LAND BANK
We stand by you

Annual Report 2010/11

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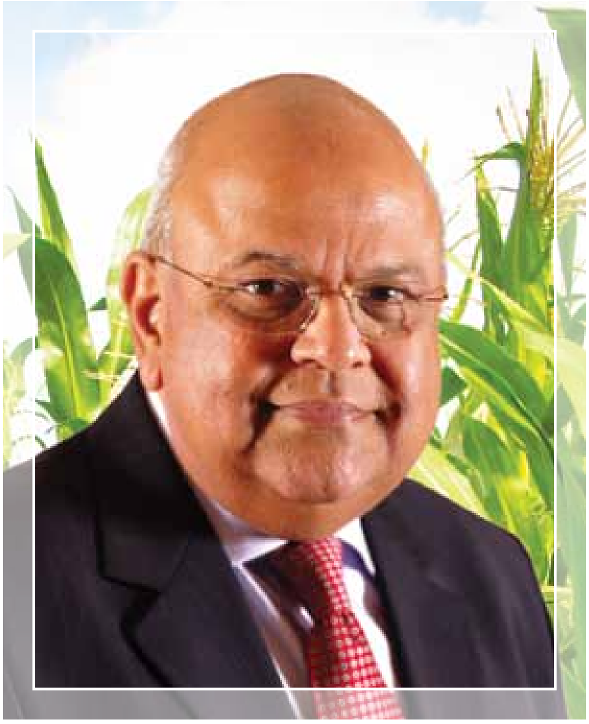


Statement by the Minister of Finance

The global economy is recovering from the crisis – but in an increasingly uncertain environment. Economists have to constantly revise growth figures downwards and to move back projections of a total recovery. Markets in developed countries have failed to recover on their own, instead needing aggressive interventions. As a result, these countries have been forced to rethink government's role in the economy. It is now increasingly clear that there is a pressing need to create strong institutions to support and achieve sustainable economic development.

The world is experiencing a two-speed economic recovery led by developing markets, highlighting the important position that such economies have assumed on the world economic stage. At the same time, pressure on natural resources is growing rapidly in response to population growth. According to the United Nations (2011), by 2050 the world population is expected to reach about 9 billion – a 34% increase over the next four decades – and demand for food is expected to double. Most of the population growth will be in developing countries. The world will need to develop sustainable technology to produce adequate food supplies to meet demand.

Economic and policy developments

Global economic challenges have affected the South African economy, and unemployment is a challenge that needs special attention. During the international downturn, the local economy shed about 1 million jobs, worsening the country's existing employment crisis. The high rate of joblessness (now estimated at 25%) has compelled government to prioritise job creation in economic policy.

The South African unemployment challenge is cyclical and structural. This duality requires a combination of policy instruments, creating a complex scenario in which orthodox interventions are very difficult to implement. Exacerbating the situation is high unemployment among youth and women, especially in deprived rural and township areas. Opportunities need to be provided for women and young people to become part of the mainstream economy. Making the economy more labour-absorptive should, therefore, be at the core of our programmes.

Government has endorsed the New Growth Path (NGP), which places employment at the centre of economic policy. The NGP's broad framework sets out a vision and identifies key areas of job creation. It is also intended to address inequality and poverty. The NGP aims to reduce unemployment from 25% to 15% by 2020 – creating 5 million jobs in the next 10 years – and place the economy on a production-led path, away from consumption-led growth. In broad outline, the NGP focuses on:

- Continuing and broadening public investment in infrastructure
- Targeting more labour-absorbing activities in agriculture, mining, manufacturing, construction and services
- Promoting innovation through "green economy" initiatives
- Supporting rural development and regional integration.

Government has covered some significant ground to give effect to the NGP. An amount of R9 billion has been set aside to create a Jobs Fund. Tax breaks of R20 billion will boost manufacturing. Government will continue to work with the private sector to develop strategies to tackle economic challenges. South Africa recently joined the Brazil, Russia, Indian and China economic grouping (now called BRICS), which means a repositioning to benefit from new opportunities that this bloc provides. Our initiatives have to address South Africa's unique position in the world economy.

Role of development finance institutions

The importance of development finance institutions (DFIs) in economic development is more apparent than ever. For some time, government has been grappling with how to position the country's DFIs to enhance their ability effectively and efficiently to deliver significant and tangible developmental outcomes benefiting all South Africans, particularly the poor and marginalised.

These development bodies are mandated to assist government in coordinating economic development initiatives and ensuring focused implementation. They are expected to help develop new industries and value chains. Crucially, they have a responsibility to support public and private investment, and to serve as catalysts for economic growth and sustained development. The DFIs can work in areas where the private sector will not go.

As government has decreed job creation a priority, the role of DFIs is even more vital. New initiatives must be devised to recharge the economy and move it towards becoming globally competitive. To achieve this requires raising productivity, boosting exports and promoting greater savings and investment. To support these objectives, government established the Development Finance Institutions Council. One of its tasks is to ensure alignment between programmes of the DFIs and government's development agenda. The impact that DFIs have on the lives of ordinary South Africans must be evidenced in sustained improvements in incomes and standards of living as a result of access to DFI funding, projects, facilities and infrastructure investments.

It must be acknowledged that our DFIs still face serious challenges in reducing poverty and creating sustainable economic growth. Consequently, they require consistent state support. The challenge is ensuring that available funds are allocated effectively and efficiently, contributing to raising productive capacity and complementing the investment activities of the wider financial sector.

DFIs also play a role in coordinating response in times of disaster. The Land Bank's collaboration with the Industrial Development Corporation (IDC) in the Drought Relief Fund is commendable. The Bank is expected to continue playing an active role in drought and flood relief, especially in reducing the financial burden that such disasters place on developing and commercial farmers.

Government support and call for action

The agricultural sector has good potential to create jobs. South Africa has five major DFIs: the Development Bank of Southern Africa (DBSA), the IDC, the National Empowerment Fund, the National Housing Finance Corporation and the Land Bank. As the primary DFI in agriculture, the Bank has a unique strategic position. It has to directly stimulate agricultural development through finance, while remaining relevant to the wider economy. As the Executive Authority to the Bank, we therefore take a special interest in this institution. Now that the Bank has turned the corner, it will need to concentrate on its development impact.

Having spent time on enhancing its development policy in the previous year, new products are being created. The emerging farmer support facility recently approved by Cabinet is a significant step in moving the Bank towards this goal. The facility combines support from government and other entities that provide services for emerging farmers who are beneficiaries of the land reform programme, helping them to create sustainable farming businesses. This represents a significant boost in support for emerging farmers. In this project, the Bank, in co-operation with the departments of Rural Development and Land Reform, and Agriculture, Forestry and Fisheries, will attempt to turn failing emerging farmers into successful business enterprises.

The new Banking division aimed at emerging farmers gives further support to the Bank's development effort. The new business model allows the Bank to maintain the delicate balance between financial sustainability and development.

The Land Bank is gearing up to spend approximately R1 billion on emerging farmers in the next two years. Greater resources need to be directed to development, and government will provide the support necessary to achieve this goal. Together with the DBSA, the Bank is using the social accounting matrix methodology to assess the impact of its funding. The methodology takes into account key economic variables such as gross domestic product (GDP), job creation, capital utilisation and income accrued to households. A preliminary report from this exercise appears in this report on page 28.

Government took a firm stand to continue supporting the Land Bank so that the institution is well placed to fulfil its mandate. A key element of this support is to ensure that the Bank is adequately capitalised. In 2009, the National Treasury raised the guarantee to the Bank from R1.5 billion to R3.5 billion with the aim of putting it in good standing with existing and potential creditors. The guarantee is being reduced progressively through periodic cash injections into the Bank, which will continue until

Statement by the Minister of Finance (continued)

R3.5 billion has been transferred. As reported in the 2011 *Budget Review*, the Bank will receive a tranche of R750 million, reducing its extended guarantee to R1 billion.

On the strength of the guarantee, the Bank's balance sheet has improved and greatly boosted investor confidence. We expect that this injection will place the Land Bank on a sound footing for the future and that it will operate within a prudent financial framework, while adhering to good governance, appropriate risk-management policies and legislative compliance. The financial controls that have been introduced are having a clear and positive impact on vital indicators, such as the maintenance of targeted capital adequacy and liquidity levels.

The advantages of a stabilised Land Bank were recently demonstrated with the successful launch of the domestic medium-term note programme, through which the Bank secured additional loan capital of R1.2 billion. This was raised in bonds that were over-subscribed by private investors – a considerable achievement. It enabled the Bank to continue to diversify its funding base and to get longer-dated debt instruments, further enhancing its financial stability.

Over the 2010/11 reporting period, the Bank grew its performing loan book by 14.3%, demonstrating a purposeful institution dedicating energy to its objectives. At the same time, the Agribusiness Confidence Index is improving, and reached its highest level in more than three years in the first quarter of 2011. Higher confidence is the result of commodity price levels, increased international demand, recovery from the recession and a significant improvement of general agricultural conditions compared with last year.

Government will continue to support the Land Bank and encourage it to keep improving. While we acknowledge the challenges associated with legacy issues, we expect that the Bank will maintain an acceptable cost-to-income ratio in the medium term. As the Bank's liquidity stabilises, it should be in a position to begin the next phase of its development plan. The Bank must persist in addressing people, processes and system challenges and continue to help emerging farmers by bringing them into the mainstream of the economy.

Conclusion

This annual report marks a significant milestone for the Land Bank. The turnaround programme has been completed successfully, resulting in improved performance. During this reporting period, the Bank's market share has improved from 26% to about 27% of total farming debt as at 31 December 2010. Although challenges remain, significant strides have been made. The Bank can now focus its resources on fulfilling its development mandate as outlined in the Land and Agricultural Development Bank Act (2002), while maintaining financial sustainability.

South Africa should be able to celebrate the Bank's centenary next year by recognising the achievements of a vibrant, healthy institution that is contributing to the development of our economy and our democracy.

Pravin Gordhan

Pravin Gordhan
Minister of Finance

Report of the Chairperson

The world economy has gone through three very difficult years. Although most of the damage was wrought in developed countries, the effects were felt widely in the developing world. Global growth has improved but remains subdued, with high unemployment in developed countries and inflationary pressures in emerging markets.

While domestic growth is improving, the trajectory of the world economy is the subject of much speculation. Downside risks are evident, and include high food and energy prices. Although South African interest rates remain low, it is expected that in the face of growing inflationary pressures, interest rates may begin to enter a rising phase sooner rather than later. A rising interest-rate cycle will raise the cost of doing business, affecting the entire agriculture sector, including Land Bank clients.

Prospects for South African agriculture

The South African economy contracted by 1.8% in 2009 as the country experienced its first recession in 18 years. Economic growth subsequently picked up, and the economy registered 4.8% growth in the first quarter of 2011.

Agriculture was hard hit during the global downturn, which had a tremendous effect on our largest trading partners. But the sector is now growing again. The seasonally adjusted and annualised real value added by agriculture, forestry and fisheries contracted by 18.7% in the third quarter of 2009, but recovered and grew by 16.3% in the third quarter of 2010. The number of people employed in agriculture increased by 10,000 from 630,000 in the second quarter of 2010 to 640,000 in the third quarter. The recovery trend is expected to continue. In the long term, the reduction in the number of commercial farmers from 60,000 in 1993 to about 40,000 in 2007, according to the most recent Census for Commercial Agriculture, is a cause for concern. This declining trend may be even more pronounced when the latest figures become available in 2012.

Notwithstanding the variable trends in agriculture, the recovery is expected to present significant financing opportunities for the Land Bank. As prices recover, they provide incentives for increased agricultural investment. Total agricultural debt grew by 16% in the period from R54 billion in June 2010 to R57 billion by end-December 2010, a trend likely to continue. The Land Bank must be positioned to benefit from economic recovery, boosting agricultural production and sustainability. There is a need to grow our share of net debt as a proportion of total agricultural debt. The Bank should therefore prepare its systems and products to be able to respond in good time to new opportunities. There are also developing opportunities in areas such as trade finance, because our key clients include importers and exporters, and the expanded market will provide more openings.

Strengthening the agricultural value chain

Government has gone to great lengths in trying to ensure that DFIs become part of the framework for service delivery. Consequently, expectations have been raised about what these institutions can and should do. The Board of the Land Bank will study the outcomes of the review of state-owned entities with great interest. The Bank is the sole DFI in agriculture and thus is expected to stimulate, support and promote agricultural development by providing financial services.

Government aims to establish 50,000 commercially oriented smallholder farmers and create 130,000 jobs in agriculture by 2014. The role of DFIs to support government in achieving these goals is significant.

The Land Bank is expected to play an enabling role in job creation through targeted support. The proposed value-chain financing model approved by Cabinet as a pilot project is expected to provide the Bank with a framework for investments, adding value in non-traditional focus areas. It will help the agriculture sector and government to ensure development of the entire value chain, including those elements that can create value and new jobs. In this, agribusiness and agro-processing are clear investment opportunities and the Board is pleased that the Bank has made considerable progress to ensure that it delivers in those areas.

In pursuit of its development mandate and in strengthening the agricultural value chain, the Bank contributes to the country's broader socio-economic needs by playing a pivotal role in advancing agriculture and rural development. The impact that the Bank's funding has on development is measured using the Social Accounting Matrix developed by the DBSA.

Improved performance

The Bank's completed turnaround process has begun to bear fruit. The Bank invested significant time and resources in ensuring that it changes direction and becomes forward-looking. The Bank's finances are better off and its revised operations hold much potential. A more robust institution is beginning to emerge and the Bank is now poised to discharge its mandate. The approved Fit for Future programme and its associated activities will take the Bank to the next level.

New business and target operating models are in place and are being implemented. The Board expects that the operating model will improve the way the Bank does business and allow it to take advantage of resulting efficiencies, as well as provide focus on areas that need specific attention.

The turnaround strategy succeeded thanks to a productive partnership between the departments of Finance; Agriculture, Forestry and Fisheries; and Rural Development and Land Reform; as well as Parliament's portfolio committees and the Board and management of the Bank. As the Bank approaches its centenary, it looks fitter and more robust. It has improved control systems, with sound credit and risk policies in place. The recapitalised Bank is more stable and inspires greater investor confidence. The institution continues to maintain liquidity at agreed levels. Clients who left the Bank are returning, and people with appropriate skills are now joining our staff.

Sharpening the development focus

As part of our mandate, development remains core to the business. A new Banking division, Retail Emerging Markets, is designed to provide products and support to help emerging farmers become commercial farmers. In addition, a wholesale finance facility has been established that will increase outreach through intermediaries and other partners. The emerging farmer support facility recently approved by Cabinet is designed to provide a comprehensive framework to support emerging farmers. It is born from the realisation that merely advancing finance to emerging farmers does not begin to address their challenges.

As this report will show, the Bank has several other initiatives to bolster its contribution to development. Working with partners in government and the private sector, it continues to seek innovative approaches that will help distressed farmers. It is encouraging to note that the Bank is introducing a process of monitoring the impact of its funding in the economy and on the lives of the people of South Africa. The Board is pleased with the renewed focus on development. The programmes put in place will allow the Bank to play a bigger role in this area, while contributing to the sustainability of agriculture. The programmes will cushion both farmers and the Bank from undue risk.

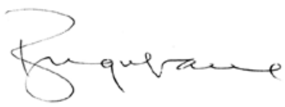
While the Bank still faces some challenges, we are on track to discharge our mandate. Although we do not expect the Bank to continue on a higher profit-making trajectory, we do believe that the cost-to-income ratio will be maintained at acceptable levels. We anticipate some pressure on the Bank as it continues to implement and optimise systems and processes to secure its long-term sustainability.

Governance, risk management and compliance have improved significantly over the past year. The Board continues to enforce high levels of corporate governance. A full Board complement is in place with proper representation on all relevant committees. The Board commends Bank management on the successful completion of the SAP Banking system implementation within project time and recognise management's tireless efforts to respond to teething challenges.

The Land Bank will continue to strive for best practice in corporate governance, risk management and compliance to ensure that an appropriate balance is struck. The Bank subscribes to the principles of the *King III Report on Corporate Governance*, the *Protocol on Corporate Governance in the Public Sector*, and all of its governance and decision-making structures are in line with the King recommendations.

Conclusion

The re-engineered Land Bank has started to produce results. During the reporting period, the Bank improved its performance and successfully refocused the institution. Systems and processes have been tightened, and the loan book continues to grow. Restructuring of non-performing loans continues and the Bank is maintaining healthy liquidity levels. This impressive performance, supported by government's R3.5 billion recapitalisation, has put the Bank on solid ground. I would like to thank the Ministers of Finance, Agriculture, Forestry and Fisheries; and Rural Development and Land Reform for their support for the Bank and the turnaround programme. I also acknowledge the role of the parliamentary portfolio committees, which continue to keep us on our toes by exercising their oversight responsibilities. Finally, I would like to thank the Board and management of the Bank for making this success possible.



Dr Ben Ngubane
Chairperson

Report of the Chief Executive Officer

As the primary development finance institution addressing agriculture and rural development, the Land Bank has a responsibility to play a leading role in enhancing economic development in South Africa. As outlined in the NGP, agriculture is one of the main sectors that can create jobs. This raises expectations of the Bank's contribution to this policy objective.

This annual report covers 1 April 2010 – 31 March 2011, a period marked by significant strides in institutional development. The report details the Bank's achievements during this time, informed by government's electoral mandate and the need to ensure sustainable rural development and food production.

On a sound operational footing

Three years ago the Bank committed to change from a non-performing institution with low staff morale to a sustainable one where business operations are informed by the mandate. Corporate governance had broken down, profits had plummeted and there was a high volume of non-performing loans.

The initial clean-up phase focused on audit queries by improving existing systems and processes and creating new ones. The majority of audit findings were duly addressed, all conditions for the government guarantee aimed at recapitalising the Bank were met, and all Standing Committee on Public Accounts (SCOPA) resolutions and portfolio committee undertakings were implemented. Two successive years of clean audit reports bear testimony to the success of this effort.

The stabilisation phase was designed to arrest the deterioration in the balance sheet, enhance human resource capacity and ensure effective systems. This effort yielded some significant successes. The consolidation of the balance sheet through recapitalisation by government was a significant step in stabilising the Bank's finances. This was supported by the improvement in the Bank's financial performance. Improvements in the Bank's image enable it to continue attracting and retaining appropriately skilled people. Adequate management information systems have been installed in finance and human resources, resulting in better management controls. The Bank has also successfully implemented the SAP banking system on time and within budget.

The stabilisation phase also provided an opportunity for a business process review, which has been completed. The Bank is enhancing its service delivery across all business segments and reducing turnaround times remains a priority. It is also developing new products for the different market segments, and has revised its norms and standards.

The Bank is now on a sound operational footing, with healthier finances. The re-engineered institution is better poised to focus on delivering on its mandate. The Bank's improved position has also been reflected in improved media coverage over the reporting period.

Towards sustainability

The Bank's progress towards long-term sustainability is captured in the "Fit for the Future" concept, outlined in Figure 1 below. This project consists of a review of the Bank's business and operating models, and the organisational design flowing from these. Principles adopted for designing the operating model will ensure growth, flexibility and optimal use of resources. This process is expected to result in improved operations and service delivery. The branch network infrastructure is being assessed as part of the new operating model with the aim of

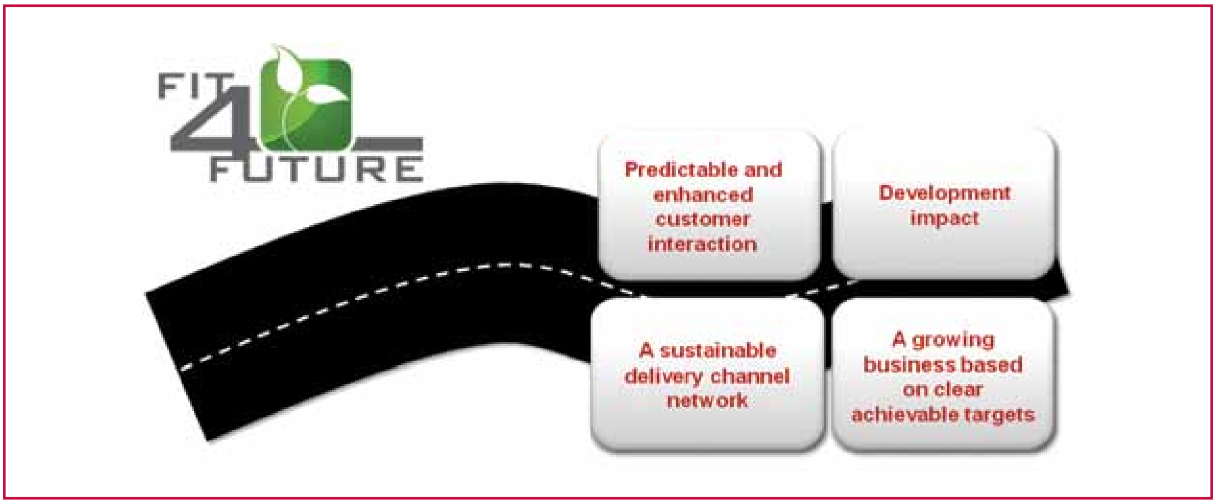


Figure 1: Fit for the Future

improving efficiency and turnaround times. Essential outcomes will increase the Bank's development impact, improve service delivery, enhance customer interaction and grow the Bank based on clear, achievable and sustainable targets.

To ensure that the Bank achieves the stated objectives, the activities listed below were initiated during the period under review:

- A business unit focused on emerging farmers was established
- Back office activities were improved through technological initiatives and process efficiency
- The service delivery network available to customers was optimised
- The service capacity and capability of the Business and Corporate Banking Unit were stabilised and enhanced
- A methodology that will assist the Bank to develop meaningful operational and strategic targets was established
- A culture of high performance, centred on people, is being developed
- Together with the DBSA, the Bank developed a methodology to assess the social impact of its funding on the South African economy
- Cabinet approved the emerging farmer support facility.

Together with National Treasury, the Department of Agriculture, Forestry and Fisheries; and the Department of Rural Development and Land Reform, the Bank continues to explore appropriate mechanisms for development lending. Financing mechanisms have to accord with specific problems of the environment in which the Bank operates. Here, development risks are high, returns low, and tailored support is required.

Improved financial performance

The Bank's financial management systems have started to yield results. Capital adequacy is maintained well above the levels agreed on as one of the conditions for the government guarantee, and liquidity levels have significantly improved. Efforts to grow the loan book to an acceptable level within the appropriate risk appetite and framework have begun to pay dividends. The Bank's traditional clients are coming back. However, the cost-to-income ratio is expected to remain high over the medium-term as the Bank installs systems that will secure its financial sustainability, while dealing with legacy issues.

The Bank's balance sheet also improved, with an increase in collection on non-performing loans and government recapitalisation. Efforts to grow the loan book while reducing the cost of funding will remain a priority. The Bank is exploring options for increasing non-interest income opportunities, including aggressively expanding commercial asset finance, cross-selling of insurance and other related products to ensure sustainability. The Bank continues to work with government to find suitable financing solutions for development, including wholesale financing and other assistance services to emerging farmers. The option of sourcing low-cost development funds from multilateral organisations is being explored.

Notwithstanding these issues, the Bank's performance on its core mandate is expected to improve as a result of strategies in place or in the pipeline. Although solving legacy issues and realising new initiatives discussed above will inevitably increase costs, the Bank will continue to use cost-containment measures to offset this trend.

During the reporting period, the Bank maintained a positive national long-term Fitch rating at AA (zaf) with stable outlook, and its national short-term rating at F1+(zaf). At the same time, Fitch has affirmed the Land Bank's support rating at 2.

Governance, risk management and compliance

Governance, risk management and compliance principles have been embedded throughout the organisation over the past two years. Although there is room for improvement, our enterprise risk management framework has been successfully implemented and is updated each year. Remedial measures have been set up to address areas of concern:

- A new, sustainable business model has been developed and put in place
- A dedicated project team implemented SAP core banking
- The Policy Development Unit has expanded its function to include developing procedure manuals, and reviewing and updating the Board and management charters
- A risk appetite framework has been designed and is being rolled out
- A pricing model for loan facilities has been agreed upon and is being implemented
- Continuity strategies have been developed for all business units.

The Bank subscribes to the principles of the King III report on corporate governance as well as the Protocol on Corporate Governance in the Public Sector. We manage our King III compliance obligations using a detailed risk management plan and an annual report disclosure checklist.

Despite progress, the Bank faces challenges associated with unresolved legacy issues, and spends considerable time and resources on developing lasting solutions for these matters, which can be resolved only over the longer term. They include completing forensic investigations, continued litigation and winding up the Land for Development Finance Unit (LDFU).

Forging ahead

The Bank has successfully completed its turnaround strategy and is better poised to deliver on its mandate. The finances are on a sound footing, staff morale has improved, new systems and technologies are being adopted, better products and services are being delivered, and the necessary controls have been established for a vibrant and sustainable institution. This provides a basis for sustained and efficient growth, and for the Bank to achieve its mandate, ensuring that South African farmers are producing sufficient food and fibre for the nation, and trading in the world economy.

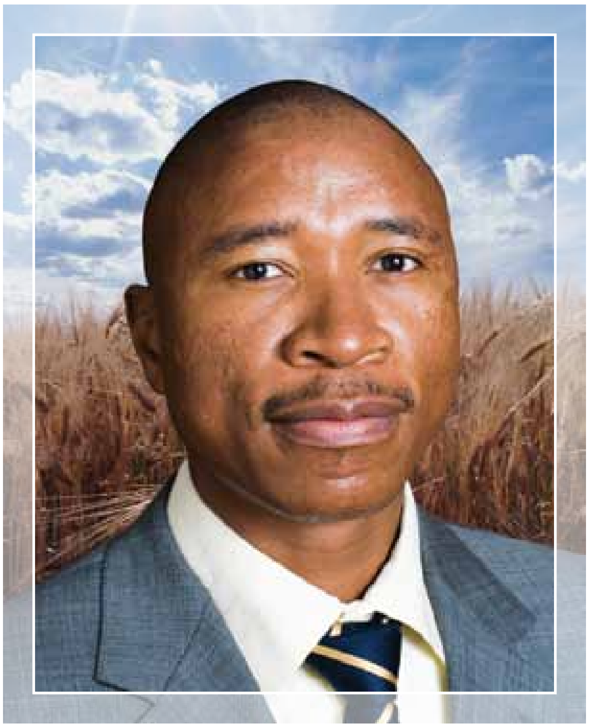
As the Bank approaches its 100th year of existence, it is a good time to look back on the impact of its work on development while advancing its mandate. The Bank must remain relevant in providing appropriate solutions to the complex challenges of today's economy.

Sustainability will greatly depend upon successfully addressing legacy issues. It will also depend on the growth of the loan book, with a focus on quality. The Bank needs to move swiftly and take steps to begin realising the tabled proposals for the assistance of distressed farmers. This will have a positive effect and will greatly reduce non-performing loans. The proposed curatorship and the value-chain financing models will improve the quality of the loan book and the recovery rate.

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 – along with Parliament's portfolio committees on finance, agriculture, rural development, and SCOPA – for their support. I would also like to thank the Board for its unwavering commitment. We look forward to continuing this broad collaboration to achieve South Africa's developmental objectives.

Finally, I would like to thank the staff of the Land Bank for supporting this institution in its mammoth and successful turnaround.

Phakamani Hadebe
Chief Executive Officer



Report of the Audit Committee

In terms of regulation of 27 (1) of the Public Finance Management Act (1999) (PFMA), as amended, the Audit Committee reports that is has discharged its responsibilities as contained in the Audit Committee Charter.

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 legal and regulatory provisions
- 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 the 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 external auditors
- Performed such other functions as required by the National Treasury from time-to-time 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 Land Bank.

Any control deficiencies identified by the internal and external auditors were brought to the attention of the Audit 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 is pleased to report that no material weaknesses in financial controls resulting in actual material financial loss, fraud or material errors were identified. Further, the Bank incurred no regulatory fines and penalties in the year under review.

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

The Audit Committee believes that the financial controls adequately ensure that the financial records may be relied on for the preparation of the Group's annual financial statements, and that accountability for assets and liabilities is maintained. This view is based on the information and explanations provided by management regarding 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 2011 and, based on the information provided therein, believes that the financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards (IFRS).

The Audit Committee further evaluated the information in the annual report, specifically the information that should be disclosed in terms of King III for integrated reporting. The required information is contained in a number of statements in the annual report. The committee recommends that the integrated report information as disclosed in the annual report be approved.

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.

Joe Mthimunye
Chairperson: Audit Committee

Financial report

The aftermath of the global financial crisis and the domestic recession continued to contribute to a challenging operating environment. While the economy began to grow after contracting in 2009, there were few signs of sustained recovery and government remained under pressure to stimulate economic activity.

Notably, the Reserve Bank reduced interest rates by an additional total of 1 percentage point between March 2010 and March 2011, following cumulative reductions of 2.5 percentage points over the prior 12 months. This step was made in the context of low inflation, and provided a boom to sectors seeking affordable sources of finance.

While lower interest rates support greater activity in the agricultural sector, they also affect the profitability of the Land Bank. The Bank is heavily reliant on interest income, and the rate reductions have reduced net interest revenue and profitability.

During the reporting period, the Bank received a further R750.0 million from the National Treasury, in line with government's commitment to convert its guarantee into cash over a three-year period. Of the R3.5 billion initial guarantee, R1.75 billion has been converted into cash, with the remainder expected over the next two financial years.

Market perceptions of the Land Bank have improved significantly owing to the successful turnaround strategy and government support. The number of new investors has grown and existing investors have increased their credit lines. The Bank successfully issued a three-year floating rate note during the period. The issuance was oversubscribed, which is evidence of the increased market appetite for the Bank's paper. Strategic alliances and partnerships with different government departments and other institutions will enhance the Bank's efforts to pursue its development mandate. Expertise and support mechanisms are expected to be derived from these partnerships.

Despite a challenging economic environment, the Land Bank Group still managed to achieve respectable results. The Group realised a net profit of R286.1 million, 25% lower than the net profit of R379.1 million achieved in the previous financial year. The lower profit was mainly attributable to the decline in investment income from insurance operations (LBIC). The Group's banking operations contributed R200.0 million (2010: R217.3 million), excluding the inter-group dividend of R50.0 million (2010: nil) and the insurance operations contribution of R86.8 million (2010: R161.8 million), to the Group's bottom line for the year.

The most notable improvement in contributions to the bottom line came from the retail division where overall profit increased by 186% from R93.6 million in the prior year to R267.8 million in the current financial period, mainly as a result of a release in impairments. Both the Business and Corporate Banking division as well as LBIC saw profits decline by R173.5 million and R75 million, mainly as a result of squeezed margins and lower levels of investment income, respectively.

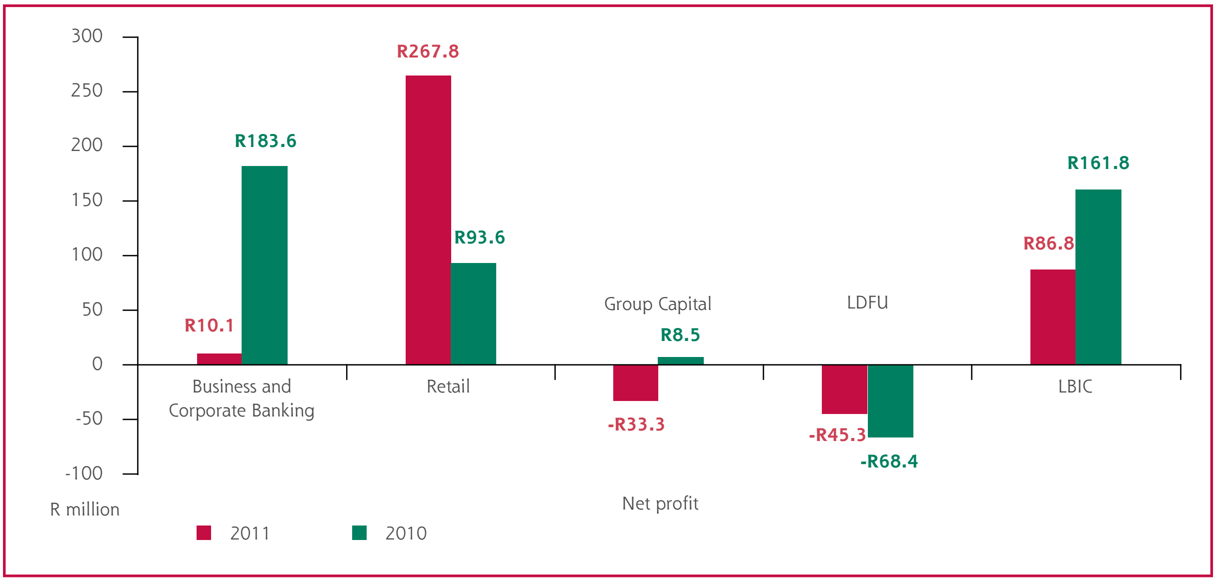


Figure 2: Group total net profit by segment

Internal performance targets

The Land Bank Group submits a Corporate Plan to the National Treasury each year. The plan contains key agreed performance and strategic targets. The key financial performance targets that were set for the current financial year were as follows:

Key performance targets

	2011 Actual	2011 Target
Gross interest margin - continuing operations	39.2%	38.5%
Net interest margin - continuing operations	3.5%	2.9%
Cost-to-income ratio - continuing operations	82.2%	82.5%
Capital adequacy - including government guarantee	42.6%	20%
Loan book quality - (Non-performing book as % of total book)	11.0%	15%

The Bank's performance compares favourably to the key financial performance targets as set in the Corporate Plan. Notably, the percentage of non-performing loans as well as the capital adequacy ratio significantly surpassed the set targets.

Banking operations

Total net income for the year from the Group's banking operations was R250.0 million (including the intercompany dividend of R50.0 million), compared to R217.3 million recorded in the previous financial year, which translates to an increase of 15%. Operating income from banking activities increased by R31.8 million, whereas operating expenses remained well controlled at R476.6 million and marginally down from the R479.5 million in the previous financial year. Net profit from continuing operations was R314.8 million, 21% higher than the R260.9 million in the previous financial year.

Salient features

	2011 Rm	2010 Rm	Variance
Net interest income	**511.1**	748.5	(32%)
Impairment release/ (charge)	**125.1**	(157.3)	+100%
Non-interest income	**52.7**	65.9	(20%)
Investment income	**80.6**	50.8	59%
Fair value gains	**11.2**	37.8	(70%)
Operating expenses	**(476.6)**	(479.5)	0.6%
Non-trading capital items	**37.6**	17.8	+ 100%
Discontinued operations	**(45.3)**	(68.4)	34%
Other comprehensive (loss)/income	**(19.6)**	24.6	(+100%)
Cash and cash equivalents - own	**2,003.9**	1,923.1	4%
Loan and advances	**14,299.2**	12,294.4	16%
Funding liabilities	**11,855.0**	10,661.9	11%

Net interest income

Net interest income for the year was R511.1 million. A comparison to the previous year is not possible without eliminating the R309.5 million once-off cumulative reclassification of suspended interest adjustment which took place in the previous financial year following an in-depth investigation and refinement of the loan impairment model as part of the Bank's efforts to clean-up and improve the quality of the loan book. In the previous year, the adjustment had a positive impact on net interest income and overstated impairments in the statement of comprehensive income. Net profit was not affected.

In real terms, after excluding the impact of this adjustment, net interest income increased by R72.1 million (16.4%) from R439 million (adjusted) in the previous financial year to R511.1 million in the current financial year. This increase is largely on the back of the increase in the loan book of 16.3% which was partly offset by squeezed margins. The full impact of the R750 million capital injection in FY2011, as well as the balance of capital injections anticipated over the next two years, will positively contribute towards improved net interest income in future.

Impairments

	2011 Rm	2010 Rm	Variance
Net impairment releases	**(74.6)**	(64.4)	16%
Adjustment to LGD[1]	**(50.5)**	(87.8)	(42%)
Total releases before adjustment	**(125.1)**	**(152.2)**	**(18%)**
Suspended interest reclassification	**-**	309.5	(+100%)
Total (releases)/charges	**(125.1)**	**157.3**	**+100%**

[1] Loss given default reduced from 15% to 5% (2010: 20% to 15%)

Net impairment release for the current financial year amounted to R125.1 million compared to the net impairment release of R152.2 million (before the once-off adjustment as discussed under net interest) recorded in the previous financial year. The net impairment release of R74.6 million was predominantly as a result of a guarantee letter from government committing to assist certain identified distressed development farmers. The continuous improvement in the loan book quality warranted a further reduction in the prudential loading on the Retail LGD from 15% to 5% resulting in an impairment release of R50.5 million (2010: R87.8 million).

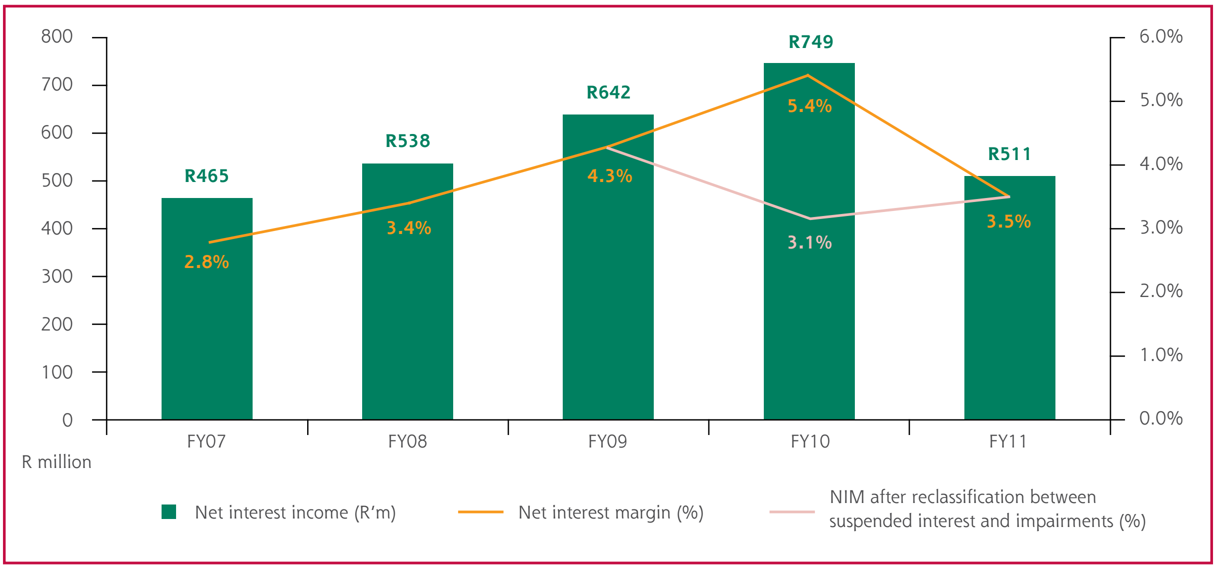


Figure 3: Net interest margins (NIM)

Non-interest income

	2011 Rm	2010 Rm	Variance
Administration fees	**32.9**	44.4	(26%)
Investment property rentals	**6.8**	6.1	11%
Other	**13.0**	15.4	(16%)
Total	**52.7**	**65.9**	**(20%)**

Non-interest revenue declined by 20% from R65.9 million to R52.7 million in the year under review. Administration fees relate primarily to penalty fees on default accounts and the significant decline, albeit a reduction in fee income, is further evidence of the improvement in the quality of the loan book. Non-interest income levels in general remain an area of concern and significant focus is currently being placed on the generation of alternative income streams. Other income comprises mainly of reversals of write backs in respect of administration fees.

