**	142,974	**(23,614)**	77,974
Proceeds from disposal of property and equipment	15	**178**	26	**178**	26
Purchase of property and equipment	15	**(9,900)**	(5,278)	**(9,900)**	(5,278)
Additions to intangible assets	13	**(1,920)**	(8,031)	**(1,920)**	(8,031)
Proceeds from sale of non-current assets held-for-sale	7	**2,850**	3,525	**2,850**	3,525
Dividend Income		**-**	-	**-**	100,000
Proceeds from sale of financial instruments		**5,599**	165,000	**5,599**	-
Purchase of financial instruments		**(20,421)**	(12,268)	**(20,421)**	(12,268)
Cash flow from financing activities		**5,277,870**	6,801,143	**5,277,870**	6,801,143
Increase in funding	19	**5,077,870**	6,051,143	**5,077,870**	6,051,143
Capital injection from shareholder		**200,000**	750,000	**200,000**	750,000
Net decrease in cash and cash equivalents		**(50,023)**	(146,114)	**(110,366)**	(216,818)
Cash and cash equivalents at beginning of year		**1,941,406**	2,087,520	**1,787,081**	2,003,899
Cash and cash equivalents at end of year	3	**1,891,383**	1,941,406	**1,676,715**	1,787,081

[1] Certain numbers reported above do not correspond to the 2012 group annual financial statements and reflect prior period error adjustments made as detailed in note 38.

[2] Includes other comprehensive income.

[3] There are no restrictions on any of the cash balances. All cash and cash equivalents are available for use by the group.

[4] There is no foreign exchange impact on the cash flow of the group.

Group Annual Financial Statements

for the year ended 31 March 2013

Segment reporting

Segment reporting per reportable segment for the year ended 31 March 2013

Group - 2013	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) [1] R'000	Discontinued Operations LDFU R'000	Total Group R'000
Statement of profit or loss and other comprehensive income									
Net interest income	150,283	(3,273)	323,856	325,688	**796,554**	8,724	**805,278**	(38,470)	**766,808**
Interest income	386,131	6,880	1,486,433	158,714	**2,038,158**	9,684	**2,047,842**	-	**2,047,842**
Interest expense	(235,848)	(10,153)	(1,162,577)	166,974	**(1,241,604)**	(960)	**(1,242,564)**	(38,470)	**(1,281,034)**
Impairment (charges)/releases on loans and advances	(50,912)	(3,650)	(20,466)	13	**(75,015)**	-	**(75,015)**	1,284	**(73,731)**
Total income/(loss) from lending activities	99,371	(6,923)	303,390	325,701	**721,539**	8,724	**730,263**	(37,186)	**693,077**
Non-interest income/(expense)	15,419	6,790	(37,889)	21,863	**6,183**	(700)	**5,483**	-	**5,483**
Operating income/(loss) from banking activities	114,790	(133)	265,501	347,564	**727,722**	8,024	**735,746**	(37,186)	**698,560**
Operating profit from insurance activities	-	-	-	-	**-**	16,267	**16,267**	-	**16,267**
Investment income	-	-	-	53,630	**53,630**	134,465	**188,095**	-	**188,095**
Fair value loss	-	-	-	(12,462)	**(12,462)**	-	**(12,462)**	-	**(12,462)**
Operating income/(loss)	114,790	(133)	265,501	388,732	**768,890**	158,756	**927,646**	(37,186)	**890,460**
Operating expenses	(187,808)	(7,700)	(25,346)	(297,443)	**(518,297)**	(8,524)	**(526,821)**	(904)	**(527,725)**
Depreciation and amortisation	(3,757)	(146)	(254)	(21,058)	**(25,215)**	-	**(25,215)**	-	**(25,215)**
Net operating (loss)/income	(76,775)	(7,979)	239,901	70,231	**225,378**	150,232	**375,610**	(38,090)	**337,520**
Non-trading and capital items	862		(8)	(10,927)	**(10,073)**	30	**(10,043)**	-	**(10,043)**
Net (loss)/profit before indirect taxation	(75,913)	(7,979)	239,893	59,304	**215,305**	150,262	**365,567**	(38,090)	**327,477**
Indirect taxation	(1,358)	(46)	(189)	(21,764)	**(23,357)**	-	**(23,357)**	-	**(23,357)**
Net (loss)/profit	(77,271)	(8,025)	239,704	37,540	**191,948**	150,262	**342,210**	(38,090)	**304,120**

[1] Presented after all intercompany transactions have been eliminated

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2013 (continued)

Group - 2013	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) [1] R'000	Discontinued Operations LDFU R'000	Total Group R'000
Other comprehensive income									
Actuarial losses on the post-retirement medical aid	-	-	-	(22,736)	**(22,736)**	-	**(22,736)**	-	**(22,736)**
Revaluation of land and buildings	-	-	-	12,806	**12,806**	-	**12,806**	-	**12,806**
Gains on financial assets at fair value through other comprehensive income	-	-	10,400	-	**10,400**	-	**10,400**	-	**10,400**
Total comprehensive (loss)/income for the year	(77,271)	(8,025)	250,104	27,610	**192,418**	150,262	**342,680**	(38,090)	**304,590**
Interest income	386,131	6,880	1,486,433	158,714	**2,038,158**	9,684	**2,047,842**	-	**2,047,842**
External customers	386,131	6,880	1,486,433	158,714	**2,038,158**	9,684	**2,047,842**	-	**2,047,842**
Non-interest income/(expense)									
External customers	15,419	6,790	(37,889)	21,863	**6,183**	(700)	**5,483**	-	**5,483**
Statement of financial position									
Assets									
Segment assets	4,581,814	165,659	22,602,022	1,951,162	**29,300,657**	1,337,476	**30,638,133**	143,873	**30,782,006**
Liabilities									
Segment liabilities	4,656,268	173,682	18,287,758	385,148	**23,502,856**	391,416	**23,894,272**	756,670	**24,650,942**

[1] Presented after all intercompany transactions have been eliminated

Segment reporting per reportable segment for the year ended 31 March 2013 (continued)

Group - 2012	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) [1] R'000	Discontinued Operations LDFU R'000	Total Group R'000
Statement of profit or loss and other comprehensive income									
Net interest income	172,301	(1,187)	200,503	301,483	**673,100**	2,905	**676,005**	(39,612)	**636,393**
Interest income	371,468	1,703	1,018,007	104,673	**1,495,851**	2,940	**1,498,791**	-	**1,498,791**
Interest expense	(199,167)	(2,890)	(817,504)	196,810	**(822,751)**	(35)	**(822,786)**	(39,612)	**(862,398)**
Impairment releases/(charges) on loans and advances	13,767	(2,548)	(7,653)	29	**3,595**	-	**3,595**	(1,652)	**1,943**
Total income/(loss) from lending activities	186,068	(3,735)	192,850	301,512	**676,695**	2,905	**679,600**	(41,264)	**638,336**
Non-interest income /(expense)	19,657	28	(1,684)	13,556	**31,557**	(137)	**31,420**	-	**31,420**
Operating income/(loss) from banking activities	205,725	(3,707)	191,166	315,068	**708,252**	2,768	**711,020**	(41,264)	**669,756**
Operating loss from insurance activities	-	-	-	-	**-**	(6,249)	**(6,249)**	-	**(6,249)**
Investment income	-	-	-	124,697	**124,697**	66,192	**90,889**	-	**90,889**
Fair value loss	-	-	-	(12,693)	**(12,693)**	-	**(12,693)**	-	**(12,693)**
Operating income/(loss)	205,725	(3,707)	191,166	427,072	**820,256**	62,711	**782,967**	(41,264)	**741,703**
Operating expenses	(171,697)	-	(26,024)	(323,575)	**(521,296)**	(8,308)	**(529,604)**	(3,286)	**(532,890)**
Depreciation and amortisation	(2,397)	-	(248)	(20,946)	**(23,591)**	-	**(23,591)**	-	**(23,591)**
Net operating income/(loss)	31,631	(3,707)	164,894	82,551	**275,369**	54,403	**229,772**	(44,550)	**185,222**
Non-trading and capital items	(572)	-	(12)	23,619	**23,035**	-	**23,035**	-	**23,035**
Net profit/(loss) before indirect taxation	31,059	(3,707)	164,882	106,170	**298,404**	54,403	**252,807**	(44,550)	**208,257**
Indirect taxation	-	-	-	(21,058)	**(21,058)**	-	**(21,058)**	-	**(21,058)**
Net profit/(loss)	31,059	(3,707)	164,882	85,112	**277,346**	54,403	**231,749**	(44,550)	**187,199**

[1] Presented after all intercompany transactions have been eliminated

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2013 (continued)

Group - 2012	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) [1] R'000	Discontinued Operations LDFU R'000	Total Group R'000
Other comprehensive income									
Actuarial losses on the post-retirement medical aid	-	-	-	(30,575)	**(30,575)**	-	**(30,575)**	-	**(30,575)**
Revaluation of land and buildings	-	-	-	4,731	**4,731**	-	**4,731**	-	**4,731**
Total comprehensive income/(loss) for the year	31,059	(3,707)	164,882	59,268	**251,502**	54,403	**205,905**	(44,550)	**161,355**
Interest income	371,468	1,703	1,018,007	104,673	**1,495,851**	2,940	**1,498,791**	-	**1,498,791**
External customers	371,468	1,703	1,018,007	104,673	**1,495,851**	2,940	**1,498,791**	-	**1,498,791**
Non-interest income									
External customers	19,657	28	(1,684)	13,556	**31,557**	(137)	**31,420**	-	**31,420**

Statement of financial position

	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) [1] R'000	Discontinued Operations LDFU R'000	Total Group R'000
Assets									
Segment assets	4,041,826	99,142	17,461,616	2,295,875	**23,898,459**	1,308,708	**25,207,167**	144,239	**25,351,406**
Liabilities									
Segment liabilities	3,910,628	153,857	13,920,344	687,636	**18,672,465**	333,522	**19,005,987**	718,946	**19,724,933**

[1] Presented after all intercompany transactions have been eliminated

Segment reporting (Business segments)

The group reports in six distinct segments, grouped according to the nature of products and services provided by the respective business units and divisions. The six segments are:

- Retail Commercial Banking, which consists of 27 AFC's and 2 hubs spread across the country, provides finance to developing and commercial farmers. Retail Commercial Banking also includes previously granted micro-finance loans.
- Retail Emerging Markets, which is run from Head Office and AFC networks. Provides finance to "emerging" farmers.
- Business & Corporate Banking, which consists of two branches, provides finance to the agri-related businesses.
- LDFU, which was established to provide finance for the development of land. The activities of the division were discontinued in 2008.
- Group capital which consists of treasury, finance and other central functions.
- LBLIC which conducts insurance activities.

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.

Segment reporting (continued)

Segment reporting (Business segments) (continued)

Quantitative thresholds

The group reports separate information about an operating segment that meets any of the following quantitative thresholds:

1) Its reported revenue, from both external clients and other segments, is 10% or more of the combined revenue of all operating segments.
2) The absolute amount of its reported profit or loss is 10 % or more of the greater of:
   (i) the combined reported profit of all operating segments that did not report a loss, and
   (ii) the combined reported loss of all operating segments that reported a loss.
3) Its assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

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. 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 2013. Surplus funding received from segments are allocated to Group Capital.

Management monitors the operating results of its business units separately for the purposes of making decisions about resources allocation and performance assessment. Except for cost of funding , other operating costs incurred for central functions managed at Group Capital are not allocated to the operating segments.

The group evaluates performance on the basis of profit or loss from reportable operating segments, excluding non-recurring gains and losses.

Group Annual Financial Statements

for the year ended 31 March 2013

Segment reporting (continued)

Segment reporting (Geographic segments)

Group - 2013	Interest income	Interest expense	Net interest income	Impairment (charges)/ releases, claims and recoveries	Non-interest income/ (expense)	Operating income from insurance activities	Fair value gains, investment income and non-trading and capital items	Operating expenses and indirect taxes excluding depreciation and amortisation	Depreciation and amortisation	Net profit/ (loss)	Actuarial losses on the post-retirement medical aid liability	Revaluation of land and buildings and fair value gains on financial assets	Total comprehensive income
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Statement of profit or loss and other comprehensive income													
Northern region	1,478,650	(796,719)	681,931	(37,877)	(3,158)	-	31,059	(442,381)	(23,139)	206,435	(22,736)	23,206	206,905
Southern region	559,508	(444,885)	114,623	(37,138)	8,641	-	67	(99,408)	(1,944)	(15,159)			(15,159)
LBLIC	9,684	(960)	8,724		-	16,267	134,464	(8,521)	-	150,934			150,934
Continuing operations	**2,047,842**	**(1,242,564)**	**805,278**	**(75,015)**	**5,483**	**16,267**	**165,590**	**(550,310)**	**(25,083)**	**342,210**	**(22,736)**	**23,206**	**342,680**
Discontinued operation - LDFU	-	(38,470)	(38,470)	1,284	-	-	-	(904)	-	(38,090)	-	-	(38,090)
	2,047,842	**(1,281,034)**	**766,808**	**(73,731)**	**5,483**	**16,267**	**165,590**	**(551,214)**	**(25,083)**	**304,120**	**(22,736)**	**23,206**	**304,590**

Segment reporting (continued)

Segment reporting (Geographic segments) (continued)

Group - 2013

Statement of financial position

	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Loans and advances	Other assets	Total assets
	R'000	R'000	R'000	R'000
Assets				
Northern region	577,769	19,264,378	1,750,541	21,592,688
Southern region	2,403	7,704,357	1,209	7,707,969
LBLIC	1,025,817	-	311,659	1,337,476
Continuing operations	**1,605,989**	**26,968,735**	**2,063,409**	**30,638,133**
Discontinued operation - LDFU	-	143,873	-	143,873
	1,605,989	**27,112,608**	**2,063,409**	**30,782,006**

	Equity	Funding	Other liabilities	Total equity and liabilities
Equities and liabilities	R'000	R'000	R'000	R'000
Northern region	5,769,767	13,044,471	471,471	19,285,709
Southern region	(16,516)	9,909,079	77,836	9,970,399
LBLIC	946,060	-	391,416	1,337,476
Continuing operations	**6,699,311**	**22,953,550**	**940,723**	**30,593,584**
Discontinued operation - LDFU	(568,248)	-	756,670	188,422
	6,131,063	**22,953,550**	**1,697,393**	**30,782,006**

Segment reporting (continued)

Segment reporting (Geographic segments) (continued)

Group - 2012	Interest income	Interest expense	Net interest income	Impairment releases/ (charges), claims and recoveries	Non-interest income	Operating loss from insurance activities	Fair value gains, investment income and non-trading and capital items	Operating expenses and indirect taxes excluding depreciation and amortisation	Depreciation and amortisation	Net profit/ (loss)	Actuarial losses on the post-retirement medical aid liability	Revaluation of land and buildings	Total comprehensive income
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Statement of profit or loss and other comprehensive income													
Northern region	971,651	(421,176)	550,475	33,146	18,950	-	36,425	(454,868)	(22,346)	161,782	(30,575)	4,731	135,938
Southern region	524,200	(401,575)	122,625	(29,551)	12,607	-	(316)	(88,556)	(1,245)	15,564	-	-	15,564
LBLIC	2,940	(35)	2,905	-	(137)	(6,249)	66,192	(8,308)	-	54,403	-	-	54,403
Continuing operations	**1,498,791**	**(822,786)**	**676,005**	**3,595**	**31,420**	**(6,249)**	**102,301**	**(551,732)**	**(23,591)**	**231,749**	**(30,575)**	**4,731**	**205,905**
Discontinued operation - LDFU	-	(39,612)	(39,612)	(1,652)	-	-	-	(3,286)	-	(44,550)	-	-	(44,550)
	1,498,791	**(862,398)**	**636,393**	**1,943**	**31,420**	**(6,249)**	**102,301**	**(555,018)**	**(23,591)**	**187,199**	**(30,575)**	**4,731**	**161,355**

Segment reporting (continued)

Segment reporting (Geographic segments) (continued)

Group - 2012

Statement of financial position

	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Loans and advances	Other assets	Total assets
	R'000	R'000	R'000	R'000
Assets				
Northern region	497,136	14,433,717	2,020,891	16,951,744
Southern region	3,179	7,121,928	995	7,126,102
LBLIC	893,341	-	235,980	1,129,321
Continuing operations	**1,393,656**	**21,555,645**	**2,257,866**	**25,207,167**
Discontinued operation - LDFU	-	144,239	-	144,239
	1,393,656	**21,699,884**	**2,257,866**	**25,351,406**

	Equity	Funding	Other liabilities	Total equity and liabilities
	R'000	R'000	R'000	R'000
Equities and liabilities				
Northern region	5,379,490	11,945,490	814,121	18,139,101
Southern region	25,892	5,919,458	(6,605)	5,938,745
LBLIC	795,799	-	333,522	1,129,321
Continuing operations	**6,201,181**	**17,864,948**	**1,141,038**	**25,207,167**
Discontinued operation - LDFU	(574,707)	718,946	-	144,239
	5,626,474	**18,583,894**	**1,141,038**	**25,351,406**

	2013	2012
	R'000	R'000
Additions to non-current assets		
Northern region	**14,088**	14,893
Southern region	**-**	145
LBLIC	**3**	-
Continuing operations	**14,091**	15,038
Discontinued operation - LDFU	**-**	-
	14,091	15,038

The geographical segments consist of 27 AFC's and 2 hubs within the boundries of the respective provinces of the Republic of South Africa according to the client's location. Group Capital 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.

Information about major customers

The bank earned R320 million (2012: R124 million) in interest revenue from one of the Gauteng-based customers in the Business & Corporate Banking Unit. This represents approximately 15.7% (2012: 9.5%) of the bank's gross revenue.

Notes to the Group Annual Financial Statements

1 Corporate information

The Land and Agricultural Development Bank of South Africa ("Land Bank" or "the bank") operates as a development finance institution within the full agricultural value chain. Its activities are regulated by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002) (the Land Bank Act) and the Public Finance Management Act, 1999 (Act No. 1 of 1999) (the PFMA) as amended. The Land Bank provides a range of finance options to a broad spectrum of clients within the agricultural sector. Financing products cater for wholesale as well as retail financing for various client groups, including developing and commercial farmers, co-operatives and other agricultural enterprises.

In addition to its banking operations, the Land Bank extends its services to the insurance sector through its subsidiary, Land Bank Life Insurance Company (LBLIC). LBLIC offers credit life insurance products and short-term insurance products. LBLIC is incorporated in terms of the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and is a schedule 2 Public Entity in terms of the PFMA.

The group annual financial statements were authorised for issue by the directors on 31 July 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these group annual financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

2.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 April 2012.

i) IAS 12 Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The adoption of the amendment did not have any impact on the financial position or performance of the group as the group is exempt from income tax.

ii) IFRS 1 First-time adoption of IFRS (Amendment)

The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.

iii) IFRS 3 Business Combinations

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquirer's identifiable net assets. All other components are to be measured at their acquisition date fair value.

iv) IFRS 7 Financial Instruments - Disclosure

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosure around collateral held and improving disclosure by requiring qualitative information to put the quantitative in context.

v) IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.1 New and amended standards and interpretations (continued)

The amendments to the following Standards below did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2.2 Basis of presentation of financial statements

The group annual financial statements have been prepared in accordance with IFRS (with consent from the National Treasury) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The preparation of the group annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the group's accounting policies. 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.

2.2.1 Functional and presentation currency

The group annual financial statements are presented in South African Rand (ZAR), which is the bank's functional currency. All financial information presented in Rand (ZAR) are rounded to the nearest thousand (R'000), unless otherwise stated.

2.2.2 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.

2.3 Basis of consolidation

The group annual financial statements comprise the financial statements of the Land Bank and its subsidiaries, LBLIC, LBIS (which is currently dormant) and LBIC (which is currently dormant) as at 31 March 2013. The financial statements of LBLIC are prepared for the same reporting year as Land Bank, using consistent accounting policies. Although LBLIC is exempt from the requirements of the Long-term and Short-term insurance acts, the group annual financial statements have been prepared in accordance with the requirements of these acts.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full at consolidation.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction. Losses are attributed to the non controlling interest even if that results in a deficit balance. If the bank loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of the components previously recognised in other comprehensive income to profit or loss.

2.4 Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The following criteria must also be met before revenue is recognised:

2.4.1 Interest income

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recognised in the Statement of profit or loss and other comprehensive income using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the "Net interest income" in the Statement of profit or loss and other comprehensive income.

2.4.2 Non-interest income

Fee and commission income

Fees and other income and expenses which are integral to the effective interest rate on a financial asset or liability 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.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Penalty fee income

Penalty fee income is recognised when the event of default occurs and it is probable that economic benefits, as a result of the penalty fee, will flow to the bank.

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".

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.4 Revenue recognition (continued)

2.4.3 Investment Income

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.

Dividend income

Dividends are recognised in the period when the shareholders' right to receive payment is established.

Dividend income from financial assets classified as at fair value through profit or loss is recognised on the last date to register. Preference share dividends are recognised using the effective interest rate method.

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.

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.

2.4.4 Operating profit/(loss) from insurance activities

Refer to note 2.24 for the accounting policies as applied.

2.5 Expenses

2.5.1 Administration fees

Administration fees 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 fees 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.

2.5.2 Commission

Commission is payable to sales staff on long-term and short-term insurance business. Commission is accounted for on all in-force policies in the financial period during which it is incurred. The portion of the commission that is directly attributable to the acquisition of long-term recurring premium insurance policy contracts is recognised directly to the Statement of profit or loss and other comprehensive income. Acquisition costs for short-term insurance business is deferred over the period in which the related premiums are earned.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.6 Fruitless, wasteful and irregular expenditure

Items of expenditure which meet the requirements of the 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.

"Fruitless and wasteful expenditure" is recognised as an asset in the Statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of profit or loss and other comprehensive income.

When discovered, irregular expenditure is recognised as an asset in the Statement of financial position until such time as the expenditure is either approved 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. Irregular expenditure approved with funding, is recognised in the Statement of profit or loss and other comprehensive income when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding, it is recognised as expenditure, subject to availability of savings in the Statement of profit or loss and other comprehensive income on the date of approval.

2.7 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Bank as lessee

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the bank at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread over the term of the lease.

The Bank as a lessor

Leases where the bank 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.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.8 Government grants

Government grants are recognised as income at their fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the related costs that it is intended to compensate for and are not recognised in equity. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful live of the related asset and is not recognised in equity.

Capital contributions from the main shareholder, which is a government institution, are shown directly as equity and not governmental grants. Capital contributions are classified as capital funds in the Statement of changes in equity.

2.9 Employee benefits

2.9.1 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. The provisions for employee entitlement to wages, salaries and annual leave represents the amount which the group has a present obligation to pay as a result of employees' services provided during the period under review. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

2.9.2 Post retirement benefits

2.9.2.1 Defined contribution plans

A defined contribution plan is a plan under which fixed contributions are paid into a separate entity. As a result, there is no legal or constructive obligation on the employer to pay further contributions. Obligations for contributions to defined contribution provident fund plans are recognised as an expense in the Statement of profit or loss and other comprehensive income when they are due.

Retirement fund

The Land Bank Retirement Fund which functions as a defined contribution plan and which is subject to the provisions of the Pensions 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.

2.9.2.2 Defined benefit plans

A defined benefit plan is a plan that defines a benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.9 Employee benefits (continued)

Medical aid fund

The 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 a bi-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 plans 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of profit or loss and other comprehensive income in full, in the year it occurs.

2.9.2.3 Termination benefits

Termination benefits are recognised as an expense when the bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

2.9.2.4 Short-term benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.10 Taxation

The Land Bank and its subsidiary, LBLIC, are exempt from income tax in terms of section 10(1)(cA)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962).

As part of the restructuring of the operations, the tax status of the Land Bank Insurance Services Group, is currently under review with SARS.

2.11 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the Statement of profit or loss and other comprehensive income as incurred.

The cost of an item of property and equipment is recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the entity; and

b) the cost of the item can be measured reliably.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.11 Property and equipment (continued)

Land and buildings held for administrative purposes are stated in the Statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken at least once every year by independent sworn appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the "Revaluation Reserve" included in the equity section of the Statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of profit or loss and other comprehensive income, in which case the increase is recognised in the Statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the Statement of profit or loss and other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

An annual transfer from the revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. Leasehold improvements are depreciated on a straight-line basis over the period of the lease.

The estimated useful lives of newly acquired assets are as follows:

Buildings	40 years
Furniture and fittings	5 years
Computer equipment	3 years
Motor vehicles	5 years
Leasehold Improvements	Period of the lease

The depreciation charge for each period is recognised in the Statement of profit or loss and other comprehensive income.

An item of property and equipment and any significant part initially recognised is 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 Statement of profit or loss and other comprehensive income when the asset is derecognised.

Residual values, depreciation methods and useful lives are reviewed annually and adjusted prospectively as a change in estimate. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Useful life is the period over which an asset is expected to be available for use by an entity.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.12 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. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of profit or loss and other comprehensive income in the period in which they arise.

Investment properties are recognised as an asset when, and only when:

a) it is probable that future economic benefits associated with the investment property will flow to the entity; and

b) the cost of the investment property can be measured reliably.

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.

2.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Statement of profit or loss and other comprehensive income in the year in which the expenditure is incurred.

Intangible assets are recognised as an asset when, and only when:

a) it is probable that future economic benefits associated with the asset will flow to the entity; and

b) the cost of the intangible asset can be measured reliably.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.13 Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of profit or loss and other comprehensive income when the asset is derecognised.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statement of profit or loss and other comprehensive income when incurred.

2.13.1 Computer software

Amortisation is recognised in the Statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

Computer software	5 years

2.14 Impairment of non-financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows 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. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the Statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments

2.15.1 Recognition and initial measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the settlement date, i.e., the date that the bank becomes a party to the contractual provision of the instrument. This includes "regular way trades": purchases or sales of financial assets that require the delivery of assets within the timeframe generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Operating income".

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held–for–trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Statement of profit or loss and other comprehensive income.

(iv) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in "Operating income". Interest and dividend income or expense is recorded in "Operating income" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.1 Recognition and initial measurement (continued)

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of financial position at fair value. Changes in fair value are recorded in "Fair value gains/(losses) on financial assets and liabilities designated at fair value through profit or loss". Interest that is earned or incurred is accrued in "Interest income" or "Interest expense", respectively, using the effective interest rate (EIR), while dividend income is recorded in "Investment income" when the right to the payment has been established.

Included in this classification are loans and advances to customers which are economically hedged by credit derivatives and do not qualify for hedge accounting, as well as notes issued which are managed on a fair value basis.

(vi) Held–to–maturity financial investments

Held–to–maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held–to–maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest income" in the Statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in the Statement of profit or loss and other comprehensive income.

If the group were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available–for–sale. Furthermore, the group would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vii) Due from Banks and loans and advances to customers

"Due from Banks" and "Loans and advances to customers", include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the group intends to sell immediately or in the near term and those that the bank upon initial recognition designates as at fair value through profit or loss;
- Those that the group, upon initial recognition, designates as available for sale; and
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts "Due from Banks" and "Loans and advances to customers" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "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.

The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.1 Recognition and initial measurement (continued)

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset.

The group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

2.15.2 Subsequent measurement

Subsequent to initial recognition, the group classifies financial instruments as "at fair value through profit or loss", "loans and receivables" and "other financial liabilities". The measurement of each is set out below.

Financial assets

Held to maturity

Held–to–maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest income" in the Statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in the Statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. This category includes debentures, market-making assets. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives not designated as hedges are also classified as held for trading.

Financial assets at fair value through profit and loss are carried in the Statement of financial position at fair value with changes in fair value recognised in the Statement of profit or loss and other comprehensive income.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.2 Subsequent measurement (continued)

Loans and receivables

The group has classified loans, trade receivables and cash at bank as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It arises when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. 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 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 in finance costs.

Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the group has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as current loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

When the restructured loan's terms are materially altered, the original loan will be derecognised and a new loan will be recognised.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as fair value through profit or loss where the financial liability is either held for trading or it is designated as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the Statement of profit or loss and other comprehensive income.

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the finance costs in the Statement of profit or loss and other comprehensive income.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.3 Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

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:
  - The group has transferred substantially all the risks and rewards of the asset, or
  - 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.

2.15.4 Impairment of financial instruments

Impairment of financial assets

The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairments are recognised through profit and loss.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.4 Impairment of financial instruments (continued)

Assets carried at amortised cost

For financial assets carried at amortised cost the group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the Statement of profit or loss and other comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to bad debts recovered in the Statement of profit or loss and other comprehensive income.

2.15.5 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.

2.15.6 Financial guarantees

Financial guarantee contracts are contracts that require the group as the issuer of the guarantee to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. When such contracts are entered into by the group, a liability is recognised initially at fair value and subsequently measured at the higher of the amount determined in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and the initial fair value less cumulative amortisation in accordance with IAS 18.

2.15.7 Fair value of financial instruments

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.15 Financial instruments (continued)

2.15.8 Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

2.16 Derivatives

The group's activities expose it primarily to the financial risks of changes in interest rates. The group uses interest rate swaps, forward rate agreements and option contracts to hedge these exposures. The group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives. The group does not apply hedge accounting to its economic hedging activities.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Statement of profit or loss and other comprehensive income.

2.17 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.18 Sale and repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of financial position as the bank retains substantially all of the risk and rewards of ownership. The corresponding cash received is recognised in the group Statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the bank.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the bank reclassifies those securities in its Statement of financial position to financial assets held for trading pledged as collateral, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of financial position.

The consideration paid, including accrued interest, is recorded in the Statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the bank. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

2.19 Cash and cash equivalents

Cash and short-term deposits in the Statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

2.20 Funds administered on behalf of related parties

Land Bank manages funds on behalf of related parties. These amounts are carried at amortised cost. The net position in terms of legal right to offset of these funds administered on behalf of related parties are separately disclosed in note 32.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.21 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 the Republic of 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 bank.

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.

2.22 Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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.

2.23 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 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.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.23 Provisions (continued)

Leave pay liability

Accumulated leave is payable to employees upon termination of services. Provision for leave is calculated on the leave days outstanding at the end of the year multiplied by the remuneration rate. The remuneration rate is calculated in accordance with the employee's employment contract multiplied by the normal hours of work.

Provision for bonuses

The provision for bonuses is calculated by using the employee's monthly remuneration and by taking into consideration the overall performance of the group, the performance of the business department and the employee's performance.

2.24 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 are classified into two main categories, depending on the duration or type of insurance risks, namely short-term or long-term.

2.24.1 Short-term insurance

Short-term insurance provides benefits under crop policies.

Recognition and measurement

Premiums

Gross premiums exclude value added tax. 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 the deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums receivable that relate to risk periods extending into the following year. The Unearned Premium Reserve (UPR) is established to recognise the unexpired risk for which premiums have already been collected. Apart from the "Hail Summer", "Multi-peril Summer" and "Horticulture" classes of short-term insurance, the UPR was set with reference to the remaining days of each contract as at the valuation date. This method is in line with the requirements of the Short-term Insurance Act.

For the "Hail Summer", "Multi-peril Summer" and "Horticulture" classes, the UPR calculation was based on the incidence of risk over the term of the policy. The risk incidence pattern was set with reference to recent historic claims experience provided by the underwriting manager.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.24 Insurance contracts (continued)

2.24.1 Short-term insurance (continued)

Fees and commission income

Insurance contract policy holders 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.

Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims handling fees and related administration costs. This liability adequacy test is performed annually to ensure the adequacy of short-term insurance liabilities.

Provision for notified claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims are charged to income as incurred based on the estimated liability for compensation owed to policy holders. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted.

Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. The provision is calculated based on the requirements of the Short-term Insurance Act.

Deferred acquisition costs (DAC)

Commission and administration fees that vary with and are related to securing new contracts 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.

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the company is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The group assesses its short-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. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are dependent on the gross outstanding claims and IBNR provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.24 Insurance contracts (continued)

2.24.1 Short-term insurance (continued)

The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurer's share of unearned premium is calculated using the same method applied to calculate the unearned premium reserve.

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a current liability.

Contingency reserve

The "Contingency Reserve" as disclosed in the prior year was calculated in terms of the Short-term Insurance Act in 2010 and 2011 and was set at 10% of short-term gross written premium less short-term reinsurance premiums. The purpose of the reserve was to cover unexpected losses and was created through a transfer from retained earnings. Any transfers to/from this reserve are reflected in the Statement of changes in equity. Changes to the Capital Adequacy Requirements regulations, no longer requires a contingency reserve. The reserve was transferred to retained earnings during the year under review.

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 under loans and receivables and trade and other payables.

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.

2.24.2 Long-term insurance

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. Unearned premiums are insurance premiums received in advance and are disclosed under trade and other payables in the Statement of financial position.

Fees and commission income

Insurance contract policy holders 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.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.24 Insurance contracts (continued)

2.24.2 Long-term insurance (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.

Reinsurance asset

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 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.

Long term insurance liability

The actuarial value of the policy liabilities is determined using the Financial Soundness Valuation (FSV) method as described in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (Actuarial Society). The underlying philosophy is to recognise profits prudently over the term of each contract which is consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- The best estimate of future experience;
- The compulsory margins prescribed in the Long-term Insurance Act; and
- Actuarial guidance also provides for the use of discretionary margins where deemed appropriate.

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed-interest securities on the valuation date, with adjustments for the other asset classes, taking a long-term view. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account. It is assumed that LBLIC will retain its tax-exempt status for the foreseeable future;
- "Per policy" expenses are based on the latest actual expenses and escalated at the estimated annual expense inflation rate. In addition, expense overruns in the medium term were reserved for separately;
- Assumptions with regard to future mortality rates are consistent with LBLIC's 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 in mortality rates as a result of AIDS; and
- Persistency assumptions with regard to lapse rates are consistent with LBLIC's recent experience or expected future experience if this would result in a higher liability.

2.25 Segment information

The segment information is based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the group annual financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.25 Segment information (continued)

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

The principal segments of the group have been identified on a business segment basis, (namely Group Capital, Retail Commercial Banking, Retail Emerging Markets, Business & Corporate Banking, Land for Development and LBLIC) and on a geographical segmentation namely the northern and southern regions of South Africa. These bases are representative of the internal organisational structure for management purposes. The source and nature of business risks and returns are segmented on the same basis.

2.26 Critical accounting judgments and key sources of estimation

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments and estimates are summarised below:

i) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at each financial reporting date. In determining whether an impairment loss should be recorded in the Statement of profit or loss and other comprehensive income, the group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on the contractual cash flows of the assets within the portfolio and the historical-loss experience for assets with homogeneous credit risk characteristics to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(a) LDFU loan impairments

It was concluded in the 2008 financial year that these loans do not form part of the mandate of the group and, as such, a moratorium was placed on further approvals and the operations discontinued.

The group suspended the accrual of interest on all LDFU loans. No further disbursements were made since the last disbursement in October 2007. All the loans have since been regarded as non-performing.

During 2012 and 2013 the group contracted independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. Where the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal and legalities.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.26 Critical accounting judgments and key sources of estimation (continued)

(b) Provision for onerous contracts - LDFU loans

An independent legal opinion was obtained to determine the likelihood of onerous contract obligations in respect of LDFU loans. According to the opinion the LDFU loans were outside the mandate of the group in terms of the Land Bank Act. Due to the moratorium placed on further approvals/disbursements, the group did not fully disburse all loans approved.

The group performed an assessment to ascertain whether or not provision is required for onerous contracts arising out of the LDFU loans in terms of IAS37 – Provisions, Contingent Liabilities and Contingent Assets for the undisbursed loan commitments. As set out in note 33.4.1 the quantification of possible claims, if any, is not possible and as such no provision had been raised.

(c) Retail impairment model and the recognition of related fees

Historical system data shortcomings prohibit the group from applying the effective contractual interest rate to discount cash flows in the retail impairment model. As an alternative measure, the group has applied the Weighted Average Cost of Capital (WACC) to discount cash flows. For the current year the group used an average interest rate to discount the cash flows from the date of default onwards. This is the average of all effective interest rates after default and is split by client type, loan type, default date and duration from default. In the retail model, the impairment is triggered when a contractual payment is missed. The impairment calculation is based on the probability of default (PD) methodology. The PD is the percentage of assets moving from the initial delinquency/current state to defaults, based on historical default experience. The impairment also takes into account the loss given default (LGD). The LGD estimates are based on historical loss experience and are adjusted to add current economic conditions.

ii) 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, they 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 reported fair value of financial instruments.

iii) Insurance

a) 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
- Available market prices

The appropriateness of valuations is reviewed annually by the Insurance company's Investment and Actuarial Committee.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.26 Critical accounting judgments and key sources of estimation (continued)

b) Policy liabilities in respect of long-term 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 31 March 2013. 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. In addition, expense overruns in the medium-term were reserved for separately.

c) Policy liabilities in respect of short-term insurance contracts

One of the purposes of insurance is to enable policy holders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policy holders 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, 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.

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.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.26 Critical accounting judgments and key sources of estimation (continued)

d) 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.

- *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 past experience with similar cases. The group's estimates for outstanding claims are continually reviewed and updated, and adjustments resulting from 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 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.

- *Claims incurred but not reported (IBNR)*

The policy holders' liabilities include a provision for the expected cost of IBNR claims. This relates to claims expected to be made by policy holders in respect of events that occurred before the financial year end but that have not yet been reported to the group by year end. The IBNR is not discounted due to the short-term nature of IBNR claims on crop.

For short-term business, the provision is based on the minimum requirements of the Short-term Insurance Act. The computation has changed as required by the FSB Board Notice 169 issued on 28 October 2011. The Board notice is effective for the year ends after January 1, 2012. In line with the new computation, net earned premiums in different classes for the last six financial years are multiplied by the development factors introduced separately and the outcomes are added up.

The company writes crop insurance cover under the property class.

- *Premium provisions - short term*

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. For "Summer Hail", "Multi-peril Summer" and "Horticulture" classes, unearned premium is calculated according to claim occurrence patterns whereas in the other classes, remaining days method is used.

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 is made for any estimated future underwriting losses relating to unexpired risks. This assessment includes estimates of future claims frequency and other factors affecting the need for a provision for unexpired risk and performed annually.

The provision for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis that is consistent with the related provisions for unearned premiums.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.26 Critical accounting judgments and key sources of estimation (continued)

iv) Classification and measurement of LBK01 and LBK02 floating rate notes

The bank has elected to classify the LBK01 and LBK02 floating rate notes as held at fair value through profit and loss with all movements in the fair value being accounted for in the Statement of profit or loss and other comprehensive income.

v) Basis of allocation of segment revenue, assets and liabilities

Funding liabilities are allocated to segments as a percentage of the loans portfolio in that segment.

vi) Depreciation rates, methods and residual values

Depreciation rates, depreciation methods adopted and residual values of assets requires judgments and estimates to be made. Changes in estimates are disclosed in the relevant notes where applicable.

vii) 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 trend rates. All assumptions are reviewed at each reporting date.

2.27 Events after statement of financial position date

All adjusting events, both favourable and unfavourable, that occurred between statement of financial position date and the date when the financial statements are issued have been reported and adjusted for in the financial statements.

No adjustments have been made for those events that are indicative of conditions that came into existence after the statement of financial position date.

2.28 Non-current assets held-for-sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the group Statement of profit or loss and other comprehensive income of the reporting period, and of the comparable period of the previous year, 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.

2.28.1 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.

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.28 Non-current assets held-for-sale and discontinued operations (continued)

2.28.2 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.

2.29 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the group's annual financial statements are disclosed below. The group intends to adopt these standards, if applicable, when they become effective.

Standard or interpretation	Effective date
IFRS 9 Financial Instruments IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.	1-Jan-15
IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. These amendments will not impact the group's financial position of performance.	1-Jan-14
IFRS 1 Government Loans — Amendments to IFRS 1 These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. These amendments will not impact the group's financial position or performance.	1-Jan-13

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.29 Standards issued but not yet effective (continued)

Standard or interpretation	Effective date
IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the group's financial position or performance.	1-Jan-13
IFRS 9 Financial Instruments IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for reporting periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.	1-Jan-13
IFRS 10 Consolidated Financial Statements The standard replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.	1-Jan-13
IFRS 11 Joint Arrangements The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Bank.	1-Jan-13

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.29 Standards issued but not yet effective (continued)

Standard or interpretation	Effective date
IFRS 12 – Disclosure of Involvement with Other Entities The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the group to reach a different conclusion regarding consolidation. The group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Bank.	1-Jan-13
IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the group's financial position or performance.	1-Jan-13
IAS 19 Employee Benefits – Amendments The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The adoption of these amendments will require the group to recognise: - A service cost and a net interest income or expense in profit or loss. - The re-measurements of the pension assets and liabilities, i.e., actuarial gains and losses in the other comprehensive income for the group. The effect of the first item above will be to replace the expected return on plan assets in the Statement of profit or loss and other comprehensive income with a return determined using the discount rate used to discount the defined benefit obligation. There will be no financial impact for the group.	1-Jan-13
IAS 27 Separate Financial Statements (as revised in 2011) As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.	1-Jan-13

Notes to the Group Annual Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.29 Standards issued but not yet effective (continued)

Standard or interpretation	Effective date
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.	1-Jan-13
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation will not have an impact on the group.	1-Jan-13
IFRS 13 Fair Value Measurement IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the group.	1-Jan-13
IFRS 1 First-time Adoption of International Financial Reporting Standards This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.	1-Jan-13
IAS 1 Presentation of Financial Statements This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.	1-Jan-13
IAS 16 Property Plant and Equipment This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.	1-Jan-13
IAS 32 Financial Instruments, Presentation This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.	1-Jan-13
IAS 34 Interim Financial Reporting The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.	1-Jan-13

Notes to the Group Annual Financial Statements (continued)

3 Cash and cash equivalents

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Cash at bank				
- Commercial banks	**962,109**	948,484	**747,473**	794,190
- Short-term deposits	**929,274**	992,922	**929,242**	992,891
	1,891,383	1,941,406	**1,676,715**	1,787,081

Cash at banks are primarily held as a liquidity buffer in response to the bank's perceived refinancing/liquidity risk.

The amount of undrawn borrowing facilities as at 31 March 2013: R1.05 billion (2012: R550 million).

Cash at commercial banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

4 Trade and other receivables

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Accrued investment income	**19,906**	10,490	**19,906**	10,490
Fruitless and wasteful expenditure receivable (note 37)	**24**	270	**24**	270
LBLIC - intercompany balances [1]			**269,415**	179,358
Loans to current employees [2]	**1,042**	1,141	**1,042**	1,141
Loans to former employees [2]	**201**	234	**201**	234
- Gross loan	**651**	689	**651**	689
- Impairment	**(450)**	(455)	**(450)**	(455)
Premium receivable	**4,155**	46,246		
- Previously reported	**4,155**	55,217		
- Restatement [3]	**-**	(8,971)		
Prepaid expenses	**8,663**	7,937	**8,663**	7,937
Reinsurance receivable [4]	**69,939**	120,631		
- Previously reported	**69,939**	189,168		
- Restatement [5]	**-**	(68,537)		
Sundry receivables [6]	**56,593**	40,340	**39,961**	29,315
- Previously reported	**56,593**	35,605	**39,961**	29,315
- Restatement [7]	**-**	4,735	**-**	-
	160,523	227,289	**339,212**	228,745

[1] Refer to note 34.2.2 for detail on the intercompany loan.

[2] Loans to employees consists of home loans which are receivable between 7 years to 25 years with an average remaining period of 23 years. The interest rate on the employee home loans is fixed at 3% per annum and the fair value of the loans is R1.3 million (2012: R1.3million). The practice to grant home loans to employees was discontinued during 1998.

[3] Refer to note 38 for an explanation on the restatement.

[4] The reinsurance receivable account relates to amounts due from reinsurers in respect of claims already paid by LBLIC on the reinsured contracts.

[5] Refer to note 38 for an explanation on the restatement.

[6] The sundry receivables consists of the following:
- Amounts receivable on properties and possession sold;
- Amounts receivable from clients for due diligence performed;
- Amounts receivable from service providers;
- Other sundry debtors which are non-interest bearing with no fixed terms of repayment; and
- Receivable input VAT.

[7] Refer to note 38 for an explanation on the restatement.

Except for employee home loans, trade and other receivables are receivable within a 12-month period.

Notes to the Group Annual Financial Statements (continued)

5 Short-term insurance assets and liabilities

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Short-term insurance liabilities	**4,660**	102,940		
Outstanding claims	**960**	50,856		
Incurred but not reported claims	**3,700**	13,250		
Provision for unearned premiums	**-**	29,768		
Provision for unexpired risk reserve	**-**	1,151		
Unearned commission income	**-**	7,915		
Less: Short-term insurance assets	**(5,280)**	(81,375)		
Reinsurers' share of technical provisions				
Outstanding claims	**(2,329)**	(39,199)		
Incurred but not reported claims	**(2,951)**	(9,980)		
Provision for unearned premiums	**-**	(22,095)		
Deferred acquisition costs	**-**	(10,101)		
Net short-term insurance provisions	**(620)**	21,565		

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Gross claims incurred

Accident year	2010 R'000	2011 R'000	2012 R'000	2013 R'000	Total R'000
At end of accident year	107,778	219,070	132,134	-	
One year later	125,842	221,860	115,430		
Two years later	126,563	218,608			
Three years later	123,296				
Current estimate of gross cumulative claims incurred	**123,296**	**218,608**	**115,430**	**-**	**457,334**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

5 Short-term insurance assets and liabilities (continued)

Net claims incurred

	2010	2011	2012	2013	Total
Accident year	R'000	R'000	R'000	R'000	R'000
At end of accident year	31,866	65,425	39,135	-	
One year later	37,476	62,517	34,272		
Two years later	37,948	61,273			
Three years later	36,958				
Current estimate of net cumulative claims incurred	**36,958**	**61,273**	**34,272**	**-**	**132,503**

Gross claims paid

	2010	2011	2012	2013	Total
Accident year	R'000	R'000	R'000	R'000	R'000
At end of accident year	(86,490)	(137,059)	(73,467)	-	
One year later	(39,352)	(80,072)	(36,063)		
Two years later	(11)	(156)			
Three years later	(4)				
Cumulative claims paid	**(125,857)**	**(217,287)**	**(109,530)**	**-**	**(452,674)**

Net claims paid

	2010	2011	2012	2013	Total
Accident year	R'000	R'000	R'000	R'000	R'000
At end of accident year	(25,935)	(40,274)	(21,914)	-	
One year later	(11,806)	(24,740)	(10,819)		
Two years later	(4)	2,370			
Three years later	(1)				
Cumulative claims paid	**(37,746)**	**(62,644)**	**(32,733)**	**-**	**(133,123)**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000

6 Repurchase agreements

Financial instruments purchased				
Republic of South Africa bonds				
- R 157	-	6,032	-	6,032

The bank enters into sale and repurchase agreements for periods between one day and one month to cover any short positions that the bank may experience from time to time. Interest on these are disclosed in note 23.

7 Non-current assets held-for-sale

Land and buildings	**5,035**	7,510	**5,035**	7,510
Properties in possession	**47,297**	7,955	**47,297**	7,955
	52,332	15,465	**52,332**	15,465

Analysis of non-current assets held-for-sale

7.1 Land and buildings

Opening balance	**7,510**	6,444	**7,510**	6,444
Less: Disposals	**(760)**	-	**(760)**	-
Fair value adjustment	**(1,715)**	1,066	**(1,715)**	1,066
Closing balance	**5,035**	7,510	**5,035**	7,510

Approval for the sale of these properties have been obtained from the Minister of Finance in September 2009 and the properties were classified as non-current assets held-for-sale on 7 March 2010.

In May 2012, the Lichtenburg Building (Erf 108) was sold for R780k with a profit of R19k recorded in profit and loss.

The period to sell the Pietermaritzburg building (Erf 2413) has extended beyond 1 year. Management is however still committed to the sale and the building is being marketed at a reasonable price (market value). In view of the current volatile market conditions and low property valuations, the Pietermaritzburg building (Erf 2413) will only be disposed of as and when conditions render it economically viable.

The fair valuation of this building during the year gave rise to an impairment loss of R1.7 million. This building forms part of the Southern region segment.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

7 Non-current assets held-for-sale (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
7.2 Properties in possession				
Opening balance	**7,955**	47,134	**7,955**	47,134
- Previously reported	**7,955**	46,939	**7,955**	46,939
- Reclassification [1]	**-**	195	**-**	195
Plus: Additions	**41,750**	515	**41,750**	515
Less: Disposals	**(2,580)**	(39,527)	**(2,580)**	(39,527)
Fair value adjustment	**172**	(167)	**172**	(167)
Closing balance	**47,297**	7,955	**47,297**	7,955

These represent the properties bought in by the bank due to clients defaulting on their loan payments. The intention of the bank is to sell these properties to recover the outstanding payments on the defaulted loans. The bank exclusively hold these properties with a view to dispose of them:

- Potchefstroom Opleiding BP 2009
- Polokwane Grysappel BP 2050
- Tzaneen Murlebrook BP 2039
- Pietermaritzburg Holkrans BP 1938
- East London SA Eels BP 2102
- Pretoria Van Gogh BP 2103
- Gauteng Elandsfontein BP 2105
- Thabazimbi BP 2106
- North West BP 2107

[1] The correction relates to a reallocation of deposit received for landed properties. The incorrect amount was credited with the deposit.