Investment income

	2011 Rm	2010 Rm	Variance
Unrealised fair value gains	**22.3**	44.7	(50%)
Dividends	**53.8**	1.7	+100%
Interest	**4.5**	4.4	2%
Total	**80.6**	**50.8**	**59%**

Fair value gains decreased by 50% to R22.3 million from the previous financial in response to prevailing unstable market conditions. Dividends received includes a dividend from the subsidiary, LBIC, of R50.0 million as a contribution to the Bank's development mandate.

Fair value gains

	2011 Rm	2010 Rm	Variance
Held for trading			
Swaps	**(6.3)**	(2.0)	(+100%)
Market-making assets	**(1.1)**	(4.3)	74%
Designated through profit or loss			
Promissory notes	**(4.1)**	44.1	(+100%)
Floating rate notes	**22.7**	-	+100%
Total	**11.2**	**37.8**	**(70%)**

Fair value gains on trading and funding instruments amounted to R11.2 million (2010: R37.8 million). The fair value gains attributable to the floating rate notes are as a result of the quarterly re-pricing of these notes which could then respond sooner to the reduction in JIBAR during the latter part of the financial year. In contrast to this, promissory notes with terms ranging between one and twelve months only re-price, on average, every seven months resulting in a delay in responding to the reduction in JIBAR and fair value losses attributable to these instruments.

Operating expenses

	2011 Rm	2010 Rm	Variance
Notable (increases)/ decreases			
Staff costs	**305.8**	261.0	(17%)
Computer expenses	**21.9**	6.3	(+100%)
Professional fees	**28.9**	56.3	49%
Legal fees	**7.9**	52.8	85%
Other operating expenditure	**112.1**	103.1	(9%)
Total	**476.6**	**479.5**	**1%**

Total operating expenses decreased marginally to R476.6 million from R479.5 million in the previous financial year. The table depicts the most notable movements in operating expenses. Staff costs increased to R305.8 million from R261.0 million in the previous financial year – an increase of R44.8 million (17%). This increase is in accordance with the planned filling of key vacancies as envisaged in the sustainability phase of the Bank's turnaround strategy. Computer expenses increased significantly as a result of fees and licenses pertaining to the newly implemented SAP Banking module.

Significant reductions were recorded in professional and legal fees which are predominantly as a result of less reliance being placed on external consultants and a lower spend on professional and legal fees relating to legacy issues of the past.

The expense categories that comprise other operating expenditure are disclosed in note 28 to the financial statements.

Non-trading capital items

	2011 Rm	2010 Rm	Variance
Reversal of impairments on intangible assets	**35.2**	-	+100%
Profit on disposal of shares	**-**	14.2	(+100%)
Profit on disposal of investment property and property and equipment	**15.0**	1.0	+100%
Non-current assets held-for-sale fair value adjustment	**(11.2)**	-	(+100%)
Fair value adjustment to investment property, land and buildings	**(1.4)**	2.6	(+100%)
Total	**37.6**	**17.8**	**+100%**

Non-trading and capital items increased by R19.9 million to R37.6 million from R17.7 million in the previous financial year. The major contributor is the reversal of the previously impaired SAP Banking module. Software with a cost of R35.2 million relating to the new banking module was impaired during the 2008 financial year as the asset had not been brought into use and there was uncertainty as to its future use. During the current financial year, the SAP banking project was revitalised and successfully completed by further developing the initial configuration and system. As a consequence, the previous impairment has been reversed.

Discontinued operations

The loss on discontinued operations of R45.3 million (2010: R68.4 million) relates primarily to the funding cost of the LDFU assets. Included in the discontinued operation is a recovery of R7 million relating to the disposal of one of the properties. The LDFU operation was discontinued in the 2009 financial period as the loans granted fell outside the operating mandate of the Bank. Management is actively pursuing the disposal of these assets but will only consider disposals on favourable terms to the Bank. Since its reclassification as a discontinued operation, no interest income has been accrued or recognised on this book.

Other comprehensive income

	2011 Rm	2010 Rm	Variance
Actuarial (loss)/gain on post retirement medical aid liabilities	**(21.4)**	9.6	(+100%)
Revaluation of land and buildings	**1.8**	15.1	(88%)
Total (loss)/gain	**(19.6)**	**24.7**	**(+100%)**

The Bank provides a post-retirement medical aid benefit to those who were either employees or pensioners of the Bank as at 1 December 2005.

This fund functions primarily as a defined benefit scheme and therefore the Bank is liable for fully funding the scheme. The fund liability is subject to an annual actuarial valuation. The current year's actuarial loss was R21.4 million compared to a surplus of R9.6 million in the previous financial year.

Land and buildings are re-valued annually in terms of the Bank's accounting policies. The current year increase in the value of the Bank's land and buildings amounts to R1.8 million (2010: R15.1 million) and is in line with the relatively stagnant property market.

Cost-to-income ratio

The cost-to-income ratio for continuing operations was 82.2% and translates to a significant improvement over the 95% (as adjusted) recorded in the previous financial year. The 82.2% ratio is in line with the Corporate Plan target for the current financial year of 82.5%.

The improvement over the previous financial year is primarily attributable to continuous stringent cost control measures. To improve this ratio in future, the Bank's strategy is to focus on the improvement of income streams by growing the loan book and generating alternative sources of non-interest revenue.

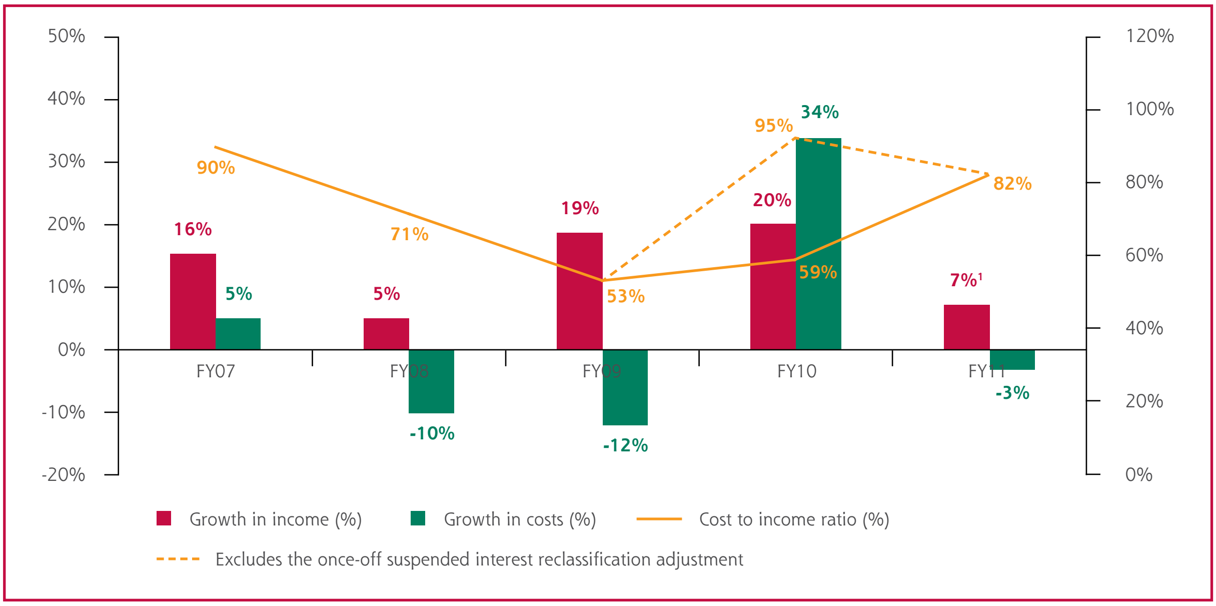


Figure 4: Cost-to-income ratio

[1] In calculating the growth in income for FY2011, a comparison to the previous year is not possible without eliminating the R309.5 million once-off cumulative reclassification of suspended interest adjustment which took place in the previous financial year. When excluding the impact of this adjustment, net interest income increased by R72.1 million (16.4%) from R439 million (adjusted) in the previous financial year to R511.1 million in the current financial year.

Cash and cash equivalents

Cash and cash equivalents increased marginally from R1.9 billion in the previous financial year to R2.0 billion at the end of the current financial year. Cash balances are primarily held for purposes of providing the Bank with a sufficient liquidity buffer to serve as a hedge for the Bank's perceived refinancing risk. Whilst the balance seems high, the average balance held during the financial year was R2.3 billion (2010: R2.7 billion). The required balance is managed by using a model that is designed to take into account, inter alia, normal banking best practice, commercial banking regulatory requirements, the Bank's own unique requirements and also the Bank's improved ability to raise funding in the local market. As reported in the 2010 annual report, the Bank has during the period under review changed its strategy to maintain its cash balance at optimum levels within acceptable risk parameters.

Trade and other receivables

Trade and other receivables, which increased from R47.9 million in the previous financial year to R189.2 million at the end of the current financial period, comprised mainly of intercompany related transactions amounting to R159.2 million (2010: R22.3 million) between the Bank and its subsidiary, and includes the R50.0 million (2010: nil) dividend receivable from LBIC.

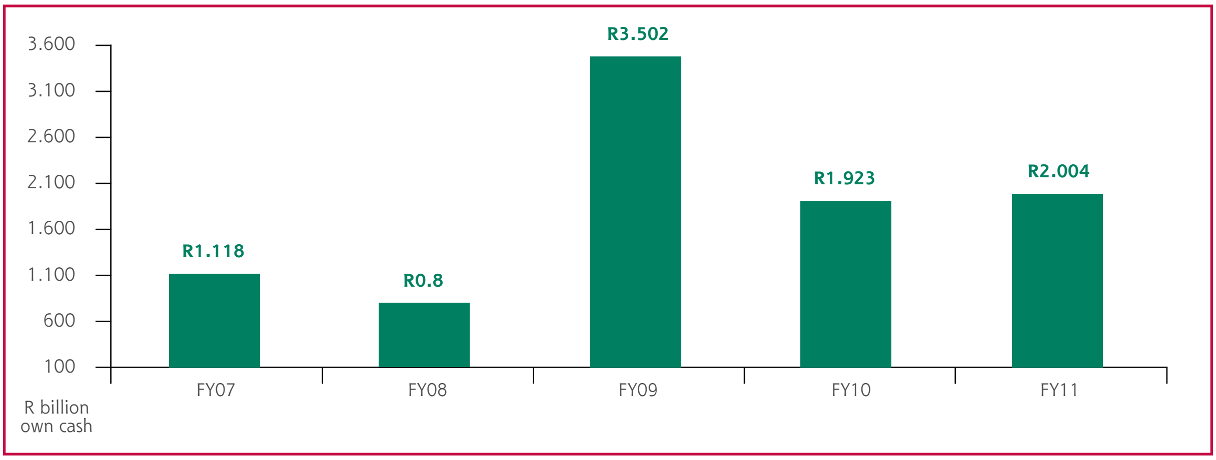


Figure 5: Cash and cash equivalents

Repurchase agreements

Repurchase agreements were entered into to cover any short positions that the Bank might have experienced. At the end of the financial year, there were no short positions that were required to be covered (2010: R14.8 million).

Non-current assets held-for-sale

Certain land and buildings have been earmarked for disposal for which approval was obtained from the Minister of Finance. Properties in possession of R70.4 million have been re-classified from investment properties to non-current assets held-for-sale in accordance with IFRS 5 (Non-current assets held-for-sale). Disposals in the current financial period amounted to R22.8 million (2010: nil) for land and buildings and R16.0 million (2010: nil) for properties in possession. Fair value loss adjustments amounted to R1.5 million (2010: nil) and R9.7 million (2010: nil) for land and buildings and properties in possession respectively.

Investments

The Bank's investment portfolio comprises investments held to serve as a hedge for the Bank's post-retirement medical aid liability. These investments have been classified as "fair value through profit and loss", and are measured and disclosed at fair value. The fair value of the portfolio increased from R211.2 million in the prior year to R227.9 million at the end of the current financial year. This translates to a surplus of R9.0 million (2010: R21.1 million) when compared to the relevant liability.

Loans and advances

Net loans and advances at R14.3 billion increased significantly by R2.0 billion (16%) from R12.3 billion in the previous financial year.

The gross performing loan book increased by R1.7 billion (14%) to R13.6 billion compared to the R11.9 billion at the end of the previous financial year. Business and Corporate Banking and Retail contributed R1.1 billion and R638.8 million respectively towards the performing loan book growth.

Collections on loans in arrears (including insolvencies) amounted to R476.8 million (2010: R1.17 billion). The Bank continues to make a concerted effort towards the recovery of loans in distress.

Non-performing loans decreased by R111.8 million from R1.8 billion in FY2010 to R1.7 billion in FY2011 owing mainly to collections. The percentage of non-performing loans over the total loan book declined from 13.1% in the prior financial period to 11.0% in FY2011, whilst the performing book improved from 86.9% in FY2010 to 88.9% in FY2011. The increase in the performing loan book has however not translated into a significant increase in profitability owing to thin margins.

Total impairments, which include the provision in respect of suspended interest and administration fees, decreased by R411.1 million from R1.4 billion in the prior financial period to R989.7 million at 31 March 2011. The main components making up the total impairment release was government`s guarantee towards assisting distressed farmers, which contributed R137.5 million, as well as improved credit vetting and monitoring that led to a reduction in LGDs from 15% to 5%, contributing R50.5 million toward the impairment release and R30.9 million toward the suspended interest and administration fee release.

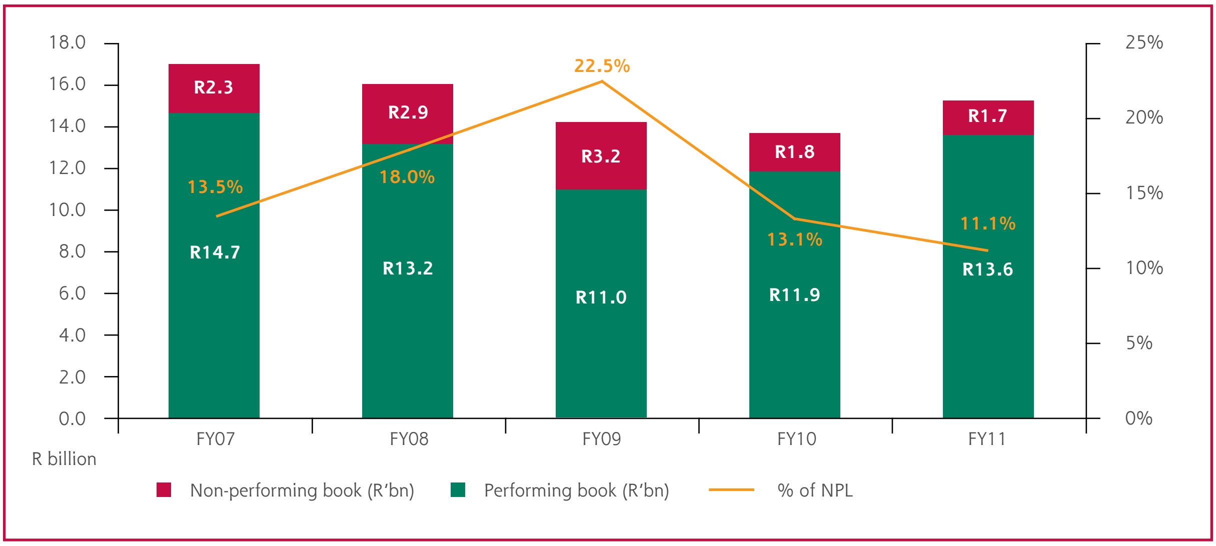


Figure 6: Loan book performance

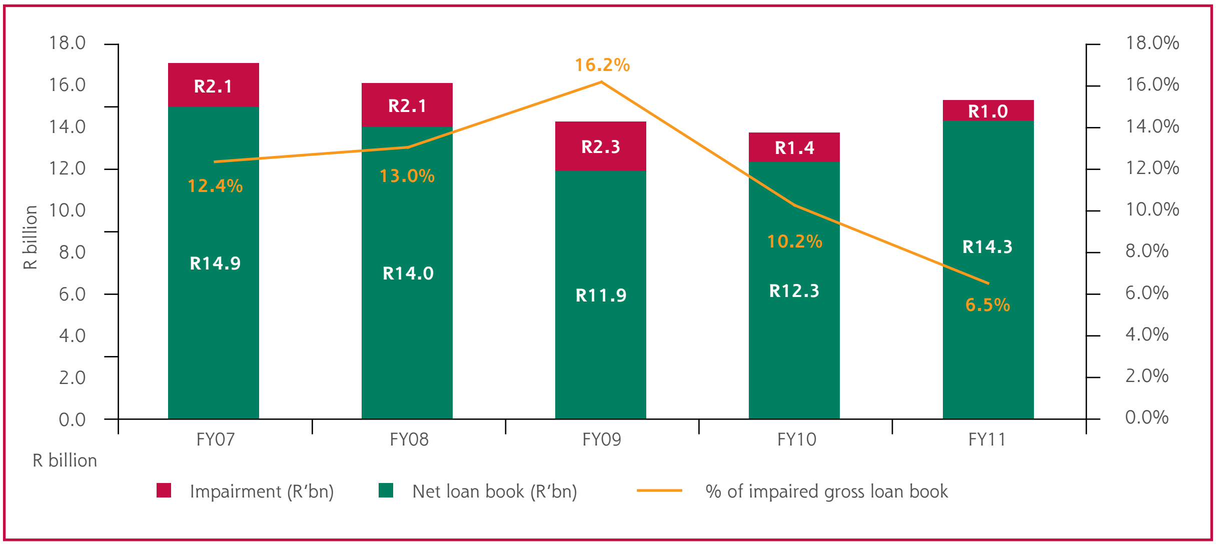


Figure 7: Impairments trend

Assets of disposal group classified as held-for-sale

These assets comprise the LDFU assets of the discontinued operations. All interest income on these loans have been suspended. Recoveries on these loans amounted to R7.0 million (2010: R17.3 million) and the impairment reduced by the same margin maintaining the net assets at R153.9 million.

The directors' valuation of R438.1 million (2010: R287.6 million), based on valuations done by independent professional valuators, is determined with reference to the net realisable values of underlying securities.

Derivative financial instruments

	2011 Rm	2010 Rm	Variance
Interest rate swaps			
Assets	**6.9**	15.1	(54%)
Liabilities	**21.7**	21.6	-

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

Intangible assets

Intangible assets of R58.0 million (2010: R4.6 million) consists of software capitalised. Initially measured at cost, the values of intangible assets are subsequently reduced by accumulated amortisation and any accumulated impairment losses. An impairment loss of R35.2 million relating to software acquired for the new banking module was reversed during the current financial period after the IT project implemented to refine the SAP banking module was revitalised. The Bank also capitalised software expenditure of R6.4 million relating to its new credit rating model as well as R3.3 million for the new Treasury system developed and implemented during FY2011.

Investment properties

Investment properties consist of owned office buildings and property held for rental income.

Reclassifications of R70.4 million from investment properties to non-current assets held-for-sale and fair value losses amounting to R1.4 million significantly reduced the values of investment properties to R42.6 million (2010: R110.9 million) in the FY2011.

Property and equipment

The net carrying value of property and equipment decreased by R2.5 million from R116.2 million to R113.7 million at the end of the current financial year. Movements during the year included additions of R8.1 million, a reclassification of assets of R3.5 million to investment properties, net disposals of R1 million and revaluation gains of R6.0 million. Impairment losses and depreciation amounted to R4.2 million and R7.9 million respectively.

Capital and reserves

As part of management's plans to improve the Bank's capital adequacy and continue as a going concern, the Bank obtained a convertible guarantee of R3.5 billion from the National Treasury. At 31 December 2009, the first tranche of R1 billion was converted into cash and a further R750.0 million was received in October 2010. Post year-end (May 2011) R400 million was received from the National Treasury reducing the balance of the convertible guarantee to R1.35 billion.

Capital adequacy, calculated as equity including the guarantee as a percentage of total liabilities, increased marginally from 42.0% in the previous financial year to 42.6% at 31 March 2011. The result compares favourably to the target set by National Treasury as per the terms of guarantee.

Funding liabilities

The Bank currently funds itself primarily by issuing debentures, promissory notes, floating rate notes, call bonds and bills. Total funding liabilities increased from R10.7 billion by R1.2 billion (11,2%) from the previous financial year to R11.9 billion at 31 March 2011. The increase is mainly attributable to growth in the loan book. LB01's to the value of R1.0 billion (2010: R800 million) were bought back as they were relatively expensive and matured in June 2010. The Bank has managed to diversify its investor portfolio by increasing investor limits and exposure, significantly reducing its refinancing risk. The Bank issued a LBK01 bond to the value of R1.2 billion with a maturity of three years which further reduced the Bank's refinancing risk.

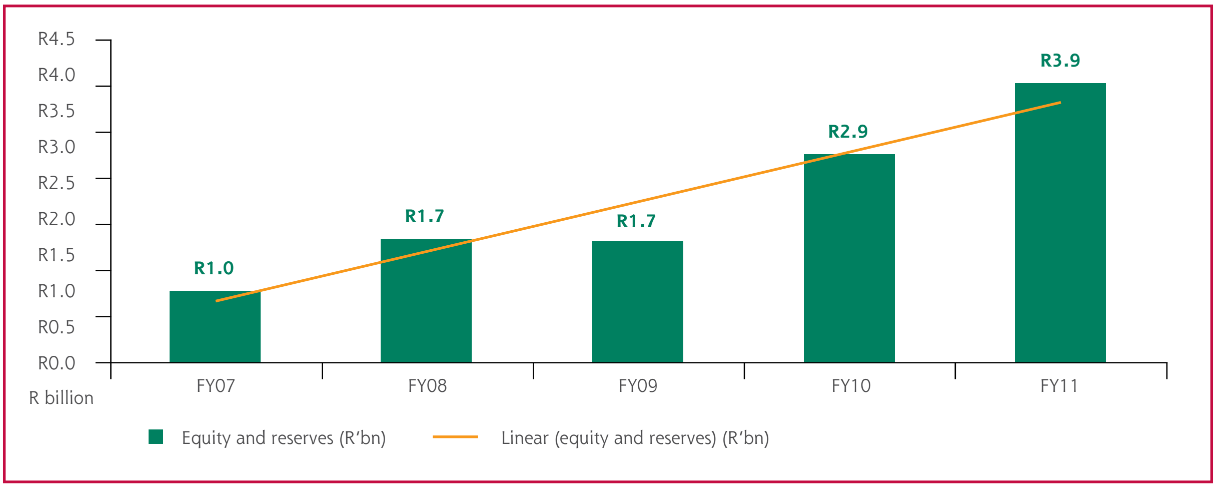


Figure 8: Capital and reserves

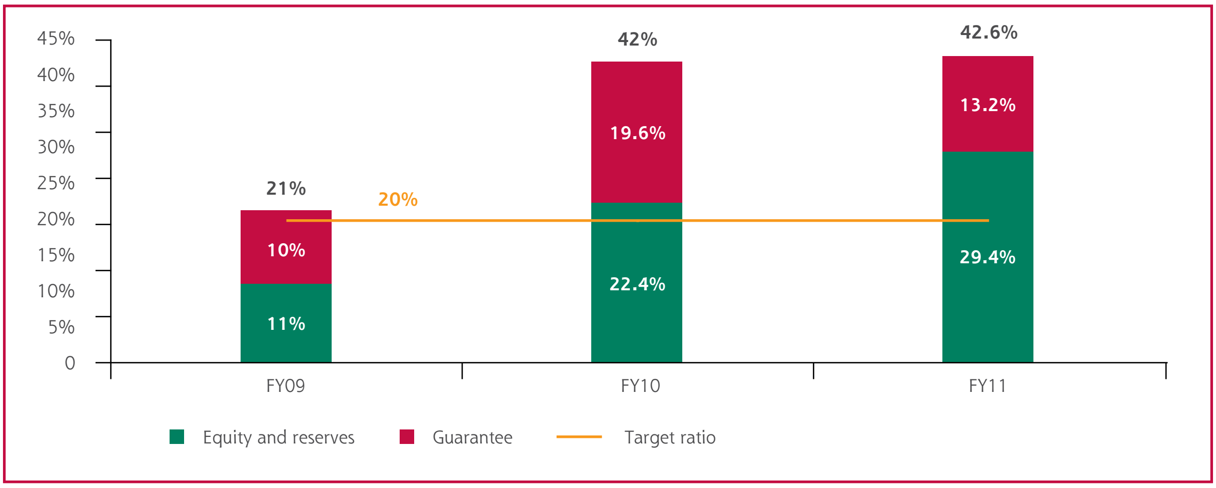


Figure 9: Capital adequacy

As a result of the successful turnaround strategy the Bank now has access to longer dated maturities. The Bank will continue to lengthen the maturities of its debt as mitigation against refinancing risk. The Bank intends to gradually increase its average funding within acceptable risk levels.

Provisions and accruals

Provisions decreased by R17.8 million from R415.2 million in the previous financial year to R397.4 million at 31 March 2011. The net utilisation of provisions for administration fees and interest claims of R37.7 contributed to the decrease.

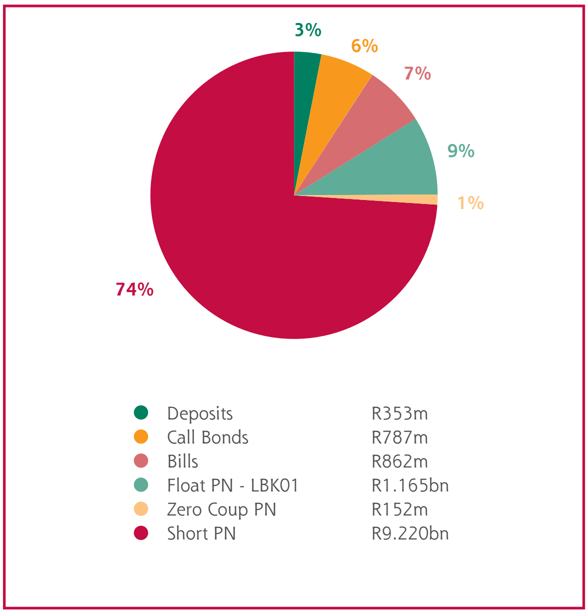


Figure 10: 2010/11 funding composition

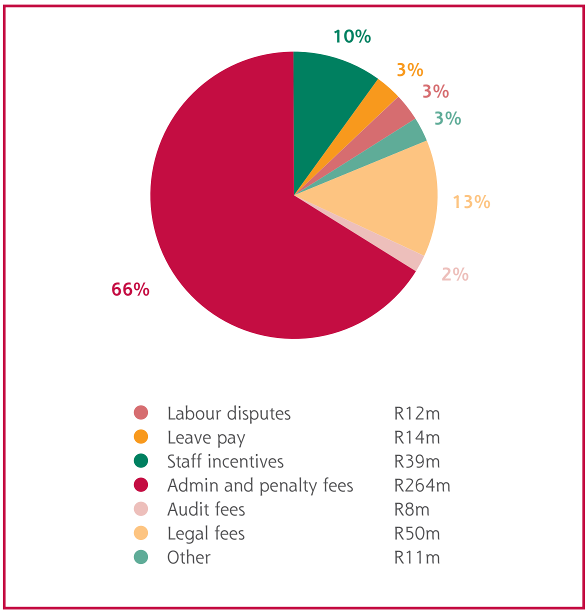


Figure 12: 2010/11 provisions and accruals

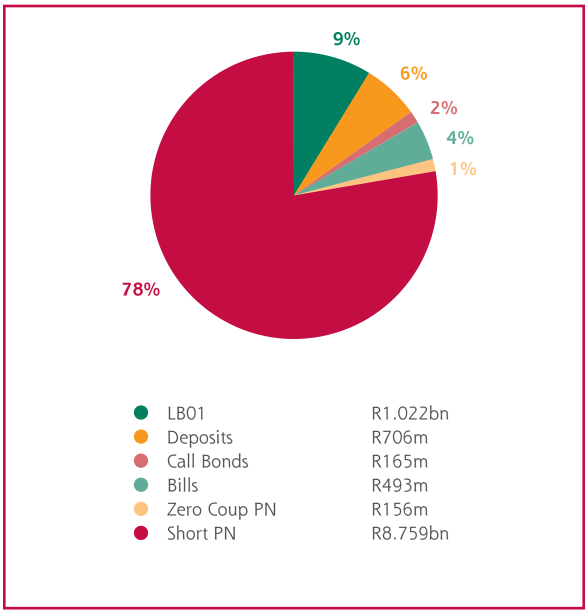


Figure 11: 2009/10 funding composition

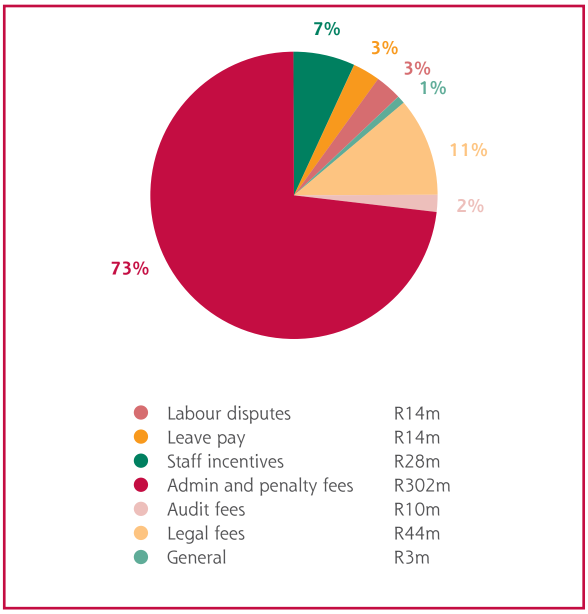


Figure 13: 2009/10 provisions and accruals

Segmental review

	2011 Rm	2010 Rm	Variance
Net operating income			
- Retail	**269.0**	94.6	+100%
- Business and Corporate Banking	**10.1**	183.6	(95%)
- Group capital	**(25.8)**	(12.0)	(100%)
	253.4	**266.2**	**(5%)**
Non-trading and capital items	**37.6**	17.7	+100%
Indirect taxation	**(26.8)**	(23.1)	(16%)
Net profit from continuing operations	**264.1**	**260.9**	**1%**

Retail

The retail business division operates through a network of 27 branches which are located throughout the country. The retail business provides funding to commercial and development clients.

During the period under review, loans amounting to R1.4 billion were approved and R1.2 billion disbursed. Collections on loans in arrears amounted to R332.1 million during FY2011 compared to R519.0 million in the previous financial period.

Net operating income increased from R94.6 million in the prior financial period to R269.0 million in FY2011. This was largely driven by impairment releases relating to the guaranteed government assistance to distressed farmers as well as the reduction in LGDs from 15% to 5% which translated to impairment releases of R137.5 million and R81.4 million respectively.

Highlights

- Operating income up 67%
- Operating expenses decrease by 1%
- Performing book increased by R639.0 million which is a 29% increment
- R332.1 million collected from outstanding arrears.

Retail review

	2011 Rm	2010 Rm	Variance
Net interest income	**175.0**	264.6	(34%)
Net impairment release/ (charge)	**221.7**	(49.4)	+100%
Non-interest income	**31.5**	40.7	(23%)
Operating income	**428.1**	**255.9**	**67%**
Operating expenses including depreciation and amortisation	**(159.1)**	(161.3)	(1%)
Net operating income	**269.0**	**94.6**	**+100%**

Net interest income and net impairments for FY2010 includes the prior year reclassification interest in suspense adjustment of R91 million. If the adjustment is excluded from the comparative numbers, then net interest income marginally increased by 0.8% compared to the prior year.

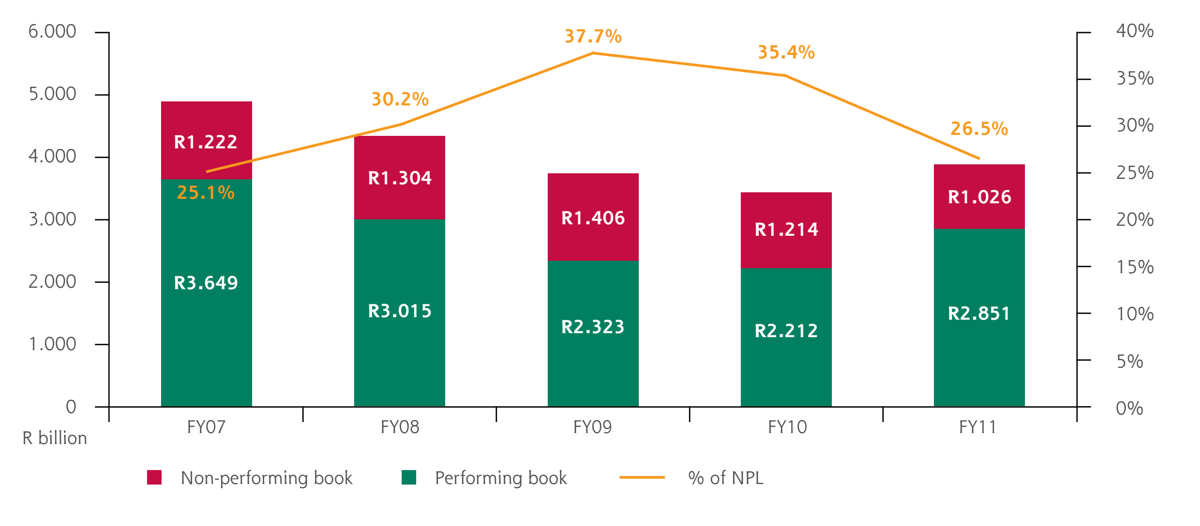


Figure 14: Retail year on year loan book performance

The gross loan book increased by R450.2 million when compared to the prior financial period. Net loans and advances as at 31 March 2011 increased to R3.3 billion from R2.4 billion in FY2010 which is a reflection of the successful turnaround strategy.

Performing loans increased from R2.2 billion in the previous financial period to R2.9 billion at 31 March 2011. During the same period, non-performing loans declined from R1.2 billion to R1.0 billion. The Bank continues to prioritise the reduction of non-performing loans as reflected in the movements above.

Business and corporate banking

During the period under review, the CFU business division re-branded to Business and Corporate Banking in line with the Fit For Future vision which seeks to optimise operations and add value to the clientele.

Business and Corporate Banking provides mostly wholesale funds to agricultural cooperatives and/or businesses, which in many instances then on-lend funds to their customer base. The division operates through offices in Cape Town and Pretoria. The Business and Corporate Banking book is highly concentrated towards short-term funding with more than 75% of the book in this maturity bracket.

Highlights

- Operating expenses increased by 37%
- Performing book increased by R1.1 billion which is an 11% increment
- Total collections on loans in arrears for the year R144.7 million.

Business and corporate banking review

	2011 Rm	2010 Rm	Variance
Net interest income	**123.8**	304.2	(59%)
Net impairment charges	**(96.6)**	(107.9)	(10%)
Non-interest income	**3.5**	2.3	52%
Operating income	**30.7**	**198.6**	**(85%)**
Operating expenses including depreciation and amortisation	**(20.5)**	(15.0)	37%
Net operating income/ (loss)	**10.1**	**183.6**	**(95%)**

Net operating income reduced by 95% from R183.6 million in the previous financial year to R10.1 million in the current financial year. The subdued interest rates during the 2011 financial period resulted in squeezed margins and hence reduced profitability. Tight competition with other financial institutions for good quality Business and Corporate Banking clients also resulted in reduced margins. However, in the long term, the Bank will benefit from the increased client base when the critical mass is attained.

Net interest income, excluding the prior year once-off reclassification interest in suspense adjustment of R218 million, increased from R86.2 million (adjusted) to R123.8 million or 44%. The increase in net interest income is as a result of the growth in the loan book as well as continued efforts to reduce the cost of funds.

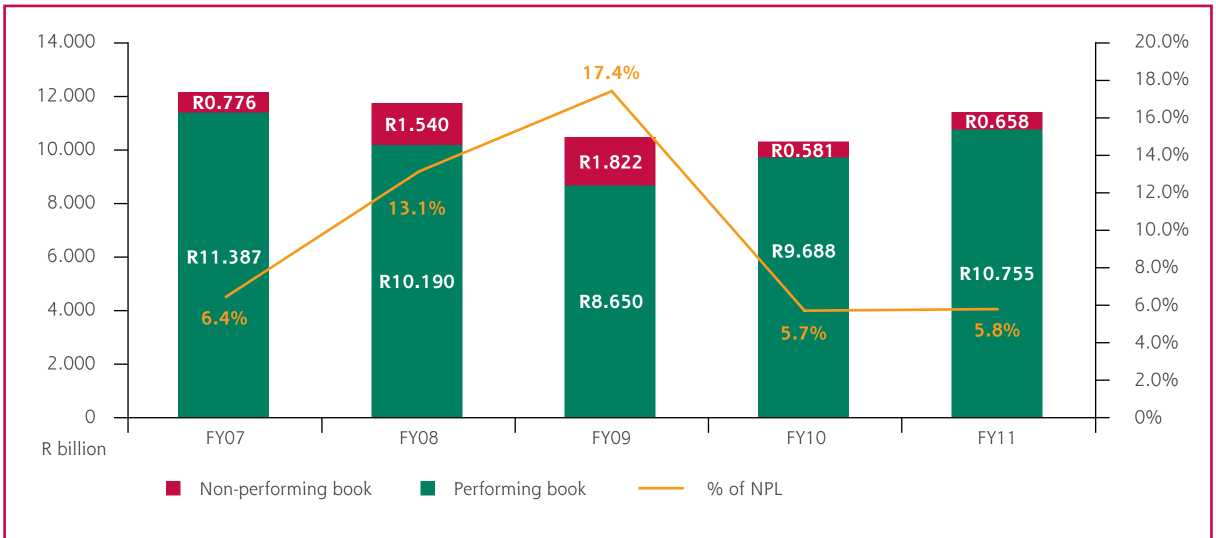


Figure 15: Business and Corporate Banking year-on-year loan book performance

Non-interest income has remained low impacting negatively on the profitability of the division. Management is in the process of reviewing various avenues of increasing non-interest revenue in order to sustain the business.

The Business and Corporate Banking performing loan book increased by 11% or R1.1 billion from R9.7 billion in the prior year to R10.8 billion as at the end of the current financial year. This occurred as a result of the Bank's strategy of providing increased facilities to existing clients with sound credit profiles as well as attracting new or former clients to the Bank.

Collections in the period under review amounted to R144.7 million (2010: R654.7 million) while non-performing loans increased by R76.8 million to R657.7 million, as a result of a single exposure which management expects to normalise in the next financial year.

Development

The period under review saw the Land Bank launch the Retail Emerging Markets Division. This has put the Bank`s development mandate right at the core of its operations as this division will be channelling all its efforts towards development clients. One of the initiatives identified is to adopt the wholesale financing model in order to reduce risk and operating expenses whilst at the same time reaching out to a large base of clients.

Development loan book

During the year, the Bank disbursed development loans to the value of R172.7 million (2010: R105.6 million). A total of R131.9 million development loans that were approved but not disbursed in 2009/2010 were carried forward for disbursement in 2010/2011. Approvals during the year under review amounted to R218.7 million (2010: R282.5 million). Disbursements are not necessarily concluded in the year of approval.

A number of the Business and Corporate Banking division's clients, mainly cooperatives, on-lend funding from the Bank to development farmers. The amount on-lent by cooperatives to development farmers amounted to R65.2 million at year-end.

Group Capital

Group Capital provides support services to the operating business units of the Bank and comprises of the following support units: Treasury, Finance, Risk and Internal Audit, Information Technology, Strategy, HR, CEO Office as well as Legal and Board Secretariat.

Group Capital is the custodian of the Bank's capital and manages its capital, cash and funding requirements through the Treasury Unit. Funding is provided to the Retail and Business and Corporate Finance divisions through an internal transfer pricing model.

Highlights

- Increase in capital adequacy ratio to 42.6%
- R750.0 million received as second tranche of recapitalisation
- Funding sources further diversified
- Increased investor appetite
- Liquidity stabilised
- Successful issue of 3 year floating note of R1.2 billion.

Group Capital review

	2011 Rm	2010 Rm	Variance
Net interest income	**212.3**	179.6	18%
Non-interest income	**17.1**	22.9	(25%)
Operating income	**229.4**	**202.6**	**13%**
Other income	**41.8**	88.6	(53%)
Operating expenses	**(297.0)**	(303.1)	2%
Net operating income	**(25.8)**	**(12.0)**	**(+100%)**

The net result from Group Capital increased from a loss of R12.0 million in the previous financial year to a loss of R25.8 million in the current financial year. Although net interest income increased by R32.7 million, the increase was offset by a decrease in non-interest income and other income of R52.6 million.

Insurance operations (LBIC)

Salient features

	2011 Rm	2010 Rm	Variance
Gross premium income	**213.7**	174.7	22%
Net premium	**69.2**	26.7	159%
Operating expenses	**(12.7)**	(11.8)	(8%)
Underwriting loss	**(26.7)**	(1.4)	(+100%)
Investment income	**112.8**	163.3	(31%)
Net profit	**86.1**	161.9	(47%)
Investment	**971.5**	862.7	13%

Total net income for the year was R86.1 million, which translates to a decrease of R75.8 million compared with the profit of R161.9 million recorded in the previous financial year.

This result is primarily due to the decrease in investment income to R112.8 million from R163.3 million in the previous financial year.

The underwriting loss increased from a loss of R1.4 million in FY2010 to a loss of R26.7 million in FY2011. The main contributor to the increased loss was a reduction in the release of the total long-term policyholder liability of R0.4 million in the current year compared to a release of R24.7 million in the prior year. In addition to this, net administration and commission expenses as well as net insurance benefits and claims exceeded net premium income by R14.4 million in the current year.

Gross premium income

	2011 Rm	2010 Rm	Variance
Long-term insurance contracts	**9.6**	12.6	(24%)
Short-term insurance contracts	**204.1**	162.1	26%
Total	**213.7**	**174.7**	**22%**

Gross premium income increased by R39.0 million, from R174.7 million in the previous financial year to R213.7 million in the current financial year, primarily as a result of an increase in the number of short term insurance contracts written which amounted to 4,035 contracts compared to 3,660 contracts written in the prior year.

Operating expenses

Operating expenses increased by 8% to R12.7 million mainly as a result of an increase in salary expenses and administration costs.

Operating costs were allocated to short and long-term insurance business on a proportionate basis. This resulted in a reduction in the amount of costs allocated to the long-term business which had a positive effect on the valuation of the long-term policyholder's liability.

A memorandum of agreement is concluded between LBIC and its holding company, the Land Bank, which specifies the cost structure in respect of administration activities relating to the long-term insurance business.

Investments

The value of LBIC's investment portfolio increased by 13% from R862.7 million to R971.5 million at the end of the current financial year following the stabilisation in equity markets.

Overview of development impact

Historical perspective

As part of the broader public sector, the Land Bank may claim public funds to support its development funding responsibility. The Bank is obligated to invest and lend in a rational way that reflects the preferences of government and society. In pursuing its mandate, the Bank seeks to make a development impact by funding the agriculture value chain and focusing on dynamics that enhance economic and social benefits, and which ultimately improve the quality of life.

The Bank's objectives flow from the Land Bank Act, and are aligned with government policies and the country's socioeconomic needs. The Bank is expected to play a pivotal role in advancing agriculture and rural development. Our broad mandate, as expressed in the act, falls into three core themes – transformation, growth and integration.

Quantification of development impact

The Bank uses the reputable South African Social Accounting Matrix (SA SAM) model to report on its development impact. In partnership with DBSA, this model was piloted in February 2011. It has been credibly and widely used by other South African DFIs, such as the DBSA, for development impact on a macro level.

Government imperatives

In line with its mandate, the Bank has put development at the heart of its business strategy. Following the success of its turnaround strategy in prior years, the Bank is now working to ensure a sustainable business model, which includes improving its impact in the development sector.

Over the past financial year, the Bank has given extra attention to this strategic area, including the drafting of a development policy. The approved policy provides a basis for the Bank's role in agriculture and rural development. Three crucial instruments are now in place:

- A wholesale finance facility for strategic partners to on-lend to qualifying participants
- An emerging farmer support facility, approved by Cabinet and in its pilot phase
- Incentivisation scheme which credits projects with high development impact by reduced lending rates (cost of credit).

These instruments will aid the Bank's outreach to its key development clients while reducing financing, outreach and management risks. The Bank is also designing a dedicated Banking division, Retail Emerging Markets, to focus on emerging farmers.

SAM impact and methodology

The SAM model estimates the direct, indirect and induced development impact of the Bank's lending on the economy and also estimates economic and socioeconomic impacts ("potential impact" presented by approvals of loans and "actual impact" presented by disbursements) achieved by the Bank during 2010/11.

Direct impact from agriculture refers to the impact occurring within the agriculture sector. **Indirect impact** occurs in diverse economic sectors (those that link to the agriculture sector due to the supply of intermediate inputs). **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 Bank's sustainable development impact is estimated by adding the construction phase development impact to a one-year operational phase development impact, thus estimating the impact only for the year under consideration. This SA SAM estimation of Land Bank's contribution towards employment does not distinguish between creating new employment opportunities and sustaining current employment. Therefore, in the absence of the Bank's funding, the number of employment opportunities lost is considered equal to the number of employment opportunities maintained and/or created as reported below. The variables selected to estimate the development impact of the Bank's lending are as follows:

- GDP (value added to the national economy)
- The employment opportunities created or maintained – where employment creation implies the creation of jobs (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.

The SAM is defined as a presentation of the System of National Accounts in a matrix format, which elaborates on the linkages between supply and demand and sectors' accounts. It reflects the economic relationship between sectors of the economy by identifying monetary transactions (expenditure and receipts) between them. The Bank has found it a valuable tool to determine its development impact as a result of its lending activities, because it links the traditional macroeconomic indicators, such as GDP, to indicators of socioeconomic concern, for example, job creation and income distribution. These measures all have a social dimension by estimating social parameters, such as job creation and income generation.

Limitations

At best, any macroeconomic model can only supply a broad estimate of the impact of any funding or expenditure intervention in the economy. However, this estimate is informed by the structure of the economy at the time and is therefore sufficient to estimate the achieved development impact.

Results

The estimated SAM potential impact analysis for 2010/11 is based on loans approved during the year, irrespective of whether all conditions have been complied with, or the loan offer has been accepted. It also assumes disbursement of the approved amount within the year of approval. Impact is regarded as potential when the Bank has pledged funds, but their effect in the economy is not yet apparent.

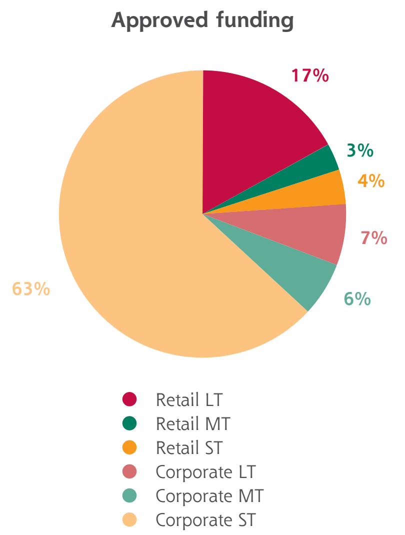
The estimated SAM actual impact analysis is based on all amounts disbursed, irrespective of year of approval, and includes second and further disbursements (re-advancements) on active loans. Impact is regarded as actual when Bank funds have been introduced into and applied in the economy.

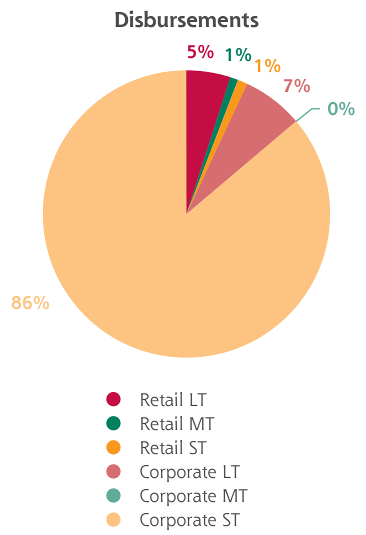
During 2009/10, the Bank approved loans to the value of R5.9 billion, while disbursements during the same period amounted to R17.9 billion. The composition of the loans approved and disbursed during 2010/11 is depicted in Figures 16 and 17 below.

Each impact indicator has been quantified in terms of potential impact (approvals) and actual impact (disbursement).

Impact on GDP

The potential impact of Bank lending approvals on GDP is estimated at R6.1 billion, whereas the actual estimated development impact of Bank disbursement on GDP is estimated at R19.8 billion. Economic growth alleviates poverty because it supports a general improvement of welfare.





Figures 16 and 17: Land Bank approved funding and disbursements

Impact on employment

Labour is a primary factor in economic production. Given prevailing vast unemployment and poverty in South Africa, the Bank's shareholder prioritises maintaining and creation of jobs. The Bank is therefore obligated to report on its contribution toward employment in a national context.

For 2010/11, impact of Bank lending approvals on employment opportunities in South Africa is estimated at 54,650 and impact of disbursments at 188,580. One employment opportunity constitutes 240 days worked per year.

The estimated potential impact on skilled employment is 7,060 or 12.9% and the total estimated actual impact on employment is 22,273 or 11.8% of the total estimated employment created and/or sustained by the Bank.

The estimated potential impact on semi-skilled employment is 23,035 or 42.2% and the total estimated actual impact on employment is 79,251 or 42% of the total employment opportunities created and/or sustained by the Bank.

The estimated potential impact on unskilled employment is 24,556 or 44.9% and the total estimated actual employment is 87,056 or 46.2% of the total employment created and/or sustained by the Bank.

The estimated potential impact in the unskilled category is higher than in other categories. Providing job opportunities for the unskilled directly affects poverty alleviation and the availability of food in households, because workers in this category are mostly prone to be unemployed. The estimated employment impact may be used broadly to measure contributions to poverty alleviation and food security.

Impact on capital employed

Investment is the life-blood of economies. Capital, natural resources, labour and entrepreneurship are the basic elements the economy needs for production.

To support economic activity sparked by the Bank's lending approvals during the period under review, a capital amount of R18.2 billion should have been used directly and indirectly in the economy. The estimated capital employed in the amount of R18.2 billion includes the Bank's loan approvals of R5.9 billion.

The indirect capital employed in the economy to the value of R12.3 billion[1] therefore could be leveraged by the Bank's loan approvals to support economic production.

The Bank's lending approvals during 2010/11, require that a capital amount of R60.9 billion should have been employed directly and indirectly in the economy. The estimated capital employed in this amount includes the Bank's disbursement of R17.9 billion. The indirect capital employed in the economy to the value of R42.9 billion could therefore be leveraged by the Bank's disbursement to support economic production.

Impact on household income

The potential increased economic activity (through the linkages in the economy) arising from Bank loan approvals results in estimated additional potential income in the form of salaries, wages and profits to households to the value of R4.2 billion. The estimated actual value is R13 billion for 2010/11. Potential impact can be accrued to low, medium and high-income households as defined by the household income levels published by Statistics South Africa.

Impact on government revenue

The fiscus receives additional revenue from economic sectors as a result of increased economic activity due to Bank funding. The Bank's funding has an indirect impact on additional government spending. The potential increase in state revenue resulting from the Bank's loan approvals is estimated at R2 billion. The actual increase is R6.4 billion and could result in greater government expenditure on social services and general service delivery. This development impact estimate excludes the Bank's disbursement impact on social services provision (health, education and so on).

Performances measurement

The Bank lending approvals and disbursements are estimated to contribute to above-average levels of employment creation for each million rand of capital employed. The South African economy (2010) achieves an average rate of 2.55 jobs per R1 million of capital employed, with the corresponding ratios for the Bank lending approvals and disbursements 3 and 3.1 respectively. This suggests that Bank funding results, on average, in a 17% higher impact on employment per R1 million capital employed than the South African economy's average.

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[1] Total capital employed of R18.2 billion less the Land Bank investment of R5.9 billion.

Corporate governance

Framework

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

The Land Bank complies with the governance requirements of the Land Bank Act and the PFMA, and subscribes to the principles of Protocol on Corporate Governance in the Public Sector published by the Department of Public Enterprises. The Land Bank is increasingly applying the principles and best practice recommendations in the King III Report on Corporate Governance in South Africa.

Governance principles and structures

General

Corporate governance embraces sound business principles and best practice and is an integral part of the Bank's culture. The Bank is committed to good governance, assuring its shareholder and other stakeholders that it is managed with due consideration of risk and it complies with best practices. While the Bank adds value to and protects its financial and human investment, it also aligns with government's objectives.

Adhering to sound governance principles remains a priority for Board and management. Although the Bank complies with formal standards of governance, greater emphasis is placed on ethical values and ensuring the effectiveness of governance practices.

Accountability to the shareholder and stakeholders

The Land Bank is accountable to the shareholder and stakeholders for its performance. The Bank seeks to enhance the accuracy, completeness and reliability of the information provided in the Group's 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

The Bank has a two-tier governance structure consisting of the Board of Directors and the executive management. The two bodies are separate and only the CEO serves as a member of both. On behalf of the shareholder, the Board:

- Determines the Group's overall strategy and actively contributes to developing the Bank as a focused DFI
- Acts as the focal point for and is the custodian of corporate governance in the Group
- Supervises executive management in its decisions and operations.

Management of the Group

The Board has delegated responsibility for the day-to-day management of the Bank to the CEO, supported by the executive management team. The team also 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 (EXCO) has a number of subcommittees chaired by senior Bank management.

Policies, procedures, objectives and performance measurement

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

IT governance

Information technology (IT) governance is a subset discipline of corporate governance focused on IT systems and processes, and their performance and risk management. The Risk Committee assists the Board in its responsibility for IT governance. The Board has delegated the duty of implementing an IT governance charter and framework to management.

Risk management and internal control

Risk management is central to the Bank's business. The Group has developed comprehensive systems and risk management processes to control and monitor its activities. While ultimate accountability for risk lies with the Board, managing risk is closely monitored by the Enterprise Risk Management division and the relevant risk management committees. While risk management continues to improve, there is scope for further improvement in aligning risk management with the Bank's core business plan.

The Land Bank continuously maintains and develops its formal risk policy and framework to help management address systematic categories of risk associated with its risk appetite and business operations.

Compliance with laws, rules, codes and standards

Complying with all applicable legislation, regulations, standards and codes is integral to the Bank's culture. The Bank strives to comply with the letter and spirit of all statutes, regulations, supervisory requirements and government policies that apply to its business. Compliance is managed through internal policies and processes that include relevant legal, regulatory and supervisory requirements. The Board delegates the responsibility for compliance to management.

The Bank is subject to extensive supervisory and regulatory governance from its shareholder, with National Treasury as its lead regulator. The Land Bank Act, the PFMA, National Treasury Regulations, the National Credit Act and the Securities Services Act govern the Bank's business.

The Bank's compliance department primary role is to assist the Board and senior management in complying with all applicable statutory, regulatory and supervisory requirements. The compliance officer reports to the Risk Committee and the Audit Committee on a quarterly basis on, among others, the status of compliance risk management, significant areas of non-compliance and feedback on interactions with regulators.

The Land Bank deals with information requests through its approved Promotion of Access to Information manual. The Group's manual is lodged with the South African Human Rights Commission and is available to the public on the Group's website.

The Bank formalised a BEE policy framework and undergone a BEE rating accreditation process during the period under review. The Bank was accredited as a level five contributor in terms of the broad-based BEE verification process.

The key compliance objectives achieved during 2010/11:

- The Board endorsed the King III risk management plan and integrated reporting disclosure checklist
- The Consumer Protection Act risk management plan and gap analysis was completed
- The Bank's governance framework was strengthened by developing and reviewing all charters, policies procedures and processes
- Electronic-awareness training on the National Credit Act, Consumer Protection Act and Financial Intelligence Centre Act was rolled out.

Business integrity and conduct

The Land Bank Group subscribes to a corporate ethos that requires directors and employees to adopt the highest personal ethical standards in dealing with all stakeholders while conducting the Group's affairs. These principles include integrity, openness, accountability, impartiality and honesty and are contained in the Group's human resources (HR) policy document, which applies to all employees.

Fraud prevention

The Bank has a zero-tolerance approach to unethical or dishonest behaviour. Any employee acting unethically is subject to disciplinary action in accordance with the Bank's disciplinary code. During 2010/11, an employee was dismissed for financial misconduct following a disciplinary proceeding.

Fraud awareness campaigns, which include e-training, newsletters, posters and presentations to all employees, are continuously presented. A fraud hotline is available to employees and clients to disclose workplace dishonesty. Where required, appropriate action is taken in line with Bank policies and procedures.

Employee empowerment

The Group places great emphasis on developing and training employees to ensure they are able to perform duties at required performance levels. In so doing, the Bank ensures that inequities are addressed.

Reporting

The Land Bank is committed to transparent reporting and disclosure. Information provided to all stakeholders, including financial results and the annual report, are presented in a meaningful and relevant manner to help outside parties gain a clear perspective of the Group.

King III

The Board has approved a King III risk management plan that monitors the implementation and practice of King III principles within the Bank. The Board has also approved an annual disclosure checklist in terms of King III. Bank policies at all levels, as well as all Board and management charters, have been brought in line with the King III requirements.

Assurance

External audit

The Group's financial reporting and the internal controls over financial reporting processes are audited and assessed by the external auditor, the Auditor-General. External auditors attend Audit Committee meetings and have unrestricted access to its chairperson.

Internal audit

In 2010/11, the internal audit function operated in a co-sourced arrangement with Ernst and Young and Nkonki. Internal audit provides independent and objective assurance primarily on internal controls, governance and risk management. To ensure that the function is independent of management, the Audit Committee approves its mandate, audit plan and budget.

Risk management

The Land Bank updates its integrated, enterprise-wide risk management framework annually in line with best practice. The Bank applies a practical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks that affect it. It is critical that the key risk fundamentals of governance, business objectives, stakeholders, ethics, policies, standards, strategies and compliance are aligned.

The Bank has a risk management philosophy that allows it to be resilient through economic cycles. Its embedded enterprise risk management culture has contributed significantly to the turnaround and success of the business as a whole. Although there have been significant improvements in risk management, the Bank acknowledges that there is still room for improvement.

Risk governance

The enterprise-wide risk management framework ensures that there is a well-structured approach to risk management within the Land Bank. There are three distinct lines of defence in the framework:

- Line management working in accordance with strategies set by EXCO and the Board, supported by comprehensive and appropriate internal control, risk management and governance structures that include policies, procedures and processes
- Risk monitoring performed by the Bank's executive management committees
- Independent assurance on the management of risk provided by internal and external audit with the support of the Board Audit, Risk and Credit Risk Committees. Ultimately the Board, comprising 10 independent non-executive directors and the CEO, has full oversight and monitoring responsibility over risk management.

Risk management mechanisms

Considerable progress has been made in implementing the risk mitigation strategies that the Bank committed to in its Corporate Plan. The Land Bank aims to ensure proactive identification, understanding and assessment of risks, including activities undertaken that yield risks that could have an impact on business objectives. The risk management strategy and philosophy are executed through risk management and governance mechanisms, as well as risk management oversight bodies that include:

- Independent Board committees (Audit, Risk, Remuneration and Credit Risk)
- Management committees (Credit Risk Monitoring, Credit Risk Management, Assets and Liabilities and Operational Risk)
- An operational risk department conducted through risk champions as a business partner to all business units to help coordinate and monitor effective risk management
- Compliance department
- Assurance from internal audit on the control environment.

Risk Committee

The Risk Committee is mandated by the Board to monitor, assess and manage the risk profile in keeping with the Bank's approved risk appetite. Its main responsibilities are:

- In terms of statute, to conduct an annual risk assessment
- To define the Bank's risk appetite at least once a year
- To perform the roles set out in its committee charter.

2010/11 focus areas

The Land Bank has focused on six distinct categories of risk identified as most pertinent to achieving its strategy, namely: operational risk, credit risk, market and liquidity risk, human capital risk, systems risk and new business risk.

Figure 18: Operational risk

Operational risk

The Land Bank defines operational risk as the failure of people, processes, systems and the internal and external environments. The Operational Risk Committee monitors operational risk governance and management. The committee directs, governs and coordinates operational risk management processes in accordance with an approved framework and policy that sets out expectations and responsibilities relating to operational risk management.

The management of operational risk is inherent in management's daily duties and is a central element of the management process. In 2010/11, the operational risk department has entrenched its risk processes and approach to risk management. Figure 18 shows the four key elements of this process.

1. **Risk analysis/assessment:** the annual strategic risk assessment was the focal point in establishing the Bank's risk register. It was managed and reported on throughout the year.
2. **Risk treatment** has been improved with the conclusion of the risk appetite exercise. Further work will be carried out on this in the next financial year.
3. **Risk monitoring** has been enhanced through improving interactions with the risk champions and enhancing the risk management tool.
4. **Risk reporting** is performed through the approved governance structures set out in the enterprise-wide risk management framework.

Credit risk

Credit risk is the risk that the Bank will incur financial losses as a result of its customers, clients or counter-parties failing to fulfil contractual obligations to the Bank.

The Bank has reviewed the charters of committees granting credit risk to improve governance in the credit risk environment. Credit risk is managed by clearly defined mandates and delegated authorities, as outlined in Figure 19.

The Land Bank Act, delegation of powers, charters and credit policies that cover specific credit risk within the credit life-cycle guide the Bank's credit risk management.

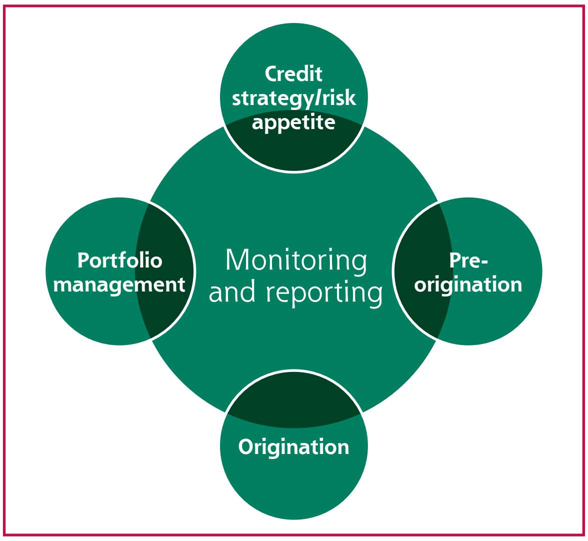


Figure 19: Credit risk

The Bank has developed a risk appetite framework that includes credit as an impact type. The credit strategy is informed by the risk appetite and by the Bank's target-setting framework that focuses on these key targets:

- Defining the potential market
- Identifying competitor penetration
- Establishing the Bank's baseline
- Defining appropriate volume targets
- Defining appropriate targets for each division.

Developing a risk appetite framework meant that a need to review the pre-origination process arose. Pre-origination includes everything that must be in place before client contact. The Bank has enhanced this by developing and reviewing credit policies that relate to the end-to-end credit process. The policies define the framework for granting, managing and monitoring the Bank's credit risk.

Origination includes everything that is required from client contact to disbursing loans. The credit evaluation process has been enhanced to include an internal credit risk grading model to help the Bank classify its credit portfolio based on the customer's probability to default.

Portfolio management entails management of the credit portfolio, collections, legal collections, impairments, write-offs and reporting of credit risk. The credit risk monitoring department monitors and reports on each stage of credit risk management.

Market and liquidity risk

Liquidity is the Bank's ability to generate cash quickly and at a reasonable cost. Liquidity risk is the risk that the Bank will not be able to source enough funds to meet its short-term commitments without incurring large costs.

The Asset and Liability Committee monitors liquidity risk on a regular basis. The Bank manages liquidity conservatively. The Bank's treasury manages the Bank's assets and liabilities to balance its liquidity and market risk exposures and to help achieve its operating objectives.

The Asset and Liability Committee assesses the probability that these risks might materialise and positions the Bank to deal with these scenarios with minimum deterioration in performance and profitability.

The shareholder continued its active support through further capital injections in 2010/11. These capital injections will ensure that the Bank is sustainable and honours its development mandate. The Bank broadened its investor base during the year and will continue to grow it and strengthen existing investor relationships. The Bank issued a three-year floating rate note (LBK01) during October 2010 under the domestic medium-term note programme. Issuing this rate note reduced the Bank's refinancing risk.

Human capital risks

Restructured human resource service delivery channels during 2010/11 enabled a more focused approach in addressing human capital risk as a whole. As a result, targeted intervention intensified focus on risk issues, such as critical skill retention and development, age profiling and succession planning. Attraction and retention of employees continued to receive focused attention, despite a sharp reduction in staff turnover.

Systems risk

The Bank made a concerted effort during 2010/11 to address and resolve critical findings from 2009/10 internal and external audits. Improved IT controls were put in place, change management processes were formalised and instituted and general control-related findings are being addressed.

One of the most significant achievements was the successful implementation of the SAP Banking system on 14 March 2011. The system is currently in the support phase.

New business risk

The Bank has improved its turnaround times of granting credit facilities to retail and commercial farming clients. The wholesale development finance facility will provide comprehensive project solutions to ensure sustainability and leverage the Bank's footprint in the development sector.

The value chain strategy has been developed and presented to the Bank's shareholder and stakeholders for approval. Cabinet has endorsed it as a pilot project, creating more opportunities for growth in the development space. To enhance new business, a pricing framework has been developed to incentivise financing of projects with high development impact.

The Group did not suffer any material losses as a result of unexpected or unusual new business risk during the reporting period.

Risk maturity

The Bank has made significant progress in instilling a risk management culture in its organisation, and more emphasis will be placed on ensuring risk management becomes an intrinsic part of business planning and decision making in the Bank.

The Bank has institutionalised risk management at a strategic level as follows:

- The Board champions risk management
- The Risk Committee oversees risk management processes
- The chief risk officer coordinates risk management functions
- The Bank's risk register is reviewed and made relevant to the Bank's risk appetite
- Board decision-making embraces risk management
- Risk management is one of the key performance indicators for all EXCO members
- Internal and external audits review the risk management strategy.

In the new financial year, the Bank will continue to review risk management processes in order to:

- Enhance alignment of risk management to the Bank's business strategy
- Cover all important areas of business risks, including assessments of key performance areas and compiling a risk register for each business unit
- Enhance the Bank's combined assurance process
- Implement developments in corporate governance, law and industry regulations
- Spell out acceptable risk levels as the Bank pursues its development mandate. A risk appetite model (expert model) has been developed that will be refined with actual data to scientifically articulate and allocate risk the Bank is willing to accept against a list of defined risk impact criteria
- Improve the risk management framework, which will be reviewed and enhanced regarding methodology, guidelines and risk governance structures
- Monitor and evaluate performance continuously.

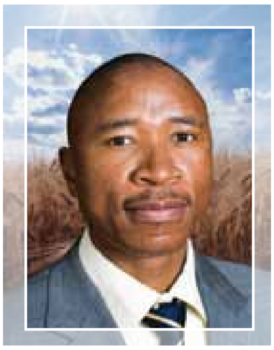
Board, management and structure

Land Bank Board

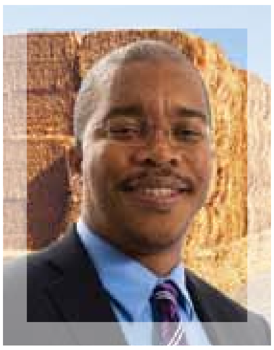
BBS Ngubane
Chairperson

PS Hadebe
Chief Executive Officer

HD van Schalkwyk
Deputy Chairperson



JS Mthimunye
Audit Committee Chairperson

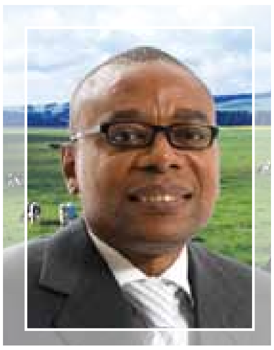


MJ Motloba
Risk Committee Chairperson

NML Qata
Human Resources and Remuneration Committee Chairperson

NP Mnxasana
Credit Risk Committee Chairperson

ASM Karaan

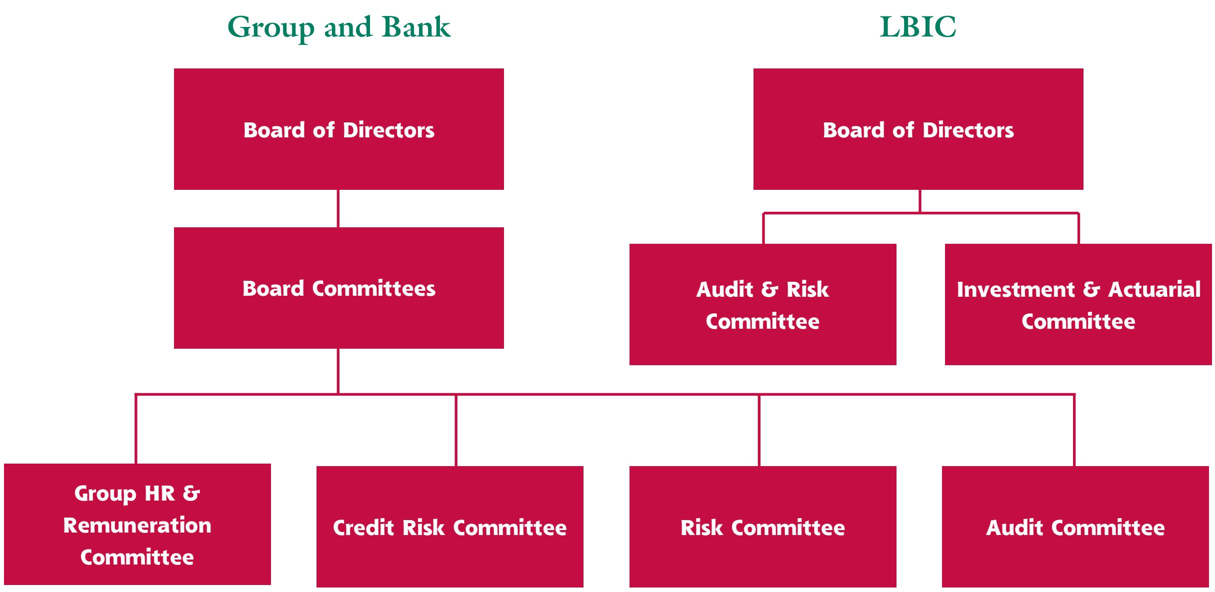


BP Mathidi

JA Boggenpoel

JT Potgieter

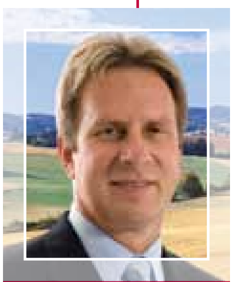
Group structure



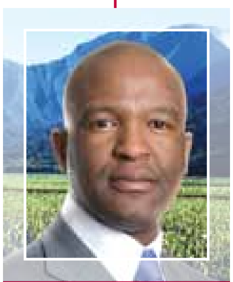
Executive structure
as at 31 March 2011

Phakamani Hadebe
Chief Executive Officer

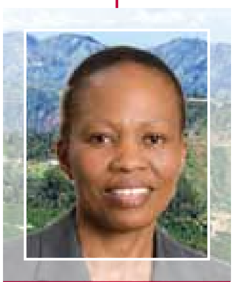
Philip du Preez
LBIC Managing Director



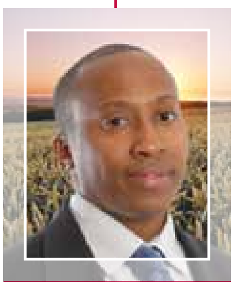
Wolf Meyer
Chief Financial Officer



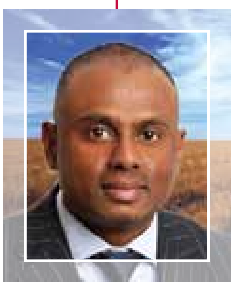
Vincent Potloane
Chief Treasurer



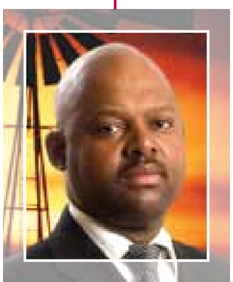
Lindiwe Mdlalose
Chief Risk and Credit Officer



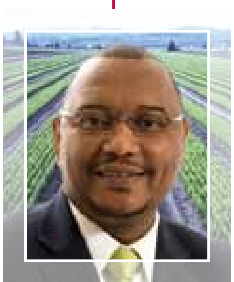
Lebogang Serithi
Group Operations and Investments Officer



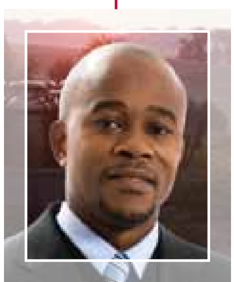
Thagaran Govender
Chief Information Officer



Andrew Makenete
Chief Strategy Officer



Greg van Wyk
Chief Human Resources Officer



Jerome Mthembu
Chief Legal Officer

Board of Directors

Land Bank

The Board, which meets quarterly, monitors the management, controls, compliance and proper conduct of the Bank's operations. Having due regard for the recommendations made by its executive officers, the Board determines and monitors matters relating to the implementation and modification of policies and strategic plans, risk management and internal controls, major capital expenditure, and operating and financial budgets.

The Board charter provides an overview of the roles, functions, responsibilities and powers of the Board and individual directors. The charter covers the following key aspects:

- Constitution, composition and term of the Board of Directors
- Frequency of Board meetings and meeting procedures
- Fiduciary responsibilities of the Board of Directors
- Remuneration guidelines
- Directors' self assessment and evaluation
- Confidentiality and conflict of interest.

Each new director, in terms of the charter, attends a comprehensive training session on the rights, duties and responsibilities of directors. Existing directors also receive training on the Land Bank's business environment, legislation and compliance matters, to stay abreast of new developments.

In accordance with the charter, the Board performs an annual self-assessment to evaluate its performance. In addition, the shareholder will also perform an annual assessment of the Board of Directors in terms of the Shareholder's Compact.

The Board may, in accordance with the Land and Agricultural Development Bank Act, appoint committees consisting of as many Board members, Bank employees and advisors as may be necessary to perform such functions as the Board may direct. The Board must ensure that all committees are provided with written authority from the Board, setting out the terms of reference and context within which the committee will function.

Composition of the Board

The Minister of Finance appoints the Land Bank's Board of Directors, the majority of whom must serve in a non-executive capacity. The Board must have directors with the appropriate skills, knowledge and experience to ensure that the Bank maintains a high standard of corporate governance.

As at the end of 2010/11, the Board had ten members: nine independent non-executive directors and one executive director.

An independent non-executive director chairs the Board. Support comes from an independent non-executive deputy chairperson, an additional seven independent non-executive directors and the CEO.

The roles of the chairperson and CEO are separated, and the Board may, by resolution, delegate any of its powers and assign any of its duties to the CEO.

The CEO is a member of the Board by virtue of his office as an executive director. The minister determines the term of office of each director, limited as per the Land Bank Act to a maximum of five years. The charter provides for the reappointment of a director after the term of office has expired, subject to the requirements of the Land and Agricultural Development Bank Act.

The Board has unrestricted access to all Bank information, records and documents, and is provided with comprehensive packs before each scheduled meeting.

Board and Board committees' membership and meeting attendance

Certain responsibilities of the Board have been delegated to Board committees to enable the Board to properly discharge its duties and responsibilities. The composition of the Land Bank Board and its committees on 31 March 2011 was as follows:

Land Bank Board and committee structure as at 31 March 2011

	Audit Committee	Risk Committee	Credit Risk Committee	HR and Remuneration Committee
Non-executive directors				
BBS Ngubane (chair)				BBS Ngubane
HD van Schalkwyk (deputy chair)			HD van Schalkwyk	HD van Schalkwyk
JA Boggenpoel	JA Boggenpoel	JA Boggenpoel		
ASM Karaan			ASM Karaan	
BP Mathidi	BP Mathidi	BP Mathidi		
NP Mnxasana	NP Mnxasana		NP Mnxasana (chair)	
MJ Motloba	MJ Motloba	MJ Motloba (chair)		
JS Mthimunye	JS Mthimunye (chair)	JS Mthimunye	JS Mthimunye	
JT Potgieter		JT Potgieter	JT Potgieter	JT Potgieter
NML Qata		NML Qata		NML Qata (chair)
Executive director				
PS Hadebe				

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 on occasion.

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.

Land Bank Board and committee meeting attendance

	Board appointments and resignation date	Board: 6 meetings	Audit Committee: 8 meetings	Risk Committee: 4 meetings	HR & Remuneration Committee: 6 meetings	Credit Risk Committee: 11 meetings
Non-executive directors						
JA Boggenpoel	5 March 2008 to 30 June 2011	5/6	7/8	4/4		
ASM Karaan	1 January 2010	5/6				8/11
BP Mathidi	5 March 2008	6/6	3/8	4/4		
NP Mnxasana	5 March 2008	4/6	7/8			11/11
MJ Motloba	5 March 2008	3/6	3/8	3/4		
JS Mthimunye	5 March 2008	4/6	8/8	2/4		6/11
BBS Ngubane	1 January 2010	6/6			4/6	
JT Potgieter	5 March 2008	6/6		4/4	5/6	11/11
NML Qata	5 March 2008	4/6		4/4	6/6	
HD van Schalkwyk	5 March 2008	4/6			4/6	8/11
Executive director						
PS Hadebe	18 July 2008	5/6	7/8	3/4	6/6	8/11

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

Board Committees

Audit Committee

The Audit Committee has five members, all independent non-executive directors, including the chairperson. Non-members, including the CEO, Chief Financial Officer, internal auditor and external auditors attend meetings by invitation. Other non-members may also attend by invitation.

The committee's primary objective is to provide the Board with additional assurance regarding the quality and reliability of the financial information used by the directors and to assist them in discharging their duties.

Specific responsibilities in terms of the Audit Committee charter include:

- Satisfying the Board that adequate and 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 and recommending to the Board the adoption of the annual financial statements.

The Audit Committee has satisfied its terms of reference for the year under review and has complied with its legal and regulatory responsibilities.

Issues relating to accounting, auditing, internal controls and financial reporting matters are discussed with the Group's external auditors at periodic meetings.

The Bank's internal audit function reports to the Audit Committee. The internal audit function examines and evaluates the effectiveness of operational activities, together with the attendant business risks and systems of operational and financial control. Material deficiencies, development needs and instances of non-compliance are reported to the Audit Committee, the external auditors and operational management for resolution.

At certain meetings, the committee has separate discussions with management (excluding the external auditors) and with external auditors (excluding management). These separate discussions provide an opportunity for committee members, management and external auditors to communicate privately and independently.

The internal and external auditors have unrestricted access to the Audit Committee, ensuring that their independence is maintained at all times.

Risk Committee

The Risk Committee has six members – all, including the chairperson, independent non-executive directors. Non-members can attend by invitation. The committee, which meets quarterly, has a charter and is primarily responsible for ensuring that the required risk management culture, practices, policies, resources and systems are in place and functioning effectively. The Risk Committee has satisfied its terms of reference for the year under review.