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
8 Investments				
Investments held by subsidiaries	**1,025,676**	893,189		
Medical aid fund assets	**285,087**	242,505	**285,087**	242,505
Unlisted investment	**15,400**	5,000	**15,400**	5,000
Investment in LBLIC (formerly LBIC)	**-**	-	**-**	30
	1,326,163	1,140,694	**300,487**	247,535

Analysis of investments

8.1 Investments held by subsidiaries

These are investments held by subsidiaries with the following Asset Managers:

- Coronation Fund Managers Limited
- Momentum Asset Management
- Argon Asset Management
- Investec Asset Management
- Old Mutual Investment Group (South Africa) (Pty) Ltd

	Group 2013 R'000	Group 2012 R'000
	1,025,676	893,189
Equities	**569,357**	487,323
Property collective investment schemes	**2,742**	3,083
Public sector bonds	**245,072**	284,309
Cash deposits and similar securities	**195,161**	105,658
Hedge funds	**13,344**	12,816

8.1.1 Equities

	Group 2013 R'000	Group 2012 R'000
Equities comprise:		
Listed on the JSE - at market value	**451,425**	392,111
Unlisted - at directors' valuation	**31,651**	28,762
Listed foreign equity investments	**86,281**	66,450
	569,357	487,323

Notes to the Group Annual Financial Statements (continued)

8 Investments (continued)

8.1.2 Property investments

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Listed property collective investment schemes	**2,742**	3,083		

8.1.3 Investments other than equities and similar securities

	Group 2013 R'000	Group 2012 R'000
Public sector bonds	**245,072**	284,309
- Local	**232,337**	270,460
- Foreign	**12,735**	13,849
Cash, deposits and similar securities	**195,161**	105,658
- Local	**191,323**	103,863
- Foreign	**3,838**	1,795
Hedge funds	**13,344**	12,816
- Local	**-**	-
- Foreign	**13,344**	12,816
	453,577	402,783

Register of investments

A register containing details of all investments is available for inspection at the registered office of LBLIC.

8.2 Medical aid fund assets

These are investments held with Coronation Fund Managers Limited

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Listed investments	**243,696**	234,712	**243,696**	234,712
- Local equity	**142,736**	146,061	**142,736**	146,061
- Local bonds	**48,253**	51,537	**48,253**	51,537
- Foreign equity	**52,707**	37,114	**52,707**	37,114
Cash	**41,391**	7,793	**41,391**	7,793
- Local	**41,390**	7,038	**41,390**	7,038
- Foreign	**1**	755	**1**	755
	285,087	242,505	**285,087**	242,505

The funds are entrusted to portfolio managers for investment purposes. The funds are earmarked to fund the medical aid contributions of past employees. The investments are classified as held for trading and are measured and disclosed at fair value. These investments are exposed to interest rate risk, equity price risk and foreign exchange risk. Refer to note 36 for more information on the related risks and mitigation strategies.

Notes to the Group Annual Financial Statements (continued)

8 Investments (continued)

8.2 Medical aid fund assets (continued)

	Bank	
	2013	2012
Medical aid fund assets invested as follows:	%	%
Local equities		
Industrial shares	**2.22**	25.62
Resources shares	**78.12**	52.64
Financial shares	**19.66**	21.74

Investments in foreign equities were made utilising pooled funds. The risk is managed by the LBLIC Investment and Actuarial Committee set up to monitor the performance and activities of the portfolio managers. The post-retirement medical aid fund liability is disclosed in note 21.

8.3 Unlisted investment

	Bank	
	2013	2012
	R'000	R'000
10% Ordinary shares in Free State Maize (FSM) (Pty) Ltd	**15,400**	5,000

The Land Bank acquired a 10% equity share in one of its corporate clients, Free State Maize, for a nominal amount of R5 million. The investment relates to a debt restructuring agreement entered into between the bank and Free State Maize. The effective date of the restructuring agreement was 22 August 2011.

This investment does not constitute control, nor significant influence. The investment is not held for trading and is therefore carried at fair value through other comprehensive income.

The Free State Maize (Pty) Ltd investment was valued by an independent valuator as at 31 March 2013. The valuation was based on the Discounted Cash Flow (DCF), Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple and the Price Earnings (PE) multiple. The average value of the three valuation methods was R154 million.

A fair value adjustment of R10.4 million was therefore recorded in Other Comprehensive Income.

The bank has credit risk exposure to Free State Maize to the extent of R444.6 million (2012: R421.2 million). Total impairment of R13.6 million (2012: R59.1 million) is held against this loan.

8.4 Investment in LBLIC (formerly LBIC)

	Bank	
	2013	2012
	R'000	R'000
LBLIC shares (15,000 ordinary shares at par value of R2 each)	**-**	30
Directors' valuation (LBLIC)	**-**	800,203

As part of the restructuring, Land Bank no longer holds the investment in LBLIC, but in Land Bank Insurance Services (SOC) Limited (LBIS). Refer to note 8.5.

Notes to the Group Annual Financial Statements (continued)

8 Investments (continued)

8.5 Investment in LBIS

8.5.1 LBIS shares	Bank 2013 R'000	Bank 2012 R'000
LBIS shares (1,000 ordinary shares at no par value)	-	-

As part of the restructuring of the former LBIC, and with effect from 1 April 2012, LBIS issued 1,000 shares with no par value to Land Bank in return for its investment in the former LBIC (now LBLIC - i.e. 15,000 shares with a par value of R2 each). Furthermore, LBIC issued 1,000 shares with no par value to LBIS in terms of the company's incorporation.

Land Bank Insurance Services (SOC) Limited (LBIS), which is currently dormant, is the ultimate holding company of LBIC and LBLIC. The shares are accounted for at cost in terms of IFRS.

8.5.2 LBLIC shares	Group 2013 R'000	Group 2012 R'000
LBLIC shares (15,000 ordinary shares at par value of R2 each)	-	-
Directors' valuation (LBIS)	946,060	-

Land Bank indirectly holds these shares through its 100% holding of Land Bank Insurance Services (SOC) Limited (LBIS) which is the sole beneficial shareholder of LBLIC. The company provides life insurance cover to clients of the Land Bank under mortgage loans as well as short-term crop insurance. The company's actuarial value of the surplus as at 31 March 2013 amounted to R946.1 million (2012: Rnil). The insurance reserves of LBLIC amount to R43.7 million (2012: Rnil). In terms of the shareholder's agreement, the Land Bank guarantees the solvency of LBIS. The Land Bank, as a holding company, does not expect to be called upon to perform under this guarantee. The shares are accounted for at cost in terms of IFRS.

8.5.2 LBIC shares

LBIC shares (1,000 ordinary shares at no par value)

Land Bank indirectly holds these shares through its 100% holding of Land Bank Insurance Services (SOC) Limited (LBIS) which is the sole beneficial shareholder of LBIC. LBIC is currently dormant, but will house the short-term insurance activities upon completion of the restructuring of the group's insurance operations. The shares are accounted for at cost in terms of IFRS.

9 Market-making assets

Market-making is the practice of quoting bid and offer prices to the market on a regular basis. This encourages buying and selling of Landbank bonds and creates market liquidity in the Land Bank bonds.

R 207 Government bonds	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
At fair value	5,238	-	5,238	-
Contractual amount receivable on maturity	5,000	-	5,000	-

Contractual amount receivable represents the face value of amounts that the Land Bank has purchased in the capital market.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Short-term loans	**17,459,479**	14,237,366	**17,459,479**	14,237,366
Retail Commercial Banking	**603,136**	306,787	**603,136**	306,787
Retail Emerging Markets	**243,362**	100,551	**243,362**	100,551
Business & Corporate Banking	**16,612,981**	13,830,028	**16,612,981**	13,830,028
Medium-term loans	**462,910**	554,850	**462,910**	554,850
Retail Commercial Banking	**221,110**	270,770	**221,110**	270,770
Retail Emerging Markets	**4,120**	1,142	**4,120**	1,142
Retail Commercial Banking: Instalment sale loans	**237,680**	282,938	**237,680**	282,938
Long-term loans	**9,613,846**	7,330,669	**9,613,846**	7,330,669
Retail Commercial Banking	**3,751,965**	3,422,873	**3,751,965**	3,422,873
Business & Corporate Banking	**5,861,881**	3,907,796	**5,861,881**	3,907,796
Total loans and advances net of suspended interest and fees	**27,536,235**	22,122,885	**27,536,235**	22,122,885
Less: Impairments	**(567,500)**	(567,240)	**(567,500)**	(567,240)
Total loans and advances	**26,968,735**	21,555,645	**26,968,735**	21,555,645

The loan balances above, exclude the LDFU loans which are discontinued, and disclosed separately in note 11.

Group and Bank

10.1 Detail category analysis of loans

	Gross loans R'000	Suspended interest and fees* R'000	Loans net of suspended interest and fees R'000	Total impairments R'000	Net loans R'000
2013					
Business & Corporate Banking	22,566,769	(91,907)	22,474,862	(285,574)	22,189,288
Retail Commercial Banking	5,030,079	(216,188)	4,813,891	(275,728)	4,538,163
Retail Emerging Markets	247,482	-	247,482	(6,198)	241,284
	27,844,330	**(308,095)**	**27,536,235**	**(567,500)**	**26,968,735**
2012					
Business & Corporate Banking	17,821,292	(83,468)	17,737,824	(287,263)	17,450,561
Retail Commercial Banking	4,517,231	(233,863)	4,283,368	(277,429)	4,005,939
Retail Emerging Markets	101,693	-	101,693	(2,548)	99,145
	22,440,216	**(317,331)**	**22,122,885**	**(567,240)**	**21,555,645**

* The group continues to accrue interest and fees, where appropriate, on doubtful debts when there is a realistic prospect of recovery. The interest and fees are charged to customer accounts but it is not recognised to income; and is placed in a suspense account - only to be recognised to income, if there ceases to be significant doubt about its recovery. Loans are transferred to a "non-accrual" status where the operation of the customer's account has ceased. This lending is managed by a specialist recovery departments and is written down to its estimated realisable value. Interest and fees are not added to the lending or placed in a suspense account as the recovery thereof is considered unlikely, is only recognised to income when received.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

Loan type	Type of security	Nature of interest rate	Average term of repayment	Average interest rate 2013	Average interest rate 2012
10.2 Loan information					
Short-term loans	None	Variable	1 year	**8.51%**	7.43%
Medium-term loans	Notarial bonds	Variable	1-5 years	**9.93%**	10.76%
Long-term loans	Mortgage bonds	Variable	> 5 years	**9.16%**	8.77%

Refer to note 10.7 for disclosure on the collateral.

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
10.3 Reconciliation of movements in impairments per business unit				
2013				
Balance at the beginning of the year	287,263	277,429	2,548	567,240
Movements for the year:				
Reclassification of interest in suspense to impairment [1]	5,712	3,698	-	9,410
Reclassification of impairment relating to claim accounts	9,630	657	-	10,287
Credit losses written off	(40,853)	(27,003)	-	(67,856)
- Statement of financial position write-off (utilisation)	(40,786)	(14,364)	-	(55,150)
- Statement of profit or loss and other comprehensive income write-off	(67)	(12,639)	-	(12,706)
Net impairments raised to the Statement of profit or loss and other comprehensive income	23,822	20,947	3,650	48,419
Balance at the end of the year	**285,574**	**275,728**	**6,198**	**567,500**

[1] Interest in suspense is reclassified to impairment upon client going insolvent.

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

10.3 Reconciliation of movements in impairments per business unit (continued)

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2012				
Balance at the beginning of the year	256,556	332,893	-	589,449
Movements for the year:				
Recognition of impairment on acquired loan book [2]	4,164	-	-	4,164
Reclassification of interest in suspense to impairment [1]	41,062	-	-	41,062
Reclassification of impairment relating to claim accounts	-	2,447	-	2,447
Credit losses written off	(22,511)	(33,777)	-	(56,288)
- Statement of financial position write-off (utilisation)	(22,448)	(30,772)	-	(53,220)
- Statement of profit or loss and other comprehensive income write-off	(63)	(3,005)	-	(3,068)
Net impairments raised/(released) to the Statement of profit or loss and other comprehensive income	7,992	(24,134)	2,548	(13,594)
Balance at the end of the year	**287,263**	**277,429**	**2,548**	**567,240**

[1] Interest in suspense is reclassified to impairment upon client going insolvent.

[2] Impairment balance relating to the loan book acquired during the year.

10.4 Impairment charges/(releases), claims and recoveries

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2013				
Net impairments raised to the Statement of profit or loss and other comprehensive income	23,822	20,947	3,650	48,419
Recoveries in respect of amounts previously written off	(538)	(6,852)	-	(7,390)
Claims provision [3]	-	33,986	-	33,986
	23,284	**48,081**	**3,650**	**75,015**
2012				
Net impairments raised/(released) to the Statement of profit or loss and other comprehensive income	7,992	(24,132)	2,548	(13,592)
Recoveries in respect of amounts previously written off	(340)	(10,025)	-	(10,365)
Claims provision [3]	-	20,362	-	20,362
Recoveries in respect of amounts previously written off	**7,652**	**(13,795)**	**2,548**	**(3,595)**

[3] Claims provision represent the movement in provision for admin fees - refer note 20.

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

10.5 Category analysis of performing and non-performing loans

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2013				
Performing loans				
Gross amount	21,992,638	4,227,597	247,482	26,467,717
Impairment [4]	(61,852)	(82,912)	(6,198)	(150,962)
	21,930,786	**4,144,685**	**241,284**	**26,316,755**
Non-performing loans				
Gross amount	574,131	802,482	-	1,376,613
Suspended interest and fees	(91,907)	(216,188)	-	(308,095)
Impairment [4]	(223,722)	(192,816)	-	(416,538)
	258,502	**393,478**	**-**	**651,980**
	22,189,288	**4,538,163**	**241,284**	**26,968,735**
2012				
Performing loans				
Gross amount	17,293,697	3,615,855	101,693	21,011,245
Impairment [4]	(123,503)	(53,818)	(2,548)	(179,869)
	17,170,194	**3,562,037**	**99,145**	**20,831,376**
Non-performing loans				
Gross amount	527,595	901,376	-	1,428,971
Suspended interest and fees	(83,468)	(233,863)	-	(317,331)
Impairment [4]	(163,760)	(223,611)	-	(387,371)
	280,367	**443,902**	**-**	**724,269**
	17,450,561	**4,005,939**	**99,145**	**21,555,645**

[4] The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level. The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. The probability of default is then applied to the total population for which specific impairments have not been recognised. The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the group at the reporting date.

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

Group and Bank

Past due for:	Less than 1 year	More than 1 year less than 2 years	More than 2 years and defaulted *	Total
	R'000	R'000	R'000	R'000
10.6 Category age analysis of loans that are past due but not individually impaired				
2013				
Business & Corporate Banking				
Gross loan balance	22,088,823	17,765	460,181	**22,566,769**
Portion of gross loan balance past due not impaired	672,716	6,360	194,957	**874,033**
Retail Commercial Banking				
Gross loan balance	3,970,460	321,020	738,599	**5,030,079**
Portion of gross loan balance past due not impaired	28,379	5,977	71,727	**106,083**
Retail Emerging Markets				
Gross loan balance	247,252	230	-	**247,482**
Portion of gross loan balance past due not impaired	287	-	-	**287**
2012				
Business & Corporate Banking				
Gross loan balance	17,274,580	177,282	369,430	**17,821,292**
Portion of gross loan balance past due not impaired	500,653	72,914	187,873	**761,440**
Retail Commercial Banking				
Gross loan balance	3,640,214	70,866	806,151	**4,517,231**
Portion of gross loan balance past due not impaired	15,166	14,545	67,679	**97,390**
Retail Emerging Markets				
Gross loan balance	101,693	-	-	**101,693**
Portion of gross loan balance past due not impaired	-	-	-	**-**

* Gross loans that are past due but not impaired are covered in full by underlying collateral. Refer to note 10.7 for details on the collateral.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

10.7 Collateral held as security

The group holds collateral which it is entitled to sell in 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 collaterals are determined with reference to the realisable value of security under forced-sale conditions.

The group has developed an appropriate retail security management system during the 2012 financial year and went live on 24 May 2012. However, until data validation has been completed in terms of the collateral values captured on the system, the bank will not be in a position to disclose this information.

It is the group's policy to dispose of repossessed properties in an orderly fashion. In general, the group does not occupy the repossessed properties for business. The repossessed properties are accounted for as non-current assets held-for-sale in terms of IFRS5. The carrying amount of collateral taken in possession during the financial year is R41.8 million (2012: R0.5 million).

The group has the following assets held as security for the Business & Corporate Banking loan book:

	Estimated recovery value	2013	2012
Nature of assets	%	R'000	R'000
Business & Corporate Banking			
Biological assets	10%-100%	**965,219**	1,135,302
Commodities	50%-90%	**660,792**	633,411
Debtors	30%-70%	**5,315,805**	5,410,314
Deposits	90%-100%	**28,391**	21,923
Guarantee	95%-100%	**991,800**	991,800
Land and buildings	10%-75%	**4,996,968**	2,610,744
Office equipment and computers	10%	**16,149**	12,981
Plant and equipment	30%-50%	**860,693**	822,625
Shares and investments (listed)	30%-100%	**1,182,205**	1,717,440
Specialised infrastructure	50%	**-**	117,300
Stock	10%-70%	**2,388,309**	2,314,511
Subleases	75%	**90,000**	60,000
Trademarks	50%	**705,273**	538,773
Vehicles	30%-50%	**91,654**	68,117
Suretyship	10%	**346**	-
Cession held over unpaid shares	30%	**6,642**	15,282
		18,300,246	16,470,521

Notes to the Group Annual Financial Statements (continued)

10 Loans and advances (continued)

10.7 Collateral held as security (continued)

Concentration of credit risk

By the very nature of the group's business it is exposed to credit concentration risk in the agricultural sector, as well as to certain large account holder/group facilities within the Business & Corporate Banking loan book. Notwithstanding these risks, there is strategic benefit to the group by holding such exposures as the traditional large agri-businesses are often better positioned than financiers to mitigate risk in agricultural production.

The current group policy on credit concentration risk requires that the full Board approves any exposure in excess of 25% of the bank's own equity to any individual entity or group of companies. Furthermore, the Board has instituted additional risk management procedures for large exposures.

As at year-end there was one client (2012: one) with individual exposure greater than 25% of the bank's own equity. The total exposure of this client at year-end amounted to R2.24 billion (2012: R1.56 billion). The loan was approved by Credit Risk Management Committee and the full Board. The client is abiding to its loan repayment terms.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

11 Assets of disposal group classified as held-for-sale

Land for development loans (LDFU) [1]

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Total loans and advances net of suspended interest and fees	**516,314**	490,340	**516,314**	490,340
Less: Impairments	**(372,441)**	(346,101)	**(372,441)**	(346,101)
	143,873	144,239	**143,873**	144,239

[1] Refer to note 22 for additional information on the discontinued operation.

11.1 Detail category analysis of loans

Group and Bank	Gross loans R'000	Suspended interest and fees R'000	Loans net of suspended interest and fees R'000	Total impairments R'000	Net loans R'000
2013					
Land for development	644,479	(128,165)	516,314	(372,441)	143,873
2012					
Land for development	646,129	(155,789)	490,340	(346,101)	144,239

11.2 Reconciliation of movements in impairments of land for development loans

	Group 2013 R'000	Group 2012 R'000
Balance at the beginning of the year	**346,101**	339,520
Movements for the year:		
Reclassification of interest in suspense to impairment [2]	**27,624**	4,929
Net impairments (released)/raised to the Statement of profit or loss and other comprehensive income	**(1,284)**	1,652
Balance at the end of the year	**372,441**	346,101

[2] Interest in suspense is reclassified to impairment upon a client going insolvent.

Notes to the Group Annual Financial Statements (continued)

11 Assets of disposal group classified as held-for-sale (continued)

	Group 2013 R'000	Group 2012 R'000
11.3 Impairments (released)/raised, claims and recoveries		
Net impairments (released)/raised to the Statement of profit or loss and other comprehensive income	**(1,284)**	1,652
11.4 Category analysis of non-performing loans		
Non-performing loans		
Gross amount	**644,479**	646,129
Suspended interest and fees	**(128,165)**	(155,789)
Impairment	**(372,441)**	(346,101)
	143,873	144,239

Group and Bank

Past due for:	More than 1 year less than 2 years R'000	More than 2 years and defaulted R'000	Total R'000
11.5 Category age analysis of loans that are past due but not individually impaired			
2013			
Gross loan balance	-	644,479	**644,479**
Portion of gross loan balance past due not impaired	-	143,873	**143,873**
2012			
Gross loan balance	-	646,129	**646,129**
Portion of gross loan balance past due not impaired	-	144,239	**144,239**

11.6 Collateral held as security	Group 2013 R'000	Group 2012 R'000
Land and buildings	**200,640**	200,640

The properties were valued by independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. Where the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal and legalities.

Notes to the Group Annual Financial Statements (continued)

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
12 Derivative financial instruments				
12.1 Total derivative liabilities at fair value				
Interest rate swaps	-	15,421	-	15,421
Notional principal	-	517,812	-	517,812
3 months to 1 year	-	517,812	-	517,812

Interest rate swaps are currently used in managing the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities in line with the Treasury manual approved by the Board.

13 Intangible assets

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Computer software				
Net carrying value	**42,206**	54,594	**42,206**	54,594
Cost at the beginning of the year	**83,238**	73,514	**83,238**	73,514
Accumulated amortisation	**(41,804)**	(28,644)	**(41,804)**	(28,644)
Disposal	**(1,148)**	-	**(1,148)**	-
Additions/new developments - current year	**1,920**	9,724	**1,920**	9,724
Reconciliation of movement during the year				
Carrying amount at the beginning of the year	**54,594**	58,002	**54,594**	58,002
Additions/new developments	**1,920**	9,724	**1,920**	9,724
Amortisation	**(13,160)**	(13,132)	**(13,160)**	(13,132)
Disposal	**(1,148)**	-	**(1,148)**	-
Net carrying amount at the end of the year	**42,206**	54,594	**42,206**	54,594

The capitalised computer software was estimated to have a finite life of five years at acquisition. The software is amortised using the straight-line method over a period of five years. Included in the cost of intangible assets are computer software that has been fully amortised however still in use with a historical cost of R16.9 million. The group has reviewed the useful lives of all the intangible assets at year-end, however the group has decided to not adjust the useful lives of the intangible assets for the current financial year as the useful lives are currently not reflecting the appropriate future economic benefits that can be derived from these intangible assets. The group will reassess the useful lives of all the intangible assets at the beginning of the 2013/14 financial year together with the review of the accounting policy in order to reflect the most correct estimated useful lives of all intangible assets.

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
14 Investment properties				
Balance at the beginning of the year	**74,000**	42,620	**74,000**	42,620
Reclassification from property and equipment [1]	**-**	3,628	**-**	3,628
Fair value adjustments	**(8,200)**	27,752	**(8,200)**	27,752
Net carrying amount at the end of the year	**65,800**	74,000	**65,800**	74,000
Investment property comprises the following:				
Office buildings	**65,800**	74,000	**65,800**	74,000
Rental income derived from investment properties	**8,657**	7,463	**8,657**	7,463
Direct operating expenses generating rental income	**(789)**	(39)	**(789)**	(39)
Net profit arising from investment properties carried at fair value	**7,868**	7,424	**7,868**	7,424

A register containing details of the investment properties and the fair value adjustments thereof is available for inspection at the bank's registered office.

The investment properties are measured at fair value subsequent to initial recognition. The entire fair value of the group's investment properties at 31 March 2013 and 31 March 2012 has been determined based on valuations performed by independent valuators who hold a recognised and relevant professional qualification.

The fair value of investment property was determined by using the opportunity cash flow method (OCF). 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 of the OCF.

1 The R3.6 million in FY'12 relates to the Potchefstroom building that was reclassified from property and equipment to non-current assets held-for-sale on 1 December 2011 (refer to note 15).

Notes to the Group Annual Financial Statements (continued)

15 Property and equipment

2013 Group	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
Open market value/cost at 1 April 2012	26,352	58,588	24,628	27,009	882	11,908	149,367
Additions	-	-	7,426	2,400	-	76	9,902
Disposals	(147)		(726)	(1,270)	-	-	(2,143)
Devaluation	(8,234)	(3,003)	-	-	-	-	(11,237)
Revaluation surplus	7,859	14,570	-	-	-	-	22,429
Open market value/cost at 31 March 2013	**25,830**	**70,155**	**31,328**	**28,139**	**882**	**11,984**	**168,318**
Accumulated depreciation and impairment losses at 1 April 2012	-	-	16,002	18,543	568	5,351	40,464
Depreciation	-	1,633	5,570	2,074	37	2,397	11,711
Depreciation write-back as a result of the revaluation	-	(1,633)	-	-	-	-	(1,633)
Disposals	-	-	(650)	(1,062)	-	-	(1,712)
Accumulated depreciation and impairment losses at 31 March 2013	**-**	**-**	**20,922**	**19,555**	**605**	**7,748**	**48,830**
Net carrying amount at 31 March 2013	**25,830**	**70,155**	**10,406**	**8,584**	**277**	**4,236**	**119,488**

Notes to the Group Annual Financial Statements (continued)

15 Property and equipment (continued)

2013 Bank	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
Open market value/cost at 1 April 2012	26,352	58,588	24,514	26,671	882	11,908	148,915
Additions	-	-	7,426	2,399	-	76	9,901
Disposals	(147)	-	(719)	(1,270)	-	-	(2,136)
Devaluation	(8,234)	(3,003)	-	-	-	-	(11,237)
Revaluation surplus	7,859	14,570	-	-	-	-	22,429
Transfer to LBLIC	-	-	(47)	-	-	-	(47)
Open market value/cost at 31 March 2013	**25,830**	**70,155**	**31,174**	**27,800**	**882**	**11,984**	**167,825**
Accumulated depreciation and impairment losses at 1 April 2012	-	-	15,918	18,329	568	5,351	40,166
Depreciation	-	1,633	5,548	2,051	37	2,397	11,666
Depreciation write-back as a result of the revaluation	-	(1,633)	-	-	-	-	(1,633)
Depreciation effect of transfer to LBLIC	-	-	(16)	-	-	-	(16)
Disposals	-	-	(644)	(1,062)	-	-	(1,706)
Accumulated depreciation and impairment losses at 31 March 2013	**-**	**-**	**20,806**	**19,318**	**605**	**7,748**	**48,477**
Net carrying amount at 31 March 2013	**25,830**	**70,155**	**10,368**	**8,482**	**277**	**4,236**	**119,348**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

15 Property and equipment (continued)

2012 Group	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
Open market value/cost at 1 April 2011	25,706	61,078	29,878	26,228	882	11,557	155,329
Additions	-	-	3,933	1,030	-	351	5,314
Disposals	-	-	(9,183)	(249)	-	-	(9,432)
Devaluation	(6,363)	(15,225)	-	-	-	-	(21,588)
Reclassification to investment property	(1,859)	(1,845)	-	-	-	-	(3,704)
Revaluation surplus	8,868	14,580	-	-	-	-	23,448
Open market value/cost at 31 March 2012	**26,352**	**58,588**	**24,628**	**27,009**	**882**	**11,908**	**149,367**
Accumulated depreciation and impairment losses at 1 April 2011	-	1,522	20,224	16,381	531	2,996	41,654
Depreciation	-	1,588	4,161	2,375	37	2,355	10,516
Depreciation write-back as a result of the revaluation	-	(3,035)	-	-			(3,035)
Depreciation effect of the reclassification to investment property	-	(75)	-	-	-	-	(75)
Disposals	-	-	(8,383)	(213)	-	-	(8,596)
Accumulated depreciation and impairment losses at 31 March 2012	**-**	**-**	**16,002**	**18,543**	**568**	**5,351**	**40,464**
Net carrying amount at 31 March 2012	**26,352**	**58,588**	**8,626**	**8,466**	**314**	**6,557**	**108,903**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

15 Property and equipment (continued)

2012 Bank	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
Open market value/cost at 1 April 2011	25,706	61,078	29,878	26,228	882	11,557	155,329
Additions	-	-	3,933	1,030	-	351	5,314
Disposals	-	-	(9,183)	(249)	-	-	(9,432)
Devaluation	(6,363)	(15,225)	-	-	-	-	(21,588)
Reclassification to investment property	(1,859)	(1,845)	-	-	-	-	(3,704)
Revaluation surplus	8,868	14,580	-	-	-	-	23,448
Transfer to LBLIC	-	-	(114)	(338)	-	-	(452)
Open market value/cost at 31 March 2012	**26,352**	**58,588**	**24,514**	**26,671**	**882**	**11,908**	**148,915**
Accumulated depreciation and impairment losses at 1 April 2011	-	1,522	20,224	16,381	531	2,996	41,654
Depreciation	-	1,588	4,134	2,344	37	2,355	10,458
Depreciation write-back as a result of the revaluation	-	(3,035)	-	-	-	-	(3,035)
Depreciation effect of the reclassification to investment property	-	(75)	-	-	-	-	(75)
Depreciation effect of transfer to LBLIC	-	-	(57)	(183)	-	-	(240)
Disposals	-	-	(8,383)	(213)	-	-	(8,596)
Accumulated depreciation and impairment losses at 31 March 2012	**-**	**-**	**15,918**	**18,329**	**568**	**5,351**	**40,166**
Net carrying amount at 31 March 2012	**26,352**	**58,588**	**8,596**	**8,342**	**314**	**6,557**	**108,749**

Notes to the Group Annual Financial Statements (continued)

15 Property and equipment (continued)

The land and buildings were valued by independent property valuators as at 31 March 2013. The methods used for the valuations are based on market rentals, as obtained from independent companies who operate in the area, and the capitalisation rate for the areas, as obtained from the valuator's report.

There are no restrictions on the title of the property and no property has been pledged as security for liabilities. There are no amounts which should be recognised as construction costs. The group does not have any contractual commitments for the acquisition of property. If land and buildings were carried at cost the carrying value would be R10.7 million (2012: R10.7million) for land and R17.1 million (2012: R17.6 million) for buildings.

A register containing details of the owner-occupied properties and the revaluation thereof is available for inspection at the group's registered office.

The opening accumulated depreciation on 1 April 2012 was written back to the carrying amount of buildings when revalued in terms of the net replacement value method.

Properties reclassified as investment properties	Land	Buildings	Total
2012	R'000	R'000	R'000
Erf 132 Potchefstroom	1,859	1,769	3,628

This property was reclassified as an investment property on 1 December 2011 (refer to note 14).

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
		Restated [1]		
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
16 Capital and reserves				
Distributable reserve				
Capital Fund	**3,597,655**	3,397,655	**3,597,655**	3,397,655
General Reserve	**1,914,696**	1,745,484	**2,064,696**	1,895,484
Insurance Reserve	**1,096,061**	940,411		
- Previously reported	**1,096,061**	944,786		
- Restatements [1]	**-**	(4,375)		
Contingency Reserve	**-**	5,388		
Total distributable reserves	**6,608,412**	6,088,938	**5,662,351**	5,293,139
Less: Distributable reserves relating to the discontinued operation (refer note 22)	**(612,797)**	(574,707)	**(612,797)**	(574,707)
Distributable reserves from continuing operations	**5,995,615**	5,514,231	**5,049,554**	4,718,432
Non-distributable reserve	**135,449**	112,243	**135,449**	112,243
Mark-to-Market Reserve	**10,400**	-	**10,400**	-
Revaluation of property	**125,049**	112,243	**125,049**	112,243
	6,131,064	5,626,474	**5,185,003**	4,830,675

[1] Refer to note 38 for an explanation on the restatements.

16.1 Description of equity components

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. (Refer to note 34.2.1)

General Reserve

The General Reserve comprises of accumulated retained earnings.

Insurance Reserve

The Insurance Reserve is a component of group retained earnings and represents the accumulated surplus of LBLIC from insurance activities.

Contingency Reserve

The Contingency Reserve as disclosed in the prior year was calculated in terms of the Short-term Insurance Act in 2010 and 2011 and was set at 10% of short-term gross written premium less short-term reinsurance premiums. The purpose of the reserve was to cover unexpected losses and is created through a transfer from retained earnings. Any transfers to/from this reserve are reflected in the Statement of changes in equity. Changes to the Capital Adequacy Requirements regime, no longer requires a contingency reserve. The reserve was transferred to retained earnings during the year under review.

Notes to the Group Annual Financial Statements (continued)

16 Capital and reserves (continued)

Mark-to-Market Reserve

The Mark-to-Market Reserve relates to the fair value adjustment on the unlisted investment in Free State Maize (Pty) Ltd. (Refer to note 8.3).

Revaluation Reserve

The Revaluation Reserve represents the net surplus arising on the revaluation of properties.

17 Trade and other payables

	Group		Bank	
		Restated [1]		
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Accrued expenses	**58,953**	68,266	**54,488**	57,860
Amounts due to intermediaries	**1,616**	15,867		
- Previously reported	**1,616**	24,738		
- Restatement [1]	**-**	(8,871)		
Amounts due to reinsurers	**64,161**	156,437		
- Previously reported	**64,161**	215,964		
- Restatement [1]	**-**	(59,527)		
Client deposits for approved loans	**11,786**	11,888	**11,786**	11,888
Creditors	**12,031**	19,346	**12,031**	19,346
Deferred income	**6,146**	3,108	**6,146**	3,108
Loan costs and fees received in advance	**14,124**	14,828	**14,124**	14,828
Premiums received in advance	**543**	463	**-**	-
Other	**9,250**	9,083	**9,250**	9,083
	178,610	299,286	**107,825**	116,113

The trade and other payables are classified as other financial liabilities and are carried at amortised cost. Trade and other payables are generally paid as follows:

- Accrued expenses: one month;
- Loan costs and fees received in advance: one to three months;
- Client deposits for approved loans: one to three months; and
- Other: one month.

[1] Refer to note 38 for an explanation on the reclassification.

Notes to the Group Annual Financial Statements (continued)

18 Long-term policy holders' liabilities

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Policy holders' liabilities under insurance contracts	**42,184**	42,140		
Notified claims	**1,247**	2,665		
Claims (incurred but not reported)	**1,860**	2,000		
	45,291	46,805		

18.1 Long-term policy holders' liability excluding IBNR and notified claims

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Present value of policy liabilities	**49,032**	48,395		
Plus: Present value of future expenses	**29,966**	30,479		
Less: Present value of future premiums	**(46,641)**	(48,672)		
Liability excluding AIDS reserve	**32,357**	30,202		
Plus: AIDS reserve	**1,937**	2,071		
Plus: Data error provision	**-**	4,183		
Plus: Expense overrun reserve	**7,890**	5,684		
Total long-term policy holders' liability excluding IBNR and notified	**42,184**	42,140		

18.2 Movement in the long-term policy holders' liability

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Balance at the beginning of the year	**42,140**	42,535		
Movement in the long-term policy holders' liability	**44**	(395)		
Balance at the end of the year	**42,184**	42,140		

18.3 Movement in the IBNR

2013	Gross R'000	Ceded R'000	Net R'000
Opening balance	2,000	(1,000)	1,000
Movement in the IBNR	(140)	70	(70)
Balance at the end of the year	**1,860**	**(930)**	**930**

2012	Gross R'000	Ceded R'000	Net R'000
Opening balance	1,500	(700)	800
Movement in the IBNR	500	(300)	200
Balance at the end of the year	**2,000**	**(1,000)**	**1,000**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

18 Long-term policy holders' liabilities (continued)

18.4 Movement in notified claims

2013	Gross R'000	Ceded R'000	Net R'000
Opening balance	2,665	(764)	1,901
Movement in the notified claims	(1,418)	709	(709)
Balance at the end of the year	**1,247**	**(55)**	**1,192**

2012	Gross R'000	Ceded R'000	Net R'000
Opening balance	1,412	(29)	1,383
Movement in the notified claims	1,253	(735)	518
Balance at the end of the year	**2,665**	**(764)**	**1,901**

18.5 Total long-term policy holders' liability

2013	Gross R'000	Ceded R'000	Net R'000
Long-term policyholder's liability	42,184	-	42,184
Notified claims	1,247	(55)	1,192
IBNR	1,860	(930)	930
	45,291	**(985)**[1]	**44,306**

2012	Gross R'000	Ceded R'000	Net R'000
Long-term policyholder's liability	42,140	-	42,140
Notified claims	2,665	(764)	1,901
IBNR	2,000	(1,000)	1,000
	46,805	**(1,764)**[1]	**45,041**

[1] Represents long-term insurance assets.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

19 Funding liabilities

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
At fair value	**2,536,824**	1,688,059	**2,536,824**	1,688,059
At amortised cost	**21,173,396**	16,895,835	**21,173,396**	16,895,835
Total funding	**23,710,220**	18,583,894	**23,710,220**	18,583,894
Less: Funding relating to the discontinued operation (refer to note 22)	**(756,670)**	(718,946)	**(756,670)**	(718,946)
Funding of continuing operations	**22,953,550**	17,864,948	**22,953,550**	17,864,948

The carrying value of funding liabilities comprise of amounts measured at amortised cost and fair value. The total fair value of funding liabilities and contractual amounts owing are as follows:

19.1 Analysis of funding

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
At fair value				
Floating rate notes - LBK01	**1,190,947**	1,188,059	**1,190,947**	1,188,059
Floating rate notes - LBK02	**1,345,877**	500,000	**1,345,877**	500,000
	2,536,824	1,688,059	**2,536,824**	1,688,059
Movement in the fair values				
Floating rate notes - LBK01				
Opening balance	**1,188,004**	1,188,031	**1,188,004**	1,188,031
New issues	**-**	-	**-**	-
Fair value adjustments	**2,942**	(27)	**2,942**	(27)
	1,190,946	1,188,004	**1,190,946**	1,188,004
Floating rate notes - LBK02				
Opening balance	**500,000**	-	**500,000**	-
New issues	**838,032**	500,000	**838,032**	500,000
Fair value adjustments	**7,845**	-	**7,845**	-
	1,345,877	500,000	**1,345,877**	500,000
Promissory notes				
Opening balance	**-**	152,174	**-**	152,174
Fair value adjustments	**-**	5,826	**-**	5,826
Funds repaid	**-**	(158,000)	**-**	(158,000)
	-	-	**-**	-

Notes to the Group Annual Financial Statements (continued)

19 Funding liabilities (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
At nominal value				
Floating rate notes - LBK01	**1,188,000**	1,188,000	**1,188,000**	1,188,000
Floating rate notes - LBK02	**1,338,032**	500,000	**1,338,032**	500,000
	2,526,032	1,688,000	**2,526,032**	1,688,000

Senior unsecured floating rate notes (LBK01 and LBK02)

A R10 billion Domestic Medium Term Note Programme was registered and listed by the JSE on 18 October 2010.

On 25 October 2010 the bank issued a R1.188 billion senior unsecured floating rate note (LBK01) due on 25 October 2013 pursuant to the R10 billion Domestic Medium Term Note Programme. On 26 March 2012 the bank issued a further R500 million senior unsecured floating rate note (LBK02) due on 26 March 2015 pursuant to the R10 billion Domestic Medium Term Note Programme. On 9 July 2012 the bank issued a further R838 million senior unsecured floating rate notes (LBK02 TAP) due on 26 March 2015 pursuant to the R10 billion Domestic Medium Term Note Programme.

The bank has elected to carry the floating rate notes at fair value through profit or loss. Changes in fair value are attributable to interest rate fluctuations. There were no changes in the fair value that were attributable to the change in credit risk as there were no upward or downward movements in credit risk as per the rating agency.

Zero Coupons

The bank has elected to carry the zero coupons at fair value through profit or loss. Changes in fair value are attributable to interest rate fluctuations. There were no changes in the fair value that were attributable to the change in credit risk as there were no upward or downward movements in credit risk as per the rating agency.

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
At amortised cost				
Industrial Development Corporation of South Africa Limited	**81,105**	34,374	**81,105**	34,374
Promissory notes	**16,405,749**	15,195,179	**16,405,749**	15,195,179
Medium Term Promissory notes	**16,000**	-	**16,000**	-
Floating rate note - 1 year	**1,630,984**	-	**1,630,984**	-
Floating rate note - 3 years	**487,732**		**487,732**	
Bills	**1,227,346**	403,739	**1,227,346**	403,739
Call bonds	**773,831**	863,050	**773,831**	863,050
Agri-related businesses deposits	**190,764**	67,499	**190,764**	67,499
Small institutional deposits	**25,236**	23,794	**25,236**	23,794
Forced stock sale deposits	**288,842**	262,149	**288,842**	262,149
Department of Agriculture, Forestry and Fisheries fund	**4,600**	4,600	**4,600**	4,600
Employee deposits	**3,548**	3,792	**3,548**	3,792
Irrigation Board deposit	**37,659**	37,659	**37,659**	37,659
	21,173,396	16,895,835	**21,173,396**	16,895,835

Notes to the Group Annual Financial Statements (continued)

19 Funding liabilities (continued)

	Group		Bank	
	2013	2012	2013	2012
Average effective interest rate				
Short-term promissory notes	**5.53%**	6.10%	**5.53%**	6.10%
Bills	**5.73%**	6.23%	**5.73%**	6.23%
Call bonds	**5.14%**	5.54%	**5.14%**	5.54%

Industrial Development Corporation of South Africa Limited loan

On 31 March 2011 a loan of R250 million was obtained from the Industrial Development Corporation of South Africa Limited (IDC). On 31 March 2012 the loan was decreased by R100 million therefore amounting to R150 million. The purpose of the loan was to on-lend to farmers that were adversely affected by floods and drought during the 2010 and 2011 calendar years. The loan is interest-free, however in the event that the Land Bank derives any interest income from on-lending up to a maximum of 3.5% it shall repay an agreed variable portion to the IDC on 31 March each year. Advances and repayment terms of the loan are agreed upon between the IDC and the Land Bank, however the loan is to be repaid in full by 31 March 2022.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

20 Provisions

	Staff incentives R'000	Leave pay R'000	Labour disputes R'000	Administration and penalty fees R'000	Legal fees R'000	Other R'000	Total R'000
Group							
At 1 April 2011	**39,240**	**14,614**	**11,865**	**263,879**	**50,030**	**10,547**	**390,175**
Additional provision raised [1]	50,968	14,918	4,173	20,232	10,300	4,725	105,316
Utilised	(38,138)	(1,403)	(927)	(12,243)	(59)	(12,444)	(65,214)
Reversal of provision	-	(13,211)	(1,634)	-	-	-	(14,845)
At 31 March 2012	**52,070**	**14,918**	**13,477**	**271,868**	**60,271**	**2,828**	**415,432**
Additional provision raised [1]	56,015	15,495	5,783	33,959	4,750	4,753	120,755
Utilised	(51,969)	(1,261)	(59)	(12,793)	(21,606)	(4,578)	(92,266)
Reversal of provision	(22)	(13,657)	(660)	-	(533)	(778)	(15,650)
At 31 March 2013	**56,094**	**15,495**	**18,541**	**293,034**	**42,882**	**2,225**	**428,271**
Bank							
At 1 April 2011	**38,587**	**14,224**	**11,865**	**263,879**	**50,030**	**10,547**	**389,132**
Additional provision raised [1]	51,120	14,816	4,173	20,232	10,300	4,725	105,366
Utilised	(38,138)	(1,150)	(927)	(12,243)	(59)	(12,444)	(64,961)
Reversal of provision	-	(13,075)	(1,634)	-	-	-	(14,709)
At 31 March 2012	**51,569**	**14,815**	**13,477**	**271,868**	**60,271**	**2,828**	**414,828**
Additional provision raised [1]	55,000	15,326	5,783	33,959	4,750	4,753	119,571
Utilised	(51,569)	(1,249)	(59)	(12,793)	(21,606)	(4,578)	(91,854)
Reversal of provision	-	(13,566)	(660)		(533)	(778)	(15,537)
At 31 March 2013	**55,000**	**15,326**	**18,541**	**293,034**	**42,882**	**2,225**	**427,008**

[1] Additional provision raised on the administration and penalty fees provision relates to the interest for the 2013 financial year on these fees.

Notes to the Group Annual Financial Statements (continued)

20 Provisions (continued)

20.1 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.

20.2 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 remuneration rate of the employees in terms of employment contracts.

20.3 Labour disputes

Provision raised in respect of certain labour related disputes regarding matters which are likely to result in probable settlements by the group.

20.4 Administration and penalty fees

During 2002 the Land Bank Act was amended, which allowed the bank to charge administration and penalty fees on clients' accounts. Subsequent to this amendment, the bank had, without amending the existing client loan agreements at the time, levied such charges on all client accounts and not only loan agreements entered into after the amendment of the Act. Notwithstanding the amendment in the Act, these charges levied on the client accounts were in contravention of the loan agreements and any claims arising in this regard are being regarded as valid. Full provision for administration and penalty fees, including interest there-on, has been raised for such fees recognised in prior periods.

20.5 Other

Other provisions include the guarantee fee payable to the National Treasury and the NET1 contract fee.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
21 Post-retirement obligation				
21.1 Medical benefit plan				
Valuation assumptions				
Discount rate - In-service members [1]	**8.5%**	8.5%	**8.5%**	8.5%
Discount rate - Continuation members [1]	**7.7%**	8.5%	**7.7%**	8.5%
Continuation of membership at retirement	**100%**	100%	**100%**	100%
Average retirement age	**65 years**	65 years	**65 years**	65 years
Medical cost trend rate - In-service members	**7.2%**	7.4%	**7.2%**	7.4%
Medical cost trend rate - Continuation members	**7.3%**	7.4%	**7.3%**	7.4%
Membership data				
Number of in-service members	**310**	332	**310**	332
Number of pensioners	**311**	323	**311**	323
	621	655	**621**	655

[1] The medical cost trend rate has been factored in determining the discount rate used in the actuarial valuation.

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Reconciliation of the movement in the present value of the benefit obligations:				
Defined benefit obligation at 1 April	**261,154**	218,844	**261,154**	218,844
Service costs	**4,261**	3,523	**4,261**	3,523
Interest cost	**21,117**	20,092	**21,117**	20,092
Recognised actuarial loss/(gain)	**10,549**	30,575	**10,549**	30,575
Expected employer benefit payments	**(13,191)**	(11,880)	**(13,191)**	(11,880)
Defined benefit obligation at 31 March	**283,890**	261,154	**283,890**	261,154
Components of net periodic medical benefit cost				
Current service cost	**(4,261)**	(3,523)	**(4,261)**	(3,523)
Interest cost	**(21,117)**	(20,092)	**(21,117)**	(20,092)
Expected employer benefit payments	**13,191**	11,880	**13,191**	11,880
Total included in staff costs	**(12,187)**	(11,735)	**(12,187)**	(11,735)
Recognised actuarial (loss)/gain	**(10,549)**	(30,575)	**(10,549)**	(30,575)
	(22,736)	(42,310)	**(22,736)**	(42,310)

The defined benefit obligation plan is unfunded. The group does however have an investment earmarked specifically for this obligation. Refer to note 8.2. The estimated medical aid contributions for the next 6 months effective 1 April 2013 amount to R6.8 million (2012: R6.4 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

Notes to the Group Annual Financial Statements (continued)

21 Post-retirement obligation (continued)

21.2 Present value of the benefit obligation for the current year and the previous four financial years

	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
Fair value of benefit obligation asset associated with the liability [1]	285,087	242,505	227,832	211,170	165,702
Fair value of benefit obligation plan liability [1]	(283,890)	(261,154)	(218,844)	(190,149)	(191,436)
Surplus/(deficit)	**1,197**	**(18,649)**	**8,988**	**21,021**	**(25,734)**

[1] LBLIC does not have a post-retirement benefit obligation- and asset.

21.3 Sensitivity analysis for medical post-retirement benefits

	Effect on current service and interest cost		Effect on accumulated post-medical aid defined benefit obligation	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Increase in medical inflation by 1%	**15,182**	15,031	**324,819**	300,003
Decrease in medical inflation by 1%	**(11,358)**	(11,147)	**(249,702)**	(229,440)

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

22 Discontinued operation

During 2006/07, the Land for Development Finance Unit (LDFU) entered into loans that were deemed to be outside the mandate of the group in terms of the Land Bank Act. An independent forensic investigation concluded in September 2007 indicated alleged irregularities in the origination, management and administration of these loans. During October 2007, a moratorium was placed on the approval of any new loans and pay-outs on existing loans.

During July 2008, as part of the formalisation of the turnaround strategy, a decision was made to discontinue the LDFU operation and to dispose of the loan portfolio. The discontinuance decision formed part of the stabilisation phase of the turnaround strategy and has been encapsulated in the Corporate Plan approved by the Board of Directors.

As at 31 March 2009, the LDFU operations is a separate reportable operating segment of the bank and it was classified as a disposal group held-for-sale and as a discontinued operation. The disposal of some of the properties have taken place since the discontinuance decision, however, in view of the current volatile market conditions and low property valuations, properties in this portfolio will only be disposed of as and when conditions render it economically viable.