Group HR and Remuneration Committee

The Group HR and Remuneration Committee has four members – all, including the chairperson, independent non-executive directors. Non-members can attend by invitation. The committee meets quarterly, and on an ad hoc basis, to consider annual reviews, remuneration issues, incentives and policy matters. The committee has a charter and is primarily responsible for the remuneration strategy of the Bank. The Group HR and Remuneration Committee has satisfied its terms of reference for the year under review.

Credit Risk Committee

The Credit Risk Committee has five members – all, including the chairperson, independent non-executive directors. Non-members can attend by invitation. The committee meets regularly to consider annual reviews, credit risk issues and policy matters. The committee has a charter and is primarily responsible for the credit risk management process, credit strategy and the Bank's credit risk management policies. The Credit Risk Committee has satisfied its terms of reference for the year under review.

Subsidiary company

Land Bank Insurance Company Board

The LBIC Board, in addition to its statutory obligations, is mandated by the Land Bank Board to carry out specific insurance operations tasks delegated to it.

At the end of 2010/11, the LBIC Board had nine members; seven non-executive directors, one independent non-executive director and one executive director.

LBIC Board and committee structure as at 31 March 2011

	Audit & Risk Committee	Investment and Actuarial Committee
Non-executive directors		
MJ Motloba (chair)		
JA Boggenpoel[1]	JA Boggenpoel	JA Boggenpoel (chair)
CF de Jager[2]	CF de Jager	CF de Jager
PS Hadebe		
ASM Karaan		ASM Karaan
NP Mnxasana	NP Mnxasana	NP Mnxasana
R Mothapo	R Mothapo (acting chair)	R Mothapo
JT Potgieter	JT Potgieter	JT Potgieter
NML Qata		
Executive director		
PJ du Preez		

1 Appointed 5 March 2008 and resigned 30 June 2011 to pursue further studies abroad
2 Appointed 1 March 2010 and resigned 31 December 2010 as a result of a conflict of interest

LBIC Board and committee meeting attendance

	Board appointments and resignation date	Board: 9 meetings	Audit and Risk Committee: 6 meetings	Investment and Actuarial Committee: 4 meetings
Non-executive directors				
JA Boggenpoel	5 March 2008 to 30 June 2011	7/9	4/6	4/4
CF de Jager	1 March 2010 to 31 December 2010	4/9	4/6	3/4
PS Hadebe	18 July 2008	8/9	4/6	
ASM Karaan	12 February 2010	1/9		2/4
NP Mnxasana	5 March 2008	7/9	6/6	4/4
R Mothapo	1 March 2010	8/9	5/6	4/4
MJ Motloba	5 March 2008	7/9		
JT Potgieter	5 March 2008	8/9	5/6	4/4
NML Qata	5 March 2008	6/9		
Executive director				
PJ du Preez	1 July 2007	9/9	6/6	4/4

LBIC Board Committees

Audit and Risk Committee

The Audit and Risk Committee has four members, of whom one (the acting chairperson) is independent. The committee has a charter, and its main role is to advise and assist the LBIC Board in fulfilling its responsibilities with regard to:

- Financial and auditing oversight responsibilities, as well as the overall quality and integrity of financial and actuarial reporting and internal control matters
- Its enterprise risk management framework and compliance responsibilities
- The performance of prescribed statutory requirements, including recommending the internal auditor to the LBIC Board annually, 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 Audit and Risk Committee has satisfied its terms of reference for the year under review. The committee meets at least quarterly to review financial and operating results, and to monitor adherence to risk management practices and policies.

Investment and Actuarial Committee

The Investment and Actuarial Committee has five members, of whom one is independent. The committee has a charter and its primary mandate includes the following:

- Implementing an investment strategy that sets out the investment objectives of the LBIC, the nature and term of liabilities and the risks to which the assets and liabilities of the LBIC are exposed
- Appointing investment managers and establishing investment mandates with each manager
- Investment mandates set out guidelines that 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 has satisfied its terms of reference for the year under review. The committee meets quarterly to review the performance of investment managers, the adherence to investment mandates and other policy matters.

Board assessment

The Office of the Company Secretary facilitated the self assessment of the Board, the Board committees and individual directors of both the Land Bank and the LBIC. The Board assessment revealed that members are satisfied that good governance is generally practised and that the Board functioned well in its oversight role. Identified areas for improvement related mainly to the orientation and development of Board members, inefficiencies around the Board secretariat's processes and controls, succession planning, adequacy of focus on sustainability matters and stakeholder relations. Measures will be implemented to ensure that these areas are addressed and that the principles of King III are applied.

Board profile

<table>
<tr><th>Board member</th><th>Age</th><th>Length of service</th><th>Qualifications</th><th>Other significant directorships, memberships and exposures</th></tr>
<tr><td colspan="5">Non-executive</td></tr>
<tr><td>Baldwin Benjamin Sipho Ngubane[1]</td><td>69</td><td>Director since 1 January 2010</td><td>• MBChB
• Postgraduate diploma (Tropical Medicine)
• Diploma (Public Health)
• MA (Family Medicine and Primary Care)
• Postgraduate diploma (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)</td><td>Directorships:
• The South African Broadcasting Corporation
• Gade Holdings
• Gade Investments
• Gade Mine Investments
• Mitsui & Company
• DBSA Development Fund
• Blue Horizon Investments
• Toyota South Africa
• Yokogawa South Africa
• Southey Holdings Limited

Exposures:
• Ambassador Extraordinary and Plenipotentiary of the Republic of South Africa to Japan
• Minister
• Premier: KwaZulu-Natal</td></tr>
</table>

[1] Land Bank Board only

Board of directors (continued)

Board member	Age	Length of service	Qualifications	Other significant directorships, memberships and exposures
Non-executive				
Herman Daniël van Schalkwyk[1]	44	Director since 5 March 2008	• BCom (Agricultural Economics) • BCom (Honours)(Agricultural Economics) • MCom (Agricultural Economics) • PhD (Agricultural Economics)	**Directorships:** • Aginfo (Pty) Ltd (managing director) • Rector of the Potchefstroom campus of the North West University **Memberships:** • Agricultural Economic 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 of Agricultural Extension • Free State Agriculture
Jesmane Arnel Boggenpoel[2]	38	Director from 5 March 2008 to 30 June 2011	• BAcc • BCom • CA (SA)	**Directorships:** • Senwes • African Women Chartered Accountant Investment Holdings • Intersite Property Management Services **Memberships:** • Marine Living Resources Fund Audit Committee • Johannesburg Development Agency Audit Committee
Coenraad Frederik de Jager[3]	49	Director from 1 March 2010 to 31 December 2010	• BSc (Mathematics and Mathematical Statistics) • CFP • Fellow of the Institute of Actuaries	**Directorships:** Independent Actuarial Consultants
Abdus Salam Mohammad Karaan[2]	43	Director since 1 January 2010	• BSc Agric • Hons BSc Agric • MSc Agric in Agricultural Economics (cum laude) • PhD Agric	**Directorships:** • Melsetter Group • Kaapagri Limited • Bester Feed & Grain Exchange • Southern Oils Limited • Agricol Seeds • Rooibos Limited • Terrasan Holdings • Makutulo Investment Holdings • Max Deals CC • National Agriculture Marketing Council **Memberships:** • AgriVie Investments (member of investment committee) • Agricultural Economics Association of Southern Africa
Bafana Patric Mathidi[1]	41	Director since 5 March 2008	• BCom (Accountancy) • BCompt Honours (Accountancy) • MA (Finance - Universities of London) • Investment Research and Portfolio Management	**Memberships:** • Investment Analysts Society of South Africa

1 Land Bank Board only
2 Land Bank and LBIC Boards
3 LBIC Board only

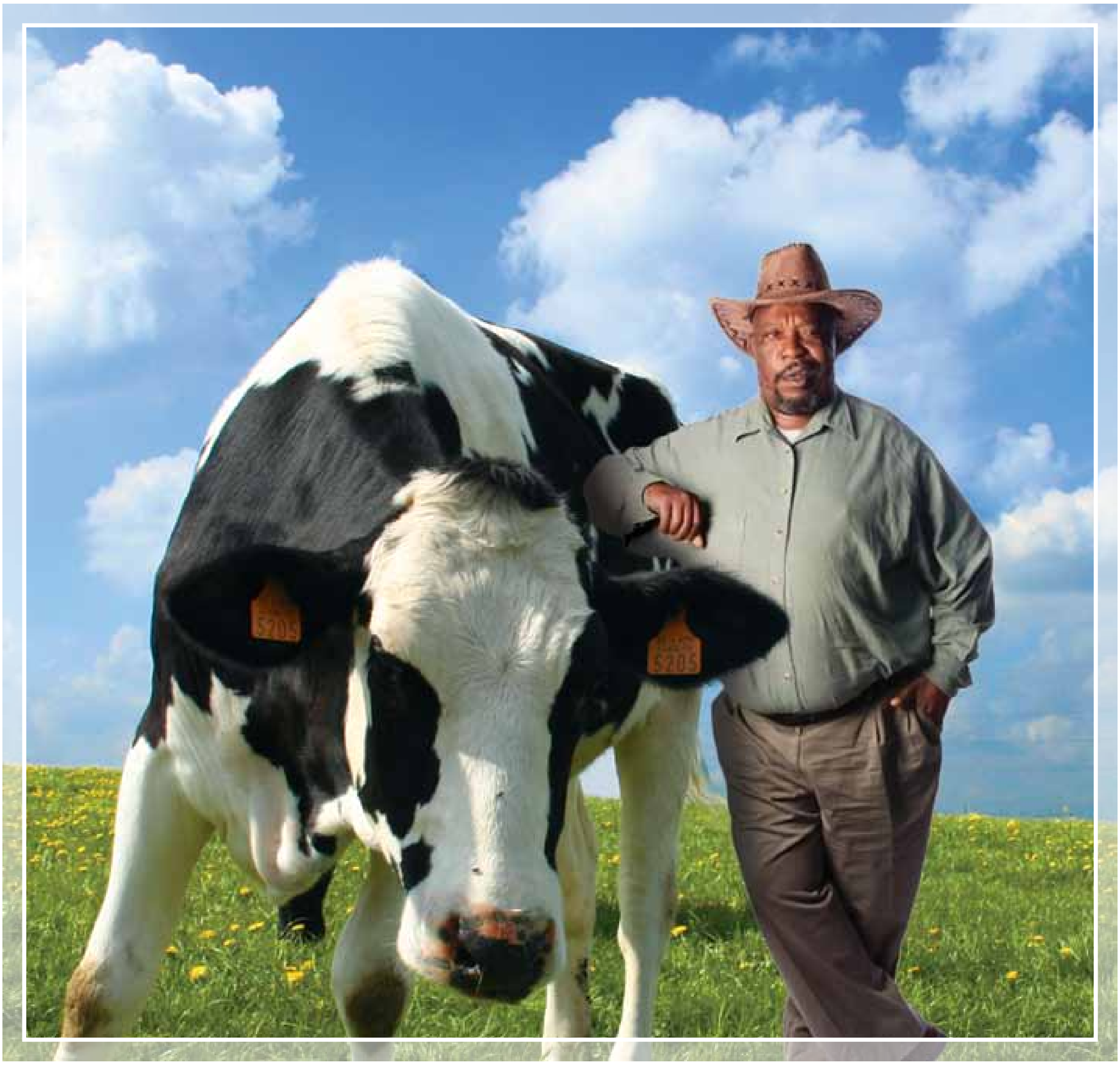
Board member	Age	Length of service	Qualifications	Other significant directorships, memberships and exposures
Non-executive				
Nomavuso Patience Mnxasana[2]	54	Director since 5 March 2008	• BCom (Accountancy) • BCompt Honours / CTA • CA (SA)	**Directorships:** • Winhold Limited • AWCA Investment Holdings • Nedbank Group • Pareto Limited • Optimum Coal Limited • Schindler • Downtown Music Hub • Nedbank Foundation **Memberships:** • International Aviation Council
Ranti Mothapo[3]	29	Director since 1 March 2010	• BEconSc (Actuarial Science and Mathematical Statistics - with distinction) • BSc Honours (Actuarial Science and Advanced Mathematics of Finance) • Fellow of the Actuarial Society of South Africa	**Directorships:** • Matlotlo Group (Pty) Limited (managing director)
Modise John Motloba[2]	44	Director since 5 March 2008	• BSc (Applied Mathematics and Computer Science) • Diploma (Strategic Management)	**Directorships:** • Quartile Capital • Wealthridge Investments • Africa Vukani Investment Management Services • Harmony Mining • RMB Structured Insurance • Deutsche Securities (Pty) Limited • Deutsche Securities (SA) (Pty) Limited **Memberships:** • Member of the South African Reserve Banks' Act Revision Committee
Joe Sanyana Mthimunye[1]	46	Director since 5 March 2008	• BCom (Accountancy) • BCompt Honours / CTA • CA (SA)	**Directorships:** • aloeCap (Pty) Limited (executive chairman) • Serves on a number of boards of unlisted companies where aloeCap private equity is invested • Blue Label Telecoms Limited • Invicta Limited **Memberships:** • Member of the South African Institute of Chartered Accountants
Johannes Theodorus Potgieter[2]	61	Director since 5 March 2008	• BSc (Agricultural Economics) • BSc Honours • MBA	**Memberships:** • Agricultural Economic Association of South Africa

[1] Land Bank Board only
[2] Land Bank and LBIC Boards
[3] LBIC Board only

Board of directors (continued)

Board member	Age	Length of service	Qualifications	Other significant directorships, memberships and exposures
Non-executive				
Nolwazi Mpofukazi Leonora Qata[2]	52	Director since 5 March 2008	• MA (Industrial and Organisational Psychology) • Honours (Industrial and Organisational Psychology) • BAdmin • Commonwealth Top Management Programme for Public Enterprises in South Africa (National University of Singapore)	**Directorships:** • Petroleum Agency of South Africa • Mvuzo Holdings • Mvuzo Investments
Executive directors				
Phakamani Simpiwe Hadebe[2]	43	Chief Executive Officer of Land Bank since 18 July 2008	• MA (Economics) • MA (Rural Development)	
Philip Julius du Preez[3]	48	Managing Director of LBIC since 1 July 2007	• BCom Hons	

[2] Land Bank and LBIC Boards
[3] LBIC Board only



Remuneration report

The HR and Remuneration Committee governs the Group's remuneration and its main objective is to assure the Board that the employees and executive officials of the Group are fairly and competitively rewarded for their individual contributions to the Group's performance. The Remuneration Committee regularly reviews incentive plans and fringe benefit policies.

In terms of the Land Bank Act 14 (1), the Minister of Finance determines the remuneration, allowances and other benefits of the chairperson and other Board members, which must be paid out of the funds of the Bank.

The remuneration strategy determines the pay structures for employees and executive officials and the positioning of these levels according to trends and best practice in local markets.

Non-executive directors

The remuneration of non-executive directors is calculated based on the guidelines for the remuneration of state-owned enterprises at the upper quartile level. The following scale of fees was applied for the financial period:

Land Bank

- R893,113 for the chairperson of the Land Bank Board
- R208,139 for the deputy chairperson and a member of the Land Bank Board
- R132,878 for the chairperson of the Audit Committee
- R96,018 for a member of the Audit Committee
- R100,665 for the chairperson of a sub-committee (HR and Remuneration Committee, Risk Committee and Credit Risk Committee)
- R74,206 for a member of a sub-committee (HR and Remuneration Committee, Risk Committee and Credit Risk Committee).

LBIC

- R658,752 for the chairperson of the LBIC Board
- R156,507 for a member of the LBIC Board
- R97,444 for the chairperson of the Audit and Risk Committee
- R62,732 for a member of the Audit and Risk Committee
- R73,821 for the chairperson of the sub-committee (Investment and Actuarial Committee)
- R48,481 for a member of the sub-committee (Investment and Actuarial Committee).

Executive director

The remuneration package of the CEO of the Land Bank is approved by the Minister of Finance.

Remuneration of Group non-executive and executive directors

31 March 2011	Board fees	Audit fees	Risk fees	Credit Risk fees	Group HR & Remco fees	Audit & Risk fees	Investment & Actuarial fees	Cash salary	Performance bonuses	Other benefits, fees & expenses	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land Bank											
Non-executive directors	**2,782**	**517**	**471**	**402**	**329**					**71**	**4,572**
BBS Ngubane	893	-	-	-	74					1	968
HD van Schalkwyk	208	-	-	74	74					31	387
JA Boggenboel	208	96	74	-	-					7	385
ASM Karaan	208	-	-	74	-					6	288
BP Mathidi	208	96	74	-	-					5	383
NP Mnxasana	208	96	-	98	-					10	412
MJ Motloba	208	96	101	-	-					-	405
JS Mthimunye	208	133	74	74	-					-	489
JT Potgieter	208	-	74	74	74					9	439
NML Qata	208	-	74	-	101					2	385
TE Ramphele	17	-	-	8	6					-	31
Executive director								**2,708**	**1,509**	**50**	**4,267**
PS Hadebe (CEO)								2,708	1,509	50	4,267
Total Land Bank	**2,782**	**517**	**471**	**402**	**329**	**-**	**-**	**2,708**	**1,509**	**121**	**8,839**
LBIC											
Non-executive directors	**1,718**					**339**	**302**			**10**	**2,369**
MJ Motloba	659					-	-			-	659
JA Boggenboel	157					63	74			-	294
CF de Jager	117					73	36			5	231
ASM Karaan	157					-	48			-	205
NP Mnxasana	157					63	48			-	268
R Mothapo	157					77	48			5	287
JT Potgieter	157					63	48			-	268
NML Qata	157					-	-			-	157
Executive director								**1,538**	**666**	**41**	**2,245**
PJ Du Preez								1,538	666	41	2,245
Total LBIC	**1,718**					**339**	**302**	**1,538**	**666**	**51**	**4,614**
Total Group	**4,500**	**517**	**471**	**402**	**329**	**339**	**302**	**4,246**	**2,175**	**172**	**13,453**

Remuneration report (continued)

31 March 2010	Board fees	Audit fees	Risk fees	Credit Risk fees	Group HR & Remco fees	Audit & Risk fees	Invest-ment & Actuari-al fees	Cash salary	Per-form-ance bonuses	Other benefits, fees & expen-ses	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land Bank											
Non-executive directors	**2,680**	**517**	**472**	**409**	**323**					**47**	**4,448**
BBS Ngubane	224	-	-	-	6					-	230
HD van Schalkwyk	722	-	-	74	74					3	873
JA Boggenboel	208	96	74	-	-					9	387
ASM Karaan	53	-	-	6	-					-	59
BP Mathidi	208	96	74	-	-					7	385
SO Mbangula	17			6	6					-	29
NP Mnxasana	208	96	-	74	-					6	384
MJ Motloba	208	96	102	-	-					-	406
JS Mthimunye	208	133	74	74	-					-	489
JT Potgieter	208	-	74	74	62					12	430
NML Qata	208	-	74	-	101					4	387
TE Ramphele	208	-	-	101	74					6	389
Executive director								**2,519**	**1,493**	**42**	**4,054**
PS Hadebe (CEO)								2,519	1,493	42	4,054
Total Land Bank	**2,680**	**517**	**472**	**409**	**323**	**-**	**-**	**2,519**	**1,493**	**89**	**8,502**
LBIC											
Non-executive directors	**1,269**					**234**	**142**			**9**	**1,654**
MJ Motloba	547					-	-			-	547
JA Boggenboel	157					63	62			5	287
CF de Jager	13					8	4			-	25
ASM Karaan	13					-	4			-	17
SO Mbangula	55					-	-			-	55
NP Mnxasana	157					95	40			2	294
R Mothapo	13					5	4			-	22
JT Potgieter	157					63	28			1	249
NML Qata	157					-	-			1	158
Executive director								**1,043**	**300**	**298**	**1,641**
PJ du Preez								1,043	300	298	1,641
Total LBIC	**1,269**	**-**	**-**	**-**	**-**	**234**	**142**	**1,043**	**300**	**307**	**3,295**
Total Group	**3,949**	**517**	**472**	**409**	**323**	**234**	**142**	**3,562**	**1,793**	**396**	**11,797**

Executive officers and employees

Executive officers are not permitted to accept external remunerative work or Board appointments without approval from the CEO.

Remuneration packages for executive officers include the following:

- Base salary and allowances
- Discretionary variable pay in the form of an annual performance bonus, linked to the organisation's and the individual's performance
- Group life.

The notification period of termination of services contained in executive employment contracts was two months, but has since been reviewed by EXCO and the amendment to three months is being formalised. Executives are contracted for a three-year term, renewable after the initial period. Some executives have extended their contracts by a further two years.

Remuneration packages for other employees include the following:

- Base salary and benefits which include Group life, disability and medical aid
- Discretionary variable pay in the form of an annual performance bonus, linked to the organisation's and the individual's performance.

Employees are allowed to structure their salaries and benefits in line with existing legislation. Salary packages, including benefits, are reviewed every year, using relevant national and industry criteria as a benchmark. The guaranteed packages of all employees are positioned at the median of the market. However, the guaranteed packages for some executives are above the median of the market which accords with the rewards strategy as approved by the Board in terms of which a strategic position had been adopted to pay above the median for the critical workforce segment.

Land Bank employment contracts are managed in terms of the Land Bank recruitment policy.

Annual bonuses are discretionary and directly linked to the performance of the organisation and the individual, which is measured against predetermined qualitative and quantitative targets.

Recognition programme

As part of its rewards philosophy, the Land Bank has introduced a staff recognition programme: the Hlanganani Excellence Awards. The recognition programme awards shopping vouchers and certificates of recognition. Two quarterly awards ceremonies were held during 2010/11 and the annual award ceremony was held in April 2011.

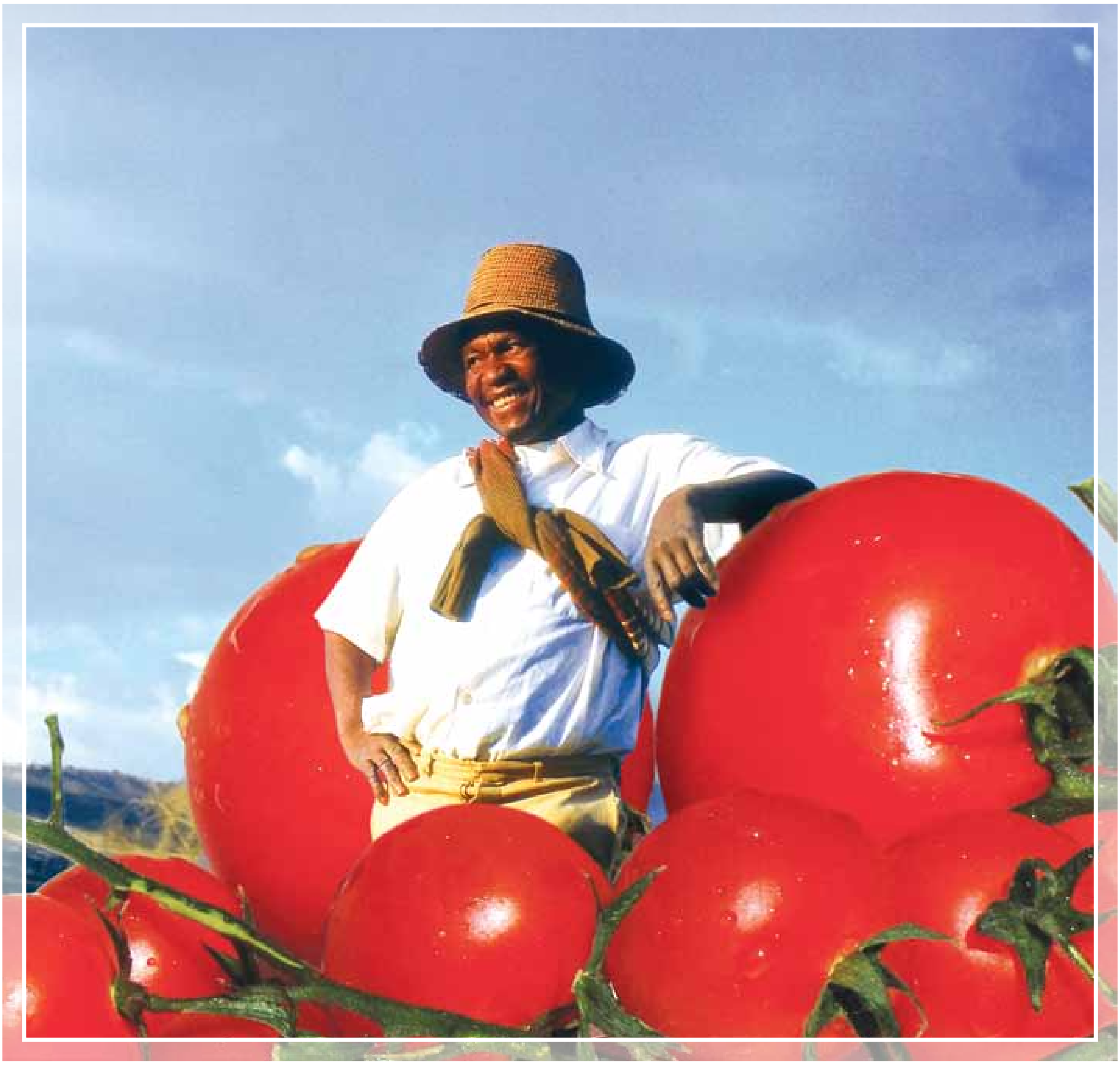
Remuneration of executive officers

31 March 2011	Title	Basic salary[4] R'000	Bonus R'000	Allowances R'000	Total R'000
VT Potloane	Chief: Treasury	1,444	509	20	1,973
JS Mthembu	Chief: Legal Services	1,261	299	20	1,580
WH Meyer[1]	Chief Financial Officer	1,845	596	20	2,461
L Serithi	Chief: Operations	1,431	305	24	1,760
G van Wyk	Chief: Human Resources	2,008	414	20	2,442
LA Makenete	Chief Strategy Officer	1,747	191	20	1,958
LV Mdlalose	Chief: Risk	1,310	137	20	1,467
T Govender[2]	Chief: Information Technology	1,474	-	18	1,492
P Gebashe - Contracted vendor on a consultancy basis[3]	Chief: Information Technology	562	-	-	562
		13,082	**2,451**	**162**	**15,695**

1 Resigned 10 June 2011
2 Appointed 15 June 2010
3 Employed as a consultant from May 2009 until 18 June 2010
4 Basic salary includes group life cover

31 March 2010	Title	Basic salary R'000	Bonus R'000	Allowances R'000	Total R'000
H Moeketsi[2]	General Manager: Corporate Development	376	-	33	409
VT Potloane[3]	Chief: Treasury	1,225	400	93	1,718
N Jusayo[4]	General Manager: Human Resources	451	-	19	470
JS Mthembu[5]	Chief: Legal Services	885	49	14	948
WH Meyer[6]	Chief Financial Officer	1,419	83	129	1,631
L Serithi[7]	Chief: Operations	1,107	48	23	1,178
G van Wyk[8]	Chief: Human Resources	1,061	-	9	1,070
LA Makenete[9]	Chief Strategy Officer	743	-	84	827
LV Mdlalose[10]	Chief: Risk	450	-	6	456
P Gebashe - Contracted vendor on a consultancy basis[11]	Chief: Information Technology	2,132	-	-	2,132
		9,849	**580**	**410**	**10,839**

1 During 2009/10 there was a title change for the executives from "general manager" to "chief"
2 Appointed 1 August 2007 and resigned 31 July 2009
3 Appointed 1 April 2009
4 Appointed 1 July 2008 and resigned 19 May 2009
5 Appointed 11 May 2009
6 Appointed 1 May 2009
7 Appointed 25 May 2009
8 Appointed 1 September 2009
9 Appointed 23 September 2009
10 Appointed 16 November 2009
11 Employed as a consultant from May 2009 until 18 June 2010



Human capital

The Bank has restructured human resources, establishing a targeted service delivery approach. Transparent monthly reporting has enhanced progress on strategic objectives, through the channels of:

- HR planning and employee relations
- Talent management
- Learning and development
- Performance management.

The Bank's progress towards meeting strategic objectives is discussed below:

HR planning and employee relations

The following were focus areas in 2010/11:

- Defining organisational structures to support the Fit for the Future operating model
- Driving change management
- Establishing an employee engagement programme
- Building industrial relations skills.

The success of the Fit for Future programme requires the alignment of organisational structures with the Bank's new operating model. The organisational structure changes introduced a new business division: the Retail Emerging Market. As with any organisational change, a change management plan was developed, including an employee engagement survey. A culture survey was conducted to determine the organisational culture required to drive the sustainability initiative. The results have indicated some areas that require addressing. An industrial relations training programme has been launched to enhance management competence. The Bank's drive to highlight the importance of employee wellness is progressing well.

Talent management

The Bank's talent management strategy helped identify key HR focal areas:

- Annual staff turnover has been contained to within the targeted range of less than 10% (actual – 4.83%)
- Recruitment turnaround time has stabilised to 90 days on average
- Succession plans are in place for senior management, as well as all critical skills within the organisation
- A coaching and mentoring programme designed to enhance personal development has been developed and adopted.

The number of African, Coloured and Indian (ACI) employees occupying managerial positions has decreased from 72% in 2010 to 69% in 2011. The number of females occupying managerial positions has increased by 9%.

Transformation status

Category	2011	2010
ACI managerial (male and female)	69%	72%
ACI all levels	56%	55%
Managerial (female)	24%	22%
Female all levels	42%	42%
People with disability	1%	1%

Employment equity

The Group's employment equity profile as at 31 March 2011 was 56.3% ACI at all levels, which is 1.7% short of the year-end target of 58%. Of this, women represented 42.3% (254 women) and men 57.7% (346 men). Compared with 2009/10, ACI representation has increased from 55% to 56 %. The demographic split of the Group's staff complement (600) is illustrated in figure 20.

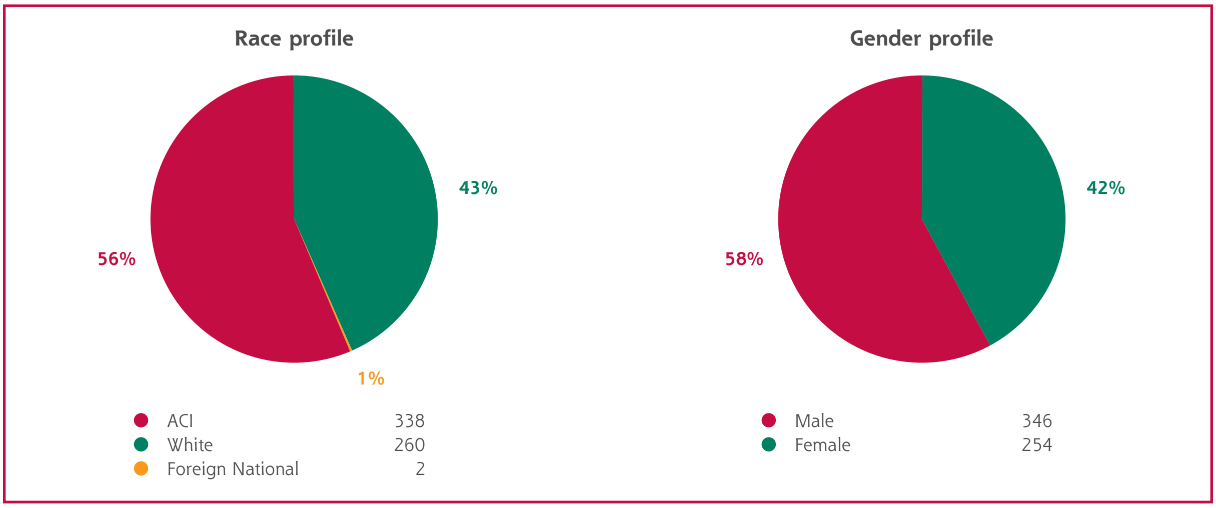


Figure 20: Race and gender profile

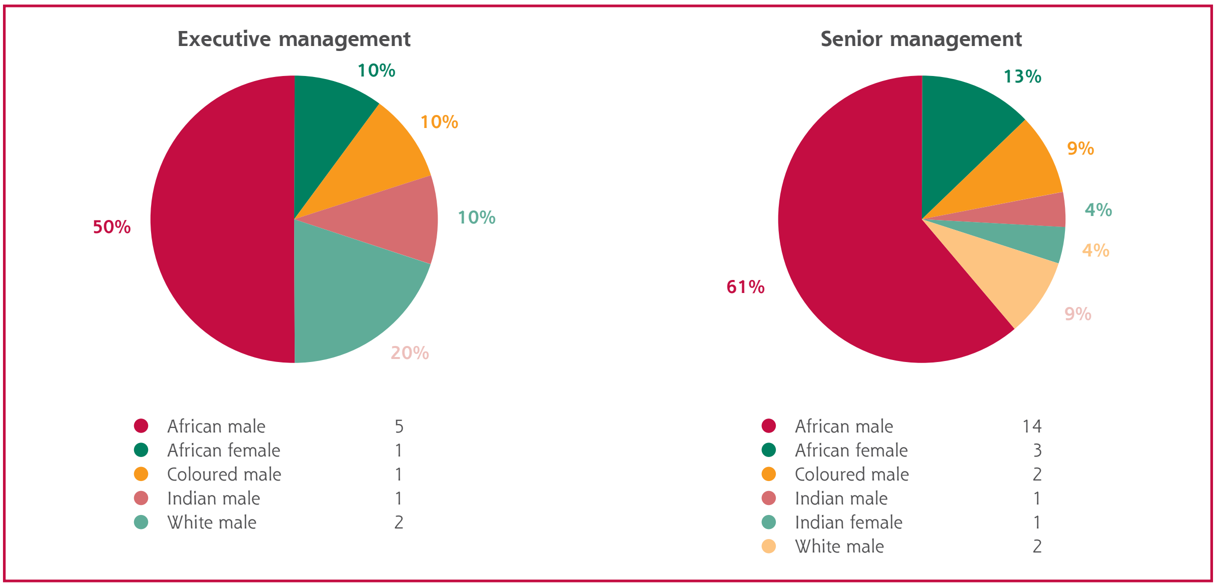


Figure 21: Executive and senior management demographics

Learning and development

The revitalised personal development plan for employees is encouraging academic (educational qualification) and skills development (leadership, management and technical) amongst staff.

University-certified leadership and management development programmes are being rolled out to senior and middle management.

Generic cross-functional training programmes have been piloted to head office staff. The programmes have been a success, and will be extended to all staff. Technical short courses and seminars were well attended throughout the reporting period.

The Bank has nearly doubled its sponsorship of staff studying at tertiary institutions, from 24 in 2009/10 to 45 in 2010/11. All studies undertaken will help advance individuals within the organisation.

Human capital (continued)

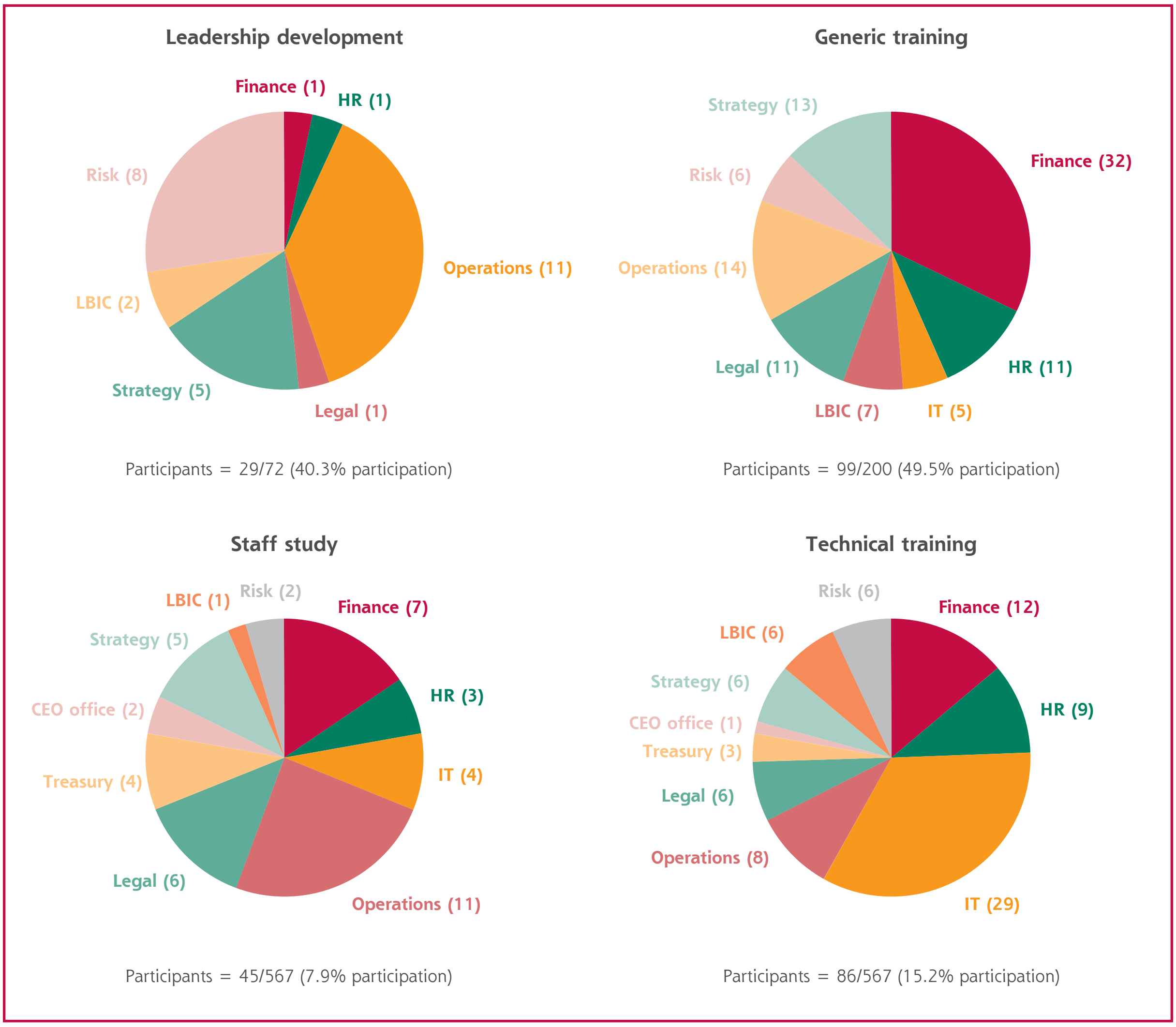


Figure 22: Learning and development

Ten bursaries in the fields of agriculture (primarily), IT and finance were awarded to previously disadvantaged individuals.

Performance management

Improving performance management remains a priority, and a system of moderation has been introduced to complement and enhance the existing performance management process. The system will improve credible objectivity and consistency by:

- Comparing employees' performance ratings with peers through moderating committees
- Addressing inconsistencies through consensus.

To ensure a distinction between organisational and individual performance, a scorecard has been developed to ensure that the Bank's performance is assessed against the Corporate Plan key performance indicators, which determine the Bank's bonus pool. Further bonus allocations to individuals are based on both team and individual performance. Mid-year and year-end performance reviews are now entrenched within the organisation.

Report of the Board of Directors

The business of the Land Bank

Nature of the business

The Land Bank was established in 1912 to promote rural and agricultural development. From its inception until 1936, the Bank provided mortgage loans to emerging and commercial white farmers and government historically provided funding for the Bank. Post 1936, regulatory boards were formed and the Land Bank Act was amended giving the Bank powers to lend money to the respective regulatory boards and for any other purpose for which such regulatory boards may borrow money in terms of its regulations. The regulatory boards established to augment the services of the Bank included:

- The Marketing Boards established in terms of the Agriculture Marketing Act (1936), which was promulgated to promote price stability, regulate agricultural imports and reduce risks for financing agriculture
- The Farmers Assistance Board (1962)
- Agriculture Credit Boards (1966).