The results of LDFU for the year are presented below:

		Group		Bank	
		2013	2012	2013	2012
	Note	R'000	R'000	R'000	R'000
Net interest expense		**(38,470)**	(39,612)	**(38,470)**	(39,612)
Interest income	23	**-**	-	**-**	-
Interest expense	24	**(38,470)**	(39,612)	**(38,470)**	(39,612)
Impairment release/(charge) on loans and advances	11.3	**1,284**	(1,652)	**1,284**	(1,652)
Operating expenses	29	**(904)**	(3,286)	**(904)**	(3,286)
Net loss from discontinued operations		**(38,090)**	(44,550)	**(38,090)**	(44,550)

The major classes of assets and liabilities of the LDFU classified as held-for-sale as at 31 March 2013 are as follows:

		Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Assets					
Loans and advances classified as assets held-for-sale	11	**143,873**	144,239	**143,873**	144,239
Liabilities					
Liabilities directly associated with assets classified as held-for-sale	19	**(756,670)**	(718,946)	**(756,670)**	(718,946)
Net liabilities directly associated with disposal group		**(612,797)**	(574,707)	**(612,797)**	(574,707)
Equity and reserves of disposal group classified as held-for-sale		**(612,797)**	(574,707)	**(612,797)**	(574,707)

The net cash flows incurred by the LDFU are as follows:

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Cash flows from operating activities				
Operating expenses	**(904)**	(3,286)	**(904)**	(3,286)
Cash flow from financing activities				
Interest expense	**(38,470)**	(39,612)	**(38,470)**	(39,612)
Net cash outflow	**(39,374)**	(42,898)	**(39,374)**	(42,898)

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
23 Interest income				
Loans and receivables				
Interest from loans and advances	**1,879,547**	1,391,177	**1,879,547**	1,391,177
Interest on short-term deposits	**114,702**	57,051	**114,702**	57,051
Interest from banks	**53,593**	50,563	**43,909**	47,623
	2,047,842	1,498,791	**2,038,158**	1,495,851
24 Interest expense				
Funding deposits	**1,204,857**	788,700	**1,204,857**	788,700
Deposits and credit balances	**34,064**	30,175	**34,064**	30,175
Commercial banks	**1,134**	189	**174**	154
Government guarantee fee	**2,509**	3,722	**2,509**	3,722
	1,242,564	822,786	**1,241,604**	822,751
24.1 Interest expense incurred per class of financial liability				
Designated at fair value through profit or loss	**156,485**	85,721	**156,485**	85,721
Interest on debentures	**201**	(164)	**201**	(164)
Interest hedging	**(675)**	(105)	**(675)**	(105)
Interest paid on floating rate notes - LBK01	**81,291**	85,514	**81,291**	85,514
Interest paid on floating rate notes - LBK02	**75,668**	476	**75,668**	476
Financial liabilities at amortised cost	**1,124,549**	776,677	**1,123,589**	776,642
Interest paid on deposits	**34,064**	30,175	**34,064**	30,175
Interest paid on call bonds	**43,235**	49,117	**43,235**	49,117
Interest paid on bills	**48,216**	38,832	**48,216**	38,832
Interest paid on promissory notes	**933,698**	654,521	**933,698**	654,521
Interest paid on floating promissory notes - 1 year	**47,378**	-	**47,378**	-
Interest paid on floating promissory notes - 3 years	**11,565**	-	**11,565**	-
Interest paid on treasury overdraft	**1,871**	-	**1,871**	-
Interest paid - IDC	**879**	121	**879**	121
Fees paid on government guarantees	**2,509**	3,722	**2,509**	3,722
Interest paid - commercial banks	**1,134**	189	**174**	154
Total interest expense	**1,281,034**	862,398	**1,280,074**	862,363
Less: Interest expense relating to the discontinued operation (refer note 22)	**(38,470)**	(39,612)	**(38,470)**	(39,612)
	1,242,564	822,786	**1,241,604**	822,751

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
25 Non-interest income/(expense)				
Fee and commission income	(16,014)	21,953	(15,314)	22,653
Account administration fee income [1]	34,660	31,635	34,660	31,635
Account administration fee expense	(57,479)	(12,940)	(57,479)	(12,940)
Fund administration fees	6,599	3,203	6,599	3,203
Administration fee from LBLIC	-	-	700	700
Commission earned	66	55	66	55
REM rebate income	140	-	140	-
Other	21,497	9,467	21,497	8,904
Income from properties in possession	-	4	-	4
Investment property rentals	8,657	7,464	8,657	7,464
Sundry income	12,840	1,999	12,840	1,436
	5,483	31,420	6,183	31,557

[1] Impact of the suspended fees: Release of R3.0 million (2012: R9.2 million).

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
		Restated [1]		
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
26 Operating profit/(loss) from insurance activities				
Gross written premium	6,122	183,895		
Long-term insurance contracts	7,710	9,290		
Short-term insurance contracts	(1,588)	174,605		
- Gross earned premium	(2,739)	186,125		
- Change in unearned premium reserve	-	(12,134)		
- Change in the unexpired risk reserve	1,151	614		
Less: reinsurance premium	(3,458)	(135,945)		
Long-term insurance contracts	(3,956)	(3,495)		
Short-term insurance contracts	498	(132,450)		
- Reinsurance premium	498	(141,512)		
- Change in unearned premium reserve	-	9,062		
Less: movement in the unearned premium reserve	7,673	3,072		
Less: movement in the unexpired risk reserve	-	(614)		
Net premium income	10,337	50,408		
Long-term insurance contract claims	(1,365)	(3,733)		
- Gross claims paid	(4,278)	(6,761)		
- Movement in the expected cost of outstanding claims	1,418	(1,253)		
- Reinsurance recoveries	2,204	3,546		
- Movement in the expected reinsurance ceded cost of outstanding claims	(709)	735		
Short-term insurance claims	7,098	(36,699)		
- Gross claims paid	(36,223)	(153,550)		
- Incurred but not reported claims	9,550	1,040		
- Movement in the expected cost of outstanding claims	49,896	16,865		
- Reinsurance recoveries	27,774	106,892		
- Reinsurance: Incurred but not reported claims	(7,029)	(538)		
- Movement in the expected reinsurance ceded cost of outstanding claims	(36,870)	(7,408)		
Net insurance claims	5,733	(40,432)		
Movement in policy holders' liability	25	195		
Net commission and administration fees [1]	172	(16,420)		
	16,267	(6,249)		

[1] Refer to note 38 for an explanation on the restatement.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
27 Investment income and fees				
Investment income from financial assets classified as at fair value through profit or loss:	45,631	44,448	9,554	9,192
- Dividend income	17,192	17,939	3,878	4,600
- Interest income	28,439	26,509	5,676	4,592
Dividend from subsidiary	-	-	-	100,000
	155,122	59,014	45,612	16,575
Realised gains	55,320	82,420	17,032	10,107
Unrealised fair value gains/(losses)	99,802	(23,406)	28,580	6,468
Investment management and performance fees	(12,658)	(12,573)	(1,536)	(1,070)
	188,095	90,889	53,630	124,697
28 Fair value losses				
Held for trading				
Fair value movement on derivate assets	-	400	-	400
Fair value movement on derivate liabilities	(865)	(6,506)	(865)	(6,506)
Market-making assets	(432)	(463)	(432)	(463)
Instruments in (Repos)	(433)	(271)	(433)	(271)
	(1,730)	(6,840)	(1,730)	(6,840)
Designated at fair value through profit or (loss)				
Promissory notes	-	(5,826)	-	(5,826)
Floating rate notes - LBK01	(2,887)	(27)	(2,887)	(27)
Floating rate notes - LBK02	(7,845)	-	(7,845)	-
	(12,462)	(12,693)	(12,462)	(12,693)

Notes to the Group Annual Financial Statements (continued)

29 Operating expenses

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Amortisation – computer software	13,160	13,132	13,160	13,132
Audit fees (external audit)	6,662	3,958	6,103	3,434
Audit fees (internal audit)	10,966	13,721	10,875	13,844
Depreciation	11,882	10,518	11,838	10,459
- Current year before change in estimate	11,882	10,399	11,838	10,342
- Effect of changes in accounting estimates [1]	-	119	-	117
Directors' emoluments	12,878	12,551	10,054	8,705
- Executive directors	6,166	6,421	4,803	4,353
- Non-executive directors	6,712	6,130	5,251	4,352
Leases	24,743	23,735	24,743	23,735
- Actual payment	25,092	22,465	25,092	22,465
- Effect of straight-lining	(349)	1,270	(349)	1,270
Legal fees	16,696	24,180	16,696	24,180
Management fees	630	578	630	578
Professional fees	23,218	30,570	21,873	29,509
Staff costs	359,834	346,603	357,126	344,536
- Salaries and contributions	340,768	328,755	338,141	326,786
- Other	19,066	17,848	18,984	17,750
Other operating expenses	71,367	73,649	70,415	72,775
	552,036	553,195	543,512	544,887
Number of employees at year end	595	610	590	604

[1] Change in accounting estimate is due to a change in the residual values and useful lives of property and equipment.

Notes to the Group Annual Financial Statements (continued)

30 Non-trading and capital items

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Fair value adjustment on investment properties (note 13)	(8,200)	27,752	(8,200)	27,752
Impairment of other assets	5	11	5	11
Non-current assets held-for-sale fair value adjustment (note 7)	(1,543)	899	(1,543)	899
Profit/(loss) on disposal of property and equipment	185	(636)	185	(636)
Loss on disposal of properties in possession	(490)	(5,154)	(490)	(5,154)
Loss on sale of LBLIC (formerly LBIC) shares	-	-	(30)	-
Unrealised gain on revaluation of land and buildings	-	163	-	163
	(10,043)	23,035	(10,073)	23,035

31 Indirect taxation

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Value added tax [1]	23,357	21,058	23,357	21,058

[1] Value-added taxation comprises the portion that is irrecoverable as a result of the interest earned in the South African financial services sector.

32 Funds under administration

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Asset				
Cash balance held for the funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)	460,852	553,991	460,852	553,991
Liabilities				
Department of Agriculture, Forestry and Fisheries	453,629	547,125	453,629	547,125
Department of Rural Development and Land Reform	7,223	6,866	7,223	6,866
	460,852	553,991	460,852	553,991

32.1 Funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Agri BEE Fund	197,503	157,067	197,503	157,067
DAFF Administration Fund - Flood Relief	5,881	9,567	5,881	9,567
MAFISA Fund	160,146	294,855	160,146	294,855
DAFF Flood Relief Programme	90,099	85,636	90,099	85,636
	453,629	547,125	453,629	547,125

32.2 Funds administered on behalf of the Department of Rural Development and Land Reform (DRDLR)

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Land for Redistribution and Agricultural Development (LRAD) grant	7,223	6,866	7,223	6,866
	460,852	553,991	460,852	553,991

Notes to the Group Annual Financial Statements (continued)

32 Funds under administration (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
32.3 Reconciliation of movement in funds under administration				
32.3.1 Agri BEE				
Balance at the beginning of the year	**157,067**	119,910	**157,067**	119,910
Receipts	**31,100**	30,000	**31,100**	30,000
Accrued interest	**9,336**	7,250	**9,336**	7,250
Disbursements	**-**	(93)	**-**	(93)
Balance at the end of the year	**197,503**	157,067	**197,503**	157,067
32.3.2 DAFF Poverty Fund				
Balance at the beginning of the year	**9,567**	9,067	**9,567**	9,067
Accrued interest	**418**	500	**418**	500
Disbursements	**(4,104)**		**(4,104)**	
Balance at the end of the year	**5,881**	9,567	**5,881**	9,567
32.3.3 MAFISA Fund				
Balance at the beginning of the year	**294,855**	624,717	**294,855**	624,717
Receipts	**160,019**	-	**160,019**	-
Accrued interest	**12,956**	31,504	**12,956**	31,504
Credit transfer		1	**-**	1
Disbursements	**(307,683)**	(361,367)	**(307,683)**	(361,367)
Balance at the end of the year	**160,147**	294,855	**160,147**	294,855

Notes to the Group Annual Financial Statements (continued)

32 Funds under administration (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
32.3.4 Flood Relief Programme				
Balance at the beginning of the year	**85,636**	81,135	**85,636**	81,135
Accrued interest	**4,463**	4,501	**4,463**	4,501
Balance at the end of the year	**90,099**	85,636	**90,099**	85,636
32.3.5 LRAD grant				
Balance at the beginning of the year	**6,866**	6,506	**6,866**	6,506
Accrued interest	**357**	360	**357**	360
Balance at the end of the year	**7,223**	6,866	**7,223**	6,866

32.4 Description of the funds under administration

Agri BEE

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 DAFF in the administration of the Fund. An injection of R30 million from DAFF was received during the current financial year. The payment was approved by the DAFF for processing.

DAFF Poverty Fund

The Fund has been set up by the DAFF to respond to any food crisis by means of procurement of agricultural implements and starter packs. There has been no movement in the account for the past three financial periods.

MAFISA Fund

The MAFISA Fund has been set up on request of the DAFF to invest money in approved projects of the Department through on-lending to individuals. Monies received from the DAFF for the MAFISA Fund is invested in a separate Bank account on behalf of the DAFF. No on-lending has taken place during the period under review and the disbursements constitutes transfers to other institutions for on-lending on instruction of the DAFF.

Flood Relief Programme

The Fund has been set up on behalf of the DAFF to administer a recovery program as a result of the extensive flooding that occurred early in the year 2000.

Land for Redistribution and Agricultural Development (LRAD) grant

The Fund has been set up on behalf of the Department of Rural Development and Land Reform (DRDLR).

Notes to the Group Annual Financial Statements (continued)

32 Funds under administration (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
32.5 Emerging Farmers` Support Facility & REM Wholesale Finance Facility				
Asset				
Cash balance held for the support facilities	**249,311**	226,549	**249,311**	226,549
Liabilities				
Emerging farmers support facility	**225,302**	214,138	**225,302**	214,138
REM wholesale finance support facility	**24,009**	12,411	**24,009**	12,411
	249,311	226,549	**249,311**	226,549
32.5.1 Emerging farmers support facility				
Balance at the beginning of the year	**214,138**	-	**214,138**	-
Transfers received	**-**	208,000	**-**	208,000
Accrued interest	**11,164**	6,138	**11,164**	6,138
Balance at the end of the year	**225,302**	214,138	**225,302**	214,138
32.5.2 REM wholesale finance support facility				
Balance at the beginning of the year	**12,411**	-	**12,411**	-
Receipts	**30,000**	-	**30,000**	-
Transfers received	**-**	20,000	**-**	20,000
Accrued interest	**865**	318	**865**	318
Disbursements	**(19,267)**	(7,907)	**(19,267)**	(7,907)
Balance at the end of the year	**24,009**	12,411	**24,009**	12,411

32.6 Description of the Emerging farmers support & REM wholesale finance support facility

Emerging Farmers Support Facility

The Land Bank received R208.0 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. The only movement in the facility to date has been the interest accrued on the transfer received.

REM wholesale finance support facility

Under this facility, the Land Bank received R30.0 million (2012: R20.0 million) from the DAFF's MAFISA Fund. The transfer is meant to subsidise interest payable to the Land Bank and appointed intermediaries by Retail Emerging Market farmers under the 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. Interest paid from the facility to date amounts to R19.3 million (2012: R7.9million).

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
33 Commitments, guarantees and contingent liabilities				
33.1 Commitments				
Loans granted but not yet disbursed				
Individual farmers	**375,524**	421,464	**375,524**	421,464
Debentures/stock purchased				
Other institutional stock				
Nominal value: R5 million	**5,238**	6,032	**5,238**	6,032
33.2 Financial guarantees				
Individual farmers	**282,647**	177,447	**282,647**	177,447
Agri-related businesses	**324,659**	177,960	**324,659**	177,960
	607,306	355,407	**607,306**	355,407

The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.

Notes to the Group Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
33.3 Lease commitments				

33.3.1 Operating leases

The group has entered into various lease agreements with third parties in respect of equipment and premises for its day-to-day operations. The lease periods on equipment range from three to five years and one to five years on buildings.

As at 31 March the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Operating lease commitments - Group as lessee

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Payable within one year	**20,177**	20,835	**20,177**	20,835
Payable between one to five years	**14,982**	33,558	**14,982**	33,558
	35,159	54,393	**35,159**	54,393

Operating lease commitments - Group as lessor

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Receivable within one year	**3,456**	3,001	**3,456**	3,001
Receivable between one to five years	**11,942**	1,466	**11,942**	1,466
	15,398	4,467	**15,398**	4,467

The group has entered into a five year lease agreement on a new building for its head office on 1 December 2009 which accounts for 50% of the total lease expense. The agreement has a renewal option for a further five years and an escalation clause of 10% annually. The lease expenses payable within the next financial year amounts to R10 million (2012: R15.0 million) and the amount payable between one and five years amounts to R2 million (2012: R25.1 million).

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the group's registered office.

Notes to the Group Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

33.4 Contingent liabilities

33.4.1 Onerous contracts - LDFU loans

As disclosed in note 22, the LDFU loans entered into by the group in 2007, were outside the mandate of the group in terms of the Land Bank Act. Although the group might be exposed to civil and counter party claims, such potential claims cannot be reliably measured and as such, no provision was raised for possible onerous contracts.

As at 31 March 2013, the situation is as follows:

- The group has negotiated settlement agreements with two of the clients and further negotiations are on-going to finalise these matters.
- Two of the clients were placed under liquidation by third parties and are being dealt with in terms of liquidation proceedings.
- No further settlements were concluded during this financial period. The group is actively pursuing avenues to dispose of these assets, but will only consider disposals on favourable terms to the bank. Legalities and prevailing market conditions are some of the factors delaying the process.

33.4.2 Legal claim - previous turnaround strategy

The group entered into an agreement with a service provider to plan and implement a turnaround strategy for the group which developed into a dispute. A second agreement was entered into to resolve the dispute. In the second agreement the group agreed to cede, subject to the agreed-upon terms and conditions, written off debtors to the value of +/- R123 million to the service provider. A second dispute arose between the parties regarding the cession.

The matter was set down for trial during March 2012. On 23 March 2012 judgement was delivered in favour of the Land Bank. However, the plaintiff filed a notice of application for leave to appeal the judgement, which was granted by the trial court.

The Supreme Court of Appeal heard the matter on 07 May 2013 and delivered its judgement on 5 June 2013 which dismissed the appellants claim with costs. Thus, no provision has been raised by the group.

33.4.3 Change in the interest rate method

The bank changed the method of calculating interest on loans. This has led to current and past legal claims. Judgement was handed down on 9 March 2012 in the North Gauteng High Court in a "test" case on the Land Bank Interest Calculation Methodology.

In essence the case related to two issues:

1. The reasonableness or unreasonableness of the Land Bank interest rates as applied and variation therein since 1999 - the court found in favour of the Land Bank; and
2. The charging of interest on arrear (default) interest - the court found against the Land Bank.

After considering legal opinion received from the bank's Senior Council indicating that an appeal has a reasonable prospect of success, the Land Bank decided to lodge an appeal against the part of the judgement which was not found in its favour. The Appeal was heard on 20 May 2013 and judgment is expected within 3 months of hearing.

Notes to the Group Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

33.4 Contingent liabilities (continued)

33.4.3 Change in the interest rate method (continued)

Management believes that although possible, it is not probable that the appeal would not be successful and accordingly no provision for any liability has been made for these financial statements in this regard.

The potential effect should the appeal not be successful has not been provided as it can only be determined by recalculating each individual loan account over an extended period which is not practical.

33.4.4 Agri-BEE Funds administered on behalf of the DAFF

Possible irregularities in the administration of the funds administered on behalf of the DAFF, currently under investigation, could give rise to an obligation in terms of an indemnity clause included in the memorandum of understanding between the DAFF and the group. A reasonable estimate of the amount of the resulting loss, if any, could not be made.

33.4.5 Disputed lease agreement, Cape Town

During the year under review, in January 2013, the group declined a lease renewal request from a tenant in one of the investment properties. The lease renewal was declined based on a legal argument that the lease agreement was void ab initio. The Tenant disputed this and sought independent legal advice regarding the validity of the Lease agreement. Notwithstanding, the Tenant effected certain improvements on the building and as such has a possible unjustified enrichment claim against the group. This possible obligation by the group to reimburse the Tenant, naturally, to the extent that the improvements made are to the benefit of the group, is yet to be determined and quantified.

Notes to the Group Annual Financial Statements (continued)

34 Related Parties

34.1 Relationships between parents and subsidiaries

The ultimate controlling party of the Land Bank is government, National Treasury, both incorporated in South Africa.

The following represents the significant subsidiaries of the bank:

	Ownership Interest	
	2013	**2012**
1. Land Bank Life Insurance Company Limited (LBLIC) through its dormant holding company (LBIS)	**100%**	100%
2. Land Bank Insurance (SOC) Limited through its dormant holding company (LBIS)	**100%**	-
3. Land Bank Insurance Services (SOC) Limited	**100%**	-

Upon completion of the restructuring, LBIS will be the holding company of the restructured operations, whilst Land Bank Insurance (SOC) Limited (LBIC) and Land Bank Life Insurance Company Limited (LBLIC) will house the short-term and long-term insurance operations respectively. The Land and Agricultural Development Bank of South Africa (Land Bank) will be the ultimate holding company of the group through a 100% shareholding in LBIS.

As part of the restructuring of the former LBIC, and with effect from 1 April 2012, LBIS issued 1,000 shares with no par value to Land Bank in return for its investment in the former LBIC (now LBLIC - i.e. 15,000 shares with a par value of R2 each). Furthermore, LBIC issued 1,000 shares with no par value to LBIS in terms of the company's incorporation. LBIC and LBIS are currently dormant.

34.2 Transactions with related parties other than key management personnel

34.2.1 Amounts received from related parties during the year	2013	2012
	R'000	**R'000**
(i) Land Bank Life Insurance Company Limited (LBLIC) - Subsidiary		
Dividend declared by LBLIC (formerly LBIC)	**-**	100,000
Policy administration fees received by Land Bank	**700**	700
Commission received by Land Bank	**64**	55
Portion of non executive directors emoluments paid by LBLIC	**400**	400
Property and equipment transferred to LBLIC (at NAV)	**32**	212
	1,196	101,367

LBLIC is a 100% owned subsidiary of the Land Bank through its dormant holding company, LBIS. An administration and management fee of R0.7 million per annum (2012: R0.7 million) is paid by LBLIC to Land Bank for support services such as finance, human resources, compliance and information technology.

LBIC declared a dividend of R50 million for the 2011 results. The declaration of special dividend of R100 million in 2012 was not based on profitability or financial statements of the company but rather on the excess capital available to the company. No dividends were declared or paid during the year under review. The R150 million dividends paid during 2012, related to those declared in 2011 and 2012.

	2013	2012
(ii) National Treasury - Stakeholder	**R'000**	**R'000**
Recapitalisation	**200,000**	750,000

Notes to the Group Annual Financial Statements (continued)

34 Related Parties (continued)

With effect from 14 July 2008, the administrative powers over the bank were transferred from the Ministry of the Department of Agriculture to the Ministry of Finance and, in accordance with The Land Bank Act, 2002, has the following role and responsibilities:

The Minister in terms of paragraph 7 -

(a) is responsible for the development of policy with regard to agriculture, agrarian reform and matters incidental thereto; and

(b) may from time to time issue policy directives to the Board not inconsistent with this Act.

The Minister in terms of paragraph 9(1) -

may appoint a Board Member for such period as the Minister may determine in the case of each member but the period may not exceed five years.

Transactions during the year

During the course of FY13, the Land Bank received an amount of R200.0 million from the National Treasury as part of the R3.5 billion recapitalisation, and this has been included in the capital fund in the statement of changes in equity.

Government Support - Letter of guarantee

During the 2010 financial year period, the National Treasury increased its financial guarantee to the bank to R3.5 billion (previously R1.5 billion) to support the sustainability of the bank. In the prior year, FY12 the Land Bank received a R750.0 million capital injection which was further augmented by another R200.0 million received in FY13 reducing the Government guarantee to R 800.0 million as at 31 March 2013. The balance on the guarantee will be converted into capital in the near future. The fees payable on the guarantee amount is calculated at 0.30% per annum (refer to note 24).

(iii) Other related parties

Funding received

The bank obtains funding from institutions under the same sphere of government, of which the most significant nominal values are disclosed below:

	2013 R'000	2012 R'000
Corporation for Public Deposits	**443,000**	443,000
Development Bank of Southern Africa	**100,000**	100,000
Khula Enterprises Finance Limited	**25,000**	65,000
National Housing Finance Corporation Limited	**140,000**	100,000
Petro SA	**944,000**	425,000
Post Bank	**600,000**	965,000
Public Investment Corporation (SOC) Limited	**9,109,000**	7,959,000
South-African Reserve Bank	**110,000**	67,000
City of Johannesburg	**301,000**	11,000
	11,772,000	10,135,000

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.

Notes to the Group Annual Financial Statements (continued)

34 Related Parties (continued)

34.2.2 Amounts owed by related parties

	2013 R'000	2012 R'000
(i) Land Bank Life Insurance Company Limited (LBLIC) - Subsidiary		
Land Bank Life Insurance Company Limited (LBLIC) (note 4)	**269,415**	179,358

The intercompany account is held as a trading account between LBLIC and it's ultimate holding company, the Land Bank. In terms of the shareholders' agreement, interest on the outstanding loan balance is charged at the prime overdraft rate, 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 financial period under review. All the intercompany arrangments will be revisited as part of the implementation of the restructuring of LBIC.

There was no provision for doubtful debts at the statement of financial position date and no bad debt expense in the year (2012: Rnil).

34.2.3 Amounts owed to related parties

	2013 R'000	2012 R'000
Department of Agriculture, Forestry and Fisheries (note 32.1)	**453,629**	547,125
- Micro-Agricultural Finance Institution (MAFISA)	**160,146**	294,855
- Agricultural Broad Based Black Economic Empowerment (Agri-BEE)	**197,503**	157,067
- DAFF Flood Relief	**95,980**	95,203
Department of Rural Development and Land Reform (note 32.2)	**7,223**	6,866
Emerging Farmers` Support Facility & REM Wholesale Finance Facility (note32.5)	**249,311**	226,549
	710,163	780,540
(i) Funds under administration		
Department of Agriculture, Forestry and Fisheries (note 32.1)	**453,629**	547,125
Department of Rural Development and Land Reform (note 32.2)	**7,223**	6,866
	460,852	553,991
Cash balances held for funds administered	**460,852**	553,991

(ii) Micro-Agricultural Finance Institution (MAFISA)

The bank was appointed as administrator of the state owned scheme, known as MAFISA by the DAFF. The bank maintains separate accounting records for MAFISA which reflected the following balances at the reporting date.

	2013 R'000	2012 R'000
Bank balances of the MAFISA fund (note 32.3.3)	**160,146**	294,855
MAFISA fund balance (note 32.3.3)	**160,146**	294,855

Notes to the Group Annual Financial Statements (continued)

34 Related Parties (continued)

(iii) Agricultural Broad Based Black Economic Empowerment (Agri-BEE)

The bank was appointed as administrator of the Agri-BEE funds in September 2006 in which monies, appropriated by parliament, was paid for the implementation of Agri-BEE. The total amount received for the 2013 year is R31.1 million (2012: R30 million). Management fees are calculated at 2,5% per annum on the amount deposited.

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
(iv) Emerging Farmers` Support Facility & REM Wholesale Finance Facility				
Emerging farmers support (note 32.5.1)	**225,302**	214,138	**225,302**	214,138
REM wholesale finance support facility (note 32.5.2)	**24,009**	12,411	**24,009**	12,411
	249,311	226,549	**249,311**	226,549
Cash balance held for the support facilities	**249,311**	226,549	**249,311**	226,549

35 Transactions with key management personnel

	Group	
	2013	2012
	R'000	R'000
Short-term employee benefits	**26,749**	27,522
Post-employment benefits	**-**	-
Other long-term benefits	**415**	383
Termination benefits	**-**	147

Key management personnel comprises of executive- and non-executive directors (refer to page 64 of the remuneration report).

Other transactions

The following presents detail of loans granted by the group to key management personnel, which are included within loans and receivable financial assets:

A non-executive director of the bank, Prof ASM Karaan is also a non-executive director and shareholder of one of the bank's clients Southern Oils Limited. Southern Oils Limited has a loan balance of R101 million (2012: R86 million).

Notes to the Group Annual Financial Statements (continued)

36 Risk management

36.1 Land Bank's risk management strategy and processes

Brief description of Land Bank's Risk Environment

The group's financial liabilities, other than derivatives, comprise of bank loans and overdrafts, debentures, promissory notes, policy liabilities, repurchase agreements and trade payables. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has various financial assets such as loans and advances, repurchase agreements, trade receivables and cash and short-term deposits which arise directly from its operations.

The group also enters into derivative transactions primarily interest rate swaps to manage the interest risk arising from the group's sources of finance. During the year under review, no new interest rate swaps were entered into.

It is the group's policy not to trade in derivatives unless there is an underlying exposure.

Risk types

The group is exposed to the following main risks:

	Risk category (primary)	Risk type (secondary) and description
General risk	Operational	**Operational risk Operational risk** is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes: ***Information and technology risk:*** the risk of obsolescence of infrastructure, deficiency in integration, failures/ inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data. ***Going concern/business continuity risk:*** the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future. ***Legal risk:*** the risk that the group will be exposed to contractual obligations which have not been provided for. ***Compliance risk:*** the risk of not complying with laws and regulations, as well as investment management mandates. ***Human resources risk:*** the risk that the group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk. ***Fraud risk:*** the risk of financial crime and unlawful conduct occurring within and/or against the group.
	Reputational	**Reputational risk** is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.
	Strategic	**Strategic risk** is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.1 Land Bank's risk management strategy and processes (continued)

	Risk category (primary)	Risk type (secondary) and description
Financial and business specific risks	Market	**Market risk** is the risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes: ***Equity price risk:*** the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices. ***Interest rate risk:*** the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates. ***Currency risk:*** the risk that a rand value of a financial instrument will fluctuate owing to changes in foreign exchange rates. ***Concentration risk:*** the risk of losses associated with inadequately diversified asset portfolios. This may arise from a lack of diversification in the asset portfolio.
		Asset liability mismatching risk: the risk that losses will be incurred as a result of a deviation between asset and liability cash flows, prices or carrying amounts. ***Property risk:*** the risk that the value of investment properties will fluctuate as a result of changes in the environment. ***Market liquidity risk:*** risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimise a loss (or realise the required profit).
	Liquidity	**Liquidity risk** is the risk relating to the difficulty to accessing funds to meet commitments associated with financial instruments or policy contracts.
	Credit	**Credit risk** is the risk of default and change in credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure. Credit risk includes: ***Default risk:*** credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.1 Land Bank's risk management strategy and processes (continued)

LBLIC specific	Credit	**Reinsurance counterparty risk:** concentration risk with individual reinsurers, owing to the nature of the reinsurance market.
	Insurance risk (life business)	**Insurance risk (life business)** - risk arising from the underwriting of life insurance contracts in relation to the perils covered and the processes used in the conduct of business. It includes: ***Mortality risk:*** the risk that the actual experience relating to mortality will deviate negatively from the expected experience used in the pricing of contracts and valuation of policy liabilities. ***Persistency risk:*** the risk of financial loss owing to negative lapse experience. ***Expense risk:*** the risk of loss owing to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities. ***Claims risk:*** refers to a) a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated, b) the risk that the group may pay out fraudulent claims.
	Insurance risk (short-term insurance business)	**Insurance risk (short-term insurance business)** - risk arising from the underwriting of non life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes: ***Claims risk:*** refers to a) a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated, b) the risk that the group may pay out fraudulent claims.

Risk culture

Although there is significant improvement in the risk culture of the group there is still room for improvement. The risk champion concept has been extended to the AFC's. The role and responsibility will focus on branch activity rather than on a specific function or discipline.

Operational risk

The Land Bank has identified a maturity level of "defined" that it aspires to acquire in the next 3 years. All enterprise risk management related activities are designed to achieve this desired risk maturity level. Risk management is central to Land Bank's business. Ultimate accountability for risk lies with the Board of the Land Bank, the management of operational risk is closely monitored by the Enterprise Risk Management Division through the Operational Risk Department and the relevant risk management committees.

The group has a risk policy and framework which are reviewed annually to ensure relevance and alignment to best practises and business changes. The maintenance and development of which is undertaken on a continuous basis in order to assist management to address systematic categories of risk associated with this.

The group mitigates this risk through internal controls, internal audit and compliance functions. The following functions assist in mitigating controls:

- Regular Operational Risk Committee (ORCO) meetings are held to:
  - Monitor risk mitigating strategies;
  - Set risk management policy;
  - Facilitate communication and interaction between business units; and
  - Identify emerging risks.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.1 Land Bank's risk management strategy and processes (continued)

- Internal audit carries out regular reviews of internal controls;
- External audit provides an independent assessment of internal financial controls relied upon to express an independent audit opinion on the annual financial statements;
- For the period under review, the Board is of the opinion that adequate resources exist to continue business and that the company will remain a going concern in the foreseeable future; and
- LBLIC maintains a risk register.

Operational risk assessments have been conducted throughout the organisation. This was to ensure that we employ a bottom up approach to our strategic risk profile.

36.2 Credit risk

Definition

Credit risk is the risk that the group will incur a loss as a result of its customers, clients or counterparties failing to discharge their contractual obligations. The group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual /group of related counterparties, for geographical and industry concentrations by monitoring such exposures. The group has identified a one single obligor who is in excess of it's concentration limits, however this is soften by the diversified portfolio, statement of financial position and Statement of profit or loss and other comprehensive income of this counterparty. The group is aware of the consolidation that is taking place within the secondary sector of agriculture which might lead to potential breach of the set concentration limits for large exposures. The bank monitors credit risk through the Credit Risk Monitoring Committee of management which reports to both the Risk and Credit Risk Committees of the Board.

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 to 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 during the loan decision process, so as to lead to better quality credit decisions which result in timeous loan repayments and reduced losses due to, for example insolvency;
- 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 creditworthiness, 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.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

Approval process

When the bank processes a credit application from a customer, the following minimum information is needed:

- Background of applicant;
- Specific purpose of the credit facility;
- Financial statement analysis and cash flow projections;
- Assessment of major risks and key litigants;
- Credit checks;
- Overview of the facility and collateral;
- Mentorship and aftercare for developing farmers; and
- Signatures of credit committee members approving the transaction.

Monitoring Process

Monthly Credit Risk Monitoring Committee meetings are held to monitor the trending of:

- Loan book performance;
- Arrears;
- Non-performing loans;
- Legal collections;
- Insolvent cases;
- Properties in possession;
- Regular monitoring of credit granting and adherence to policies by the Credit Risk Monitoring Unit; and
- Regular review of concentration limits.

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 LBLIC's 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.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

LBLIC is also exposed to credit risk in respect of its working capital assets. The following are some of the main credit risk management actions:

- In terms of long-term insurance policies issued before August 2006, the Land Bank guarantees the payment of the premium;
- Long-term insurance policies issued after August 2006, policyholder debtors outstanding for more than 60 days are not accounted for in premiums. If premium income is not paid within 60 days, the policy lapses; and
- Short-term insurance policy premiums needs to be paid within 45 days. Policies due more than 45 days are submitted to the attorneys unless a new agreement is reached with the policyholder.

Reinsurance credit risk

LBLIC makes use of reinsurance to:

- Access underwriting expertise;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

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 has quota share reinsurance treaties with an internationally AA rated reinsurance company. 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.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure

The group's maximum credit exposure at 31 March was as follows:

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Asset class with asset credit risk exposure	**30,501,195**	25,096,680	**29,434,260**	23,969,277
Loans	**27,112,608**	21,699,884	**27,112,608**	21,699,884
Cash at bank	**1,891,383**	1,941,406	**1,676,715**	1,787,081
Trade and other receivables	**160,523**	227,289	**339,212**	228,745
Short-term insurance assets	**5,280**	81,375		
Repurchase agreements	**-**	6,032	**-**	6,032
Market-making assets	**5,238**	-	**5,238**	-
Investments	**1,326,163**	1,140,694	**300,487**	247,535
Asset class without asset credit risk exposure	**280,811**	254,726	**279,686**	252,808
Intangible assets	**42,206**	54,594	**42,206**	54,594
Investment property	**65,800**	74,000	**65,800**	74,000
Long-term insurance assets	**985**	1,764		
Non-current assets held-for-sale	**52,332**	15,465	**52,333**	15,465
Property and equipment	**119,488**	108,903	**119,347**	108,749
Total assets per statement of financial position	**30,782,006**	25,351,406	**29,713,946**	24,222,085
Add off balance sheet items exposed to credit risk				
Guarantees issued	**607,306**	355,407	**607,306**	355,407
Loan commitments	**375,524**	421,464	**375,524**	421,464
Operating lease commitments - group as lessor	**15,398**	4,467	**15,398**	4,467
	31,780,234	26,132,744	**30,712,174**	25,003,423
Maximum credit exposure - selected items	**31,499,423**	25,878,018	**30,432,488**	24,750,615

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

Collateral

Refer to note 10.7 for collateral held against the loans and advances.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure (continued)

The table below provides an analysis of the ratings attached to the group's exposure to instruments subject to credit risk:

Credit risk concentration by credit rating (rated externally) 31 March 2013 R'000	Public sector stocks and loans	Cash, deposits and similar securities	Net working capital assets	Total
AAA	79,168	237,368	-	316,536
AA+	28,438	16,057	-	44,495
AA	92,800	44,127	-	136,927
AA-	30,678	347,872	-	378,550
A+	9,490	18,566	-	28,056
A	22,397	7,890	-	30,287
A-	7,406	576,930	-	584,336
BBB+	6,943	-	-	6,943
BBB	-	478,523	-	478,523
BBB-	-	311,041	-	311,041
Other [1]	8,146	47,681	-	55,827
Not rated	6,777	877,941	27,209,599	28,094,316
Total	**292,243**	**2,963,996**	**27,209,599**	**30,465,838**

Credit risk concentration by credit rating (rated externally) 31 March 2012 R'000	Public sector stocks and loans	Cash, deposits and similar securities	Net working capital assets	Total
AAA	71,416	158,032	-	229,448
AA+	11,423	1,391,909	-	1,403,332
AA	74,569	40,285	-	114,854
AA-	65,200	412,646	-	477,846
A+	20,286	5,726	-	26,012
A	22,156	-	-	22,156
A-	237	2,726	-	2,963
BBB+	2,471	2,322	-	4,793
BBB-	917	-	-	917
Other [1]	3,032	21,740,277	-	21,743,309
Not rated	19,374	239,711	815,476	1,074,561
Total	**291,081**	**23,993,634**	**815,476**	**25,100,191**

1 This includes the Business & Corporate Banking, Retail, REM and LDFU loans. These clients are not rated externally by Fitch. 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.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure (continued)

Gross loan book exposure by agricultural sector
2013
Business & Corporate Banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	374,247	55%	2%	7,600	51%	1%
Ostriches	184,377	27%	1%	7,360	49%	1%
Poultry	120,649	18%	0%	-	0%	0%
Total	**679,273**	**100%**	**3%**	**14,960**	**100%**	**2%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	-	0%	0%	-	0%	0%
Sugar	68,134	0%	0%	1	0%	0%
Maize	4,796,223	31%	21%	51	0%	0%
Oil seeds	10,289,067	68%	46%	629,366	100%	55%
Tobacco	55,825	0%	0%	-	0%	0%
Wheat	127,222	1%	1%	-	0%	0%
Total	**15,336,471**	**100%**	**68%**	**629,418**	**100%**	**55%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	774,667	32%	3%	12,343	5%	1%
Cash crops	348,683	14%	2%	217,617	81%	19%
Decidious fruit	804,261	33%	4%	161	0%	0%
Plantations	1,196	0%	0%	-	0%	0%
Subtropic fruits	64,350	3%	0%	-	0%	0%
Wine	443,858	18%	2%	39,043	14%	3%
Total	**2,437,015**	**100%**	**11%**	**269,164**	**100%**	**23%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	2,725,108	66%	12%	186,034	78%	16%
Feedlot	89,890	2%	0%	32,034	14%	3%
Forestry products	629,366	16%	3%	-	0%	0%
Other	669,646	16%	3%	20,052	8%	1%
Total	**4,114,010**	**100%**	**18%**	**238,120**	**100%**	**20%**
Grand total	**22,566,769**	**100%**	**100%**	**1,151,662**	**100%**	**100%**

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure (continued)

Gross loan book exposure by agricultural sector
2012
Business & Corporate Banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	145,515	40%	1%	91	0%	0%
Ostriches	134,164	37%	1%	6,819	9%	1%
Poultry	85,805	23%	0%	67,765	91%	7%
Total	**365,484**	**100%**	**2%**	**74,675**	**100%**	**8%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	-	0%	0%	-	0%	0%
Sugar	43,518	0%	0%	-	0%	0%
Maize	2,187,831	25%	12%	46	0%	0%
Oil seeds	6,363,208	73%	36%	500,843	100%	49%
Tobacco	28,696	0%	0%	-	0%	0%
Wheat	154,091	2%	1%	-	0%	0%
Total	**8,777,344**	**100%**	**49%**	**500,889**	**100%**	**49%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	84,219	4%	0%	-	0%	0%
Cash crops	49,853	3%	0%	-	0%	0%
Decidious fruit	1,217,892	64%	7%	-	0%	0%
Plantations	1,352	0%	0%	-	0%	0%
Subtropic fruits	56,691	3%	0%	-	0%	0%
Wine	506,302	26%	3%	9	100%	0%
Total	**1,916,309**	**100%**	**10%**	**9**	**100%**	**0%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	5,777,853	85%	32%	392,374	90%	39%
Feedlot	-	0%	0%	-	0%	0%
Forestry products	589,312	9%	4%	-	0%	0%
Other	394,990	6%	2%	45,751	10%	4%
Total	**6,762,155**	**100%**	**39%**	**438,125**	**100%**	**43%**
Grand total	**17,821,292**	**100%**	**100%**	**1,013,698**	**100%**	**100%**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure (continued)

Gross loan book exposure by agricultural sector
2013
Retail [1]

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	1,390,492	50%	26%	117,217	54%	18%
Feedlot	20,973	1%	0%	6,112	3%	1%
Game	105,468	4%	2%	1,813	1%	0%
Goats	43,483	2%	1%	1,924	1%	0%
Pigs	20,289	1%	0%	2,099	1%	0%
Poultry	257,668	10%	5%	68,298	32%	11%
Sheep	848,269	32%	17%	17,831	8%	4%
Total	**2,686,642**	**100%**	**51%**	**215,294**	**100%**	**34%**
Field crops	**Total loan R'000**	**% Field Crop Loans**	**% Loan Book**	**Arrears R'000**	**% Arrears Field Crops**	**% Total Arrears**
Fodder crops	71,348	6%	1%	14,473	8%	2%
Maize	551,624	47%	11%	88,073	48%	13%
Oil seeds	13,653	1%	0%	834	0%	0%
Sugar cane	490,195	41%	9%	78,131	44%	11%
Tobacco	5,090	0%	0%	710	0%	0%
Wheat	49,787	5%	1%	899	0%	0%
Total	**1,181,697**	**100%**	**22%**	**183,120**	**100%**	**26%**
Horticultural products	**Total loan R'000**	**% Horticultural Products Loans**	**% Loan Book**	**Arrears R'000**	**% Arrears Horti-cultural Products**	**% Total Arrears**
Cash crops	426,550	38%	8%	55,310	33%	8%
Citrus fruit	95,837	8%	2%	7,705	5%	1%
Deciduous fruit	219,350	19%	4%	31,190	18%	5%
Flowers	9,054	1%	0%	4,181	3%	1%
Hops	10	0%	0%	10	0%	0%
Nuts	44,411	4%	1%	419	0%	0%
Plantations	15,305	1%	0%	1,045	1%	0%
Subtropical fruit	47,283	4%	1%	23,772	14%	4%
Tea	4,928	0%	0%	28	0%	0%
Vineyards	271,653	25%	6%	42,492	26%	6%
Total	**1,134,381**	**100%**	**22%**	**166,152**	**100%**	**25%**
Miscellaneous	**Total loan R'000**	**% Miscellaneous Loans**	**% Loan Book**	**Arrears R'000**	**% Arrears Miscellaneous**	**% Total Arrears**
Agri-business	33,332	12%	1%	19,730	19%	3%
Aqua culture	16,296	6%	0%	1,751	2%	0%
Dairy	124,527	45%	2%	1,440	1%	0%
Other	100,686	37%	2%	81,460	78%	12%
Total	**274,841**	**100%**	**5%**	**104,381**	**100%**	**15%**
Grand total	**5,277,561**	**100%**	**100%**	**668,947**	**100%**	**100%**

[1] The analysis includes RCB and REM.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.1 Credit exposure (continued)

Gross loan book exposure by agricultural sector
2012
Retail [1]

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	1,238,843	51%	27%	119,020	58%	19%
Feedlot	14,748	1%	0%	5,482	3%	1%
Game	86,046	4%	2%	1,282	1%	0%
Goats	37,543	2%	1%	1,919	1%	0%
Pigs	19,441	1%	0%	2,120	1%	0%
Poultry	271,731	12%	6%	62,048	30%	11%
Sheep	694,171	29%	15%	15,116	7%	3%
Total	**2,362,523**	**100%**	**51%**	**206,987**	**100%**	**34%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Fodder crops	59,115	5%	1%	5,612	3%	1%
Maize	513,673	46%	12%	87,914	50%	14%
Oil seeds	12,430	1%	0%	1,014	1%	0%
Sugar cane	482,783	43%	10%	81,180	46%	13%
Tobacco	-	0%	0%	-	0%	0%
Wheat	49,336	5%	1%	715	0%	0%
Total	**1,117,337**	**100%**	**24%**	**176,435**	**100%**	**28%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horti-cultural Products	% Total Arrears
Cash crops	327,499	34%	7%	76,974	35%	13%
Citrus fruit	102,894	11%	2%	6,865	3%	1%
Deciduous fruit	159,870	17%	3%	37,596	17%	6%
Flowers	12,348	1%	0%	8,653	4%	1%
Hops	10	0%	0%	10	0%	0%
Nuts	30,853	3%	1%	418	0%	0%
Plantations	28,040	3%	1%	6,813	3%	1%
Subtropical fruit	46,118	5%	1%	23,003	10%	4%
Tea	4,324	0%	0%	4	0%	0%
Vineyards	248,305	26%	6%	58,803	28%	10%
Total	**960,261**	**100%**	**21%**	**219,139**	**100%**	**36%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	39,739	22%	1%	6,409	56%	1%
Aqua culture	-	0%	0%	-	0%	0%
Dairy	35,851	20%	1%	1,021	9%	0%
Other	103,213	58%	2%	4,027	35%	1%
Total	**178,803**	**100%**	**4%**	**11,457**	**100%**	**2%**
Grand total	**4,618,924**	**100%**	**100%**	**614,018**	**100%**	**100%**

[1] The analysis includes RCB and REM.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.2 Credit exposure by line of business - loan book

Gross loan book	2013 R'000	2013 % Total	2012 R'000	2012 % Total
Business & Corporate Banking	22,566,769	79%	17,821,292	77%
Retail Commercial Banking	5,030,079	18%	4,517,231	20%
Retail Emerging Markets	247,482	1%	101,693	0%
Land for development	644,479	2%	646,129	3%
Total gross loan book	28,488,809	100%	23,086,345	100%
Less:				
Suspended interest and fees	(436,260)		(473,120)	
Impairment provision	(939,941)		(913,341)	
Balance per annual financial statements - total carrying amount (notes 10 and 11)	27,112,608		21,699,884	

The bank's Business & Corporate Banking division, which provides loans to agricultural cooperatives and agribusiness companies, continues to account for the bulk of the bank's overall credit exposure. The LDFU loans constitute 2 percent (2012: 3 percent) of total loans and the LDFU operations have been classified as discontinued (notes 11 and 22).

36.2.3 Credit exposure by maturity - Gross loan book

Based on the maturity of the loans as disclosed in note 10 and 11, the credit exposure by maturity is as follows:

Short-term	15,272,115	54%	13,034,518	56%
Medium-term	2,095,262	7%	1,734,772	8%
Long-term	11,121,432	39%	8,317,055	36%
	28,488,809	100%	23,086,345	100%

In terms of the exposure profile by maturity, the Land Bank's exposure continues to concentrate on the short-term - i.e. loans extended for periods up to one year that are renewable annually. The exposure as at 31 March is R15.3 billion (2012: R13 billion).

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.2 Credit risk (continued)

36.2.3 Credit exposure by geographic/regional distribution

2013

Province	LDFU	Retail Commercial Banking	Retail Emerging Markets	Business & Corporate Banking	Total	Total
	R'000	R'000	R'000	R'000	R'000	%
Eastern Cape	-	588,052	59,823	701,960	1,349,835	5%
Free State	-	872,291	211	1,207,461	2,079,963	7%
Gauteng	106,816	149,451	179,185	6,366,292	6,801,744	24%
KwaZulu-Natal	439,981	379,113	68	68,135	887,297	3%
Limpopo	-	890,536	18	1,432,497	2,323,051	8%
Mpumalanga	-	474,541	2,025	68,720	545,286	2%
Northern Cape	-	478,866	24	4,022,943	4,501,833	16%
North West	97,682	544,487	6,120	5,710,022	6,358,311	22%
Western Cape	-	652,742	8	2,988,739	3,641,489	13%
Gross loan book	**644,479**	**5,030,079**	**247,482**	**22,566,769**	**28,488,809**	**100%**

2012

Province	LDFU	Retail Commercial Banking	Retail Emerging Markets	Business & Corporate Banking	Total	Total
	R'000	R'000	R'000	R'000	R'000	%
Eastern Cape	-	516,313	186	608,149	1,124,648	5%
Free State	-	741,846	-	518,174	1,260,020	6%
Gauteng	108,466	154,547	98,850	9,523,843	9,885,706	43%
KwaZulu-Natal	439,981	400,418	80	16,392	856,871	4%
Limpopo	-	442,994	472	84,219	527,685	2%
Mpumalanga	-	473,463	-	1,240,709	1,714,172	7%
Northern Cape	-	713,358	21	-	713,379	3%
North West	97,682	525,953	2,084	1,196,156	1,821,875	8%
Western Cape	-	548,339	-	4,633,650	5,181,989	22%
Gross loan book	**646,129**	**4,517,231**	**101,693**	**17,821,292**	**23,086,345**	**100%**

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk

Definition

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk can develop when short-term assets cannot be readily converted into cash to match the net outflow of liabilities. The liquidity situation of the bank is captured by the maturity profile of projected uses and sources of funds. These determine the time profile of the "gap" between uses and sources of funds. The magnitude of these gaps, and their stability over time, provide an overall image of its liquidity position.