In the early 1990s, government removed or drastically curtailed many institutional support mechanisms. This trend, in line with prevailing market liberalisation, included reduced state support for agriculture. The absence of the support system changed the balance of the agricultural sector and made it very difficult for emerging farmers to enter or succeed in agriculture.

The post-1994 Land Bank remained wholly owned by government and is a key financial player in agriculture and rural development. It provides retail and wholesale finance to development and commercial farmers. The Land Bank has an insurance subsidiary and is the sole shareholder of the LBIC, which provides insurance products to the Bank's clients and non-clients.

The Land Bank's long-term objectives flow from the Land and Agricultural Bank Act, and are aligned with government policies and South Africa's socio-economic needs. The Bank's broad mandate, as expressed in the act, covers 11 objectives:

- Equitable ownership of agricultural land, particularly the increase of ownership of agricultural land by historically disadvantaged persons
- Agrarian reform, land redistribution or development programmes for historically disadvantaged persons
- Land access for agricultural purposes
- Agricultural entrepreneurship
- Removal of the legacy of racial and gender discrimination in agriculture
- Enhancing productivity, profitability, investment and innovation
- 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

In recent years, the Land Bank has faced the challenge of realigning itself with its legislated mandate to advance development. In response, the Bank formalised its development strategy and framework, set key performance indicators for development targets, built development partner relationships and established financial mechanisms to make development affordable and core to its business. Both the curatorship and the value chain financing models (emerging farmers support facilities) have been formalised and approved by Cabinet during 2010/11. The Bank has also developed a wholesale development financing facility to fast-track the financing of development farmers through intermediaries.

Activities in the new financial year will focus on making the approved mechanisms operational.

To support the sustainable, efficient and effective implementation of its mandate, the Bank has initiated a "Fit for the Future" project, which reviews the Bank's business and operating models and the organisational design flowing from these positions. The project is expected to have tangible benefits that will positively contribute to the Bank's development activities.

Status of transformation

Following several years of committed clean-up efforts, a stable, forward-looking institution is emerging. The Land Bank has reached a watershed moment in its business strategy, marked by the shift in focus from clean-up to sustainability. Processes and systems are being established to support the long-term sustainability of the Bank and to put into action strategies and policies to make development core to business, supported by commercial farming cross subsidisation.

Insurance activities

The Land Bank Insurance Company Limited is a wholly owned subsidiary of the Land and Agricultural Development Bank of South Africa. The company was established in 1954 in accordance with the Land Bank Act at the request of the farming community. Formerly known as Suid-Afrikaanse Verband Versekeringsmaatskappy, the name was changed to the Land Bank Insurance Company Limited in 2006.

In 2009, the LBIC Board adopted a new company strategy that included registration with the Financial Services Board. The Minister of Finance approved the strategy on 18 March 2011 and an application for registration with the Financial Services Board for both a long- and short-term insurance license has been lodged.

The LBIC is authorised to sell limited long- and short-term insurance products. Previously, life products were limited to credit life insurance products, but the LBIC will now be offering whole life products to agricultural clients with an agricultural loan. Short-term insurance products will include asset and crop insurance products.

The distribution of these products will be conducted through the Land Bank branch network and through independent brokers, underwriting managers and other possible partners. This change represents a major shift in the sales and marketing strategy of the LBIC.

Managing performance against predetermined targets

The Land Bank's performance indicators, as contained in the approved Corporate Plan, reflect the strategic goals for the reporting period, with an overarching objective to ensure that it is leading with a practical, hands-on approach to accelerate development.

The Bank's achievements against the key performance indicators are commendable and the results with commentary are detailed in the table below:

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Land Bank			
Guarantee conditions	1. Maintain a capital adequacy ratio of at least 20%	Including the government guarantee: 43% Excluding the government guarantee: 29% The Bank maintained a capital adequacy ratio in excess of 40% during 2010/11. The ratio includes the cash injection of R1 billion in December 2009, R750 million in November 2010 and the remaining R1.75 billion guarantee in place at 31 March 2011. The expectation is that the remaining guarantee will be injected in cash during 2012 (R750 million) and 2013 (R1 billion) respectively.	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 and 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 non-performing loans	The Bank made quarterly reports to the National Treasury on loan recovery progress, demonstrating sound management of the non-performing loans. The results achieved are disclosed under the recoveries and loan book quality key performance area.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Guarantee conditions (continued)	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
SCOPA resolutions and portfolio committee undertakings	Implement/address 100% of recommendations **Latest SCOPA resolutions: 2005/06** Implementation of an appropriate banking system	The implementation of the SAP core banking system, named Project ARISE, provides a new core banking platform with automated banking processes aligned to best practice. The project also focused on the decommissioning of the current banking solution, PeopleSoft. The project started in July 2010 and all business requirements were identified and signed off. The realisation phase of the project was completed during quarter 3, and documentation of training manuals and test cases began. Data migration and data cleansing, which was subject to internal audit review, took place during quarter 4. The project was successfully implemented on 14 March 2011 and is currently in the support phase. The decommissioning of PeopleSoft coincided with the last month-end run of the old system in March 2011.	Achieved
	Portfolio committee undertakings – 9 July 2009 Ministers of 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 model	**Implementation of a value chain financing model:** • The Cabinet memo and memorandum of understanding for the value chain financing model have been approved, including approval by Cabinet of pilot projects to the value of R208 million. • The finalisation of the model's structure and other institutional arrangements are in progress. • The list of priority farms has been completed and discussed with the Department of Rural Development and Land Reform. The dates of the various assessment phases are in the process of being agreed with the Departments of Agriculture, Forestry and Fisheries and Rural Development and Land Reform. • A guarantee letter has been received from the Department of Rural Development and Land Reform and the first resuscitation case was presented to the Credit Risk Management Committee during quarter 4. • The drafting of template legal agreements, which will be signed by respective farmers, has begun. **Establishing a wholesale development financing facility using agri-businesses as intermediaries:** The Bank has adopted a prudent approach to development lending, because it is high risk and if not well controlled may affect the Bank's sustainability through significantly higher levels of non-performing loans and impairment charges. The Bank has developed a wholesale development financing facility to fast track the financing of development farmers through intermediaries. Key milestones achieved: • The Minister and Director General of the Department of Agriculture, Forestry and Fisheries approved the wholesale development financing facility • The Bank has approved a facility of R100 million and has finalised the terms and conditions of the agreement with the intermediary • The department has agreed to provide supplementary funds amounting to R20 million to the Bank to subsidise administration fees that will be incurred by intermediaries.	Partially achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011		Status indicator at 31 March 2011
Mainstream development into the operating model	Retail development – R200 million Corporate clients development – R250 million Total disbursements – R450 million	Development lending achievements as at March 2011: Approved – Retail Approved – B&CB **Total approved** Disbursed – Retail Disbursed – B&CB Disbursed – B&CB on-lending **Total disbursed** **% of disbursement target achieved**	 R172.9 million R45.8 million **R218.7 million** R107.6 million R 65.1 million R 65.2 million **R237.9 million** **52.9%**	Not achieved
		Although a number of the Bank's development initiatives are at an advanced stage (evidenced by the quantity of approved loans and pipeline to disbursements), the set target for development of R450 million in disbursements was not achieved. Development initiatives of R229.6 million were in the pipeline as at 31 March 2011 (Retail: R165.2 million, B&CB: R64.4 million). Had these amounts been disbursed at year-end, 100% of the target would have been achieved. Development lending is receiving ongoing, focused management attention.		
Growth in the loan book	Grow the gross loan book by 5% (excluding Land Development Fund Unit (LDFU), insolvencies and non-performing loans)	Growth in Retail Growth in B&CB	R638.8 million R1 066.7 million	Achieved
		The total gross performing loan book as at 31 March 2011 was R13.6 billion. Total growth in the performing loan book amounted to R1.71 billion or 14.3%.		
Recoveries and loan book quality	Recoveries of 10% (of the total non-performing loan book excluding LDFU)	Recoveries including insolvencies Recoveries excluding insolvencies	R476.8 million R429.4 million	Achieved
		The collections (including insolvencies) per loan book category are as follows:		
		Legal Retail Legal B&CB Pre-legal Retail Pre-legal B&CB Insolvencies Retail Insolvencies B&CB	R135.1 million R2.7 million R177.2 million R114.4 million R19.8 million R27.6 million	
		Recoveries for the year as a percentage of the total non-performing loan book as at 31 March 2010 was 26.6%.		
	Reduce non-performing loans to 15% of loan book	Including insolvencies, excluding LDFU Excluding insolvencies, excluding LDFU	11% 10.2%	Achieved
Cost-to-income ratio (all inclusive)	102.2%	Continuing operations: Including discontinued operations:	84.4% 93.1%	Achieved
Cost-to-income ratio (excluding legacy issues)	82.5%	Continuing operations, excluding legacy issues	82.2%	Achieved

*B&CB: Business and Corporate Banking

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Capital adequacy ratio	20%	Including government guarantee 43% Excluding government guarantee 29% The Bank maintained a capital adequacy ratio in excess of 40% in 2010/11. The ratio includes the cash injection of R1 billion in December 2009, R750 million in November 2010 and the remaining R1.75 billion guarantee in place at 31 March 2011. The remaining guarantee is expected to be injected in cash during 2012 (R750 million) and 2013 (R1 billion) respectively.	Achieved
Diversify income streams *(non-interest income streams, through charging of fees for services, equity and investment income)*	8.5% of 5% growth in gross loan book	To facilitate income from non-interest revenue streams, the Operations Business Unit formulated a revised fees and cost proposal that has been approved by the Board during quarter 4 for implementation. In 2010/11, the Bank restructured two transactions that will generate future non-interest income: • Transaction 1: the Bank is entitled to 10% of profits that will materialise in future. • Transaction 2: The conversion of debt into equity was approved by the Board and submitted for approval to the shareholder. The arrangement entitles the Bank to a 49% shareholding in the entity. Future income will be in the form of dividends and capital growth in the underlying investments. The realisation of income depends on future performance of the entities and cannot be reliably estimated. Diversification of income stream will remain a key area of focus in the next financial year.	Partially Achieved
Financial plan: Net profit (total comprehensive income)	R190.1 million	Actual: R249.9 million 131% of target achieved	Achieved
Financial plan: Gross interest margin	38.5%	39.2%	Achieved
Financial plan: Net interest margin	2.9%	3.5%	Achieved
	Net interest income - R540 million	Actual: R511.1 million 94.6% of target achieved. The main reason for not achieving the target is that the Bank projected a flat repo rate against an actual drop in the repo rate of 150 basis points in 2010/11.	Substantially achieved
Improve liquidity management	Maintain liquidity as per market risk model Reduction of the R2.5 billion liquidity buffer	The implementation of the new cash flow/liquidity model was finalised during quarter 2. The Bank reduced the liquidity buffer to between R1.5 billion and R2 billion through the implementation of an appropriate liquidity model. Cash and cash equivalents as at 31 March 2011: R2 billion. The cash balance includes the cash injection of R750 million received from National Treasury during quarter 3.	Achieved
	Cost of funds prime less 2.25%	Actual: Prime less 2.531%	Achieved
Diversify sources of funding	7% increase in number of new investors	20% increase in number of new investors.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Pricing mechanism	Risk appetite framework established New Land Bank pricing model in use Review of credit processes	A risk appetite framework has been developed to articulate and allocate the amount of risk the Bank is willing to accept against a list of defined risk impact criteria in pursuit of its development mandate. The framework has been approved by EXCO and presented to the Risk Committee. The model will be presented to the Board for approval during quarter 2 of 2011/12. Credit processes were reviewed during quarter 3. A portfolio pricing model has been developed to test the financial impact of lending rates on the Bank. The model was presented to the Board and approved in principle. The model is used monthly by the Pricing Committee to guide the financial impact of lending rates. The pricing scenario model is further used to test the financial sustainability of the new Retail Emerging Market business division, as well as funding options.	Partially achieved
Workout of the LDFU portfolio	Progress on the workout of the LDFU portfolio – formulation of an appropriate, three-year implementable plan within the guidelines of applicable legislation	Net balance at 31 March 2011 R153.9 million Net balance at 31 March 2010 R153.8 million A revised strategic action plan has been developed for implementation and presented to the Board for noting. The Bank accepted one settlement offer to the value of R7 million in 2010/11. Despite its efforts, the Bank has not found interested parties to refinance the debt. The situation is exacerbated by global economic conditions and a deprived local market. The Bank continues to explore options.	Partially achieved
Build a sustainable supply of key talent	Talent management strategy operational Succession plans in place for 51 critical skills and 25 leadership positions Signed-off job profiles for all employees Human job analysis matching exercise	• The talent management strategy became fully operational in 2010/11. • Succession plans for all critical positions were scoped during quarter 3, 100% of which received business unit endorsement during quarter 4. All succession plans were presented to EXCO. • All job profiles were signed and have been updated on the SAP HR system. • The human job analysis profiles pilot project was completed. Identified employee gaps will be addressed in individual performance development programmes. This process will only be rolled out in the next financial year. • The on-boarding (induction) programme was finalised. Roll-out will take place in 2011/12. • The employee hand book was formalised. • The mentoring and coaching programme was endorsed by EXCO.	Achieved
Improve leadership effectiveness	Leadership effectiveness index developed and baseline established Index developed for 25 positions Baseline established for EXCO members and senior managers	A leadership effectiveness index was developed during quarter 3, which was presented and adopted by EXCO. To improve the organisation's leadership, 29 senior and middle managers completed a leadership development course. In addition, EXCO members were taken through interventions to enhance leadership and personal development. Generic training interventions continued to be rolled out. Staff enrolment at educational institutions continued to increase and the year-end pass rate of employees enrolled exceeded 70%.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Build organisational design and development capabilities	Develop a Bank-wide employee engagement programme and a baseline survey	Towards the end of quarter 3, a culture survey was conducted across the Bank. Five areas were assessed in the survey: ● Results orientation ● Relationships ● Learning/adaptive ● External focus ● Structure/consistency The survey assessed the readiness for change across the Bank that would come about as a result of the Fit for the Future programme. The results of the culture survey were made available in quarter 4. An international benchmark was used to compare the Bank's results, which were positive overall. The Fit for Future Steering Committee signed off on two areas that need improvement – results orientation and external focus. Business unit engagement and the formalisation of action plans will be the focus areas for the next financial year.	Achieved
	Develop defined organisational structures to support the Fit for the Future operating model	The organisation design work stream from the Fit for the Future programme; completed the assessment process to complete the business model. The Operations Business Unit was identified as a focus area, and organisation design principles and proposed organisational structural changes were signed off by EXCO during quarter 4. The structural changes brought about a new business division: Retail Emerging Market. This business division will focus on developing black emerging farmers. The business model for the Corporate Finance (Business and Corporate Banking) and Retail division (Retail Commercial Banking) allows the business to place more emphasis on customer relationships and sharing of capabilities. A change impact analysis was conducted, which necessitated the development of a workforce transition plan. The workforce transition plan will be rolled out during 2011/12.	Achieved
Improve employee relations to create an attractive work environment	Integrated employee wellness plan operational with 50% staff participation	The wellness strategy was formalised and approved. The existing service provider relaunched its product offerings and services in October 2010. Service utilisation is being monitored against a baseline. The employee wellness engagement rate baseline is 28.4%. Average service utilisation during quarter 4 was 67.2%.	Achieved
	Industrial relations and training programmes rolled out for management and staff	The scoping of industrial relations awareness and training programmes was completed during quarter 1. The development of awareness programmes and three training modules has been completed. Role players have been identified and training interventions developed. The industrial relations training roll-out was postponed to the next financial year, as priority was given to training for the launch of the SAP core banking system. Industrial relations training will begin in quarter 1 of 2011/12.	Substantially achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Create an environment that fosters and rewards high performance	An integrated performance and reward management model entrenched and performance management processes aligned with other HR processes	Performance management targets for all staff have been finalised and are aligned to the targets of the executive senior and middle management. For staff members that scored below expectation, development initiatives were formulated and progress against development targets is being monitored. Leadership development programmes have been aligned to performance management.	Achieved
	Implement a recognition programme consisting of criteria, events calendar and adjudication processes	Two awards evenings took place during the year as part of the Hlanganani Excellence Awards initiative.	Achieved
	Develop a short-term incentive programme	The Board approved the short-term incentive programme in August 2010 for implementation during quarter 3.	Achieved
	Develop a long-term incentive programme, including variable compensation model (linked to values)	The Board postponed the development of a long-term incentive scheme. The HR and Remuneration Committee requested that management prioritise and finalise the implementation of the short-term incentive scheme. The long-term incentive scheme will be revisited in 2011/12.	Target withdrawn
Emphasise employment equity	5% annual improvement on ACI appointments	Improvement of 3.4% achieved as at 31 March 2011 against a target of 5%. Actual ACl representation: 56.3% The set target was not achieved because of the lower-than-budgeted staff turnover rate. The staff turnover rate dropped to 4.83% in 2011 (2010: 7.35%) compared to a budgeted staff turnover rate of 8%. People with disabilities represent 1.16% of the staff complement (2010: 1%) Details of employment equity statistics are included in the human capital report.	Not achieved
Enable management information systems	Core banking system strategy implemented	Also reported under SCOPA resolutions and Portfolio Committee undertakings above: The implementation of the SAP core banking system, named Project ARISE, provides a new core banking platform with automation of banking processes in line with best practices. The project also focused on the decommissioning of the current banking solution, PeopleSoft. The project began in July 2010 and all business requirements were identified and signed off. The realisation phase of the project was completed during quarter 3, and the documentation of training manuals and test cases began. Data migration and data cleansing, which was subject to internal audit review, took place during quarter 4. The project was successfully implemented on 14 March 2011 and is currently in the support phase. The decommissioning of PeopleSoft coincided with the last month-end run of the old system in March 2011.	Achieved
	Electronic content (document) management solution implemented	• A centralised document repository based on Microsoft SharePoint server technology is in place • All business units have signed off business requirement specs regarding the structure of content • The uploading of content is being managed by content champions as part of an ongoing process.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Adequate IT infrastructure and capacity	IT equipment refreshed throughout the bank Replace desktop equipment with current hardware Upgrade to Windows 7 and Office 7 Roll-out updated infrastructure to branches	• The IT asset life-cycle management standards document was approved by EXCO in September 2010 • All branch servers were purchased and installed • Replacement desktop equipment has been rolled out • All users have been equipped with new desktops or laptops as planned.	Achieved
	IT organisational structure and capacity aligned to Bank requirements	The IT structure depends on finalising the Fit for the Future initiative that is currently in the implementation phase.	Not achieved
Streamline operations and credit business processes Branch network operations	Optimal loan origination workflow implemented (optimisation of processes) Reduce turnaround times Branch network infrastructure adequacy assessed	The streamlining of operations and credit business processes, as well as the branch network adequacy assessment forms part of the Fit for the Future project that began in September 2010. Fit for the Future aims to drive the Bank's growth using empirically developed targets for the identified market segments locally and nationally to drive sustainability. It aims to provide business process re-engineering, optimisation of branches and a cultural change journey for the Land Bank that drives efficiencies. The project is being implemented. A national convention took place on 15 and 16 April 2011 that announced the operating model and the roll-out plan and activities to all Bank employees. The implementation will begin with a simulation of the hub concept in Bloemfontein, followed by a rapid roll-out to five branches, followed by others. Workforce transitioning will follow suit and will be responsible for the roll-out to ensure all people-related matters are dealt with professionally and as planned. Project ARISE provided a new core banking platform with automation of banking processes in line with best practices. The project was successfully inaugurated on 14 March 2011, on time and under budget. It is in the support phase.	Partially achieved
Enhanced product offering	• Complete investigation on product range • Develop new products for identified market segments	Two products, were identified, sugar cane and the cash credit account, formerly only a B&CB product. Product concept documents have been finalised and circulated to all branches: • The sugar cane product has been rolled out to branches in Pietermaritzburg, Vryheid and Nelspruit. • The cash credit account has been rolled out to the Paarl branch, including a risk framework and user procedure manual. A training session was conducted by B&CB Cape Town.	Achieved
Tzaneen pilot roll-out to other branches	Tzaneen pilot/ revitalisation substantially completed and roll-out plan to other branches formalised	11 branches of 27 have been identified for the roll-out of the revitalisation project. The revitalisation project yielded positive results. The 11 identified branches contributed R136 million to the increase in the Bank's performing loan book and R69.3 million to the decrease in non-performing loans.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Scanning of the environment	Monthly environmental scan operational	• All monthly industry reports and economic reviews have been tabled. • The quarterly policy review document was completed in March 2011. • The norms and standards methodology has been approved and implemented through various training sessions undertaken in quarter 4.	Achieved
	Research advisory panel operational	• The Research Committee charter was approved by EXCO during quarter 3. • The charter provides guidance on the constitution of the research panel, including the research agenda. • There were two Research Advisory Committee meetings during the year.	Achieved
	Market segmentation framework developed	The market segmentation framework, defining the target market, was completed during quarter 1 and included in the Fit for the Future framework. The market segmentation framework enables the Bank to identify the key needs of each segment and define value propositions in each of the segments. The framework was applied as one of the key inputs in developing the new Land Bank business model.	Achieved
Advice and advocacy	Agriculture policy advocacy and expert advice capacity in place	• The advice and advocacy framework has been finalised • The quarter 4 advice and advocacy report was completed in line with approved framework.	Achieved
Stakeholder platforms and channels (marketing and communications)	Degree of positive publicity	Overall, the Bank received positive publicity during the year under review. A stable financial outlook supported by positive 31 March 2010 results resulted in the launch of the domestic medium-term note programme during quarter 3. Overall the Bank attracted nine new investors, which represents an increase of 20% over the prior year.	Achieved
	Quarterly internal newsletter	Four internal quarterly newsletters were issued during the year.	Achieved
Partnership contracts and memoranda of understanding	Partnerships in finance, development and agricultural sectors	A number of projects with state-owned enterprises (National Agricultural Marketing Council, Agricultural Research Council, Onderstepoort Biological Products and Perishable Products Export Control Board) were reviewed in 2010/11. Engagement with stakeholders and efforts to operationalise partnerships are taking longer than anticipated. The Universities of Venda, Fort Hare and Limpopo have signed memoranda of understanding for the Bank's university chair support programme. Mechanisms to monitor the results and reporting will be developed in the next financial year.	Partially achieved
Public information centre	Land Bank website (Establish a public information centre)	**Multimedia centre** • Due to technical difficulties in the first broadcast of the video-based electronic communication platform, it did not take place as planned. The Bank's communications team is addressing the matter. • The annual external publication targeted at external stakeholders was completed. The Bank is promoting and distributing the publication. **Website** • The internet communication platform was upgraded with a new design and graphics. • The new platform is not yet operational, as revised content has not yet been loaded and will be an area of focus in the next financial year.	Partially achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Integrate enterprise-wide risk management within the organisation	Risk management committees ensure compliance Annual update of enterprise-wide risk management framework and alignment to international best practice Develop and approve the operational risk management framework	The Land Bank has established risk committees at management level that report to the Board Risk Committee: • Operational Risk and Compliance Committee. • Asset and Liability Committee. • IT Steering Committee. The Operational Risk and Compliance Committee has a standing agenda item to comply with laws and legislation. The Operational Risk and Compliance Committee and the Asset and Liability Committee met 10 times during the year. The Board approved the Bank's enterprise risk management framework in August 2010. The operational risk management framework was finalised in quarter 3. A maturity level assessment of enterprise-wide risk management within the Bank performed by Internal Audit confirmed that more work is required to integrate enterprise risk management in the Bank's operations.	Partially achieved
Identify and quantify relevant strategic and operational risks	Establish proactive risk management policies (enterprise risk and operational risk) and processes The enterprise-wide risk management and operational risk management policies must facilitate the written assessment of the effectiveness of the Bank's systems of internal controls and risk management	The Board approved the Bank's enterprise risk management policy in August 2010. The establishment of documented policies and processes on compliance, market risk, asset and liability management and operational risk management was completed during quarter 4. A first draft of the credit risk monitoring manual has been completed. A risk appetite framework has been developed to articulate and allocate the amount of risk the Bank is willing to accept against a list of defined risk impact criteria in pursuit of its development mandate. The framework has been supported by EXCO and was presented to the Risk Committee. The Bank is incorporating proposed amendments to the framework. The Bank's Internal Audit division facilitated input into the written assessment on the effectiveness of the Bank's system of internal control and risk management. A maturity-level assessment of enterprise-wide risk management within the Bank performed by Internal Audit confirmed that more work is required to operationalise the ongoing identification and quantification of strategic and operational risks within the Bank.	Partially achieved
	Undertake risk training interventions	Risk training was completed during quarter 3. In addition, training on the Consumer Protection Act was provided to area managers and internal control training was provided to risk champions during quarter 4.	Achieved
	Updated accountability matrix	The delegation of power was presented and approved by the Board in August 2010.	Achieved
	Comprehensive risk register for 2011/12	In terms of regulatory requirements, the comprehensive risk register was reassessed for the 2012 financial year as part of the formalisation of the 2012-2014 Corporate Plan.	Achieved
	Annual self-assessment of the effectiveness of the Board and its subcommittees	The Board completed the annual self- assessment. Salient features of the self-assessment are disclosed in the Board of Directors section of this report.	Achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Ensure statutory and regulatory compliance	Build up of compliance manual and integrity of information: • Compliance monitoring and reporting on core legislation • Roll-out of risk management plans	The Bank complied with all the regulatory requirements relating to its core legislation. The roll-out of risk management plans to the human capital cluster has been completed.	Achieved
	Compliance related training interventions (roll-out electronic training)	A number of training interventions, using an electronic platform, were undertaken during 2010/11. These included training on fruitless and wasteful expenditure and fraud and ethics awareness campaigns. Electronic awareness relating to the National Credit Act, Financial Intelligence Centre Act and the Consumer Protection Act were also rolled out to all employees through the Bank's intranet.	Achieved
	New policies to strengthen corporate governance	22 new policies were approved and 17 existing policies were reviewed in 2010/11.	Achieved
	Provide business support to other business units in compliance with regulatory requirements	The 2012-2014 Corporate Plan and Shareholders Compact was completed and submitted to National Treasury on 14 March 2011.	Achieved
	Development of a BEE charter/scorecard	The BEE policy framework was formulated and the policy was approved during quarter 1 of 2010. A BEE verification agency was appointed and the assessment against the scorecard was undertaken during quarter 4. The Bank was rated as a level 5 entity.	Achieved
LBIC			
Obtain long-term and short-term insurance license	Obtain final approval from National Treasury to register two new subsidiaries to house long-term and short-term insurance business	National Treasury granted approval for the registration of the new LBIC company structure and the registration of two new subsidiaries to house the long- and short-term insurance business. Approval was obtained just before the end of the financial year. The company has met with the Financial Services Board to start the registration process.	Achieved
	Regulatory registrations relating to the new structure (Companies Act, Financial Advisory and Intermediary Services Act, Financial Services Board – short-term and long-term licence)	The registration of the two new subsidiary companies was dependent on the approval from National Treasury, which was only received in the last month of the financial year. The Bank has submitted its licence applications to the Financial Services Board.	Not achieved
Diversify income stream	Launch of new insurance products – livestock, asset insurance, full life insurance	Although underwriting guides and training on whole life and group scheme business were completed during quarter 3, the launching of new insurance products could not be finalised due to the dependency of obtaining approval from National Treasury.	Not achieved
Improve service delivery	Establish a call centre to allow a direct line of communication between LBIC and its policy holders	LBIC has been allocated seats within the Land Bank call centre, but the facility was not utilised during 2010/11.	Partially achieved

Key performance area	Key performance indicator by 31 March 2011	Actual with explanations 31 March 2011	Status indicator at 31 March 2011
Grow gross premium income	Year-on year growth in premium income by R14 million	Growth in gross premiums: R39.7 million	Achieved
	Independent actuarial pricing review on all lines of business	The appointed actuary completed the pricing review and the results were tabled by the Investment and Actuarial Committee during quarter 3.	Achieved
Annual review of the reinsurance strategy	Annual review and approval of the adequacy of the reinsurance strategy	The annual review of the reinsurance strategy was completed and presented to the LBIC Board in August 2010 and was re-tabled and approved at the May 2011 Board meeting for approval.	Achieved
Streamline operational processes	• Establish insurance admin system to house all long-term insurance administration activities • Correct set-up of LBIC on SAP HR system.	The Websure administration system, which is currently used to administer the new LBIC book of business, now also houses the old SAVVEM insurance policies, previously administered on PeopleSoft. The transfer of activities from PeopleSoft to Websure took place during quarter 2. LBIC's set-up on the current Land Bank HR SAP platform was completed during quarter 3.	Achieved

Achievements that will sustain the Bank

The Land Bank continues to make solid progress towards building a long-term sustainable institution. Key developments and indicators that support the sustainability of the Bank include:

- Established management team with a proven record
- Increase in capital levels through internally generated equity and cash injected by the shareholder
- The Bank consistently achieved the vast majority of its strategic objectives since the transfer of administrative powers to the National Treasury in July 2008.

Environmental performance

As the Agricultural Development Bank of South Africa, the Bank recognises that it has to play a part in addressing global environmental concerns, such as water quality and sustainable agriculture. Going forward, the Bank will place more emphasis on the impact on the environment when granting credit.

Standing Committee on Public Accounts resolutions

The Bank had only one SCOPA resolution outstanding at the beginning of 2010/11, which was introducing the new banking system. The Directors are pleased to report that the project was successfully launched on 14 March 2011 and is currently in the support phase. The decommissioning of PeopleSoft coincided with the last month-end run of the old system in March 2011.

Fruitless and wasteful expenditure (F&WE)

Full details of F&WE are disclosed in note 36 to the financial statements. Although it is unfortunate that the Bank has incurred F&WE during the reporting period, one should note the history that gave rise to the large quantity of F&WE in prior periods and the significant and continued reduction in F&WE during the last two financial periods.

The Bank has incurred F&WE to the value of R0.1 million for the year ended 31 March 2011 (2010: R0.9 million, of which R0.5 million related to legacy matters). The nature of the F&WE relates mainly to late payment and penalty interest charges regarding the non-timely payment of utility and Telkom accounts. The decentralised operations of the Bank's branches and the centralisation of payments at head office created problems for timely payments. The Bank continues to tighten controls to prevent incurring F&WE.

LDFU loans

The matter emphasised by the Auditor-General is his report relates to the LDFU loans granted in 2006/07 outside the Bank's mandate in terms of the Land Bank Act.

The Auditor-General's view is that as long as the loans remain on the balance sheet, emphasis will be drawn to the matter in the audit report. Notwithstanding ongoing management efforts, market conditions have not been favourable to dispose of the LDFU loan portfolio and the loans remain as a discontinued operation on the balance sheet of the Bank. The Bank is considering alternative options to deal with the LDFU loan portfolio. Progress on the forensic investigations into the LDFU loans is disclosed under 'Progress on Special Investigations' below.

Contingent liabilities – legal claims

Note 32.4 in the financial statements discloses circumstances that give rise to contingent liabilities in terms of the accounting standards. The outcome of the reported legacy matters will be determined by future events that may or may not occur. Management believes that although possible, it is not probable that the claims will succeed and accordingly no provision for any liabilities has been made in these financial statements.

Progress on special investigations

At the time of the transfer of administrative powers to the National Treasury in July 2008, four historical special investigations that were inconclusive at the time were handed over to the relevant authorities. Progress has not met the expectations of the Bank and as a result it has engaged professional firms to support the SAPS and Hawks in their respective investigations. The investigations are continuing and arrests have been made in two of the cases. Management is committed to the process and continues to procure professional support to assist the authorities. Progress to date is summarised below:

- **AgriBEE forensic investigations**
  The investigative team consists of members of the Asset Forfeiture Unit, Special Investigating Unit, SAPS, Serious Economic Offences Unit, private forensic investigators, the Financial Intelligence Centre and the Public Prosecutor from the National Prosecuting Authority. Four suspects were arrested on 1 March 2011 and appeared in court on 2 March 2011. The suspects were granted bail of 20,000 each and the case was remanded to 3 May 2011.

- **LDFU forensic investigations**
  The investigative team consists of private forensic investigators, Financial Intelligence Centre and SAPS. All 358 payments in respect of the LDFU transactions have been captured, analysed and supporting documents requested by the investigating team have been obtained. The authorities are expecting to conclude these investigations in the near future.

- **MAFISA forensic investigations**
  The Hawks have undertaken this investigation. The matter was in court on 21 January 2011 and remanded to 11 March 2011, because of the applicants' request to change courts from Magistrate to Regional. One of the accused pleaded guilty to the charges. A trial date was set for the new financial year.

- **IT forensic investigations**
  All bank accounts of former Land Bank staff members that were implicated have been received by the SAPS, which is analysing the information.

- **Recent attempt to defraud the Bank**
  During December 2010, an attempt from outside the Bank was made to irregularly transfer money out of the Bank's main bank account. The Group's banker detected the attempt to defraud the Bank and managed to stop the payments. An investigation was undertaken but was subsequently withdrawn due to insufficient evidence. The case will be reinstated if the investigating officer manages to gather sufficient evidence.

Events subsequent to balance sheet date

The Bank's Chief Financial Officer (Wolf Meyer), resigned effective 10 June 2011. The Bank, in response to the resignation and effective 1 July 2011, redeployed the Chief Operations and Investments Officer (Lebogang Serithi) as Chief Financial Officer and the Chief Treasurer (Vincent Potloane) as the Chief Operations and Investments Officer.

No other events occurred after the balance sheet date that render adjustment to and/or disclosure in the annual financial statement.

Conclusion

A clear strategy, tireless efforts, courageous leadership and the unwavering support of the shareholder, all contributed to the successful completion of the Bank's turnaround programme. One of the most significant outcomes from the process is clarity around the Bank's role in fulfilling its development mandate as outlined in the Land Bank Act. Significant progress has already been made to establish and mobilise systems, processes and people to achieve the development targets the Bank has set for itself. Notwithstanding a number of legacy issues that will continue to require time and resources, the Bank is well positioned to successfully progress towards long-term sustainability.

Report of the Auditor-General

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

Report on the financial statements

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the Land and Agricultural Development Bank of South Africa (Land Bank), which comprise the consolidated and separate statement of financial position as at 31 March 2011, and the consolidated and separate statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 76 to 189.

Accounting authority's responsibility for the consolidated financial statements

2. 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 (IFRS), 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, 1973 (Act No. 61 of 1973), and for such internal control as management determines 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. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these consolidated and separate financial statements, based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Land Bank and its subsidiaries as

at 31 March 2011, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the PFMA and the Companies Act.

Emphasis of matters

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

Non-agricultural land development transactions

8. The core mandate of the Land Bank as contained in section 3 of the Land Bank Act is to focus on agricultural development. To support its core business, the Land Bank entered into non-agricultural land development transactions in previous financial years, which were outside the Land Bank's mandate in terms of section 3 of the Land Bank Act. The granting of such loans was subsequently stopped and a forensic investigation into the alleged irregularities was completed in September 2007. The forensic report was handed to the relevant authorities during the 2008/09 financial year. As disclosed in the Director's report and disclosure note 21 to the consolidated financial statements, these assets have been ring-fenced and classified as assets held for sale.

Report on other legal and regulatory requirements

9. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 61 to 72 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

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

Compliance with laws and regulations

11. There are no findings concerning material non-compliance with laws and regulations applicable to the public entity..

Internal control

12. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements and/or findings on predetermined objectives and/or material non-compliance with laws and regulations.

Other reports

Investigations

13. A number of matters are currently in the process of being investigated relating to historical IT system implementation irregularities, Land for Development Finance Unit irregularities, irregularities in respect of the AgriBEE and Mafisa funds administered on behalf of the Department of Agriculture and the attempted fraudulent transfer of money from the Land Bank's main bank account. Details of these matters are being disclosed in the director's report on page 73.

Agreed upon procedures engagements

14. As requested by the Land Bank, agreed upon procedures were performed during the year under review concerning compliance with the Bond Exchange of South Africa (BESA) and compliance with the National Credit Act (NC). This report covered the period April 2009 to March 2010 and was issued on 13 August 2010.
15. As requested by the Land Bank, agreed upon procedures were performed during the year under review concerning compliance of the Programme Memorandum with the notice regarding the issuance of Senior Unsecured Fixed Rate and Floating Notes. ZAR2,000,000,000 Senior Unsecured Fixed Rate and Floating Notes were issued under the ZAR10,000,000,000 Domestic Medium Term Note Programme according to the Programme Memorandum and the applicable pricing supplement. This report covered the six month period ended 30 September 2010 and was issued on 18 October 2010.

Auditor-General

Pretoria
30 July 2011

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Annual Financial Statements
of the Land Bank Group for the Year Ended 31 March 2011

General information

The following information pertains to the Land and Agricultural Development Bank of South Africa (Land Bank) and its subsidiary, Land Bank Insurance Company 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 of 2002

1.3 Auditor
Auditor-General

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

PO Box 375
Tshwane
0001

1.8 Company secretary
Lorraine Mtsweni

2 Land Bank Insurance Company Limited

2.1 Holding company
Land and Agricultural Development Bank of South Africa

2.2 Company registration number
1954/003095/06

2.3 Auditor
Auditor-General

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
PO Box 375
Tshwane
0001

2.8 Public Officer
Nazir Ebrahim

2.9 Company secretary
Lorraine Mtsweni

Index to the Annual Financial Statements of the Land Bank Group for the Year Ended 31 March 2011

Directors' Responsibility for the Annual Financial Statements

The directors are responsible for the preparation, integrity and objectivity of the 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 to report on the fair presentation of the financial statements.