The group faces the following types of liquidity risk:

- Funding of the bank's net increase in lending;
- Insurance claims which are due for payment; and
- A net withdrawal of funds.

Control and management

The following control measures are in place:

- A liquidity committee meets on a monthly basis to determine liquidity ranges
- Active monitoring of clients cash flow projections
- A dynamic liquidity management policy and a liquidity contingency plan
- Actively attracting new investors and funding sources
- Increased investor limits and appetite
- A Domestic Medium Term Note (DMTN) programme
- Active management of maturities.

Monitoring the liquidity position

The Asset and Liability Management Committee (ALCO) monitors the group's liquidity and maturity mismatches. ALCO reviews the quality of funding and ensures that the sources of funding are adequately diversified. It is the bank's policy to maintain an adequate buffer of liquidity to be able to address fluctuations in its cash flow position.

The bank manages its liquidity requirements by utilising deposits, call bonds, Land Bank bills, Land Bank debentures and promissory notes. Loans and committed overdraft facilities are also available to the bank should the need for additional funding arise.

Liquidity risk is managed by maintaining a pool of unencumbered assets (7.5% of short-term liabilities) as prescribed by the South African Reserve Bank as well as additional liquidity as calculated by a behavioural model for credit, market and operational risk.

Cash at bank

The pool of liquid assets (in cash) is invested with reputable financial institutions according to an approved counterparty risk 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, money making 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.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

The tables below summarise the maturity analysis for financial liabilities:

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Financial liabilities				
Trade and other payables	**178,610**	299,286	**107,825**	116,113
Short-term insurance liabilities	**4,660**	102,940		
Derivative financial instruments	**-**	15,421	**-**	15,421
Long-term policyholder liability	**45,291**	46,805		
Funding and liabilities held-for-sale [1]	**23,710,220**	18,583,894	**23,710,220**	18,583,894
Non-financial liabilities				
Provisions	**428,271**	415,432	**427,008**	414,828
Post-retirement obligation	**283,890**	261,154	**283,890**	261,154
Total liabilities	**24,650,942**	19,724,932	**24,528,943**	19,391,410

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

2013 Financial liabilities	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial liabilities at fair value through profit or loss								
Funding at fair value through profit or loss [1]	1,190,946	-	-	-	1,345,878	-	-	**2,536,824**
Other financial liabilities								
Trade and other payables	80,340	-	-	6,017	9,421	2,235	9,812	**107,825**
Funding at amortised cost [1]	7,227,163	3,609,069	5,300,816	3,916,862	487,732	-	631,754	**21,173,396**
Non-financial liabilities								
Provisions	-	-	-	427,008	-	-	-	**427,008**
Post-retirement obligation	-	-	-	-	-	283,890	-	**283,890**
Bank at 31 March 2013	**8,498,449**	**3,609,069**	**5,300,816**	**4,349,887**	**1,843,031**	**286,125**	**641,566**	**24,528,943**
Less: intercompany loan	-	-	-	-	(269,415)	-	-	**(269,415)**
LBLIC								
Other financial liabilities								
Trade and other payables	5,610	40,233	38	555	293,7643	-	-	**340,200**
Short-term insurance liabilities	960	-	3,700	-	-	-	-	**4,660**
Provisions	-	-	-	1,263	-	-	-	**1,263**
Long-term policy holders' liabilities	3,831	1,861	1,861	4,759	28,219	3,623	1,137	**45,291**
Group at 31 March 2013	**8,508,850**	**3,651,163**	**5,306,415**	**4,356,465**	**1,895,599**	**289,748**	**642,703**	**24,650,942**

[1] Refer to note 19 for the split of the funding liabilities

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

2012 Financial liabilities	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial liabilities at fair value through profit or loss								
Funding at fair value through profit or loss [1]	-	-	-	-	1,688,059	-	-	**1,688,059**
Derivative financial instruments	-	-	15,421	-	-	-	-	**15,421**
Other financial liabilities								
Trade and other payables	85,181	-	-	7,178	12,887	771	10,096	**116,113**
Funding at amortised cost [1]	7,207,076	3,175,246	3,006,055	3,139,644	262,149	34,374	71,291	**16,895,835**
Non-financial liabilities								
Provisions	-	-	-	414,828	-	-	-	**414,828**
Post-retirement obligation	-	-	-	-	-	261,154	-	**261,154**
Bank at 31 March 2012	**7,292,257**	**3,175,246**	**3,021,476**	**3,561,650**	**1,963,095**	**296,299**	**81,387**	**19,391,410**
Less: intercompany loan	-	-	-	-	(179,358)	-	-	**(179,358)**
LBLIC								
Other financial liabilities								
Trade and other payables	144,966	12,409	877	692	203,587	-	-	**362,531**
Short-term insurance liabilities	49,893	34,096	16,051	1	-	-	2,899	**102,940**
Provisions	-	-	-	604	-	-	-	**604**
Long-term policy holders' liabilities	5,813	2,287	2,287	2,287	28,541	4,453	1,137	**46,805**
Group at 31 March 2012	**7,492,929**	**3,224,038**	**3,040,691**	**3,565,234**	**2,015,865**	**300,752**	**85,423**	**19,724,932**

[1] Refer to note 19 for the split of the funding liabilities

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

The tables below summarise the contractual maturity analysis for financial assets:

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Financial assets	30,502,180	25,098,444	29,434,260	23,969,277
Cash and cash equivalents	1,891,383	1,941,406	1,676,715	1,787,081
Trade and other receivables	160,523	227,289	339,212	228,745
Short-term insurance assets	5,280	81,375		
Repurchase agreements	-	6,032	-	6,032
Derivative financial instruments	-	-	-	-
Market-making assets	5,238	-	5,238	-
Loans and advances and assets held-for-sale	27,112,608	21,699,884	27,112,608	21,699,884
Long-term insurance assets	985	1,764		
Investments	1,326,163	1,140,694	300,487	247,535
Non-financial assets	279,826	252,962	279,686	252,808
Investment properties	65,800	74,000	65,800	74,000
Non-current assets held-for-sale	52,332	15,465	52,332	15,465
Intangible assets	42,206	54,594	42,206	54,594
Property and equipment	119,488	108,903	119,348	108,749
Total assets per statement of financial position	30,782,006	25,351,406	29,713,946	24,222,085

Reconciliation of financial assets to maturity pockets

	Group 2013 R'000	Group 2012 R'000	Bank 2013 R'000	Bank 2012 R'000
Total of financial assets per above	30,502,180	25,098,444	29,434,260	23,969,277
Suspended interest and fees	436,260	473,120	436,260	473,120
Impairment provision	939,942	913,341	939,942	913,341
Less: Insolvencies	(328,670)	(332,096)	(328,670)	(332,096)
Less: Step-up loans	(79,109)	(79,213)	(79,109)	(79,213)
	31,470,603	26,073,596	30,402,683	24,944,429

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

2013	< 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 5 years	> 5 years	Open ended	Total
Financial assets	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Financial assets at fair value through profit or loss								
Market-making assets	5,238	-	-	-	-	-	-	**5,238**
Investments	-	-	-	-	19,425	40,861	240,201	**300,487**
Loans and receivables								
Trade and other receivables	308,265	-	-	11,644	16,778	1,242	1,283	**339,212**
Gross loan book excluding step up loans and insolvencies	3,017,112	294,089	330,416	56,930	16,250,232	8,147,427	(15,175)	**28,081,031**
Cash and cash equivalents	-	-	-	-	-	-	1,676,715	**1,676,715**
Bank at 31 March 2013	**3,330,615**	**294,089**	**330,416**	**68,574**	**16,286,435**	**8,189,530**	**1,903,024**	**30,402,683**
Less: Intercompany loan	-	-	-	-	(269,415)	-	-	**(269,415)**
LBLIC								
Loans and receivables								
Trade and other receivables	2,307	1,493	17,475	69,451	-	-	-	**90,726**
Short-term insurance assets	671	1,658	2,951	-	-	-	-	**5,280**
Long-term insurance assets	985	-	-	-	-	-	-	**985**
Cash and cash equivalents	-	-	-	-	-	-	214,668	**214,668**
Financial assets at fair value through profit or loss								
Investments	185,836	19,016	7,485	23,119	96,611	136,517	557,092	**1,025,676**
Group at 31 March 2013	**3,520,415**	**316,256**	**358,327**	**161,144**	**16,113,631**	**8,326,047**	**2,674,784**	**31,470,603**

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk (continued)

2012	< 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 5 years	> 5 years	Open ended	Total
Financial assets	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Financial assets at fair value through profit or loss								
Repurchase agreements	6,032	-	-	-	-	-	-	**6,032**
Investments	30	-	-	-	21,060	34,041	192,404	**247,535**
Loans and receivables								
Trade and other receivables	199,741	13,534	505	4,838	7,477	1,375	1,275	**228,745**
Gross loan book excluding step up loans and insolvencies	4,238,884	1,405,851	918,443	1,350,294	8,108,891	3,390,798	3,261,875	**22,675,036**
Cash and cash equivalents	-	-	-	-	-	-	1,787,081	**1,787,081**
Bank at 31 March 2012	**4,444,687**	**1,419,385**	**918,948**	**1,355,132**	**8,137,428**	**3,426,214**	**5,242,635**	**24,944,429**
Less: Intercompany investment	(30)	-	-	-	-	-	-	**(30)**
Less: Intercompany loan	(179,358)	-	-	-	-	-	-	**(179,358)**
LBLIC								
Loans and receivables								
Trade and other receivables	165,152	9,171	2,689	890	-	-	-	**177,902**
Short-term insurance assets	38,665	28,644	12,035	1	-	-	2,030	**81,375**
Long-term insurance assets	1,764	-	-	-	-	-	-	**1,764**
Cash and cash equivalents	46,982	10,109	1,234	17,489	29,844	-	154,325	**259,983**
Financial assets at fair value through profit or loss								
Investments	73,026	16,842	3,004	11,395	79,750	99,259	504,255	**787,531**
Group at 31 March 2012	**4,590,888**	**1,484,151**	**937,910**	**1,384,907**	**8,247,022**	**3,525,473**	**5,903,245**	**26,073,596**

Liquidity analysis tables were prepared according to the certain and expected maturity dates of the assets and liabilities. There is no restriction on the ability to liquidate assets.

Open ended asset and liabilities are those which do not have any maturity date.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk

Definition

Market risk is the risk of adverse deviations of the mark-to-market value of the trading portfolio during the period required to liquidate the transactions. Market risk exists for any period of time.

Values of financial instruments may change resulting in both potential gains and losses as a result of:

- changes in interest rates (fair value and cash flow interest rate risk); and
- changes in market prices (price risk).

Objective of market risk monitoring

The objective of market risk monitoring is to prevent or restrict adverse movements in market rates or prices, such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.

Market risk - Insurance activities

For assets backing policyholder liabilities, the risk to the group is that capital is not preserved and that investment returns earned are lower than anticipated. The group manages market risk through the following:

- Appointment of an Investment and Actuarial Committee. The mandate of this Board sub-committee includes the following:

i) Implementation of an investment strategy which sets out the investment objectives of the group, the nature and term of liabilities and the risks to which the assets and liabilities of the group are exposed to;

ii) 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, limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities and property and hedge funds;

iii) Monitoring of the performance of investment managers against "appropriate benchmarks" as well as compliance with mandates; and

iv) Ensuring proper governance in the investment process.

- Appointment of an independent investment advisor. The responsibilities of the investment advisor are set out below:

i) Setting of appropriate benchmarks for performance monitoring;

ii) Monitor implementation of investment strategies; and

iii) Monthly monitoring of 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 Board.

Interest rate risk

Interest rate risk is the risk of declines of earnings and market values of assets due to movements of interest rates. Most of the statement of financial position items of the group generate revenue and costs which are interest rate related.

Interest rate risk monitoring

The ALCO consisting of the bank's executive management monitors the implementation of the bank's interest rate risk policy. ALCO formulates medium to long-term interest rate views as the official forecast of interest rates. Sensitivity analysis is performed by the independent risk monitoring department where the interest rate risk limit is set.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk (continued)

Fixed/floating rate funding

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%. The funding split percentage for March 2013 was 100% floating.

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 profit.

The effect of a reasonable possible change in interest rates, and all other variables held constant, the bank's profit would be as follows using data as at 31 March 2013:

Bank	31 March 2013		31 March 2012	
Incremental change in yield	Net interest income R'000	Effect on equity R'000	Net interest income R'000	Effect on equity R'000
Expected NII	**918,260**	**-**	639,000	-
Potential movement: 100 Basis point up	**972,800**	**54,540**	681,000	42,000
Potential movement: 100 Basis point down	**864,030**	**(54,230)**	598,000	(41,000)

Interest rate risk - Insurance activities

Interest rate risk arises primarily from investments in long-term fixed income securities which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through stress testing which calculates the market exposure based on interest rate movements of -1% and 1%.

Sensitivity analysis

The market exposure that was calculated at 31 March was as follows:

LBLIC	Impact on the Statement of profit or loss and other comprehensive income	
	31 March 2013 R'000	31 March 2012 R'000
Incremental change in yield		
Potential movement: 100 Basis point up	**12,131**	11,822
Potential movement: 100 Basis point down	**(11,694)**	(11,073)

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk (continued)

Equity price risk

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.

The effect on equity (as a result of a change in the fair value of equity instruments held for trading in the category financial assets through profit or loss at 31 March 2013) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Group		Bank	
	Change in equity price %	Effect on equity R'000	Change in equity price %	Effect on equity R'000
2013				
Individual stocks and indices	**10**	**76,480**	**10**	**19,544**
2012				
Individual stocks and indices	10	67,050	10	18,318

The effect on equity has been calculated using the equity balances at year end.

Price risk - LBLIC

LBLIC is subject to price risk due to daily changes in the market values of its investment portfolios. The objective is to earn competitive returns by investing in a diverse portfolio of high quality, liquid securities.

	Impact on the Statement of profit or loss and other comprehensive income	
Sensitivity analysis	31 March 2013 R'000	31 March 2012 R'000
Incremental change in price		
Excluding the impact of derivatives		
5% decrease	**(24,140)**	(21 563)
5% increase	**24,140**	21 563
Including the impact of derivatives		
5% decrease	**(23,135)**	(21 166)
5% increase	**23,135**	21 166

Currency risk

LBLIC's exposure to currency risk is in respect of foreign investments made in line with the investment strategy approved by the Board for seeking desirable international diversification of investments. The following assets denominated in foreign currencies are included in the statement of financial position:

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk (continued)

Sensitivity analysis

Group	United States Dollar	Euro	Other	Total
	R'000	R'000	R'000	R'000
31 March 2013				
Equities	86,281	-	-	86,281
Cash, deposits and similar securities	3,838	-	-	3,838
Hedge funds	13,344	-	-	13,344
Bonds	12,736	-	-	12,736
Foreign currency exposure	116,199	-	-	116,199
Exchange rates (rand):				
Closing rate	9.23	n/a	n/a	
Average rate	8.55	n/a	n/a	

Group	United States Dollar	Euro	Other	Total
	R'000	R'000	R'000	R'000
31 March 2012				
Equities	65,739	-	711	66,450
Cash, deposits and similar securities	1,794	1	-	1,795
Hedge funds	12,816	-	-	12,816
Bonds	13,849	-	-	13,849
Foreign currency exposure	94,198	1	711	94,910
Exchange rates (rand):				
Closing rate	7.66	10.22	n/a	
Average rate	7.36	10.16	n/a	

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk (continued)

The foreign currency exposure that was calculated at 31 March was as follows:

LBLIC	Impact on the Statement of profit or loss and other comprehensive income	
	31 March 2013	31 March 2012
Incremental change in yield	R'000	R'000
5% decrease	-	-
5% increase	-	-
Euro		
5% decrease	(5,810)	(4,710)
5% increase	5,810	4,710
USD		
5% decrease	-	(36)
5% increase	-	36
Other currencies		

Impairment

Sensitivity analysis

The sensitivity analysis on impairment 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 percentage - 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 profit.

The effect of a reasonable possible change in interest rates, and all other variables held constant, the bank's profit would be as follows using data as at 31 March 2013:

Rate analysis	Interest income R'000	Net impairment releases, claims and recoveries R'000	Non-interest (expense)/ income R'000	Loans and advances R'000	Effect on equity R'000
31 March 2013					
As at 31 March 2013: 5%	2,038,158	85,457	(6,043)	27,844,330	-
Potential movement: 10%	2,050,327	108,346	(4,471)	27,882,245	37,915
Potential movement: 0%	2,025,990	59,999	(7,616)	27,806,415	(37,915)
31 March 2012					
As at 31 March 2012: 5%	1,495,851	(1,943)	31,557	21,555,645	-
Potential movement: 10%	1,510,210	20,727	31,458	21,594,604	38,959
Potential movement: 0%	1,481,492	(24,613)	31,454	21,516,686	(38,959)

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk

36.5.1 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 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 risk;
- Adequate pricing and reserving;
- Specific testing for HIV/AIDS is carried out in cases where applications for risk cover exceed a set limit;
- Annual review 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 group has a certain approval process. This is monitored in monthly reporting by comparing actual and budgeted expenses.

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. Furthermore, an actuarial valuation is done annually by an independent actuary.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2013, the group believes that its liabilities for claims are adequate.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk (continued)

Sensitivity analysis

The objective of the sensitivity analysis is to demonstrate the effect on the policy holders' 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 policy holders' liability as at 31 March 2013, 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).

2013			Value	Change	
Policy holders' liability			R'000	R'000	%
Base value			**43,115**		
Investment return	+ 1%	from 5.04% to 6.04%	40,518	(2,597)	(6.02%)
	-1%	from 5.04% to 4.04%	45,053	1,938	4.49%
Mortality	+ 10%	1.1 x mortality	46,816	3,701	8.58%
	-10%	0.9 x mortality	38,393	(4,722)	(10.95%)
Expenses	+ 10%	from 47.0% to 51.7%	44,460	1,345	3.12%
	-10%	from 47.0% to 42.3%	40,855	(2,260)	5.24%

2012			Value	Change	
Policy holders' liability			R'000	R'000	%
Base value			**43,140**		
Investment return	+ 1%	from 8.08% to 9.08%	41,335	(1,804)	(4.18%)
	-1%	from 8.08% to 7.08%	45,133	1,993	4.62%
Mortality	+ 10%	1.1 x mortality	47,272	4,133	9.58%
	-10%	0.9 x mortality	38,930	(4,210)	(9.76%)
Expenses	+ 10%	from 44% to 48%	44,551	1,412	3.27%
	-10%	from 44% to 40%	41,372	(1,767)	(4.10%)

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk (continued)

36.5.2 Insurance risk - short-term

LBLIC 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.

Insurance risk arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks when underwritten;
- Inadequate reinsurance protection;
- Inadequate reserving; and
- Fraudulent claims.

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 group faces are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policy holders' liabilities, whether they are known or still to be reported, provide to be insufficient.

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, 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.

36.5.2.1 Pricing

The group bases its pricing policy on the theory of probability. Underwriting limits are set for the underwriting manager and brokers to ensure that this policy is consistently applied.

The net claims ratio for the group, which is important in monitoring insurance risk is summarised below:

Loss history	2013	2012
Net insurance benefits and claims on short-term business expressed as a % of net earned premiums	**(108%)**	82%

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 catastrophe reinsurance programme mitigates the risk arising from this.

36.5.2.2 Reserving

Reserves are maintained at levels that are aligned to statutory requirements and at year end, the group believes that its liabilities for claims are adequate.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk (continued)

36.5.2.3 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 annually by an independent actuary.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2013, LBLIC believes that its liabilities for claims are adequate.

36.5.2.4 Reinsurance

The group has third party reinsurance cover to reduce risks from single events or accumulation of risks that could have a significant impact on the current year's earnings.

This cover is placed on the international reinsurance market. The core components of the reinsurance programme comprise of:

- Individual quota share cover for claims, which provides protection to limit losses to 30% per event; and
- Catastrophe cover to the extent of 300% of the total exposure across the board by stop loss treaty.

The Board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is in place with external reinsurers which have a credit rating of no less than A+.

36.5.2.5 Concentration risk

Investment portfolio concentration risk

The allocation of investment portfolio as at 31 March 2013 was as follows:

	2013		2012	
Asset classes	**R'000**	**%**	**R'000**	**%**
Equities - local	**483,076**	**47%**	420,873	47%
Bonds - local	**232,337**	**23%**	270,460	30%
Cash, deposits and similar securities - local	**191,323**	**19%**	103,863	12%
Foreign assets	**116,198**	**11%**	94,910	11%
Property investments	**2,742**	**0%**	3,083	0%
Total	**1,025,676**	**100%**	893,189	100%

Investment manager performance, portfolio and manager allocations are monitored and reported to the group management and Investment and Actuarial committee and the Board on a regular basis by Independent Actuarial Consultants (Pty) Ltd. Upper and lower bounds have been assigned to each asset class.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk (continued)

Asset classes	Lower bound	Upper bound
Equities - local	30%	60%
Bonds - local	10%	30%
Cash, deposits and similar securities - local	5%	40%
Foreign assets	5%	15%

All asset classes are within the bounds as at 31 March 2013 and 2012.

Short-term insurance concentration risk

Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the group's resources. The group operates in both short- and long-term insurance business.

Long-term insurance portfolio is based on credit life insurance and the group does not consider any concentration risk. LBLIC monitors the short-term insurance concentration risk by class of business and geographical segment.

Gross written premium by business

Portfolio	31 March 2013 R'000	31 March 2012 R'000
Long-term insurance	**7,710**	9,290
Short-term insurance	**(2,739)**	174,605
	4,971	183,895

Short-term gross written premium by class of business

Portfolio		
Hail summer	**(1,844)**	79,274
Hail winter	**(85)**	40,562
Horticulture	**(630)**	28,836
Multi-peril summer	**(216)**	13,684
Forestry	**-**	10,077
Multi-peril winter	**-**	1,769
Livestock	**36**	403
	(2,739)	174,605

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk (continued)

Short-term insurance gross written premium by geographical segment

Portfolio	31 March 2013 R'000	31 March 2012 R'000
Northern Cape	(1,395)	49,973
Eastern Free State/Natal	(524)	36,054
Southern Free State/Eastern Cape	(454)	30,685
Limpopo/Mpumalanga/Gauteng	(12)	24,570
Northern Free State	78	9,384
North West	(105)	8,348
Western Cape	172	5,491
Other	(499)	10,100
	(2,739)	174,605

36.6 Capital management

Capital management objectives, policy and approach

The group has established the following capital management objectives, policy and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the group thereby providing a degree of security to policy holders;
- 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 retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- 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 policy holders and stakeholder; and
- To maintain healthy capital ratios in order to support its business objectives.

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:

- Appropriate matching of assets and liabilities;
- 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. The group uses an internal guideline issued by National Treasury for capital management. This ratio is calculated as a percentage of the capital and reserves plus the support provided by the government over total weighted assets.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.6 Capital management (continued)

Capital Adequacy Requirements (CAR) - Insurance activities

The Long-term and Short-term Insurance Acts specify a standard approach to be used in the insurance industry to assess the level of solvency (or financial strength) of an insurance company. The methodology requires the calculation of an amount representing the minimum level of capital required by each insurer to adequately cover risks inherent in the business it conducts. This measure is the Capital Adequacy Requirement (CAR).

The CAR calculation is performed on a prescribed methodology for long-term insurance. The calculation has a number of distinct components designed to put a numerical value to the different risks in the business. The CAR is not included in the policy liabilities as a contingency reserve. It is rather an independent benchmark against which the solvency level of an insurer can be measured.

With effect from 1 January 2012, the prescribed methodology for short-term insurance was revised to reflect a more risk-based approach in CAR management. This is in line with the current development considered as part of the Solvency and Assessment Management (SAM) framework which is expected to become effective in 1 January 2016. This measure is called the Solvency Capital Adequacy Requirement (or SCR).

The restructured LBIS Group is in the process of applying for both short-term (LBIC) and long-term (LBLIC) licences with the Financial Services Board, in which case the minimum CAR would have to be met. Despite LBLIC currently not having to comply, it strives to achieve these requirements which have been met for the year under review.

For the life insurance portfolio, a minimum CAR has been allowed for as would be required by the FSB, based on the higher of:

- Ordinary CAR (OCAR) - R2.2 million; or
- Minimum CAR (MCAR) - Higher of R10 million and 13 weeks' operating expenditure.

CAR for long-term insurance is calculated to be R10 million (2012: R10 million).

For the short-term insurance portfolio, the current regulations provides for a Minimum Capital Requirement of the greater of R10m, Operating Expenses of 13 weeks, and 15% of the Net Written Premium. For LBLIC, R10m currently applies. The Solvency Capital Requirement (SCR) is a function of capital requirements for Operational Risk, Insurance Risk, Market Risk and Credit Risk. The SCR calculated for LBLIC as at 31 March 2013 is R10.0 million (2012: R19.3 million).

Excess assets over liabilities are R946.1 million and CAR cover is 47.3 which is considered as a strong solvency position.

Capital Adequacy Requirements (CAR) - Land Bank

In the absence of any statutory regulation prescribing the levels of the CAR to be maintained by the Land Bank, the bank uses a 20% benchmark which is informed by part of the National Treasury guarantee conditions. This ratio is calculated by summing up the total equity and the remaining balance on the guarantee and then dividing the result by the total liabilities. The guarantee amount is reduced every time the Land Bank receives cash transfers as part of Government`s commitment towards the recapitalisation of the bank. As at 31 March 2013, the balance of the guarantee was R 800.0 million. The CAR calculation is based on the National Treasury requirements.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.6 Capital management (continued)

	Group			Bank		
ASSETS	R'000	Risk %	Weighted assets R'000	R'000	Risk %	Weighted assets R'000
Property and equipment and Intangible assets	161,694	100%	161,694	161,554	100%	161,554
Investments	1,326,163	100%	1,326,163	300,487	100%	300,487
Loans and advances [1]	27,112,608	100%	27,112,608	27,112,608	100%	27,112,608
Trade and other receivables	160,523	100%	160,523	339,212	100%	339,212
Other assets	129,635	100%	129,635	123,370	100%	123,370
Cash and cash equivalents	1,891,383	20%	378,277	1,676,715	20%	335,343
CONTINGENT LIABILITIES						
Individual farmers - if irrevocable	375,524	20%	75,105	375,524	20%	75,105
Total weighted assets			**29,344,005**			**28,447,679**
Total liabilities			**24,650,942**			**24,528,943**
Total capital and reserves			**6,131,064**			**5,185,003**
Government guarantee			**803,300**			**803,300**
Capital adequacy ratio						
Capital divided by total liabilities			**24.87%**			**21.14%**
Capital divided by total liabilities - including guarantee			**28.13%**			**24.41%**

[1] Include assets of disposal group classified as held-for-sale.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments

Group	2013 Carrying amount R'000	2013 Fair value R'000	2012 Carrying amount R'000	2012 Fair value R'000
Financial assets				
Fair value through profit or loss				
Repurchase agreements	-	-	6,032	6,032
Investments	1,326,163	1,326,163	1,140,694	1,140,694
Market-making assets	5,238	5,238	-	-
Loans and receivables				
Cash and cash equivalents	1,891,383	1,891,383	1,941,406	1,941,406
Trade and other receivables	160,523	160,161	227,289	226,757
Loans and advances	27,112,608	27,112,608	21,699,884	21,699,884
Total financial assets [1]	30,495,915	30,495,553	25,015,305	25,014,773
Financial liabilities				
Fair value through profit or loss				
Derivative financial instruments	-	-	15,421	15,421
Funding - debentures and floating rate notes	2,536,824	2,536,824	1,688,059	1,688,059
Financial liabilities at amortised cost				
Trade and other payables	178,610	178,610	299,286	299,286
Funding	21,173,396	21,173,396	16,895,835	16,895,835
Provisions	428,271	428,271	415,432	415,432
Post-retirement obligation	283,890	283,890	261,154	261,154
Policy holders' liabilities	45,291	45,291	46,805	46,805
Total financial liabilities [2]	24,646,282	24,646,282	19,621,992	19,621,992

[1] Excluding short-term insurance assets.

[2] Excluding short-term insurance liabilities.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments (continued)

	2013		2012	
Bank	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Financial assets				
Fair value through profit or loss				
Repurchase agreements	-	-	6,032	6,032
Investments	300,487	300,487	247,535	247,535
Market-making assets	5,238	5,238	-	-
Loans and receivables				
Cash and cash equivalents	1,676,715	1,676,715	1,787,081	1,787,081
Trade and other receivables	339,212	338,850	228,745	228,213
Loans and advances	27,112,608	27,112,608	21,699,884	21,699,884
Total financial assets [1]	29,434,260	29,433,898	23,969,277	23,968,745
Financial liabilities				
Fair value through profit or loss				
Derivative financial instruments	-	-	15,421	15,421
Funding - debentures and promissory notes	2,536,824	2,536,824	1,688,059	1,688,059
Financial liabilities at amortised cost				
Trade and other payables	107,825	107,825	116,113	116,113
Funding	21,173,396	21,173,396	16,895,835	16,895,835
Provisions	427,008	427,008	414,828	414,828
Post-retirement obligation	283,890	283,890	261,154	261,154
Total financial liabilities [2]	24,528,943	24,528,943	19,391,410	19,391,410

[1] Excluding short-term insurance assets.

[2] Excluding short-term insurance liabilities.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments (continued)

Methods used to determine fair values for the group

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following assumptions and methods were used to estimate the fair values:

Those held at fair value are fair valued with reference to prices quoted in the market that are readily available. Included in this classification are equities, debt instruments and cash.

Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Loans and receivables are fair valued by discounting future cash flows at a market related interest rate. The cash flows are calculated by assuming that in each payment period the account holder will either make a payment or default. Default rates based on past experience are used to calculate the proportion of accounts that default in each future payment period. A recovery percentage based on past experience is used to calculate the cash recovered on default. The difference between the outstanding balance and the present value of future cash flows is taken as the provision.

The provision for unimpaired accounts are calculated by assuming that a percentage of these accounts (based on past experience) will default over a 6 month period and using the loss given default percentage to provide for this percentage of accounts. Provisions for defaulted accounts are calculated by multiplying the balance by the loss given default, which is based on past experience. Accounts are considered impaired if more than 5% of the outstanding balance is in arrears.

The carrying amount of the loans and receivables approximates fair value.

The carrying amount of provisions approximates fair value.

Swaps are valued using inputs obtained from independent sources. The inputs are loaded into the Aford model, a derivative valuation tool that is customised to the South African environment and developed by an independent third party. The fair value of a swap is equal to the present value of all future cash flows using the daily market swap curve. The model uses fixed and floating future cash flows. The fixed cash flows are known and are easily calculated. The floating cash flows are unknown and are calculated using the cubic splines interpolation method.

Changes in fair value are attributable to interest rate fluctuations. There have been no changes in fair value that are attributable to the change in credit risk as there have been no upward or downward movements in the credit risk as per the Fitch rating.

36.7.1 Determination of fair value and fair value hierarchy

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments (continued)

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3.

31 March 2013	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Bank				
Investments	300,487	-	-	**300,487**
Market-making assets	5,238	-	-	**5,238**
Cash and cash equivalents	1,676,715	-	-	**1,676,715**
Trade and other receivables	-	339,212	-	**339,212**
Loans and advances	-	27,112,608	-	**27,112,608**
LBLIC				
Equities	537,706	31,651	-	**569,357**
Bonds	245,072	-	-	**245,072**
Listed property investment schemes	2,742	-	-	**2,742**
Cash deposits and similar securities	195,161	-	-	**195,161**
Hedge funds	13,344	-	-	**13,344**
Cash and cash equivalents	214,668	-	-	**214,668**
Trade and other receivables	-	90,726	-	**90,726**
Short-term insurance assets	-	5,280	-	**5,280**
Long-term insurance assets	-	985	-	**985**
Total financial assets	**3,191,133**	**27,580,462**	**-**	**30,771,595**

Notes to the Group Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments (continued)

31 March 2012	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Bank				
Repurchase agreements	6,032	-	-	**6,032**
Investments	247,535	-	-	**247,535**
Cash and cash equivalents	1,787,081	-	-	**1,787,081**
Trade and other receivables	-	228,745	-	**228,745**
Loans and advances	-	21,699,884	-	**21,699,884**
LBLIC				
Equities	458,561	28,762	-	**487,323**
Bonds	284,309	-	-	**284,309**
Listed property investment schemes	3,083	-	-	**3,083**
Cash deposits and similar securities	105,658	-	-	**105,658**
Hedge funds	12,816	-	-	**12,816**
Cash and cash equivalents	154,325	-	-	**154,325**
Trade and other receivables	-	177,902	-	**177,902**
Short-term insurance assets	-	81,375	-	**81,375**
Long-term insurance assets	-	1,764	-	**1,764**
Total financial assets	**3,059,400**	**22,218,432**	**-**	**25,277,832**

Notes to the Group Annual Financial Statements (continued)

37 Fruitless And Wasteful Expenditure (F&WE)

There has been a reduction in F&WE to R8k (2012: R11k) in the current year. The F&WE relates to isolated incidences where penalties and interest were levied on late payments of utility accounts.

	Group		Bank	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
37.1 Reconciliation of amounts transferred to receivables for recovery				
Opening balance	**271**	274	**271**	274
Fruitless and wasteful expenditure for the current year				
- Current matters	**-**	6	**-**	6
Less: Amounts recovered in current year				
Current year: Current matters	**(6)**	(9)	**(6)**	(9)
Less: Amounts written off	**(240)**	-	**(240)**	-
Closing Balance	**25**	271	**25**	271

In terms of regulatory requirements the accounting officer must determine who the responsible party is from whom the amount of F&WE must be recovered. The receivables relates to historical overpayments to employees.

37.2 Analysis of Current Fruitless and Wasteful Expenditure

	2013 R'000	2012 R'000
Current matters		
- Penalties and interest	**8**	11
As per Statement of profit or loss and other comprehensive income	**8**	11

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

38 Prior year restatements

The following comparative figures have been restated to correct the errors in the prior years' financial statements and to conform to changes in presentation in the current year.

Group

Statement of profit or loss and other comprehensive income for the year ended 31 March 2012

	Note	Previously Reported 2012 R'000	Restatements * 2012 R'000	Reclassifications ** 2012 R'000	Restated 2012 R'000
Net interest income		676,040	(35)	-	**676,005**
Interest income [2]	23	1,498,791	-	-	**1,498,791**
Interest expense [2]	24	(822,751)	(35)	-	**(822,786)**
Net impairment releases, claims and recoveries	10.4	3,595	-	-	**3,595**
Total income from lending activities		679,635	(35)	-	**679,600**
Non-interest income [3]	25	30,857	563	-	**31,420**
Operating income from banking activities		710,492	528	-	**711,020**
Operating income/(loss) from insurance activities [1]	26	(5,691)	(558)	-	**(6,249)**
Investment income	27	103,462	-	-	**103,462**
Fair value gains	28	(12,693)		-	**(12,693)**
Operating income		795,570	(30)	-	**795,540**
Operating expenses	29	(563,228)	-	-	**(563,228)**
Net operating income		232,342	(30)	-	**232,312**
Non-trading and capital items	30	23,035	-	-	**23,035**
Net profit before indirect taxation		255,377	(30)	-	**255,347**
Indirect taxation	31	(23,598)	-	-	**(23,598)**
Net profit from continuing operations		231,779	(30)	-	**231,749**
Net loss from discontinued operations	22	(44,550)	-	-	**(44,550)**
Net profit		187,229	(30)	-	**187,199**
Other comprehensive income					
Actuarial loss on the post retirement medical aid liability		(30,575)	-	-	**(30,575)**
Revaluation of land and buildings		4,731	-	-	**4,731**
Total other comprehensive income for the year		(25,844)	-	-	**(25,844)**
Total comprehensive income for the year		161,385	(30)	-	**161,355**

Note: Explanatory notes to the footnote references are on page 227.

Notes to the Group Annual Financial Statements (continued)

38 Prior year restatements (continued)

Group

Statement of financial position as at 31 March 2012

Assets	Note	Previously Reported 2012 R'000	Restatements * 2012 R'000	Reclassifications ** 2012 R'000	Restated 2012 R'000
Cash and cash equivalents	3	1,941,406	-	-	**1,941,406**
Trade and other receivables [1 & 2 & 3]	4	300,062	(4,375)	(68,398)	**227,289**
Short-term insurance assets	5	81,375		-	**81,375**
Repurchase agreements	6	6,032	-	-	**6,032**
Non-current assets held-for-sale	7	15,465	-	-	**15,465**
Investments	8	1,140,694	-	-	**1,140,694**
Loans and advances	10	21,555,645	-	-	**21,555,645**
Assets of disposal group classified as held-for-sale	11	144,239	-	-	**144,239**
Derivative financial instruments	12	-	-	-	**-**
Long-term insurance assets	18	1,764	-		**1,764**
Intangible assets	13	54,594	-	-	**54,594**
Investment property	14	74,000	-	-	**74,000**
Property and equipment	15	108,903	-	-	**108,903**
Total assets		25,424,179	(4,375)	(68,398)	**25,351,406**
Equity and liabilities					
Capital and reserves		5,630,849	(4,375)	-	**5,626,474**
Distributable reserves [1 & 2 & 3]	16	5,518,606	(4,375)	-	**5,514,231**
Non-distributable reserves	16	112,243	-	-	**112,243**
Liabilities					
Trade and other payables [1 & 2 & 3]	17	367,684	-	(68,398)	**299,286**
Short-term insurance liabilities	5	102,940	-	-	**102,940**
Derivative financial instruments	12	15,421	-	-	**15,421**
Long-term policy holders' liabilities	18	46,805	-	-	**46,805**
Funding liabilities	19	17,864,948	-	-	**17,864,948**
Provisions	20	415,432	-	-	**415,432**
Post-retirement obligation	21	261,154	-	-	**261,154**
Liabilities directly associated with the assets classified as held-for-sale	22	718,946	-	-	**718,946**
Total equity and liabilities		25,424,179	(4,375)	(68,398)	**25,351,406**

Note: Explanatory notes to the footnote references are on page 227.

Group Annual Financial Statements

for the year ended 31 March 2013

Notes to the Group Annual Financial Statements (continued)

38 Prior year restatements (continued)

Group

Statement of financial position as at 31 March 2011

Assets	Note	Previously Reported 2011 R'000	Restatements * 2011 R'000	Reclassifications ** 2011 R'000	Restated 2011 R'000
Cash and cash equivalents	3	2,087,520	-	-	**2,087,520**
Trade and other receivables [2 & 3]	4	181,956	(4,345)	157,034	**334,645**
Short-term insurance assets	5	101,736		-	**101,736**
Repurchase agreements	6	-	-	-	**-**
Non-current assets held-for-sale	7	53,383	-	-	**53,383**
Investments	8	1,199,335	-	-	**1,199,335**
Loans and advances	10	14,299,153	-	-	**14,299,153**
Assets of disposal group classified as held-for-sale	11	153,890	-	-	**153,890**
Derivative financial instruments	12	6,855	-	-	**6,855**
Long-term insurance assets	18	729	-		**729**
Intangible assets	13	58,002	-	-	**58,002**
Investment property	14	42,620	-	-	**42,620**
Property and equipment	15	113,675	-	-	**113,675**
Total assets		18,298,854	(4,345)	157,034	**18,451,543**
Equity and liabilities					
Capital and reserves		4,719,464	(4,345)	-	**4,715,119**
Distributable reserves [1 & 2 & 3]	16	4,611,952	(4,345)	-	**4,607,607**
Non-distributable reserves	16	107,512	-	-	**107,512**
Liabilities					
Trade and other payables [3]	17	206,516	-	157,034	**363,550**
Short-term insurance liabilities	5	134,939	-	-	**134,939**
Derivative financial instruments	12	21,673	-	-	**21,673**
Long-term policy holders' liabilities	18	45,447	-	-	**45,447**
Funding liabilities	19	11,877,749	-	-	**11,877,749**
Provisions	20	390,175	-	-	**390,175**
Post-retirement obligation	21	218,844	-	-	**218,844**
Liabilities directly associated with the assets classified as held-for-sale	22	684,047	-	-	**684,047**
Total equity and liabilities		18,298,854	(4,345)	157,034	**18,451,543**

Note: Explanatory notes to the footnote references are on page 227.

Notes to the Group Annual Financial Statements (continued)

38 Prior year restatements (continued)

* Restatements represents errors in the prior year.

** Reclassifications represents changes in disclosure classifications, which management believes are more appropriate to the users of the Group Annual Financial Statements.

1 - Net commision expenses was incorrectly accounted for during 2012 and 2011. Commission expenses of R 558 (R'000) have been recognised in 2012, whilst commission income of R 394 (R'000) relating to 2011 has been adjusted against retained earnings. Net effect on cummulative retained earnings is R 164 (R'000) expense. Furthermore, amounts of R 394 (R'000) and R 8,807 (R'000) were adjusted on "Trade and other receivables" and "Trade and other payables" for 2011 and 2012 respectively. The R 8,807 (R'000) in 2012 was a reclassification between "Trade and other receivable - Premium receivable" and "Trade and other payables - Balance due from Intermediaries".

2 - Interest expenses relating to deposit premiums held for foreign reinsurers were previously accounted for incorrectly. Although the interest expenses were paid in cash for 2010 and 2011, the expenses were never recognised in the income statement. Corrections of R 498 (R'000), and R 1,066 (R'000) were corrected against retained earnings for 2010 and 2011 respectively. A further interest expense of R 35 (R'000) has been recognised for 2012. Net effect on cummulative retained earnings is R 1,599 (R'000). Any impact on the underlying working capital assets/liabilities have been corrected accordingly.

3 - During the 2013 year management undertook a clean up of its Reinsurance transactions, as well as the relating VAT on these transactions. The net results was a number reclassifications between "Amounts due to reinsurers" and "Amounts due from reinsurers" which were previously incorrectly offset against one another, as well as reclassifications between "VAT input" and "VAT output" accounts. Total reclassifications between "Amounts due/from reinsurers" amounts to R 146,161 (R'000) for 2011, whilst the reclassification for 2012 amounts to R 63,872 (R'000). Total reclassifications on VAT amounts to R 296 (R'000). Furthermore, income of R 563 (R'000) has been recognised in 2012, whilst there was also an expense adjustment of R 267 (R'000) against retained earnings. Net effect on cummulative retained earnings is R 296 (R'000). Any impact on the underlying working capital assets/liabilities have been corrected accordingly.

Annexures

Annexure A: Land Bank Board of Directors' qualifications, directorships and memberships

Ben Ngubane

Chairperson. Director since 1 January 2010

Qualifications: MBChB, Postgraduate diploma in Tropical Medicine, Diploma in Public Health, Masters in Family Medicine and Primary Care, Postgraduate diploma in Economic Principles (University of London) Honorary degrees: LLD (University of Natal), PhD (University of Zululand), PhD (Medical University of South Africa), PhD (Tshwane University of Technology), PhD (University of Free State), PhD (International Christian University, Tokyo)

Directorships: Gade Holdings, Gade Investments, Gade Mine Investments, Mitsui & Company, Blue Horizon Investments Limited, Yokogawa South Africa, Southey Holdings (Pty) Limited, Toyota South Africa, Huntrex 305 (Pty) Ltd t/a Stanger Brick & Tile company, Ngubane Family Trust, Global Colleries Fuel Distributors, Gade Oil & Gas Exploration (Pty) Ltd

Exposures: Ambassador Extraordinary and Plenipotentiary of the Republic of South Africa to Japan, Minister of Arts and Culture, Premier: KwaZulu-Natal

Herman Daniël van Schalkwyk

Deputy chairperson. Director since 5 March 2008. Term of office expired 4 July 2012

Qualifications: PhD (Agricultural economics)

Directorships: Aginfo t/a AMT, Monateng Partnership, Skeerkraal Farm, North West University

Exposures and memberships: Agricultural Economics Association of South Africa, Economic Society of South Africa, European Association of Agricultural Economists, International Association of Assessing Officers, International Food and Agribusiness Management Association, South African Society for Agricultural Extension, Free State Agriculture

Mmakeaya Magoro Tryphosa Ramano

Director since 5 September 2011

Qualifications: Chartered Accountant (Public Accountants' and Auditors' Board)

Directorships: National Research Foundation, PPC Ltd (and subsidiaries), Financial Services Board of South Africa (Appeal Board), Airports Company South Africa, National Credit Regulator Memberships: African Women Chartered Accountant, Black Business Council, Association of Black Securities and Investment Professionals, South African Institute of Chartered Accountants

Abdus Salam Mohammad Karaan

Director since 1 January 2010

Qualifications: PhD Agriculture

Directorships: Pioneer Foods Ltd, Terrasan (Pty) Ltd, Bester Feed & Grain Exchange, Fruitways (Pty) Ltd, Max Deals, Southern Oil (Pty) Ltd

Memberships: National Planning Commission

Bafana Patrick Mathidi

Director since 5 March 2008

Qualifications: B Compt Honours (Accountancy), Masters in Finance (University of London),

Memberships: Investment Analysts Society of Southern Africa

Nomavuso Patience Mnxasana

Director since 5 March 2008 (Also member of LBLIC Board)

Qualifications: B Compt Honours/Certificate in Theory of Accounting, Chartered Accountant (South Africa)

Directorships: Winhold Limited, AWCA Investment Holdings, Nedbank Group Limited, Pareto Limited, Noma Namuhla Trading and Projects (Pty) Ltd, Transnet SOC Ltd, The Nedbank Foundation, JSE

Memberships: International Aviation Council

Shamila Singh

Director since 5 September 2011

Qualifications: LLB, Aspirant Women Judges Programme (Advanced School of Judicial Education and Training)

Directorships: Sha Singh & Associates, Cross-Border Road Transport Agency, Commissioner: Broadcasting Complaints Commission of South Africa

Modise John Motloba

Director since 5 March 2008. Term of office expired 4 July 2012 (Also member of LBLIC Board)

Qualifications: BSc (Applied Mathematics and Computer Science), Diploma in Strategic Management

Directorships: Quartile Capital, Wealthridge Investments (Pty) Ltd, Africa Vukani Investment Management Services (Pty) Ltd, Harmony Gold Mining Co, Y-IN Investments, Ubuntu-Botho Investments Ltd

Memberships: South African Reserve Banks Act revision committee, Harmony Audit committee, Harmony Empowerment committee

Sue Lund

Director since 5 September 2011

Qualifications: BA African Studies (Hons), MA (Rural Development Planning)

Johannes Theodorus Potgieter

Director since 5 March 2008 (Also member of LBLIC Board)

Qualifications: BSc Honours, MBA

Directorships: JTP Consulting CC

Memberships: Agricultural Economics Association of South Africa

Nolwazi Mpofukazi Leonora Qata

Director since 5 March 2008. Term of office expired 4 March 2013 (Also member of LBLIC Board)

Qualifications: MA (Industrial and Organisational Psychology), B Admin, Commonwealth Top Management Programme for Public Enterprises in South Africa (National University of Singapore)

Directorships: South African Agency for Promotion of Petroleum Exploration and Exploitation (Pty) Ltd, Mvuzo Holdings (Pty) Ltd, Mvuzo Investments (Pty) Ltd

John Luscombe Purchase

Director since 5 July 2012

Qualifications: B.Sc. (Agric), B.Sc. Agric (Hons), M.Sc (Agric), Ph.D

Directorships: Agricultural Business Chamber, National Agricultural Marketing Council, the Maize Trust

Memberships: FAO High Level Panel of Experts on Food Security and Nutrition, AgriBEE Charter Council, NEPAD Business Foundation, International Food and Agribusiness Management Association, Grain Farmer Development Association, Business Unity – South Africa

Executive directors

Phakamani Simphiwe Hadebe

Chief executive officer of Land Bank since 18 July 2008. Also member of LBLIC Board

Qualifications: MA (Economics), MA (Rural Development)

Lebogang Serithi

Chief Financial Officer. Director since 5 July 2012

Qualifications: BCom Honours/CTA (Accounting Science), Master of Commerce (Financial Management), Chartered Accountant (South Africa)

Annexures

Annexure B: Acronyms

ACI	African, Coloured, Indian
ALCO	Asset and Liability Management Committee
BEE	Black economic empowerment
B&CB	Business & Corporate Banking
CEO	Chief executive officer
DBSA	Development Bank of Southern Africa
DFI	Development finance institution
EXCO	Executive Committee
F&WE	Fruitless and wasteful expenditure
FICA	Financial Intelligence Centre Act
GDP	Gross domestic product
HR	Human resources
ICT	information and communication technology
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
IT	Information technology
LBIC	Land Bank Insurance (SOC) Limited
LBIS	Land Bank Insurance Services (SOC) Limited
LBLIC	Land Bank Life Insurance Company Limited
LDFU	Land for Development Finance Unit
NGP	New Growth Path
PFMA	Public Finance Management Act
RCB	Retail Commercial Banking
REM	Retail Emerging Markets
SA SAM	South African Social Accounting Matrix
SCOPA	Standing Committee on Public Accounts

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