The 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 annual financial statements for the year ended 31 March 2011 as set out on pages 78 to 187 were approved by the Board in terms of section 55(1)c of the Public Finance Management Act, 1 of 1999 on 28 July 2011 and signed on its behalf by:

Dr BBS Ngubane
Chairperson
Date: 28 July 2011

PS Hadebe
Chief Executive Officer
Date: 28 July 2011

Statement of Financial Position

as at 31 March 2011

		Group		Bank	
		2011	2010	2011	2010
	Note	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	3	**2,087,520**	1,934,823	**2,003,899**	1,923,138
Trade and other receivables	4	**181,831**	140,939	**189,166**	47,922
Short-term insurance assets	5	**101,409**	64,353		
Repurchase agreements	6	**-**	14,779	**-**	14,779
Non-current assets held-for-sale	7	**53,383**	30,803	**53,383**	30,803
Investments	8	**1,199,335**	1,073,879	**227,862**	211,200
Loans and advances	9	**14,299,153**	12,294,424	**14,299,153**	12,294,424
Assets of disposal group classified as held-for-sale	10	**153,890**	153,898	**153,890**	153,898
Derivative financial instruments	11	**6,855**	15,149	**6,855**	15,149
Intangible assets	12	**58,002**	4,600	**58,002**	4,600
Investment properties	13	**42,620**	110,890	**42,620**	110,890
Property and equipment	14	**113,675**	116,178	**113,675**	116,178
Total assets		**18,297,673**	15,954,715	**17,148,505**	14,922,981
Equity and liabilities					
Capital and reserves		**4,739,754**	3,706,956	**3,896,486**	2,899,826
Distributable reserves	15	**4,632,242**	3,585,243	**3,788,974**	2,778,113
Non-distributable reserve	15	**107,512**	121,713	**107,512**	121,713
Liabilities					
Trade and other payables	16	**199,348**	183,128	**75,076**	95,422
Short-term insurance liabilities	5	**134,939**	90,819		
Derivative financial instruments	11	**21,673**	21,649	**21,673**	21,649
Policyholders' liabilities	17	**44,747**	45,071		
Funding liabilities	18	**11,854,986**	10,661,930	**11,854,986**	10,661,930
Provisions and accruals	19	**399,335**	416,227	**397,393**	415,219
Post-retirement obligation	20	**218,844**	190,149	**218,844**	190,149
Liabilities directly associated with the assets of disposal group classified as held-for-sale	21	**684,047**	638,786	**684,047**	638,786
Total equity and liabilities		**18,297,673**	15,954,715	**17,148,505**	14,922,981

Statement of Comprehensive Income

for the year ended 31 March 2011

		Group		Bank	
		2011	2010	2011	2010
	Note	R'000	R'000	R'000	R'000
Continuing operations					
Net interest income		**511,148**	748,517	**511,146**	748,515
Interest income	22	**1,305,020**	1,754,394	**1,305,018**	1,754,392
Interest expense	23	**(793,872)**	(1,005,877)	**(793,872)**	(1,005,877)
Net impairment releases/(charges), claims and recoveries	9.4	**125,059**	(157,298)	**125,059**	(157,298)
Total income from lending activities		**636,207**	591,219	**636,205**	591,217
Non-interest income	24	**52,011**	65,248	**52,711**	65,948
Operating income from banking activities		**688,218**	656,467	**688,916**	657,165
Operating (loss)/income from insurance activities	25	**(13,261)**	11,036		
Investment income	26	**143,405**	214,075	**80,572**	50,811
Fair value gains	27	**11,222**	37,799	**11,222**	37,799
Operating income		**829,584**	919,377	**780,710**	745,775
Operating expenses	28	**(489,324)**	(491,231)	**(476,638)**	(479,490)
Net operating income		**340,260**	428,146	**304,072**	266,285
Non-trading and capital items	29	**37,556**	17,781	**37,556**	17,781
Net profit before indirect taxation		**377,816**	445,927	**341,628**	284,066
Indirect taxation	30	**(26,879)**	(23,131)	**(26,829)**	(23,096)
Net profit from continuing operations		**350,937**	422,796	**314,799**	260,970
Discontinued operations					
Net loss from discontinued operations	21	**(45,267)**	(68,353)	**(45,267)**	(68,353)
Profit for the year		**305,670**	354,443	**269,532**	192,617
Other comprehensive income					
Actuarial (loss)/gains on the post-retirement medical aid liability		**(21,369)**	9,556	**(21,369)**	9,556
Revaluation of land and buildings		**1,797**	15,090	**1,797**	15,090
Total other comprehensive (loss)/income for the year		**(19,572)**	24,646	**(19,572)**	24,646
Total comprehensive income for the year		**286,098**	379,089	**249,960**	217,263

Statement of Changes in Equity

for the year ended 31 March 2011

Group	Capital Fund R'000	General Reserve R'000	Insurance Reserve R'000	Contingency Reserve R'000	Revaluation Reserve R'000	Discontinued operations R'000	Total R'000
Balance at 31 March 2009	**900,955**	**1,369,169**	**645,304**	**-**	**106,623**	**(416,537)**	**2,605,514**
At 1 April 2009	**900,955**	**1,369,169**	**645,304**	**-**	**106,623**	**(416,537)**	**2,605,514**
Prior year adjustment[1]	-	(277,647)	-	-	-	-	(277,647)
Restated opening balance	**900,955**	**1,091,522**	**645,304**	**-**	**106,623**	**(416,537)**	**2,327,867**
Profit/(loss) for the year	-	260,970	161,826	-	-	(68,353)	354,443
Other comprehensive income	-	9,556	-	-	15,090	-	24,646
Total comprehensive income/(loss)	**900,955**	**1,362,048**	**807,130**	**-**	**121,713**	**(484,890)**	**2,706,956**
Recapitalisation by National Treasury	1,000,000	-	-	-	-	-	1,000,000
Transfer to the contingency reserve	-	-	(4,591)	4,591	-	-	-
Balance at 31 March 2010	**1,900,955**	**1,362,048**	**802,539**	**4,591**	**121,713**	**(484,890)**	**3,706,956**
At 1 April 2010	**1,900,955**	**1,362,048**	**802,539**	**4,591**	**121,713**	**(484,890)**	**3,706,956**
Profit/(loss) for the year	-	264,799	86,138	-	-	(45,267)	305,670
Other comprehensive (loss)/income	-	(21,369)	-	-	1,797	-	(19,572)
Total comprehensive income/(loss)	**1,900,955**	**1,605,478**	**888,677**	**4,591**	**123,510**	**(530,157)**	**3,993,054**
Recapitalisation by National Treasury	746,700	-	-	-	-	-	746,700
Reversal of revaluation surplus on buildings sold	-	15,998	-	-	(15,998)	-	-
Transfer to the contingency reserve	-	-	(1,264)	1,264	-	-	-
Balance at 31 March 2011	**2,647,655**	**1,621,476**	**887,413**	**5,855**	**107,512**	**(530,157)**	**4,739,754**

[1] Prior year adjustment relates to administration and penalty fee exposure on retail loans (refer to note 19).

Statement of Changes in Equity (continued)

Bank	Capital Fund R'000	General Reserve R'000	Revaluation Reserve R'000	Discontinued operations R'000	Total R'000
Balance at 31 March 2009	**900,955**	**1,369,169**	**106,623**	**(416,537)**	**1,960,210**
At 1 April 2009	**900,955**	**1,369,169**	**106,623**	**(416,537)**	**1,960,210**
Prior year adjustment[1]	-	(277,647)	-	-	(277,647)
Restated opening balance	**900,955**	**1,091,522**	**106,623**	**(416,537)**	**1,682,563**
Profit/(loss) for the year	-	260,970	-	(68,353)	192,617
Other comprehensive income	-	9,556	15,090	-	24,646
Total comprehensive income	**900,955**	**1,362,048**	**121,713**	**(484,890)**	**1,899,826**
Recapitalisation by National Treasury	1,000,000	-	-	-	1,000,000
Balance at 31 March 2010	**1,900,955**	**1,362,048**	**121,713**	**(484,890)**	**2,899,826**
At 1 April 2010	**1,900,955**	**1,362,048**	**121,713**	**(484,890)**	**2,899,826**
Profit/(loss) for the year	-	314,799	-	(45,267)	269,532
Other comprehensive (loss)/income	-	(21,369)	1,797	-	(19,572)
Total comprehensive income/(loss)	**1,900,955**	**1,655,478**	**123,510**	**(530,157)**	**3,149,786**
Recapitalisation by National Treasury	746,700	-	-	-	746,700
Reversal of revaluation surplus on buildings sold	-	15,998	(15,998)	-	-
Balance at 31 March 2011	**2,647,655**	**1,671,476**	**107,512**	**(530,157)**	**3,896,486**

[2] Prior year adjustment relates to administration and penalty fee exposure on retail loans (refer to note 19).

Statement of Cash Flows

for the year ended 31 March 2011

		Group		Bank	
		2011	2010	2011	2010
	Note	R'000	R'000	R'000	R'000
Net profit from continuing operations[1]		**379,568**	432,352	**293,430**	270,526
Net loss from discontinued operations		**(45,267)**	(68,353)	**(45,267)**	(68,353)
		334,301	363,999	**248,163**	202,173
Adjustment to reconcile profit to net cash flows					
Non-cash items:		**624,333**	770,150	**736,556**	956,992
Interest expense	23	**793,872**	1,005,877	**793,872**	1,005,877
Fair value movement of financial instruments	26, 27	**(110,744)**	(206,301)	**(33,480)**	(82,463)
Dividend income	26	**(15,967)**	(15,834)	**(3,823)**	(1,739)
Interest income	26	**(27,916)**	(29,739)	**(4,491)**	(4,408)
Depreciation and impairment of property and equipment	14	**7,762**	6,724	**7,762**	6,724
Write-off of obsolete assets on property and equipment	14	**205**	624	**205**	624
Fair value adjustments (properties in possession)	13, 29	**1,360**	(2,560)	**1,360**	(2,560)
Amortisation and impairment of intangibles	12	**(32,047)**	3,298	**(32,047)**	3,298
Fair value movement in policyholders' liabilities	17	**(324)**	(24,389)		
Fair value adjustment on non-current assets held-for-sale	7, 29	**11,202**	176	**11,202**	176
Adjustment of revaluation reserve	29	**(32)**	(152)	**(32)**	(152)
Movement in provisions	19	**(16,892)**	48,783	**(17,826)**	47,972
Movement in post-retirement obligation	20	**28,695**	(1,287)	**28,695**	(1,287)
Profit on disposal of property and equipment	29	**(19,481)**	(1,223)	**(19,481)**	(1,223)
Loss on disposal of properties in possession	29	**4,644**	355	**4,644**	355
Profit on disposal of shares	29	**-**	(14,196)	**-**	(14,196)
Impairment of other assets	29	**(4)**	(6)	**(4)**	(6)
Working capital adjustments:		**32,392**	(67,808)	**(111,590)**	(100,974)
Increase in trade and other receivables	4	**(40,890)**	(111,989)	**(91,244)**	(26,088)
Increase/(decrease) in trade and other payables	16	**66,218**	17,716	**(20,346)**	(74,886)
Increase in short-term insurance liability	5	**44,120**	90,819		
Increase in short-term insurance assets	5	**(37,056)**	(64,354)		
Cash flows from operating activities		**991,026**	1,066,341	**873,129**	1,058,191
Cash flows from operations		**(2,798,593)**	(1,390,483)	**(2,798,593)**	(1,390,483)
Interest paid	23	**(793,872)**	(1,005,877)	**(793,872)**	(1,005,877)
Increase in funding to clients	9	**(2,004,721)**	(384,606)	**(2,004,721)**	(384,606)
Cash flow from investing activities		**(20,291)**	296,534	**25,669**	293,064

[1] Includes other comprehensive income

Statement of Cash Flows (continued)

	Note	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Proceeds from disposal of property and equipment	14	**6,927**	505	**6,927**	505
Purchase of property and equipment	14	**(8,128)**	(20,518)	**(8,128)**	(20,518)
Addition to intangible assets	12	**(21,355)**	-	**(21,355)**	-
Proceeds from disposal of investment property	13	**-**	4,405	**-**	4,405
Proceeds from sale of non-current assets held-for-sale	7	**38,828**	-	**38,828**	-
Purchase of non-current assets held-for-sale	7	**(2,200)**	-	**(2,200)**	-
Proceeds from sale of shares	29	**-**	14,196	**-**	14,196
Proceeds from sale of financial instruments		**11,597**	289,132	**11,597**	289,132
Purchase of financial instruments		**(45,960)**	8,814	**-**	5,344
Cash flow from financing activities		**1,980,556**	(1,431,841)	**1,980,556**	(1,431,841)
Increase/(decrease) in funding	18	**1,233,856**	(2,431,841)	**1,233,856**	(2,431,841)
Capital injection from shareholder		**746,700**	1,000,000	**746,700**	1,000,000
Net increase/(decrease) in cash and cash equivalents		**152,697**	(1,459,449)	**80,761**	(1,471,069)
Cash and cash equivalents at beginning of year		**1,934,823**	3,394,272	**1,923,138**	3,394,207
Cash and cash equivalents at end of year	3	**2,087,520**	1,934,823	**2,003,899**	1,923,138

Segment Reporting

Primary segment reporting per business segment for the year ended 31 March 2011

Group - 2011	Retail R'000	Business and Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBIC R'000	Total Group (Excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Statement of comprehensive income								
Net interest income	174,981	123,821	212,344	**511,146**	2	**511,148**	(46,265)	**464,883**
Interest income	334,767	825,471	144,780	**1,305,018**	2	**1,305,020**	798	**1,305,818**
Interest expense	(159,786)	(701,650)	67,564	**(793,872)**	-	**(793,872)**	(47,063)	**(840,935)**
Impairment releases/(charges) on loans and advances	221,688	(96,629)	-	**125,059**	-	**125,059**	6,195	**131,254**
Total income/(loss) from lending activities	396,669	27,192	212,344	**636,205**	2	**636,207**	(40,070)	**596,137**
Non-interest income	31,464	3,477	17,070	**52,011**	-	**52,011**	-	**52,011**
Operating income/(loss) from banking activities	428,133	30,669	229,414	**688,216**	2	**688,218**	(40,070)	**648,148**
Operating loss from insurance activities	-	-	-	**-**	(13,261)	**(13,261)**	-	**(13,261)**
Investment income	-	-	30,572	**30,572**	112,833	**143,405**	-	**143,405**
Fair value gains	-	-	11,222	**11,222**	-	**11,222**	-	**11,222**
Operating income/(loss)	428,133	30,669	271,208	**730,010**	99,574	**829,584**	(40,070)	**789,514**
Operating expenses	(157,847)	(20,340)	(287,287)	**(465,474)**	(12,686)	**(478,160)**	(5,197)	**(483,357)**
Depreciation and amortisation	(1,241)	(195)	(9,728)	**(11,164)**	-	**(11,164)**	-	**(11,164)**
Net operating income/(loss)	269,045	10,134	(25,807)	**253,372**	86,888	**340,260**	(45,267)	**294,993**
Non-trading and capital items	(107)	-	37,663	**37,556**	-	**37,556**	-	**37,556**
Net profit/(loss) before indirect taxation	268,938	10,134	11,856	**290,928**	86,888	**377,816**	(45,267)	**332,549**

Segment Reporting (continued)

Primary segment reporting per business segment (continued)

Group - 2011	Retail R'000	Business and Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBIC R'000	Total Group (Excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Indirect taxation	(1,116)	(126)	(25,587)	**(26,829)**	(50)	**(26,879)**	-	**(26,879)**
Net profit/(loss)	267,822	10,008	(13,731)	**264,099**	86,838	**350,937**	(45,267)	**305,670**
Other comprehensive income								
Actuarial losses on the post-retirement medical aid	-	-	(21,369)	**(21,369)**	-	**(21,369)**	-	**(21,369)**
Revaluation of land and buildings	-	-	1,797	**1,797**	-	**1,797**	-	**1,797**
Total comprehensive income/(loss) for the year	267,822	10,008	(33,303)	**244,527**	86,838	**331,365**	(45,267)	**286,098**
Interest income	334,767	825,471	144,780	**1,305,018**	2	**1,305,020**	798	**1,305,818**
External customers	334,767	825,471	144,780	**1,305,018**	2	**1,305,020**	798	**1,305,818**
Non-interest income								
External customers	31,464	3,477	17,070	**52,011**	-	**52,011**	-	**52,011**

Statement of financial position

	Retail R'000	Business and Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBIC R'000	Total Group (Excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Assets								
Segment assets	3,294,060	11,040,237	2,501,067	**16,835,364**	1,308,419	**18,143,783**	153,890	**18,297,673**
Liabilities								
Segment liabilities	2,479,818	9,448,270	639,884	**12,567,972**	305,900	**12,873,872**	684,047	**13,557,919**

Segment Reporting (continued)

Primary segment reporting per business segment (continued)

Group - 2010	Retail R'000	Business and Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBIC R'000	Total Group (Excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Statement of comprehensive income								
Net interest income	264,602	304,264	179,649	**748,515**	2	**748,517**	(64,348)	**684,169**
Interest income	461,044	1,105,752	187,596	**1,754,392**	2	**1,754,394**	-	**1,754,394**
Interest expense	(196,442)	(801,488)	(7,947)	**(1,005,877)**	-	**(1,005,877)**	(64,348)	**(1,070,225)**
Impairment charges on loans and advances	(49,382)	(107,916)	-	**(157,298)**	-	**(157,298)**	(2,564)	**(159,862)**
Total income/(loss) from lending activities	215,220	196,348	179,649	**591,217**	2	**591,219**	(66,912)	**524,307**
Non-interest income	40,726	2,296	22,926	**65,948**	(700)	**65,248**	-	**65,248**
Operating income/(loss) from banking activities	255,946	198,644	202,575	**657,165**	(698)	**656,467**	(66,912)	**589,555**
Operating income from insurance activities	-	-	-	-	11,036	**11,036**	-	**11,036**
Investment income	-	-	50,811	**50,811**	163,264	**214,075**	-	**214,075**
Fair value gains	-	-	37,799	**37,799**	-	**37,799**	-	**37,799**
Operating income/(loss)	255,946	198,644	291,185	**745,775**	173,602	**919,377**	(66,912)	**852,465**
Operating expenses	(159,727)	(14,829)	(294,913)	**(469,469)**	(11,741)	**(481,210)**	(1,441)	**(482,651)**
Depreciation and amortisation	(1,609)	(190)	(8,222)	**(10,021)**	-	**(10,021)**	-	**(10,021)**
Net operating income/(loss)	94,610	183,625	(11,950)	**266,285**	161,861	**428,146**	(68,353)	**359,793**
Non-trading and capital items	(62)	23	17,820	**17,781**	-	**17,781**	-	**17,781**
Net profit/(loss) before indirect taxation	94,548	183,648	5,870	**284,066**	161,861	**445,927**	(68,353)	**377,574**

Segment Reporting (continued)

Primary segment reporting per business segment (continued)

Group - 2010	Retail R'000	Business and Corporate Banking R'000	Group Capital R'000	Total Bank (Excluding LDFU) R'000	LBIC R'000	Total Group (Excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Indirect taxation	(978)	(96)	(22,022)	**(23,096)**	(35)	**(23,131)**	-	**(23,131)**
Net profit/(loss)	93,570	183,552	(16,152)	**260,970**	161,826	**422,796**	(68,353)	**354,443**
Other comprehensive income								
Actuarial gains on the post-retirement medical aid	-	-	9,556	**9,556**	-	**9,556**	-	**9,556**
Revaluation of land and buildings	-	-	15,090	**15,090**	-	**15,090**	-	**15,090**
Total comprehensive income/(loss) for the year	93,570	183,552	8,494	**285,616**	161,826	**447,442**	(68,353)	**379,089**
Interest income	461,044	1,105,752	187,596	**1,754,392**	2	**1,754,394**	-	**1,754,394**
External customers	461,044	1,105,752	187,596	**1,754,392**	2	**1,754,394**	-	**1,754,394**
Non-interest income								
External customers	40,726	2,296	22,926	**65,948**	(700)	**65,248**	-	**65,248**
Statement of financial position								
Assets								
Segment assets	2,496,237	9,880,373	2,392,473	**14,769,083**	1,031,734	**15,800,817**	153,898	**15,954,715**
Liabilities								
Segment liabilities	1,953,451	8,611,568	819,350	**11,384,369**	224,604	**11,608,973**	638,786	**12,247,759**

Segment Reporting (continued)

Primary segment reporting (Business segments)

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

- Retail, which consists of 27 branches spread across the country, provides finance to developing and commercial farmers. Retail also includes previously granted micro-finance loans
- Business and 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
- LBIC 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.

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.

The Bank'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 are 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 2010. 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. Operating costs incurred for central functions managed at Group Capital are not allocated to the operating segments except for cost of funding.

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

Segment reporting (continued)

Secondary segment reporting (geographic segments)

Group - 2011	Interest income	Interest expense	Net interest income	Impairment releases, 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 comprehensive income													
Northern region	858,288	(442,634)	415,654	60,933	40,148	-	79,424	(409,887)	(10,446)	175,826	(21,369)	1,797	156,254
Southern region	446,730	(351,238)	95,492	64,126	11,863	-	(74)	(82,416)	(718)	88,273	-	-	88,273
LBIC	2	-	2	-	-	(13,261)	112,833	(12,736)	-	86,838	-	-	86,838
Continuing operations	**1,305,020**	**(793,872)**	**511,148**	**125,059**	**52,011**	**(13,261)**	**192,183**	**(505,039)**	**(11,164)**	**350,937**	**(21,369)**	**1,797**	**331,365**
Discontinued operation - LDFU	798	(47,063)	(46,265)	6,195	-	-	-	(5,197)	-	(45,267)	-	-	(45,267)
	1,305,818	**(840,935)**	**464,883**	**131,254**	**52,011**	**(13,261)**	**192,183**	**(510,236)**	**(11,164)**	**305,670**	**(21,369)**	**1,797**	**286,098**

Segment reporting (continued)
Secondary segment reporting (geographic segments) (continued)

Group - 2011	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Loans and advances	Other assets	Total assets
Statement of financial position	R'000	R'000	R'000	R'000
Assets				
Northern region	491,709	8,616,982	2,040,112	11,148,803
Southern region	3,803	5,682,171	587	5,686,561
LBIC	971,503	-	336,916	1,308,419
Continuing operations	**1,467,015**	**14,299,153**	**2,377,615**	**18,143,783**
Discontinued operation - LDFU	-	153,890	-	153,890
	1,467,015	**14,453,043**	**2,377,615**	**18,297,673**

	Equity	Funding	Other liabilities	Total equity and liabilities
	R'000	R'000	R'000	R'000
Equities and liabilities				
Northern region	4,344,155	7,300,081	694,713	12,300,712
Southern region	82,489	4,554,905	18,273	4,693,904
LBIC	843,267	-	305,900	1,149,167
Continuing operations	**5,269,911**	**11,854,986**	**1,018,886**	**18,143,783**
Discontinued operation - LDFU	(530,157)	684,047	-	153,890
	4,739,754	**12,539,033**	**1,018,886**	**18,297,673**

Segment reporting (continued)

Secondary segment reporting (geographic segments)

Group - 2010	Interest income	Interest expense	Net interest income	Impairment releases, claims and recoveries	Non-interest income	Operating income from insurance activities	Fair value gains, investment income and non-trading and capital items	Operating expenses and indirect taxes excluding depreciation and amotisation	Depreciation and amortisation	Net profit/ (loss)	Actuarial gains 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 comprehensive income													
Northern region	1,271,542	(609,669)	661,873	(135,318)	53,301	-	93,819	(410,136)	(9,087)	254,452	9,556	15,090	279,098
Southern region	482,850	(396,208)	86,642	(21,980)	12,647	-	12,572	(82,429)	(934)	6,518	-	-	6,518
LBIC	2	-	2	-	(700)	11,036	163,264	(11,776)	-	161,826	-	-	161,826
Continuing operations	**1,754,394**	**(1,005,877)**	**748,517**	**(157,298)**	**65,248**	**11,036**	**269,655**	**(504,341)**	**(10,021)**	**422,796**	**9,556**	**15,090**	**447,442**
Discontinued operation - LDFU	-	(64,348)	(64,348)	(2,564)	-	-	-	(1,441)	-	(68,353)	-	-	(68,353)
	1,754,394	**(1,070,225)**	**684,169**	**(159,862)**	**65,248**	**11,036**	**269,655**	**(505,782)**	**(10,021)**	**354,443**	**9,556**	**15,090**	**379,089**

Segment reporting (continued)
Secondary segment reporting (geographic segments) (continued)

Group - 2010	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Loans and advances	Other assets	Total assets
Statement of financial position	R'000	R'000	R'000	R'000
Assets				
Northern region	463,167	7,916,292	1,996,450	10,375,909
Southern region	10,474	4,378,132	4,568	4,393,174
LBIC	862,709	-	169,025	1,031,734
Continuing operations	**1,336,350**	**12,294,424**	**2,170,043**	**15,800,817**
Discontinued operation - LDFU	-	153,898	-	153,898
	1,336,350	**12,448,322**	**2,170,043**	**15,954,715**

	Equity	Funding	Other liabilities	Total equity and liabilities
	R'000	R'000	R'000	R'000
Equities and liabilities				
Northern region	3,378,199	6,945,564	583,791	10,907,554
Southern region	6,517	3,716,366	138,646	3,861,529
LBIC	807,130	-	224,604	1,031,734
Continuing operations	**4,191,846**	**10,661,930**	**947,041**	**15,800,817**
Discontinued operation - LDFU	(484,890)	638,786	2	153,898
	3,706,956	**11,300,716**	**947,043**	**15,954,715**

The geographical segments consist of 27 Bank branches within the boundaries of the respective provinces 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.

Information about major customers

The Bank earned R137 million (2010: R202 million) in interest revenue from one of the Gauteng-based customers in the Business and Corporate Banking Unit. This represents approximately 16.0% (2010: 11.5%) of the Bank's gross revenue.

Notes to the Annual Financial Statements

for the year ended 31 March 2011

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, 15 of 2002, (the Land Bank Act) and the Public Finance Management Act, 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 Insurance Company (LBIC). LBIC offers credit life insurance products and short-term insurance products. LBIC is incorporated in terms of the Companies Act, 61 of 1973 and is a schedule 2 Public Entity in terms of the PFMA.

The financial statements were authorised for issue by the directors on 28 July 2011.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 January 2010.

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combination achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interest after 1 January 2010. The changes will impact the statement of financial position and the statement of comprehensive income in the period that an acquisition occurs and future reported results.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedge Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangement whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

Improvements to IFRS

In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

i) IFRS 5 Non-current Assets Held-for-sale and Discontinued Operations:

IFRS 5 clarifies that when a subsidiary is classified as held-for-sale, all its assets and liabilities are classified as held-for-sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor the financial performance of the Group.

Issued in April 2009

ii) IFRS 5 Non-current Assets Held-for-sale and Discontinued Operations:

The amendment clarifies that the disclosures required in respect of the non-current assets and disposals groups classified as held-for-sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. This amendment has no impact on the disclosures of the Group.

Issued in April 2009

iii) IFRS 8 Operating Segments:

The amendment clarifies that the segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in the segment report.

iv) IAS 7 Statement of Cash Flows:

States that only expenditure that results in recognising an asset can be classified as a cash flow from operating activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

v) IAS 36 Impairment of Assets:

The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

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

- IFRS 2 Share-based payments
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

2.2 Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with IFRS (with consent from the National Treasury for all Schedule 2 public entities) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The preparation of 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.

Functional and presentation currency

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Land Bank and its subsidiary, LBIC as at 31 March 2011. The financial statements of LBIC are prepared for the same reporting year as Land Bank, using consistent accounting policies.

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.

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 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 'Finance income' in the statement of comprehensive income.

2.4.2 Other 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.

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.

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 comprehensive income in 'Non-interest income'.

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.

2.5 Expenses

2.5.1 Sales remuneration

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

2.5.2 Administration costs

Administration costs on short-term insurance business consist of directly attributable costs payable to the underwriter and are deferred over the period in which the related premiums are earned.

Administration costs that are directly attributable to long-term recurring premium insurance policy contracts are recognised directly to the statement of comprehensive income.

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 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 comprehensive income. Irregular expenditure approved with funding, is recognised in the statement of 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 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.

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 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 Pension Fund Act, 1956 (Act No. 24 of 1956) came into operation on 1 November 1994. Defined obligations such as disability and death in service were completely phased out during the 2007 financial year. The Fund is now accounted for as a defined contribution plan as it no longer has any obligation towards members for defined benefits. Contributions are recognised as an expense and as a liability to the extent that they are unpaid.

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.

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 primarily as a defined benefit scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. It is the Group's policy to pay the medical fund subscription fees on behalf of all pensioners in full and to fund the total obligation as and when it arises.

Actuarial valuations of the Bank's liability are conducted on an annual basis by an independent qualified actuary on the Projected Unit Credit method. The liability recognised in the statement of financial position in respect of defined benefit medical 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 comprehensive income in full.

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, LBIC, are exempt from income tax in terms of sections 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962.

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

2 Summary of significant accounting policies (continued)

2.11 Property and equipment (continued)

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 comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The cost of an item of property, plant 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
b) the cost of the item can be measured reliably.

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 'Assets 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 comprehensive income, in which case the increase is recognised in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset 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 the newly acquired assets are as follows:

Buildings	50 years
Furniture and fittings	5 years
Computer equipment	3 years
Motor vehicles	5 years
Leasehold Improvements	5 years

The depreciation charge for each period shall be recognised in profit or loss.

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 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.

Notes to the Annual Financial Statements (continued)
2 Summary of significant accounting policies (continued)
2.11 Property and equipment (continued)

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.

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 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
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 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. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. 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 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
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 comprehensive income in the expense category consistent with the function of the intangible asset.

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 comprehensive income when the asset is derecognised.

Notes to the Annual Financial Statements (continued)
2 Summary of significant accounting policies (continued)
2.13 Intangible assets (continued)

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 profit or loss when incurred.

2.13.1 Computer software
Amortisation is recognised in profit or loss 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 pre-tax 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.

The calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of 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 comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at 31 March either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

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 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.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

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 comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line.

If the bank 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 bank 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 bank 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 bank, upon initial recognition, designates as available for sale.
- Those for which the bank 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 comprehensive income. The losses arising from impairment are recognised in the statement of 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).

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

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 and 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 comprehensive income.

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 Finance Income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of 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. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at 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 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 comprehensive income when the liabilities are derecognised as well as through effective interest rate method (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 comprehensive income.

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 Bank'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 bank 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 bank has transferred substantially all the risks and rewards of the asset, or
- The bank 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.

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 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 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 finance costs in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's 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.

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 Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of 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 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 Bank 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 Bank, 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.

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

Notes to the Annual Financial Statements (continued)
2 Summary of significant accounting policies (continued)

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
Financial instruments sold under agreement to repurchase are retained, but reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in financial liabilities as appropriate. Financial instruments purchased under agreements to resell ('reverse repurchases') are not recorded as financial assets as appropriate.

For both the repurchases and the reverse repurchases the difference between the selling price and the repurchase price is treated as interest and is accrued over the life of the agreement using the EIR method.

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 31.

2.21 Related parties
The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. 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 Bank.

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 comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision is made for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

Leave pay liability

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

Provisions are recognised when the Bank has a present, legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

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 period of cover for which premiums have already been collected. Apart from the 'Hail Summer' and 'Multi-peril Summer' 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 'Summer Hail' and 'Multi-peril Summer' classes, the UPR calculation was based on recent claims experience provided by the underwriting manager.

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 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 and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract 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, 1998, (Act No. 53 of 1998).

Deferred acquisition costs (DAC)

Commission and administration fees that vary with and are related to securing new contracts and renewing existing 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 fee income.

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group 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 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 comprehensive income.

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.

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.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance assets is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of 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.

Contingency reserve

The Contingency Reserve is calculated in terms of the Short-term Insurance Act and is set at 10% of short-term gross written premium less short-term quota reinsurance premium paid. The purpose of the reserve is to cover unexpected losses and is created through a transfer from retained earnings. Transfers to this reserve are reflected in the statement of changes in equity.

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 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 Bank 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. Premiums are shown before the 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.

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 comprehensive income.

Long term insurance liability

The actuarial value of the policy liabilities is determined using the FSV method as described in Professional Guidance Note (PGN) 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.

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

- Unit expenses are based on the 2010 actual expenses and escalated at estimated expense inflation rates per annum. The allocation of initial and renewal expenses is based on functional cost analyses
- Assumptions with regard to future mortality rates are consistent with LBIC'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
- Persistency assumptions with regard to lapse and surrender rates are consistent with LBIC'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 Group's executive committee 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 consolidated 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.

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 primary business basis, (namely group capital, retail, business and corporate banking, land for development and LBIC) and on a secondary basis on significant 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 comprehensive income, the Bank makes judgments as to whether there is any observable data 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 historical-loss experience for assets with credit risk characteristics and objective evidence of impairment similar 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 Bank and, as such, a moratorium was placed on further approvals and the operations discontinued.

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

During 2010 and 2011 the Bank 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. Although the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal following the pending forensic investigations.

(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 Bank in terms of the Land Bank Act. Due to the moratorium placed on further approvals/disbursements, the Bank did not fully disburse all loans approved.

The Bank 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 32.4.1 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 Bank from applying the effective contractual interest rate to discount cash flows in the retail impairment model. As an alternative measure, the Bank has applied the Weighted Average Cost of Capital (WACC) to discount cash flows. For the current year the Bank 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.

A significant assumption in the quantification of the loss given default in the retail impairment model is that historic loss given defaults will decrease to 5% due to the stabilisation of the retail loan book.

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) 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
- 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 2011. Mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids.

Expenses

Unit expenses are based on the 2010 actual figures and escalated at estimated expense inflation rates per annum.

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

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the Group, principally in respect of the insurance liabilities of the Group.

Insurance liabilities include the provisions for unearned premiums, outstanding claims and 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.

Outstanding claims represent the Group's estimate of the cost of settlement of claims that have occurred by the statement of financial position date, but that have not yet been finally settled. In addition to the inherent uncertainty of having to provide for future events, there is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the statement of financial position date.

Process to determine significant assumptions

Insurance risks are unpredictable and the Group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts.

Outstanding claims

Claims 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 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.

IBNR claims

For short-term business, the provision is based on the minimum requirements of the Short-term Insurance Act, 1998, (Act No. 53 of 1998).

The policyholders' liabilities include a provision for the expected cost of IBNR claims. This relates to claims expected to be made by policyholders 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 provision is calculated based on the past experience of reporting delays and allows for expected reinsurance recoveries on IBNR claims. The IBNR is not discounted due to the short term nature of IBNR claims on crop.

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.

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.

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.

iv) Classification and measurement of LBK01 floating rate notes

The Bank has elected to classify the LBK01 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 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 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 consolidated statement of 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, plant 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 Bank 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.

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 New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, a number of IFRS and Interpretations had been promulgated, but were effective for periods after 31 March 2011. The Group will apply these as and when it becomes relevant.

Notes to the Annual Financial Statements (continued)
2 Summary of significant accounting policies (continued)
2.29 New standards and interpretations not yet adopted (continued)

Standard or interpretation	**Effective date**
IAS 24 - Related Party Disclosure The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.	01-Jan-11
IFRS 9 Financial Instruments: Classification and Measurement IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	01-Jan-13
IFRIC 14 Prepayments of a minimum funding requirement (Amendment) The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount on a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.	01-Jan-11
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instrument issued are measured at their fair value. In cases that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.	01-Jul-10
Improvements to IFRSs (issued in May 2010) The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below: • IFRS 3 Business Combinations • IFRS 7 Financial Instruments: Disclosure • IAS 1 Presentation of Financial Statements • IAS 27 Consolidated and Separate Financial Statements • IFRIC 13 Customer Loyalty Programmes The Group, however, expects no significant impact from the adoption of the amendments on its financial position or performance.	01-Jul-10

Notes to the Annual Financial Statements (continued)

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
3 Cash and cash equivalents				
Cash at Bank				
- Commercial banks	**667,935**	674,804	**584,343**	663,147
- Short-term deposits	**1,419,585**	1,260,019	**1,419,556**	1,259,991
	2,087,520	1,934,823	**2,003,899**	1,923,138

Cash at banks are primarily held as a liquidity buffer in response to the Bank's perceived repricing risk.

Cash at commercial banks earn 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.

4 Trade and other receivables

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Accrued investment income	**7,155**	9,333	**7,155**	9,333
Dividend receivable			**50,000**	-
Fruitless and wasteful expenditure receivable (note 36)	**274**	285	**274**	285
LBIC - intercompany balances			**109,222**	22,318
Loans to current employees[1]	**1,184**	1,108	**1,184**	1,108
Loans to former employees[1]	**254**	370	**254**	370
- Gross loan	**720**	840	**720**	840
- Impairment	**(466)**	(470)	**(466)**	(470)
Premium receivable	**47,653**	25,316		
Prepaid expenses	**7,716**	8,208	**7,716**	8,208
Reinsurance recoverable[2]	**381**	506		
Reinsurance receivable[3]	**95,212**	82,736		
Sundry receivables[4]	**22,002**	13,077	**13,361**	6,300
	181,831	140,939	**189,166**	47,922

1 Loans to employees consists of home loans which are receivable between 7 years to 27 years with an average remaining period of 25 years. The interest rate on the employee home loans is fixed at 3% per annum and the fair value of the loans is R1 million (2010: R0.9 million). The practice to grant home loans to employees was discontinued during 1998.

2 The reinsurance recoverable from the life insurance contracts held by LBIC is calculated based on the IBNR losses that would qualify for reimbursement under the reinsurance contracts.

3 The reinsurance receivable account relates to amounts due from reinsurers in respect of claims already paid by LBIC on the reinsured contracts.

4 The sundry receivables consists of the following:

- MAFISA administration fees owing to the Bank which are non-interest bearing with no fixed terms of repayment
- Contributions to the medical aid of pensioners which are refunded one month in arrears
- Other sundry debtors which are non-interest bearing with no fixed terms of repayment
- Receivable input VAT.

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

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

5 Short-term insurance assets and liabilities

	2011 R'000	2010 R'000
Short-term insurance liabilities	**134,939**	90,819
Outstanding claims	**67,722**	9,941
Incurred but not reported claims	**14,290**	11,347
Provision for unearned premiums	**41,902**	55,867
Provision for additional unearned risk reserve	**537**	6,280
Deferred reinsurance acquisition reserve	**10,488**	7,384
Short-term insurance assets	**(101,409)**	(64,353)
Outstanding reinsurance claims	**(46,607)**	(6,959)
Incurred but not reported reinsurance recoveries	**(10,191)**	(8,133)
Unearned premiums	**(31,157)**	(39,618)
Deferred acquisition cost reserve	**(13,454)**	(9,643)
Net short-term insurance provisions	**33,530**	26,466

The 2009/2010 underwriting period covers the 12 month period from July 2009 to June 2010 and has been applied as the first claims development year.

	Claims estimated for the 2009/2010 under-writing year as at 31 March 2010	Actual claims incurred for the 2009/2010 under-writing year as at 31 March 2010
Claims Development		
Year 1 gross claims	(107,778)	(125,842)
Year 1 impact of reinsurance recoveries	75,647	88,102
Net claims	(32,131)	(37,740)

Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

6 Repurchase agreements

Financial instruments purchased				
Republic of South Africa bonds				
- R 157	**-**	14,779	**-**	14,779

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.

7 Non-current assets held-for-sale

Land and buildings	**6,444**	30,803	**6,444**	30,803
Properties in possession	**46,939**	-	**46,939**	-
	53,383	30,803	**53,383**	30,803

Analysis of non-current assets held-for-sale

7.1 Land and buildings

Opening balance	**30,803**	-	**30,803**	-
Plus: Additions	**-**	30,803	**-**	30,803
Reclassification from investment property[1]	**-**	4,750	**-**	4,750
Reclassification from land and buildings[2]	**-**	26,053	**-**	26,053
Less: Disposals	**(22,822)**	-	**(22,822)**	-
Fair value adjustment	**(1,537)**	-	**(1,537)**	-
Closing balance	**6,444**	30,803	**6,444**	30,803

[1] Refer to note 13
[2] Refer to note 14

The approval for the sale of land and buildings was obtained from the Minister of Finance in September 2009. These properties were reclassified on 7 March 2010. Potential buyers were requested to respond to the request for proposal through advertisements made in various newspapers. Potential buyers were required to submit purchase offers of a price not less than the reserved price of the land and buildings, as determined by an independent valuation performed in February 2010. Although certain properties have been disposed of since reclassification, in view of the current volatile market conditions and low property valuations, the remaining properties will only be disposed of as and when conditions render it economically viable.

All buildings are sold 'voetstoots' and the remaining sales are expected to occur within the next financial period.

Immediately before classification of land and buildings as non-current assets held-for-sale, selling expenses of Rnil (2010: R547k) was recognised to reduce the carrying amount to the fair value less costs to sell. The impairment was recognised in the statement of comprehensive income in the line item "Non-trading and capital items". Independent valuations were obtained to determine the fair values of land and buildings which were based on the market rentals and capatalisation rates, obtained from independent companies who operate in similar areas.

Notes to the Annual Financial Statements (continued)
7 Non-current assets held-for-sale (continued)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

7.2 Properties in possession

Opening balance	**-**	-	**-**	-
Plus: Additions	**72,610**	-	**72,610**	-
Reclassification from investment property[1]	**70,410**	-	**70,410**	-
New properties bought in	**2,200**	-	**2,200**	-
Less: Disposals	**(16,006)**	-	**(16,006)**	-
Fair value adjustment	**(9,665)**	-	**(9,665)**	-
Closing balance	**46,939**	-	**46,939**	-

[1] Refer to note 13

During the current financial year, properties in possession were reclassified from investment property to non-current assets held-for-sale in terms of IFRS 5.

8 Investments

Designated as at fair value through profit or loss				
LBIC investments	**971,503**	862,709		
Medical aid fund assets	**227,832**	211,170	**227,832**	211,170
Investment in LBIC			**30**	30
	1,199,335	1,073,879	**227,862**	211,200

Analysis of investments

8.1 LBIC investments

	971,503	862,709
Equities and similar securities	**573,092**	499,182
Property collective investment schemes	**10,019**	5,858
Public sector bonds	**246,374**	213,411
Cash deposits and similar securities	**142,018**	144,258

8.1.1 Equities

Equities and similar securities comprise:		
Listed on the JSE - at market value	**428,547**	367,936
Unlisted - at directors' valuation	**69,000**	54,601
Listed foreign equity investments	**75,545**	76,645
	573,092	499,182

Notes to the Annual Financial Statements (continued)
8 Investments (continued)
8.1 LBIC investments (continued)

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
8.1.2 Property investments				
Listed property collective investment schemes	**10,019**	5,858		
8.1.3 Investments other than equities and similar securities				
Public sector bonds	**246,374**	213,411		
Cash, deposits and similar securities	**142,018**	144,258		
- Local	**134,590**	131,177		
- Foreign	**7,428**	13,081		
	388,392	357,669		

Register of investments

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

8.2 Medical aid fund assets

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Listed investments	**217,673**	201,806	**217,673**	201,806
- Local equity	**129,665**	124,965	**129,665**	124,965
- Local bonds	**48,542**	42,091	**48,542**	42,091
- Foreign equity	**39,466**	34,750	**39,466**	34,750
Cash	**10,159**	9,364	**10,159**	9,364
- Local	**10,126**	5,334	**10,126**	5,334
- Foreign	**33**	4,030	**33**	4,030
	227,832	211,170	**227,832**	211,170

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 and equity price risk. Refer to note 35 for more information on the related risks and mitigation strategies.

	Bank 2011 %	Bank 2010 %
Local equities		
Industrial shares	**40.13**	43.25
Resources shares	**35.86**	33.40
Financial shares	**24.01**	23.35

8 Investments (continued)

Investments in foreign equities were made utilising pooled funds. The risk is managed by the LBIC 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 20.

	Bank	
	2011	2010
	R'000	R'000
8.3 Investment in LBIC		
LBIC shares	**30**	30
Directors' valuation	**843,297**	808,947

The Land Bank is the sole beneficial shareholder of this unlisted company. 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 2011 amounted to R843 million (2010: R809 million). The reserves of LBIC amount to R843 million (2010: R809 million). In terms of the shareholder's agreement, the Land Bank guarantees the solvency of LBIC. 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.

9 Loans and advances

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
Long-term loans	**4,986,582**	3,711,137	**4,986,582**	3,711,137
Retail	**2,859,243**	2,276,488	**2,859,243**	2,276,488
Business and Corporate Banking	**2,127,339**	1,434,649	**2,127,339**	1,434,649
Medium-term loans	**462,164**	468,580	**462,164**	468,580
Retail loans	**260,961**	290,754	**260,961**	290,754
Retail: Instalment sale loans	**201,203**	177,826	**201,203**	177,826
Short-term loans	**9,439,856**	9,016,950	**9,439,856**	9,016,950
Retail	**271,251**	310,855	**271,251**	310,855
Business and Corporate Banking	**9,168,605**	8,706,095	**9,168,605**	8,706,095
Total loans and advances net of suspended interest and fees	**14,888,602**	13,196,667	**14,888,602**	13,196,667
Less: Impairments	**(589,449)**	(902,243)	**(589,449)**	(902,243)
Total net loans and advances	**14,299,153**	12,294,424	**14,299,153**	12,294,424

Above loan balances exclude the discontinued LDFU loans, which is disclosed in note 10.

Notes to the Annual Financial Statements (continued)
9 Loans and advances (continued)

Group and Bank	Gross amount R'000	Suspended interest and fees R'000	Total loan book net of suspended interest R'000	Total impairments R'000	Net balance R'000
9.1 Detail category analysis of loans					
2011					
Business and Corporate Banking	**11,412,505**	(116,561)	**11,295,944**	(256,556)	**11,039,388**
Retail	**3,876,394**	(283,736)	**3,592,658**	(332,893)	**3,259,765**
	15,288,899	(400,297)	**14,888,602**	(589,449)	**14,299,153**
2010					
Business and Corporate Banking	**10,269,040**	(128,296)	**10,140,744**	(271,681)	**9,869,063**
Retail	**3,426,231**	(370,308)	**3,055,923**	(630,562)	**2,425,361**
	13,695,271	(498,604)	**13,196,667**	(902,243)	**12,294,424**

Loan type	Type of security	Nature of interest rate	Average term of repayment	Average interest rate 2011	Average interest rate 2010
Long-term loans	Mortgage bonds	Variable	>5 years	9.30%	11.44%
Medium-term loans	Notarial bonds	Variable	1-5 years	10.90%	11.61%
Short-term loans	None	Variable	1 year	7.70%	9.03%

Group and Bank	Business and Corporate Banking R'000	Retail R'000	Total R'000
9.3 Reconciliation of movements in impairments per business unit			
2011			
Balance at the beginning of the year	271,681	630,562	902,243
Movements for the year:			
Impairment releases	-	(153,587)	(153,587)
Credit losses written off	(114,387)	67,799	(46,588)
- Statement of financial position write-off	(114,387)	89,422	(24,965)
- Statement of comprehensive income write-off	-	(21,623)	(21,623)
Net impairments raised/(released) to the statement of comprehensive income	99,262	(211,881)	(112,619)
Balance at the end of the year	**256,556**	**332,893**	**589,449**

9 Loans and advances (continued)

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

Group and Bank	Business and Corporate Banking R'000	Retail R'000	Total R'000
2010			
Balance at the beginning of the year	664,368	807,261	1,471,629
Movements for the year:			
Removal of fully impaired insolvent accounts	(458,141)	(190,934)	(649,075)
- Recognition of fully impaired insolvent accounts previously off balance sheet	11,671	1,140	12,811
- Balance sheet write-off of fully impaired insolvent accounts	(469,812)	(192,074)	(661,886)
Credit losses written off	(42,595)	(48,652)	(91,247)
- Statement of financial position write-off	(42,079)	-	(42,079)
- Statement of comprehensive income write-off	(516)	(48,652)	(49,168)
Net impairments raised to the statement of comprehensive income	108,049	62,887	170,936
Balance at the end of the year	**271,681**	**630,562**	**902,243**

9.4 Impairment releases/(charges), claims and recoveries

2011			
Net impairments raised/(released) to the statement of comprehensive income	99,262	(211,881)	(112,619)
Recoveries in respect of amounts previously written off	(2,633)	(9,807)	(12,440)
	96,629	**(221,688)**	**(125,059)**
2010			
Net impairments raised to the statement of comprehensive income	108,049	62,887	170,936
Recoveries in respect of amounts previously written off	(133)	(13,505)	(13,638)
	107,916	**49,382**	**157,298**

9.5 Category analysis of performing and non-performing loans

2011			
Performing loans			
Gross amount	10,754,800	2,850,561	13,605,361
Impairment	(24,351)	(53,367)	(77,718)
	10,730,449	**2,797,194**	**13,527,643**
Non-performing loans			
Gross amount	657,705	1,025,833	1,683,538
Suspended interest and fees	(116,561)	(283,736)	(400,297)
Impairment	(232,205)	(279,526)	(511,731)
	308,939	**462,571**	**771,510**
	11,039,388	**3,259,765**	**14,299,153**

Notes to the Annual Financial Statements (continued)
9 Loans and advances (continued)
9.5 Category analysis of performing and non-performing loans (continued)

Group and Bank	Business and Corporate Banking R'000	Retail R'000	Total R'000
2010			
Performing loans			
Gross amount	9,688,137	2,211,782	11,899,919
Impairment	(15,843)	(63,900)	(79,743)
	9,672,294	**2,147,882**	**11,820,176**
Non-performing loans			
Gross amount	580,903	1,214,449	1,795,352
Suspended interest and fees	(128,296)	(370,308)	(498,604)
Impairment	(255,838)	(566,662)	(822,500)
	196,769	**277,479**	**474,248**
	9,869,063	**2,425,361**	**12,294,424**

9.6 Category age analysis of loans that are past due but not individually impaired

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
2011				
Business and Corporate Banking				
Gross loan balance	10,961,848	56,362	394,295	11,412,505
Portion of gross loan balance past due not impaired	71,757	-	116,611	188,368
Total fair value of collateral held				**11,712,491**
Retail				
Gross loan balance	2,821,799	28,763	1,075,832	3,876,394
Portion of gross loan balance past due not impaired	12,475	1,939	75,482	89,896
2010				
Business and Corporate Banking				
Gross loan balance	9,691,268	99,305	478,467	10,269,040
Portion of gross loan balance past due not impaired	19,037	45,770	88,215	153,022
Total fair value of collateral held				**10,838,837**
Retail				
Gross loan balance	2,177,981	33,447	1,214,803	3,426,231
Portion of gross loan balance past due not impaired	13,328	4,018	42,358	59,704

Notes to the Annual Financial Statements (continued)
9 Loans and advances (continued)

9.7 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. Fair values of collaterals are determined with reference to the realisable value of security under forced-sale conditions.

Inadequate retail security management systems prohibit the Group from disclosing the fair values of the collateral held on retail loans as well as the terms and conditions associated with the use of the collateral. The Group is in the process of developing a retail security management system. Phase 1, whereby all securities on record have been captured on a central system has been completed. The second phase of the project, whereby appropriate values will be determined, has commenced and the results will be available by the second half of the new financial year.

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 IFRS 5. The carrying amount of collateral taken in possession during the financial year is R2.2 million (2010: Rnil).

The Group has the following assets held as security for the Business and Corporate Banking loan book:

Nature of assets	Estimated value %	2011 R'000	2010 R'000
Business and Corporate Banking	60%-80%	**604,491**	481,409
Biological assets	50%-100%	**396,164**	316,568
Commodities	30%-50%	**4,859,405**	4,321,164
Debtors	100%	**15,579**	382,294
Deposits	90%	**365,750**	-
Guarantee	70%-100%	**1,033,498**	1,226,578
Land and buildings	10%	**20,050**	11,425
Office equipment and computers	30%	**320,553**	280,223
Plant and equipment	100%	**1,939,775**	1,502,127
Shares and investments (listed)	50%	**225,491**	206,201
Specialised infrastructure	10%-70%	**1,735,336**	1,901,559
Stock	70%	**39,454**	39,454
Subleases	50%	**83,901**	83,902
Trademarks	60%	**55,571**	49,191
Vehicles	50%	**17,473**	36,742
Cession held over unpaid shares		**11,712,491**	10,838,837

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 and 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 (2010: two) with individual exposure greater than 25% of the Bank's own equity. The total exposure of this client at year-end amounted to R1.8 billion (2010: R3.4 billion). The loan was approved by Credit Risk Management Committee and full Board. The client is abiding to its loan repayment terms.

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

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

Land for development loans

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Total loans and advances net of suspended interest and fees	**493,411**	500,387	**493,411**	500,387
Less: Impairments	**(339,521)**	(346,489)	**(339,521)**	(346,489)
	153,890	153,898	**153,890**	153,898

10.1 Detail category analysis of loans

Group and Bank	Gross amount R'000	Suspended interest and fees R'000	Total loan book net of suspended interest R'000	Total impairments R'000	Net balance R'000
2011					
Land for development	**654,129**	(160,718)	**493,411**	(339,521)	**153,890**
2010					
Land for development	**666,645**	(166,258)	**500,387**	(346,489)	**153,898**

10.2 Reconciliation of movements in impairments of land for development loans

	2011 R'000	2010 R'000
Balance at the beginning of the year	**346,489**	346,489
Credit losses written off	**(773)**	(2,564)
Net impairments raised/(released) to the statement of comprehensive income	**(6,195)**	2,564
Balance at the end of the year	**339,521**	346,489

10.3 Impairments raised, claims and recoveries

	2011 R'000	2010 R'000
Net impairments (released)/raised to the statement of comprehensive income	**(6,195)**	2,564

Notes to the Annual Financial Statements (continued)
10 Assets of disposal group classified as held-for-sale (continued)

Group and Bank	2011 R'000	2010 R'000

10.4 Category analysis of non-performing loans

	2011 R'000	2010 R'000
Non-performing loans		
Gross amount	**654,129**	666,645
Suspended interest and fees	**(160,718)**	(166,258)
Impairment	**(339,521)**	(346,489)
	153,890	153,898

10.5 Category age analysis of loans that are past due but not individually impaired

Past due for:	More than 1 year less than 2 years R'000	More than 2 years and defaulted R'000	Total R'000
2011			
Gross loan balance	28,736	625,393	654,129
Portion of gross loan balance past due not impaired	2,079	151,811	153,890
Director's valuation of collateral held			**438,080**
2010			
Gross loan balance	41,251	625,394	666,645
Portion of gross loan balance past due not impaired	11,863	142,035	153,898
Director's valuation of collateral held			**287,600**

10.6 Collateral held as security

	2011 R'000	2010 R'000
Land and buildings	**215,590**	221,190

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. Although the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal following the pending forensic investigations.

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

11 Derivative financial instruments

11.1 Total derivative assets at fair value

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Interest rate swaps	**6,855**	15,149	**6,855**	15,149
Notional principal	**300,000**	1,000,000	**300,000**	1,000,000
Within 1 year	**300,000**	700,000	**300,000**	700,000
Between 1 and 5 years	**-**	300,000	**-**	300,000

11.2 Total derivative liabilities at fair value

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Interest rate swaps	**21,673**	21,649	**21,673**	21,649
Notional principal	**517,812**	517,812	**517,812**	517,812
Between 1 and 5 years	**517,812**	517,812	**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.

12 Intangible assets

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Computer software				
Net carrying value	**58,002**	4,600	**58,002**	4,600
Cost at the beginning of the year	**52,159**	52,159	**52,159**	52,159
Accumulated amortisation	**(15,512)**	(12,314)	**(15,512)**	(12,314)
Impairment	**(35,245)**	(35,245)	**(35,245)**	(35,245)
Reversal of impairment	**35,245**	-	**35,245**	-
Additions/new developments - current year	**21,355**	-	**21,355**	-
Reconciliation of movement during the year				
Carrying amount at the beginning of the year	**4,600**	7,898	**4,600**	7,898
Amortisation	**(3,198)**	(3,298)	**(3,198)**	(3,298)
Additions/new developments	**21,355**	-	**21,355**	-
Impairment reversal	**35,245**	-	**35,245**	-
Net carrying amount at the end of the year	**58,002**	4,600	**58,002**	4,600

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. Software with a cost of R35.2 million relating to the new banking model was impaired during the 2008 financial year as the asset had not yet been brought into use and there was uncertainty at the time in respect of its future use. During the current financial year, the banking model process was revitalised and successfully completed by using the initial configuration and system as base for further development. As a consequence the previous impairment of R35.2 million could be reversed.

13 Investment properties

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	R'000	**R'000**	**R'000**	**R'000**
Balance at the beginning of the year	**110,890**	117,485	**110,890**	117,485
Reclassification from property and equipment	**3,500**	-	**3,500**	-
Reclassification to non-current assets held-for-sale (refer to note 7)	**(70,410)**	(4,750)	**(70,410)**	(4,750)
Disposals	**-**	(4,405)	**-**	(4,405)
Fair value adjustments	**(1,360)**	2,560	**(1,360)**	2,560
Net carrying amount at the end of the year	**42,620**	110,890	**42,620**	110,890
Investment property comprises the following:				
Office buildings	**42,620**	40,480	**42,620**	40,480
Properties in possession	**-**	70,410	**-**	70,410
	42,620	110,890	**42,620**	110,890
Rental income derived from investment properties	**6,841**	6,207	**6,841**	6,207
Direct operating expenses generating rental income	**(381)**	(1,866)	**(381)**	(1,866)
Net profit arising from investment properties carried at fair value	**6,460**	4,341	**6,460**	4,341

A register containing details of the owner-occupied properties and the revaluation thereof is available for inspection at the Bank's Registered Office.

During the current financial year, the properties in possession previously accounted for in terms of IAS 40 - Investment Property were reclassified to IFRS 5 - Non-current assets held-for-sale (refer to note 7).

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 2011 and 31 March 2010 has been determined based on valuations performed by independent valuators who hold a recognised and relevant professional qualification. The investment properties were valued at open market value with value in use as the valuation basis. The valuations are performed on an annual basis. None of these properties have been pledged as security.

The R3.5 million relates to the Heidelberg building that was reclassified as non-current assets held-for-sale on 1 May 2010 (refer to note 14).

Notes to the Annual Financial Statements (continued)

14 Property and equipment

* Land Bank Insurance Company does not own property and equipment and therefore property and equipment of the Bank represents property and equipment of the Group.

2011	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Total R'000
Open market value/cost at 1 April 2010	28,332	60,130	26,032	28,950	882	11,760	156,086
Additions	-	-	6,849	1,015	-	264	8,128
Reclassification to investment property	(1,053)	(2,447)	-	-	-	-	(3,500)
Disposals	-	-	(2,824)	(3,736)	-	(467)	(6,927)
Revaluation surplus	478	5,509	-	-	-	-	5,987
Write-offs	-	-	(179)	(101)	-	-	(280)
Impairment loss	(2,051)	(2,114)	-	-	-	-	(4,165)
Open market value/cost at 31 March 2011	**25,706**	**61,078**	**29,878**	**26,228**	**882**	**11,557**	**155,329**
Accumulated depreciation and impairment losses at 1 April 2010	-	-	20,419	18,203	531	755	39,908
Depreciation	-	1,527	2,353	1,555	-	2,327	7,762
Depreciation effect on the write-off of obsolete assets	-	-	96	109	-	-	205
Depreciation effect of the reclassification to investment property	-	(5)	-	-	-	-	(5)
Disposals	-	-	(2,644)	(3,486)	-	(86)	(6,216)
Accumulated depreciation and impairment losses at 31 March 2011	-	1,522	20,224	16,381	531	2,996	41,654
Net carrying amount at 31 March 2011	**25,706**	**59,556**	**9,654**	**9,847**	**351**	**8,561**	**113,675**

Notes to the Annual Financial Statements (continued)
14 Property and equipment (continued)

2010	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Total R'000
Open market value/cost at 1 April 2009	39,413	61,422	24,450	23,203	882	-	149,370
Additions	-	-	2,460	6,298	-	11,760	20,518
Reclassification to non-current assets held-for-sale	(19,219)	(7,381)	-	-	-	-	(26,600)
Elimination of accumulated depreciation against the cost for assets classified to non-current assets held-for-sale	-	(176)	-	-	-	-	(176)
Disposals	-	-	(200)	(305)	-	-	(505)
Revaluation surplus	11,420	9,836	-	-	-	-	21,256
Impairment loss	(3,282)	(2,185)	-	-	-	-	(5,467)
Write-off of obsolete assets	-	-	(678)	(246)	-	-	(924)
Open market value/cost at 31 March 2010	**28,332**	**61,516**	**26,032**	**28,950**	**882**	**11,760**	**157,472**
Accumulated depreciation and impairment losses at 1 April 2009	-	-	18,507	16,710	531	-	35,748
Depreciation	-	1,562	2,389	1,718	-	755	6,424
Elimination of accumulated depreciation against the cost for assets classified to non-current assets held-for-sale	-	(176)	-	-	-	-	(176)
Depreciation effect on the write-off of obsolete assets	-	-	152	148	-	-	300
Disposals	-	-	(629)	(373)	-	-	(1,002)
Accumulated depreciation and impairment losses at 31 March 2010	-	1,386	20,419	18,203	531	755	41,294
Net carrying amount at 31 March 2010	**28,332**	**60,130**	**5,613**	**10,747**	**351**	**11,005**	**116,178**

Notes to the Annual Financial Statements (continued)
14 Property and equipment (continued)

The land and buildings were valued by independent property valuators as at 28 February 2011. 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 (2010: R10.7 million) for land and R18.1 million (2010: R21.3 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 2010 was written back to the carrying amount of buildings when revalued in terms of the net replacement value method.

	Land R'000	Buildings R'000	Total R'000
Properties reclassified as investment properties			
2011			
Erf 13 Heidelberg	1,053	2,447	3,500

This property was reclassified as an investment property on 1 May 2010 (refer to note 13).

	Land R'000	Buildings R'000	Total R'000
Properties reclassified as non-current assets held-for-sale			
2010			
Erf 108 Lichtenburg	532	238	770
Erf 46 Nelspruit	1,338	2,502	3,840
Erf 2413 Pietermaritzburg	3,066	4,164	7,230
Erf 3505 Pretoria	14,000	-	14,000
Erf 5825 Vryburg	283	477	760
	19,219	7,381	26,600

These properties were reclassified as non-current assets held-for-sale on 7 March 2010 (refer to note 7).

15 Capital and reserves

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Distributable reserve				
Capital Fund	**2,647,655**	1,900,955	**2,647,655**	1,900,955
General Reserve	**1,621,476**	1,362,048	**1,671,476**	1,362,048
Insurance Reserve	**887,413**	802,539		
Contingency Reserve	**5,855**	4,591		
Total distributable reserves	**5,162,399**	4,070,133	**4,319,131**	3,263,003
Less: Distributable reserves relating to the discontinued operation (refer to note 21)	**(530,157)**	(484,890)	**(530,157)**	(484,890)
Distributable reserves from continuing operations	**4,632,242**	3,585,243	**3,788,974**	2,778,113
Non-distributable reserve				
Revaluation of property	**107,512**	121,713	**107,512**	121,713
	4,739,754	3,706,956	**3,896,486**	2,899,826

15.1 Description of equity components

General Reserve
The General Reserve comprises of accumulated retained earnings.

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.

Insurance Reserve
The Insurance Reserve is a component of Group retained earnings and represents the accumulated surplus of LBIC from insurance activities.

Contingency Reserve
The Contingency Reserve is calculated in terms of the Short Terms Insurance Act and is set at 10% of short-term gross written premium less short term reinsurance premium paid. The purpose of the reserve is to cover unexpected losses and is created through a transfer from retained earnings.

Revaluation Reserve
The Revaluation Reserve represents the net surplus arising on the revaluation of properties.

16 Trade and other payables

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Accrued expenses	**26,500**	48,185	**26,269**	47,394
Amounts due to intermediaries	**15,782**	8,978	**-**	-
Amounts due to reinsurers	**107,879**	77,937	**-**	-
Client deposits for approved loans	**3,605**	6,632	**3,605**	6,632
Creditors	**14,797**	17,263	**14,797**	17,263
Deferred income	**717**	-	**337**	-
Loan costs and fees received in advance	**18,185**	20,447	**18,185**	20,447
Other	**11,883**	3,686	**11,883**	3,686
	199,348	183,128	**75,076**	95,422

The 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
- Other: one month.

17 Policyholders' liabilities

	Group 2011 R'000	Group 2010 R'000
Policyholders' liabilities under insurance contracts	**42,535**	42,476
Notified claims	**1,412**	1,295
Claims (incurred but not reported)	**800**	1,300
	44,747	45,071

17.1 Policyholders' liability under insurance contracts

	Group 2011 R'000	Group 2010 R'000
Present value of policy liabilities	**55,282**	64,005
Plus: Present value of future expenses	**33,631**	38,372
Less: Present value of future premiums	**(59,121)**	(70,975)
Liability excluding AIDS reserve	**29,792**	31,402
Plus: AIDS reserve	**2,541**	3,574
Plus: Data error provision	**4,183**	7,500
Plus: Expense overrun reserve	**6,019**	-
	42,535	42,476

Notes to the Annual Financial Statements (continued)
17 Policyholders' liabilities (continued)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

17.2 Movement in the policyholders' liability

	2011 R'000	2010 R'000
Balance at the beginning of the year	**42,476**	67,549
Movement in the policyholders' liability	**59**	(25,073)
Balance at the end of the year	**42,535**	42,476

17.3 Movement in the IBNR

	2011 R'000	2010 R'000
Balance at the beginning of the year	**1,300**	1,000
Movement in the IBNR	**(500)**	300
Balance at the end of the year	**800**	1,300

17.4 Movement in notified claims

	2011 R'000	2010 R'000
Balance at the beginning of the year	**1,295**	911
Movement in outstanding claims	**117**	384
Balance at the end of the year	**1,412**	1,295

18 Funding liabilities

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
At fair value	**1,317,442**	1,178,573	**1,317,442**	1,178,573
At amortised cost	**11,221,591**	10,122,143	**11,221,591**	10,122,143
Total funding	**12,539,033**	11,300,716	**12,539,033**	11,300,716
Less: Funding relating to the discontinued operation (refer to note 21)	**(684,047)**	(638,786)	**(684,047)**	(638,786)
Funding of continuing operations	**11,854,986**	10,661,930	**11,854,986**	10,661,930

18 Funding liabilities (continued)

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:

18.1 Analysis of funding

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
At fair value				
Debentures – LB01	**-**	1,022,300	**-**	1,022,300
Floating rate notes – LBK01	**1,165,268**	-	**1,165,268**	-
Promissory notes	**152,174**	156,273	**152,174**	156,273
	1,317,442	1,178,573	**1,317,442**	1,178,573
Movement in the fair values				
Debentures – LB01				
Opening balance	**1,022,300**	1,922,598	**1,022,300**	1,922,598
Debentures settled	**(1,014,502)**	(800,000)	**(1,014,502)**	(800,000)
Debentures certificates on hand cancelled	**-**	(28,946)	**-**	(28,946)
Fair value adjustments	**(7,798)**	(71,352)	**(7,798)**	(71,352)
	-	1,022,300	**-**	1,022,300
Floating rate notes - LBK01				
Opening balance	**-**	-	**-**	-
New issues	**1,188,000**	-	**1,188,000**	-
Fair value adjustments	**(22,732)**	-	**(22,732)**	-
	1,165,268	-	**1,165,268**	-
Promissory notes				
Opening balance	**156,273**	334,005	**156,273**	334,005
Fair value adjustments	**11,901**	15,833	**11,901**	15,833
Funds repaid	**(16,000)**	(193,565)	**(16,000)**	(193,565)
	152,174	156,273	**152,174**	156,273
At nominal value				
Floating rate notes - LBK01	**1,188,000**	-	**1,188,000**	-
Debentures - LB01	**-**	1,040,004	**-**	1,040,004
Medium-term promissory notes	**-**	16,000	**-**	16,000
Zero coupon promissory notes	**158,000**	158,000	**158,000**	158,000
	1,346,000	1,214,004	**1,346,000**	1,214,004

Senior unsecured floating rate note (LBK01)

A R10 billion Domestic Medium Term Note Programme was registered and listed by the JSE on 18 October 2010.

On 23 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.

Zero Coupons

The Bank has elected to carry the zero coupons 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 Fitch rating.

18 Funding liabilities (continued)

18.1 Analysis of funding (continued)

Land Bank debentures (LB01)

These debentures were publicly traded on the Bond Exchange of South Africa. The LB01 debentures were fully redeemed on 30 June 2010 and paid coupon interest at 11.5% per annum.

The Bank has elected to carry the debentures at fair value through profit and 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 was no movement in credit risk as per the rating agency.

	Group		Bank	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
At amortised cost				
Industrial Development Corporation	**-**	833	**-**	833
Promissory notes	**9,220,146**	8,759,239	**9,220,146**	8,759,239
Bills	**861,949**	492,948	**861,949**	492,948
Call bonds	**787,050**	164,668	**787,050**	164,668
Agri-related businesses deposits	**30,849**	394,083	**30,849**	394,083
Small institutional deposits	**22,559**	21,172	**22,559**	21,172
Forced stock sale deposits	**252,807**	241,821	**252,807**	241,821
Department of Agriculture, Forestry and Fisheries fund	**4,600**	4,600	**4,600**	4,600
Employee deposits	**3,972**	5,120	**3,972**	5,120
Irrigation Board deposit	**37,659**	37,659	**37,659**	37,659
	11,221,591	10,122,143	**11,221,591**	10,122,143
Average effective interest rate				
Short-term promissory notes	**6.27%**	7.82%	**6.27%**	7.82%
Bills	**6.05%**	7.13%	**6.05%**	7.13%
Call bonds	**5.55%**	6.71%	**5.55%**	6.71%

Industrial Development Corporation loan

On 1 June 2001 a loan of R25 million was obtained at a fixed interest rate of 7.0% per annum from the Industrial Development Corporation of South Africa Limited for assistance in the Land Bank's emergency flood relief programme. The loan was repayable in 60 instalments over a period of five years, starting on 1 June 2005. No interest and capital repayments were required during the first four years. The loan was specifically earmarked for the granting of special mortgage loans at a subsidised interest rate of 10% per annum. The effective interest rate on the loan was 6.16%. The loan was fully repaid on 16 April 2010.

Notes to the Annual Financial Statements (continued)

19 Provisions and accruals

	Staff incentives R'000	Leave pay R'000	Labour disputes R'000	Administration and penalty fees R'000	Internal audit R'000	External audit R'000	Legal fees R'000	Other R'000	Total R'000
Group									
At 1 April 2009	**10,617**	**12,532**	**14,209**	**46,804**	**-**	**5,635**	**-**	**-**	**89,797**
Prior year adjustment[1]	-	-	-	277,647	-	-	-	-	277,647
Restated opening balance	**10,617**	**12,532**	**14,209**	**324,451**	**-**	**5,635**	**-**	**-**	**367,444**
Additional provision raised	28,695	2,954	-	-	3,500	5,600	44,030	3,337	88,116
Utilised	(10,617)	(957)	(178)	(22,840)	(404)	(4,337)	-	-	(39,333)
At 31 March 2010	**28,695**	**14,529**	**14,031**	**301,611**	**3,096**	**6,898**	**44,030**	**3,337**	**416,227**
Additional provision raised	43,231	14,305	-	98,548	7,416	7,363	6,000	9,776	186,639
Utilised	(32,686)	(3,001)	(2,166)	(136,280)	(5,601)	(1,507)	-	(2,566)	(183,807)
Reversal of provision	-	(11,219)	-	-	(3,096)	(5,409)	-	-	(19,724)
At 31 March 2011	**39,240**	**14,614**	**11,865**	**263,879**	**1,815**	**7,345**	**50,030**	**10,547**	**399,335**
Bank									
At 1 April 2009	**10,617**	**12,335**	**14,209**	**46,804**	**-**	**5,635**	**-**	**-**	**89,600**
Prior year adjustment[1]	-	-	-	277,647	-	-	-	-	277,647
Restated opening balance	**10,617**	**12,335**	**14,209**	**324,451**	**-**	**5,635**	**-**	**-**	**367,247**
Additional provision raised	28,000	2,838	-	-	3,500	5,600	44,030	3,337	87,305
Utilised	(10,617)	(957)	(178)	(22,840)	(404)	(4,337)	-	-	(39,333)
At 31 March 2010	**28,000**	**14,216**	**14,031**	**301,611**	**3,096**	**6,898**	**44,030**	**3,337**	**415,219**
Additional provision raised	42,072	14,224	-	98,548	7,064	6,816	6,000	9,776	184,500
Utilised	(31,485)	(2,997)	(2,166)	(136,280)	(5,601)	(1,507)	-	(2,566)	(182,602)
Reversal of provision	-	(11,219)	-	-	(3,096)	(5,409)	-	-	(19,724)
At 31 March 2011	**38,587**	**14,224**	**11,865**	**263,879**	**1,463**	**6,798**	**50,030**	**10,547**	**397,393**

[1] Prior year adjustment relates to administration and penalty fee exposure on Retail loans.

Notes to the Annual Financial Statements (continued)
19 Provisions and accruals (continued)

19.1 Leave pay
Accumulated leave is payable to employees on certain conditions when the leave is not taken or upon resignation. 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.

19.2 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.

19.3 Labour disputes
Provision raised in respect of certain labour related disputes regarding legacy matters which could result in probable settlements by the Group.

19.4 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. Continuous efforts are being made to identify affected accounts in order to recalculate and rectify the balances.

19.5 Internal audit
Provision raised in respect of internal audit fees.

19.6 External audit
Provision raised for external audit services.

19.7 Other
Other provisions include the cost to register a domestic medium term note programme with the JSE, forensic audit services, the annual report and the guarantee fee payable to the National Treasury.

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

20 Post-retirement obligation

20.1 Medical benefit plan

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Valuation assumptions				
Discount rate[1]	**9%**	9%	**9%**	9%
Continuation of membership at retirement	**100%**	100%	**100%**	100%
Average retirement age	**65 years**	65 years	**65 years**	65 years
Medical cost trend rate	**7.2%**	6.5%	**7.2%**	6.5%
Membership data				
Number of in-service members	**326**	351	**326**	351
Number of pensioners	**326**	328	**326**	328
	652	679	**652**	679

[1] The medical cost trend rate has been factored in determining the discount rate used in the actuarial valuation.

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Reconciliation of the movement in the present value of the benefit obligations:				
Defined benefit obligation at 1 April	**190,149**	191,436	**190,149**	191,436
Service costs	**2,740**	2,561	**2,740**	2,561
Interest cost	**16,663**	16,963	**16,663**	16,963
Recognised actuarial loss/(gain)	**21,369**	(9,556)	**21,369**	(9,556)
Expected employer benefit payments	**(12,077)**	(11,255)	**(12,077)**	(11,255)
Defined benefit obligation at 31 March	**218,844**	190,149	**218,844**	190,149
Components of net periodic medical benefit cost				
Current service cost	**(2,740)**	(2,561)	**(2,740)**	(2,561)
Interest cost	**(16,663)**	(16,963)	**(16,663)**	(16,963)
Expected employer benefit payments	**12,077**	11,255	**12,077**	11,255
Total included in staff costs	**(7,326)**	(8,269)	**(7,326)**	(8,269)
Recognised actuarial (loss)/gain	**(21,369)**	9,556	**(21,369)**	9,556
	(28,695)	1,287	**(28,695)**	1,287

The estimated medical aid contributions for the next 6 months effective 1 April 2011 amount to R5.8 million (2010: R6.3 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

20 Post-retirement obligation (continued)

20.2 Present value of the benefit obligation for the current year and the previous four financial years

	2011 R'000	2010 R'000	2009 R'000	2008 R'000	2007 R'000
Fair value of benefit obligation asset[1]	227,832	211,170	165,702	195,158	195,507
Fair value of benefit obligation liability[1]	(218,844)	(190,149)	(191,436)	(201,940)	(182,547)
Surplus/(deficit)	8,988	21,021	(25,734)	(6,782)	12,960

[1] LBIC does not have a post-retirement benefit obligation- and asset.

20.3 Sensitivity analysis for medical post-retirement benefits

	Effect on current service and interest cost		Effect on accumulated post-medical aid defined benefit obligation	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Increase in medical inflation by 1%	**13,335**	11,372	**251,761**	217,647
Decrease in medical inflation by 1%	**(9,872)**	(8,500)	**(191,968)**	(167,572)

21 Disposal group classified as held-for-sale (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 Bank 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 payouts 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.

The LDFU operations is a separate reportable operating segment of the Bank. 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. As at 31 March 2009, the LDFU was classified as a disposal group held-for-sale and as a discontinued operation.

Notes to the Annual Financial Statements (continued)
21 Discontinued operation (continued)

The results of LDFU for the year are presented below:

		Group		Bank	
		2011	2010	2011	2010
	Note	R'000	R'000	R'000	R'000
Net interest expense		**(46,265)**	(64,348)	**(46,265)**	(64,348)
Interest income	22	**798**	-	**798**	-
Interest expense	23	**(47,063)**	(64,348)	**(47,063)**	(64,348)
Impairment release/(charges) on loans and advances	10.3	**6,195**	(2,564)	**6,195**	(2,564)
Operating expenses	28	**(5,197)**	(1,441)	**(5,197)**	(1,441)
Net loss from discontinued operations		**(45,267)**	(68,353)	**(45,267)**	(68,353)

The major classes of assets and liabilities of the LDFU classified as held-for-sale as at 31 March 2011 are as follows:

		Group		Bank	
	Note	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Assets					
Loans and advances classified as assets held-for-sale	10	**153,890**	153,898	**153,890**	153,898
Liabilities					
Liabilities directly associated with assets classified as held-for-sale	18	**(684,047)**	(638,786)	**(684,047)**	(638,786)
Net liabilities directly associated with disposal group		**(530,157)**	(484,888)	**(530,157)**	(484,888)
Equity and reserves of disposal group classified as held-for-sale		**(530,157)**	(484,888)	**(530,157)**	(484,888)

The net cash flows incurred by the LDFU are as follows:

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Cash flows from operating activities				
Operating expenses	**(5,197)**	(1,441)	**(5,197)**	(1,441)
Cash flow from financing activities				
Interest expense	**(47,063)**	(64,348)	**(47,063)**	(64,348)
Net cash outflow	**(52,260)**	(65,789)	**(52,260)**	(65,789)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

22 Interest income

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Loans and receivables				
Interest from loans and advances	**1,160,280**	1,560,390	**1,160,280**	1,560,390
Interest on short-term deposits	**95,982**	111,460	**95,982**	111,460
Interest from banks	**48,758**	82,544	**48,756**	82,542
	1,305,020	1,754,394	**1,305,018**	1,754,392

23 Interest expense

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Funding deposits	**759,477**	952,522	**759,477**	952,522
Deposits and credit balances	**27,637**	41,078	**27,637**	41,078
Commercial banks	**191**	10	**191**	10
Government guarantee fee	**6,567**	12,267	**6,567**	12,267
	793,872	1,005,877	**793,872**	1,005,877

23.1 Interest expense incurred per class of financial liability

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Designated at fair value through profit or loss	**59,576**	189,051	**59,134**	189,051
Interest paid on debentures	**21,742**	189,051	**21,300**	189,051
Interest paid on floating rate notes	**37,834**	-	**37,834**	-
Financial liabilities at amortised cost	**781,359**	881,174	**781,801**	881,174
Interest paid on deposits	**27,637**	41,078	**27,637**	41,078
Interest paid on call bonds	**25,569**	22,717	**25,569**	22,717
Interest paid on bills	**28,932**	37,671	**28,932**	37,671
Interest paid on promissory notes	**692,452**	765,410	**692,894**	765,410
Interest paid on floating promissory notes	**-**	1,711	**-**	1,711
Interest paid - IDC	**7**	216	**7**	216
Interest paid - sundries	**4**	94	**4**	94
Fees paid on government guarantees	**6,567**	12,267	**6,567**	12,267
Interest paid - commercial banks	**191**	10	**191**	10
Total interest expense	**840,935**	1,070,225	**840,935**	1,070,225
Less: Interest expense relating to the discontinued operation (refer to note 21)	**(47,063)**	(64,348)	**(47,063)**	(64,348)
	793,872	1,005,877	**793,872**	1,005,877

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

24 Non-interest income

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Fee and commission income	**33,739**	45,627	**34,439**	46,327
Account administration fees	**32,895**	44,382	**32,895**	44,382
Fund administration fees	**792**	1,120	**792**	1,120
Administration fee from LBIC	**-**	-	**700**	700
Commission earned	**52**	125	**52**	125
Other	**18,272**	19,621	**18,272**	19,621
Income from properties in possession	**93**	127	**93**	127
Investment property rentals	**6,841**	6,080	**6,841**	6,080
Sundry income	**11,338**	13,414	**11,338**	13,414
	52,011	65,248	**52,711**	65,948

25 Operating (loss)/income from insurance activities

	Group 2011 R'000	Group 2010 R'000
Gross written premium	**213,728**	174,708
- Long-term insurance contracts	**9,589**	12,609
- Short-term insurance contracts	**204,139**	162,099
Less: reinsurance premium	**(155,794)**	(125,435)
- Long-term insurance contracts	**(4,055)**	(4,426)
- Short-term insurance contracts	**(151,739)**	(121,009)
Less: Movement in the unearned premium reserve	**11,784**	(16,249)
Less: Movement in the additional unearned risk reserve	**(537)**	(6,280)
Net premium income	**69,181**	26,744
Long-term insurance contract claims	**(4,145)**	(4,081)
- Gross claims paid	**(4,946)**	(6,913)
- Movement in the unexpected cost of outstanding claims	**(1,412)**	(1,295)
- Reinsurance claims received	**2,213**	4,127
Short-term insurance claims	**(71,097)**	(32,131)
- Gross claims paid	**(177,551)**	(86,490)
- Incurred but not reported claims	**(2,943)**	(11,347)
- Movement in the expected cost of outstanding claims	**(56,640)**	(9,941)
- Reinsurance claims received	**166,037**	75,647
Net insurance claims	**(75,242)**	(36,212)
Movement in policyholders' liability	**441**	24,773
Net commission and administration fees	**(7,641)**	(4,269)
	(13,261)	11,036

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

26 Investment income

	2011 Group R'000	2010 Group R'000	2011 Bank R'000	2010 Bank R'000
Coronation investment	**43,883**	45,573	**8,314**	6,147
- Dividend income	**15,967**	15,834	**3,823**	1,739
- Interest income	**27,916**	29,739	**4,491**	4,408
Dividend from subsidiary	**-**	-	**50,000**	-
Unrealised fair value gains	**99,522**	168,502	**22,258**	44,664
	143,405	214,075	**80,572**	50,811

27 Fair value gains

	2011 Group R'000	2010 Group R'000	2011 Bank R'000	2010 Bank R'000
Held for trading				
Swaps	**(6,349)**	(2,044)	**(6,349)**	(2,044)
Market-making assets	**(1,058)**	(4,273)	**(1,058)**	(4,273)
	(7,407)	(6,317)	**(7,407)**	(6,317)
Designated at fair value through profit or (loss)				
Promissory notes	**(4,103)**	44,116	**(4,103)**	44,116
Floating rate notes	**22,732**	-	**22,732**	-
	11,222	37,799	**11,222**	37,799

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

28 Operating expenses

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Amortisation – computer software	**3,198**	3,297	**3,198**	3,297
Audit fees (external audit)	**6,132**	6,991	**5,569**	6,370
- Current year	**6,132**	5,828	**5,569**	5,600
- Under provision prior year	**-**	1,163	**-**	770
Audit fees (internal audit)	**10,102**	6,361	**9,805**	5,797
- Current year	**7,059**	4,064	**6,762**	3,500
- Under provision prior year	**3,043**	2,297	**3,043**	2,297
Depreciation	**7,966**	6,724	**7,966**	6,724
Directors' emoluments	**13,453**	11,797	**8,839**	8,502
- Executive directors	**6,512**	5,695	**4,267**	4,054
- Non-executive directors	**6,941**	6,102	**4,572**	4,448
Leases	**22,181**	17,860	**22,181**	17,860
- Actual payment	**19,832**	17,691	**19,832**	17,691
- Effect of straight-lining	**2,349**	169	**2,349**	169
Legal fees	**7,891**	52,756	**7,891**	52,756
Management fees	**4,150**	3,779	**419**	314
Professional fees	**29,702**	57,249	**28,863**	56,339
Staff costs	**307,370**	263,270	**305,838**	261,020
Salaries and contributions	**295,946**	254,449	**294,546**	252,224
- Other	**11,424**	8,821	**11,292**	8,796
Other operating expenses	**77,179**	61,147	**76,069**	60,511
	489,324	491,231	**476,638**	479,490
Number of employees at year-end	**608**	575	**600**	567

29 Non-trading and capital items

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Impairment of other assets	**4**	6	**4**	6
Non-current assets held-for-sale fair value adjustment (note 7)	**(11,202)**	-	**(11,202)**	-
Loss/(profit) on disposal of property and equipment	**(458)**	1,222	**(458)**	1,222
Profit on disposal of non-current assets held-for-sale (note 7)	**19,939**	-	**19,939**	-
Profit on sale of shares	**-**	14,196	**-**	14,196
Fair value adjustment on investment properties (note 13)	**(1,360)**	2,560	**(1,360)**	2,560
Loss on disposal of properties in possession	**(4,644)**	(355)	**(4,644)**	(355)
Reversal of impairment on intangible assets (note 12)	**35,245**	-	**35,245**	-
Unrealised gain on revaluation of land and buildings	**32**	152	**32**	152
	37,556	17,781	**37,556**	17,781

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000

30 Indirect taxation

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Skills development levy	**2,314**	1,877	**2,264**	1,842
Value added tax	**24,565**	21,254	**24,565**	21,254
	26,879	23,131	**26,829**	23,096

Value-added taxation comprises the portion that is irrecoverable as a result of the interest earned in the South African financial services sector.

31 Funds under administration

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Asset				
Cash balance held for the funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)	**841,335**	923,093	**841,335**	923,093
Liabilities				
Department of Agriculture, Forestry and Fisheries	**834,829**	916,964	**834,829**	916,964
Department of Rural Development and Land Reform	**6,506**	6,129	**6,506**	6,129
	841,335	923,093	**841,335**	923,093

31.1 Funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Agri BEE Fund	**119,910**	113,640	**119,910**	113,640
DAFF Administration Fund - Flood Relief	**9,067**	8,542	**9,067**	8,542
MAFISA Fund	**624,717**	718,351	**624,717**	718,351
DAFF Flood Relief Programme	**81,135**	76,431	**81,135**	76,431
	834,829	916,964	**834,829**	916,964

31.2 Funds administered on behalf of the Department of Rural Development and Land Reform (DRDLR)

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Land for Redistribution and Agricultural Development (LRAD) grant	**6,506**	6,129	**6,506**	6,129
	841,335	923,093	**841,335**	923,093

Notes to the Annual Financial Statements (continued)
31 Funds under administration (continued)

31.3 Reconciliation of movement in funds under administration

31.3.1 Agri BEE

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Balance at the beginning of the year	**113,640**	60,529	**113,640**	60,529
Receipts	**-**	48,610	**-**	48,610
Accrued interest	**6,402**	4,501	**6,402**	4,501
Disbursements	**(132)**	-	**(132)**	-
Balance at the end of the year	**119,910**	113,640	**119,910**	113,640

31.3.2 DAFF Poverty Fund

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Balance at the beginning of the year	**8,542**	8,000	**8,542**	8,000
Accrued interest	**525**	542	**525**	542
Balance at the end of the year	**9,067**	8,542	**9,067**	8,542

31.3.3 MAFISA Fund

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Balance at the beginning of the year	**718,351**	533,115	**718,351**	533,115
Receipts	**7,238**	367,000	**7,238**	367,000
Accrued interest	**40,847**	38,115	**40,847**	38,115
MAFISA debtor write-off	**-**	(23,379)	**-**	(23,379)
Disbursements	**(141,719)**	(196,500)	**(141,719)**	(196,500)
Balance at the end of the year	**624,717**	718,351	**624,717**	718,351

31.3.4 Flood Relief Programme

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Balance at the beginning of the year	**76,431**	71,628	**76,431**	71,628
Accrued interest	**4,704**	4,803	**4,704**	4,803
Balance at the end of the year	**81,135**	76,431	**81,135**	76,431

31.3.5 LRAD grant

	Group 2011 R'000	Group 2010 R'000	Bank 2011 R'000	Bank 2010 R'000
Balance at the beginning of the year	**6,129**	5,740	**6,129**	5,740
Accrued interest	**377**	389	**377**	389
Balance at the end of the year	**6,506**	6,129	**6,506**	6,129

Notes to the Annual Financial Statements (continued)
31 Funds under administration (continued)

31.4 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. No funds have been disbursed since January 2008 due to irregularities that occurred, which are currently under investigation. The current year payment of an old invoice was approved by the DAFF.

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 two 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 DRDLR.

32 Commitments, guarantees and contingent liabilities

32.1 Commitments

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	R'000	**R'000**	**R'000**	**R'000**
Loans granted but not yet disbursed				
Individual farmers	**333,371**	306,382	**333,371**	306,382
Debentures/stock purchased				
Other institutional stock				
Nominal value 2010: R12 million	-	14,968	-	14,968
Debentures/stock sold				
Other institutional stock				
Nominal value 2010: R19 million	-	23,582	-	23,582

The unrealised profit on unsettled trades was Rnil (2010: R8.6 million).

32 Commitments, guarantees and contingent liabilities (continued)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000

32.2 Financial guarantees

Individual farmers	**159,187**	219,492	**159,187**	219,492
Agri-related businesses	**165,709**	73,039	**165,709**	73,039
	324,896	292,531	**324,896**	292,531

The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.

32.3 Lease commitments

32.3.1 Operating leases

The Bank 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 seven years on buildings.

As at 31 March the Bank had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Operating lease commitments - Group as lessee				
Payable within one year	**18,014**	17,523	**18,014**	17,523
Payable between one to five years	**45,892**	56,955	**45,892**	56,955
	63,906	74,478	**63,906**	74,478
Operating lease commitments - Group as lessor				
Receivable within one year	**4,177**	5,857	**4,177**	5,857
Receivable between one to five years	**2,235**	4,992	**2,235**	4,992
	6,412	10,849	**6,412**	10,849

The Bank 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 R15.0 million (2010: R15.0 million) and the amount payable between one and five years amounts to R40.2 million (2010: R55.3 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.

32.4 Contingent liabilities

32.4.1 Onerous contracts - LDFU loans

As disclosed in note 21, the LDFU loans entered into by the Bank in 2007 were outside the mandate of the Bank in terms of the Land Bank Act. In terms of a legal opinion, the Bank could be exposed to third party claims. Such potential claims cannot be reliably measured and as such, no provision was raised for possible onerous contracts.

The Bank continues to engage with the LDFU clients and discussions are ongoing to find amicable solutions for the clients to refinance their debt.

32.4.2 Legal claim - previous turnaround strategy

The Bank entered into an agreement with a service provider to plan and implement a turnaround strategy for the Bank which 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 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. Independent legal opinion indicates that the Bank has complied with the provisions of the deed of settlement and as at the relevant time, the Bank did not have in its loan book, debt that met the criteria described in the deed of settlement. No provision has been raised as the Bank believes that although a claim is possible, it is not probable. In terms of a court order issued by the North Gauteng High Court, the Bank has ring-fenced all payments received on the identified debt into a separate interest-bearing account until such time as the matter is decided by court.

32.4.3 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.

Management believes that although possible, it is not probable that the claims will succeed and accordingly no provision for any liability has been made in these financial statements.

32.4.4 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 Bank. A reasonable estimate of the amount of the resulting loss, if any, could not be made.

33 Related party information

33.1 Subsidiary

LBIC is a subsidiary of the Land Bank. An administration and management fee of R0.7 million per annum (2010: R0.7 million) is paid by LBIC to Land Bank for the following services:

- Administration of Long-term (Life) business
- Other essential functions such as finance, human resources, legal services, marketing and IT services.

	Bank	
	2011	**2010**
	R'000	**R'000**
Amounts owed to Land Bank by LBIC		
- Current account (note 4)	**109,222**	22,318

The intercompany loan account is unsecured and interest is charged at the prime interest rate. Settlement will take place in cash.

Notes to the Annual Financial Statements (continued)
33 Related party information (continued)
33.1 Subsidiary (continued)

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
Transactions for the year ended 31 March				
Dividend declared by LBIC			**50,000**	-
Policy administration fees received by Land Bank			**700**	700
			50,700	700

33.2 Funds under administration

Department of Agriculture, Forestry and Fisheries (note 31.1)	**834,829**	916,964	**834,829**	916,964
Department of Rural Development and Land Reform (note 31.2)	**6,506**	6,129	**6,506**	6,129
	841,335	923,093	**841,335**	923,093
Cash balances held for funds administered	**841,335**	923,093	**841,335**	923,093

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.

Bank balances of the MAFISA fund (note 31.3.3)	**624,717**	718,351	**624,717**	718,351
MAFISA fund balance (note 31.3.3)	**624,717**	718,351	**624,717**	718,351

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 2011 year is Rnil (2010: R48.6 million). Management fees are calculated at 2,5% per annum on the amount deposited.

33.3 Stakeholder

33.3.1 The National Treasury
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.

Notes to the Annual Financial Statements (continued)
33 Related party information (continued)

Transactions during the year
During the year an amount of R746.7 million was received from the National Treasury as a second payment of a R3.5 billion recapitalisation, and is included in the capital fund in the statement of changes in equity.

33.3.2 Government Support

Letter of guarantee
During the prior financial year, 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. On 29 October 2010, the Bank received a R746.7 million (2010: R1 billion) capital injection which reduced the guarantee to R1.753 billion. The remaining R1.75 billion is expected to be converted into capital in the foreseeable future. The interest payable on the guarantee is calculated at 3.5%.

Subsequent to year-end, the Bank received a further capital injection of R400 million from the National Treasury which reduced the guarantee to R1.35 billion.

33.3.3 Funding from related parties
The Bank obtains funding from institutions under the same sphere of government, of which the most significant nominal values are disclosed below:

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
Corporation for Public Deposits	**343,000**	343,000	**343,000**	343,000
Development Bank of South Africa	**100,000**	-	**100,000**	-
Industrial Development Corporation	**-**	833	**-**	833
KHULA	**-**	41,000	**-**	41,000
National Housing Finance	**80,000**	60,000	**80,000**	60,000
Petro SA	**1,383,000**	1,263,000	**1,383,000**	1,263,000
Post Bank	**80,000**	79,000	**80,000**	79,000
Public Investment Corporation	**4,971,000**	5,790,000	**4,971,000**	5,790,000
South-African Reserve Bank	**-**	39,000	**-**	39,000
Trans-Caledon Tunnel Activity	**-**	62,000	**-**	62,000
	6,957,000	7,677,833	**6,957,000**	7,677,833

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.

34 Director's and key management interests

34.1 Loan debtors

A non-executive director of the Bank, JA Boggenpoel is also a non-executive director of one of the Bank's clients. The balance at 31 March 2011 on the client's account is R360 million (2010: nil).

An executive of the Bank, LA Makenete, is a shareholder in one of the Bank's BEE clients which had a loan balance of R560 million at 31 March 2011 (2010: R570 million). The loan was advanced prior to LA Makenete joining the Bank in September 2009.

35 Risk management

35.1 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, finance leases 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, finance leases, 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 rate 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** 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 the company.
	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.

	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 risk:** the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices. **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.
LBIC 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.
	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 change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.1 Land Bank's risk management strategy and processes (continued)

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 branches. The role and responsibility will focus on branch activity rather than on a specific function or discipline.

Operational risk
Risk management is central to Land Bank's business. The Group has developed comprehensive systems and risk management processes to control and monitor all activities in the Group. While ultimate accountability for risk lies with the Board of the Land Bank, the management of risk is closely monitored by the Enterprise Risk Management Division and the relevant risk management committees.

Land Bank has a formal risk policy and framework in place, 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. Segregation of duties exists to ensure the correctness, completeness and validity of transactions. 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
  - Identify emerging risks.

- 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
- To facilitate the management of operational risks, a risk register was established to record and monitor all possible operational risks.

The National Credit Act, No 34 of 2005 (NCA), came into effect on 1 June 2007 and had a major impact on compliance management in the Bank. The Bank was successfully registered as a credit provider and all employees completed a two-day NCA training course.

35.2 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 counterparties and for geographical and industry concentrations, and by monitoring such exposures. The Group has identified a one single obligor who is in excess of it's concentration limits, however this is softened by the diversified portfolio, balance sheet and income statement. 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 Committees of the Board.

As an important partner in the execution of the Bank's development mandate, the Bank's compliance responsibilities stretches further than monitoring of compliance with statutory and regulatory requirements. The Bank is also responsible for monitoring compliance with the developmental mandate enshrined in the Land Bank Act.

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

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

- 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.

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
- 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
- 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.

Reinsurance credit risk

LBIC makes use of reinsurance to:

- Access underwriting expertise
- Enable it to underwrite risks greater than its own risk appetite
- 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. LBIC has quota share reinsurance treaties with an internationally AA rated reinsurance company. In addition to the proportional reinsurance treaty, another layer of reinsurance is in place to limit the total exposure per individual claim.

35.2.1 Credit exposure

The Group's maximum credit exposure at 31 March was as follows:

Group and Bank	2011 R'000	2010 R'000
Asset class with asset credit risk exposure	**18,029,993**	15,692,244
Loans	**14,453,043**	12,448,322
Cash at bank	**2,087,520**	1,934,823
Trade and other receivables	**181,831**	140,939
Short-term insurance assets	**101,409**	64,353
Repurchase agreements	**-**	14,779
Derivative assets	**6,855**	15,149
Investments	**1,199,335**	1,073,879
Asset class without asset credit risk exposure	**267,680**	262,471
Intangible assets	**58,002**	4,600
Investment property	**42,620**	110,890
Non-current assets held-for-sale	**53,383**	30,803
Property and equipment	**113,675**	116,178
Total assets per statement of financial position	**18,297,673**	15,954,715
Add off balance sheet items exposed to credit risk		
Guarantees issued	**324,896**	292,531
Loan commitments	**333,371**	306,382
	18,955,940	16,553,628
Maximum credit exposure - selected items	**18,688,260**	16,291,157

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

Collateral

Refer to note 9.7 for collateral held against the loans and advances.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (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) 2011	Public sector stocks and loans R'000	Cash, deposits and similar securities R'000	Net working capital assets R'000	Total R'000
AAA	86,734	480,047	-	566,781
AA+	8,829	-	-	8,829
AA	67,561	613,372	-	680,933
AA-	45,108	100,000	-	145,108
A+	22,341	637,328	-	659,669
A	14,556	180,000	-	194,556
A-	55	-	-	55
BBB+	2,206	-	-	2,206
Other[1]	1,013	14,565,195	-	14,566,208
Not rated	13,877	241,791	710,192	965,860
Total	**262,280**	**16,817,733**	**710,192**	**17,790,205**

Credit risk concentration by credit rating (rated externally) 2010	Public sector stocks and loans R'000	Cash, deposits and similar securities R'000	Net working capital assets R'000	Total R'000
AAA	39,227	884,909	-	924,136
AA+	2,832	-	-	2,832
AA	23,672	811,562	-	835,234
AA-	20,160	100,028	-	120,188
A+	3,751	103,095	-	106,846
A	414	-	-	414
A-	1,447	-	-	1,447
BBB+	1,129	-	-	1,129
Other[1]	12,448,322	101,011	-	12,549,333
Not rated	177,648	103,017	205,465	486,130
Total	**12,718,602**	**2,103,622**	**205,465**	**15,027,689**

[1] This includes the Business and Corporate Banking, Retail 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, cashflow forecasts the level of financial leverage which determines the level of financial risk and indicates the extent that debt is covered by assets.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

Gross loan book exposure by agricultural sector
2011
Business and corporate banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	206,437	32%	2%	6,518	53%	1%
Poultry	430,064	68%	4%	5,812	47%	2%
Total	**636,501**	**100%**	**6%**	**12,330**	**100%**	**3%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	3,703,308	92%	32%	-	0%	0%
Sugar	(2,152)	0%	0%	-	0%	0%
Maize	724	0%	0%	730	100%	0%
Wheat	303,371	8%	3%	-	0%	0%
Total	**4,005,251**	**100%**	**35%**	**730**	**100%**	**0%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	57,560	4%	1%	-	0%	0%
Cash crops	46,872	3%	0%	-	0%	0%
Nuts	-	0%	0%	-	0%	0%
Wine	430,031	28%	4%	116	100%	0%
Decidious fruit	996,791	65%	8%	-	0%	0%
Total	**1,531,254**	**100%**	**13%**	**116**	**100%**	**0%**

Miscellaneous	Total loan R'000	% Miscella-neous Loans	% Loan Book	Arrears R'000	% Arrears Miscella-neous	% Total Arrears
Agri-business	4,857,523	93%	43%	318,271	87%	84%
Feedlot	111,024	2%	1%	-	0%	0%
Forestry products	47,944	1%	0%	-	0%	0%
Other	223,008	4%	2%	49,484	13%	13%
Total	**5,239,499**	**100%**	**46%**	**367,755**	**100%**	**97%**
Grand total	**11,412,505**	**100%**	**100%**	**380,931**	**100%**	**100%**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

Gross loan book exposure by agricultural sector (continued)
2010
Business and corporate banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	311,353	39%	3%	-	0%	0%
Piggery	7,557	1%	0%	-	0%	0%
Ostrich	194,443	25%	2%	-	0%	0%
Poultry	276,355	35%	3%	-	0%	0%
Total	**789,708**	**100%**	**8%**	**-**	**0%**	**0%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	3,841,213	92%	36%	-	0%	0%
Sugar	64,122	2%	1%	-	0%	0%
Maize	3,348	0%	0%	-	0%	0%
Wheat	254,063	6%	2%	-	0%	0%
Total	**4,162,746**	**100%**	**39%**	**-**	**0%**	**0%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	51,710	5%	1%	-	0%	0%
Cash crops	83,605	8%	1%	14,353	99%	4%
Nuts	-	0%	0%	-	0%	0%
Wine	472,428	43%	5%	129	1%	0%
Decidious fruit	485,157	44%	5%	-	0%	0%
Total	**1,092,900**	**100%**	**12%**	**14,482**	**100%**	**4%**

Miscellaneous	Total loan R'000	% Miscella-neous Loans	% Loan Book	Arrears R'000	% Arrears Miscella-neous	% Total Arrears
Forestry products	1,669	0%	0%	-	0%	0%
Other	237,379	6%	2%	39,257	12%	11%
Agri-business	3,791,453	90%	37%	296,856	88%	85%
Feedlot	193,185	4%	2%	-	0%	0%
Total	**4,223,686**	**100%**	**41%**	**336,113**	**100%**	**96%**
Grand total	**10,269,040**	**100%**	**100%**	**350,595**	**100%**	**100%**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

Gross loan book exposure by agricultural sector (continued)
2011
Retail

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	980,041	52%	26%	93,149	50%	16%
Feedlot	12,192	0%	0%	5,519	3%	1%
Game	55,262	3%	1%	2,568	1%	0%
Goats	23,772	1%	1%	1,680	1%	0%
Pigs	11,463	1%	0%	2,676	1%	0%
Poultry	202,762	11%	5%	61,015	33%	10%
Sheep	596,533	32%	15%	20,984	11%	4%
Total	**1,882,025**	**100%**	**48%**	**187,591**	**100%**	**31%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Fodder crops	272,481	28%	7%	36,087	19%	6%
Maize	216,845	22%	6%	52,506	28%	9%
Oil seeds	34,681	4%	1%	17,188	9%	3%
Sugar cane	410,056	41%	11%	80,177	42%	14%
Tobacco	5,617	1%	0%	2,761	1%	0%
Wheat	41,331	4%	1%	2,001	1%	0%
Total	**981,011**	**100%**	**26%**	**190,720**	**100%**	**32%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Cash crops	259,770	31%	7%	82,845	40%	14%
Citrus fruit	89,612	11%	2%	6,249	3%	1%
Deciduous fruit	138,099	17%	4%	25,003	12%	4%
Flowers	14,835	2%	0%	7,895	4%	1%
Hops	10	0%	0%	10	0%	0%
Nuts	10,271	1%	0%	955	0%	0%
Plantations	31,668	4%	1%	5,506	3%	1%
Subtropical fruit	54,999	7%	1%	33,359	16%	6%
Tea	3,604	0%	0%	37	0%	0%
Vineyards	230,898	27%	6%	47,046	22%	8%
Total	**833,766**	**100%**	**21%**	**208,905**	**100%**	**35%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	32,758	18%	1%	3,901	58%	1%
Aqua culture	1,511	1%	0%	701	10%	0%
Other	145,323	81%	4%	2,126	32%	1%
Total	**179,592**	**100%**	**5%**	**6,728**	**100%**	**2%**
Grand total	**3,876,394**	**100%**	**100%**	**593,944**	**100%**	**100%**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

Gross loan book exposure by agricultural sector (continued)
2010
Retail

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	777,337	49%	23%	97,552	51%	15%
Feedlot	14,511	1%	0%	946	1%	0%
Game	34,034	2%	1%	2,891	2%	0%
Goats	27,167	2%	1%	1,448	1%	0%
Pigs	13,214	1%	0%	4,116	2%	1%
Poultry	183,038	12%	5%	58,268	31%	9%
Sheep	532,846	33%	16%	23,403	12%	3%
Total	**1,582,147**	**100%**	**46%**	**188,624**	**100%**	**28%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Fodder crops	254,059	30%	8%	38,604	20%	6%
Maize	216,588	25%	6%	64,352	32%	10%
Oil seeds	35,458	4%	1%	17,085	9%	3%
Sugar cane	300,478	35%	9%	70,390	35%	11%
Tobacco	8,761	1%	0%	5,183	3%	1%
Wheat	40,774	5%	1%	2,331	1%	0%
Total	**856,118**	**100%**	**25%**	**197,945**	**100%**	**31%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Cash crops	205,702	27%	6%	97,522	35%	15%
Citrus fruit	78,994	10%	2%	23,595	9%	4%
Deciduous fruit	120,215	15%	4%	20,905	8%	3%
Flowers	11,855	2%	0%	6,721	2%	1%
Hops	10	0%	0%	10	0%	0%
Nuts	11,125	1%	0%	2,228	1%	0%
Plantations	75,657	10%	2%	27,900	10%	4%
Subtropical fruit	73,922	10%	2%	48,454	17%	7%
Tea	4,961	1%	0%	114	0%	0%
Vineyards	192,049	24%	6%	49,911	18%	7%
Total	**774,490**	**100%**	**22%**	**277,360**	**100%**	**41%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	19,879	9%	1%	2,827	55%	0%
Aqua culture	1,360	1%	0%	489	10%	0%
Other	192,237	90%	6%	1,780	35%	0%
Total	**213,476**	**100%**	**7%**	**5,096**	**100%**	**0%**
Grand total	**3,426,231**	**100%**	**100%**	**669,025**	**100%**	**100%**

35.2.2 Credit exposure by line of business - loan book

Gross loan book	2011		2010	
	R'000	% Total	R'000	% Total
Retail	**3,876,394**	**24%**	3,426,231	24%
Land for development	**654,129**	**4%**	666,645	4%
Business and corporate banking	**11,412,505**	**72%**	10,269,040	72%
Total gross loan book	**15,943,028**	**100%**	14,361,916	100%
Less:				
Suspended interest and fees	**(561,016)**		(664,862)	
Impairment provision	**(928,969)**		(1,248,732)	
Balance per annual financial statements - total carrying amount (notes 9 and 10)	**14,453,043**		12,448,322	

The Bank's Business and Corporate Banking 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 4% (2010: 4%) of total loans and the LDFU operations have been classified as discontinued (notes 10 and 21).

35.2.3 Credit exposure by maturity - Gross loan book

Based on the maturity of the loans as disclosed in note 9 and 10, the credit exposure by maturity is as follows:

	2011 R'000	2011 % Total	2010 R'000	2010 % Total
Long-term	**5,188,940**	**33%**	4,116,398	29%
Medium-term	**1,158,302**	**7%**	1,210,894	8%
Short-term	**9,595,786**	**60%**	9,034,624	63%
	15,943,028	**100%**	14,361,916	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 R9.6 billion (2010:R9 billion).

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.2 Credit risk (continued)

Credit exposure by geographic/regional distribution

2011

Province	LDFU R'000	Retail R'000	Business and corporate banking R'000	Total R'000	% Total
Eastern Cape	-	407,621	718,991	1,126,612	7%
Free State	-	681,821	267,113	948,934	6%
Gauteng	116,466	267,545	4,260,175	4,644,186	29%
KwaZulu-Natal	439,981	419,128	248,343	1,107,452	7%
Mpumalanga	-	283,635	57,994	341,629	2%
Northern Cape	-	393,775	1,008,625	1,402,400	9%
Limpopo	-	314,337	865,307	1,179,644	7%
North West	97,682	522,646	1,541,392	2,161,720	14%
Western Cape	-	585,886	2,444,565	3,030,451	19%
Gross loan book	**654,129**	**3,876,394**	**11,412,505**	**15,943,028**	**100%**

2010

Province	LDFU R'000	Retail R'000	Business and corporate banking R'000	Total R'000	% Total
Eastern Cape	-	378,650	477,953	856,603	6%
Free State	-	532,782	243,778	776,560	5%
Gauteng	128,982	316,873	4,832,455	5,278,310	37%
KwaZulu-Natal	439,981	299,442	253,579	993,002	7%
Mpumalanga	-	284,711	691,418	976,129	7%
Northern Cape	-	422,886	924,507	1,347,393	9%
Limpopo	-	239,953	145,527	385,480	3%
North West	97,682	464,673	877,199	1,439,554	10%
Western Cape	-	486,261	1,822,624	2,308,885	16%
Gross loan book	**666,645**	**3,426,231**	**10,269,040**	**14,361,916**	**100%**

35.3 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
- 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
- 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 was established
- A three-year floating rate note was successfully issued during the year
- 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. The Bank has substantially broadened its funding from public sector entities which resulted in a more stable liquidity position. It is the Bank's policy to maintain an adequate buffer of liquidity to be able to address fluctuations in its cash flow position.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.3 Liquidity risk (continued)

The tables below summarise the maturity analysis for financial liabilities:

	Group		Bank	
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
Financial liabilities				
Trade and other payables	**199,348**	183,128	**75,076**	95,422
Short-term insurance liabilities	**134,939**	90,819		
Derivative financial instruments	**21,673**	21,649	**21,673**	21,649
Policyholder liability	**44,747**	45,071	**-**	-
Funding and liabilities held-for-sale	**12,539,033**	11,300,716	**12,539,033**	11,300,716
Non-financial liabilities				
Provisions	**399,335**	416,227	**397,393**	415,219
Post-retirement obligation	**218,844**	190,149	**218,844**	190,149
Total liabilities	**13,557,919**	12,247,759	**13,252,019**	12,023,155

2011

Financial liabilities	< 1 year 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	-	1,317,442	-	-	**1,317,442**
Derivative financial instruments	-	21,673	-	-	**21,673**
Other financial liabilities					
Trade and other payables	75,076	-	-	-	**75,076**
Funding at amortised cost	11,221,591	-	-	-	**11,221,591**
Non-financial liabilities					
Provisions	397,393	-	-	-	**397,393**
Post-retirement obligation	-	-	-	218,844	**218,844**
Bank at 31 March 2011	**11,694,060**	**1,339,115**	**-**	**218,844**	**13,252,019**
Less: Intercompany loan	(109,222)	-	-	-	**(109,222)**
LBIC					
Other financial liabilities					
Trade and other payables	233,494	-	-	-	**233,494**
Short-term insurance liabilities	134,939	-	-	-	**134,939**
Provisions	1,942	-	-	-	**1,942**
Policyholders' liability	-	-	-	44,747	**44,747**
Group at 31 March 2011	**11,955,213**	**1,339,115**	**-**	**263,591**	**13,557,919**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.3 Liquidity risk (continued)

2010

Financial liabilities	**< 1 year 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	1,038,263	140,310	-	-	**1,178,573**
Derivative financial instruments	-	21,649	-	-	**21,649**
Other financial liabilities					
Trade and other payables	95,422	-	-	-	**95,422**
Funding at amortised cost	10,122,143	-	-	-	**10,122,143**
Non-financial liabilities					
Provisions	415,219	-	-	-	**415,219**
Post-retirement obligation	-	-	-	190,149	**190,149**
Bank at 31 March 2010	**11,671,047**	**161,959**	**-**	**190,149**	**12,023,155**
Less: Intercompany loan	(22,318)	-	-	-	**(22,318)**
LBIC					
Other financial liabilities					
Trade and other payables	110,024	-	-	-	**110,024**
Short-term insurance liabilities	90,819	-	-	-	**90,819**
Provisions	1,008	-	-	-	**1,008**
Policyholders' liability	-	-	-	45,071	**45,071**
Group at 31 March 2010	**11,850,580**	**161,959**	**-**	**235,220**	**12,247,759**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.3 Liquidity risk (continued)

The tables below summarise the contractual maturity analysis for financial assets:

	Group		Bank	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Financial assets	**18,029,993**	15,692,244	**16,880,825**	14,660,510
Cash and cash equivalents	**2,087,520**	1,934,823	**2,003,899**	1,923,138
Trade and other receivables	**181,831**	140,939	**189,166**	47,922
Short-term insurance assets	**101,409**	64,353	**-**	-
Repurchase agreements	**-**	14,779	**-**	14,779
Derivative financial instruments	**6,855**	15,149	**6,855**	15,149
Loans and advances and assets held-for-sale	**14,453,043**	12,448,322	**14,453,043**	12,448,322
Investments	**1,199,335**	1,073,879	**227,862**	211,200
Non-financial assets	**267,680**	262,471	**267,680**	262,471
Investment properties	**42,620**	110,890	**42,620**	110,890
Non-current assets held-for-sale	**53,383**	30,803	**53,383**	30,803
Intangible assets	**58,002**	4,600	**58,002**	4,600
Property and equipment	**113,675**	116,178	**113,675**	116,178
Total assets per balance sheet	**18,297,673**	15,954,715	**17,148,505**	14,922,981
Reconciliation of financial assets to maturity pockets				
Total financial assets	**18,029,993**	15,692,244	**16,880,825**	14,660,510
Suspended interest and fees	**561,016**	664,862	**561,016**	664,862
Impairment provision	**928,969**	1,248,732	**928,969**	1,248,732
Less: Insolvencies	**(143,113)**	(239,333)	**(143,113)**	(239,333)
Less: Step-up loans	**(79,358)**	(79,646)	**(79,358)**	(79,646)
	19,297,507	17,286,859	**18,148,339**	16,255,125

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.3 Liquidity risk (continued)

2011

Financial assets	**< 1 year R'000**	**1 - 5 years R'000**	**> 5 years R'000**	**Open ended R'000**	**Total R'000**
Financial assets at fair value through profit or loss					
Derivative financial instruments	6,855	-	-	-	**6,855**
Investments	-	5,764	39,512	182,586	**227,862**
Loans and receivables					
Trade and other receivables	187,262	-	-	1,904	**189,166**
Gross loan book excluding step up loans and insolvencies	3,764,974	7,864,355	1,366,154	2,725,074	**15,720,557**
Cash and cash equivalents	-	-	-	2,003,899	**2,003,899**
Bank at 31 March 2011	**3,959,091**	**7,870,119**	**1,405,666**	**4,913,463**	**18,148,339**
Less: Intercompany investment	-	-	-	(30)	**(30)**
Less: Intercompany dividend	(50,000)	-	-	-	**(50,000)**
Less: Intercompany loan	(109,222)	-	-	-	**(109,222)**
LBIC					
Loans and receivables					
Trade and other receivables	151,887	-	-	-	**151,887**
Short-term insurance assets	101,409	-	-	-	**101,409**
Cash and cash equivalents	-	-	-	83,621	**83,621**
Financial assets at fair value through profit or loss					
Investments	174,283	95,618	105,850	595,752	**971,503**
Group at 31 March 2011	**4,227,448**	**7,965,737**	**1,511,516**	**5,592,806**	**19,297,507**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.3 Liquidity risk (continued)

2010

Financial assets	**< 1 year R'000**	**1 - 5 years R'000**	**> 5 years R'000**	**Open ended R'000**	**Total R'000**
Financial assets at fair value through profit or loss					
Derivative financial instruments	5,675	9,474	-	-	**15,149**
Investments	14,816	14,329	18,355	163,700	**211,200**
Repurchase agreements	14,779	-	-	-	**14,779**
Loans and receivables					
Trade and other receivables	46,443	-	1,479	-	**47,922**
Gross loan book excluding step up loans and insolvencies	2,497,934	7,961,473	3,583,530	-	**14,042,937**
Cash and cash equivalents	-	-	-	1,923,138	**1,923,138**
Bank at 31 March 2010	**2,579,647**	**7,985,276**	**3,603,364**	**2,086,838**	**16,255,125**
Less: Intercompany investment	-	-	-	(30)	**(30)**
Less: Intercompany loan	(22,318)	-	-	-	**(22,318)**
LBIC					
Loans and receivables					
Trade and other receivables	115,335	-	-	-	**115,335**
Short-term insurance assets	64,353	-	-	-	**64,353**
Cash and cash equivalents	-	-	-	11,685	**11,685**
Financial assets at fair value through profit or loss					
Investments	224,217	39,904	84,818	513,770	**862,709**
Group at 31 March 2010	**2,961,234**	**8,025,180**	**3,688,182**	**2,612,263**	**17,286,859**

The Bank manages its liquidity requirements by utilising deposits, call bonds, Land Bank bills, Land Bank debentures, interest rate swaps and promissory notes. Loans and 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.

35.4 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)
- 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.

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 balance sheet 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.

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 2011 was -2.33%% fixed and 102.33% floating.

Interest rate risk policy reviews

The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

Sensitivity analysis

The Bank utilizes the Alman tool to assess the performance of particular portfolios of financial instruments when exposed to changes in market prices and factors under abnormal conditions. Scenario analysis involves simulating various hypothetical evolutions of events (called scenarios) in order to determine their effect on the value of a portfolio. When changes in the value of the portfolio are determined under stress conditions, the analysis is called "stress testing". Weak spots or risk holes are said to be identified when stress testing reveals excessive risk exposures to movements in underlying market variables. Stress testing is used to manage the risks in a portfolio more decisively and quickly should the worst case scenario present itself.

Simulation techniques are also employed by the Bank with the Alman tool to measure interest rate risk in relation to financial instruments. These simulation techniques involve detailed assessments of the potential effects of changes in interest rates on earnings and economic values by simulating the future path of interest rates and impact thereof on cash flows. The simulation techniques are based on projected changes in the interest rate environment. In static simulations, the cash flows arising from current positions are assessed. To assess the exposure of earnings, simulations estimating the cash flow and resulting earning streams over a specific period are conducted based on one or more interest rate scenarios. When the resulting cash flows are simulated over the entire expected lives of the Bank's holdings and discounted back to their present values, an estimate of the change in the Bank's economic value is calculated.

The sensitivity analysis has been determined based on the exposure to interest rates for derivatives and other financial liabilities and assets at the balance sheet 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.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.4 Market risk (continued)

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 2011:

Bank	31 March 2011		31 March 2010	
	Net interest income	Effect on equity	Net interest income	Effect on equity
Rate analysis	R'000	R'000	R'000	R'000
Expected net interest income	509,009	-	582,723	-
Potential movement: 100 Basis point up	610,257	101,248	672,382	89,659
Potential movement: 100 Basis point down	434,370	(74,639)	494,898	(87,825)

Equity price risk

The equity risk exposures arise from the medical aid fund assets and the LBIC 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 2011) due to possible change in equity indices, with all other variables held constant, is as follows:

	Group		Bank	
	Change in equity price	Effect on equity	Change in equity price	Effect on equity
	R'000	R'000	R'000	R'000
2011				
Individual stocks and indices	10	74,222	10	16,913
2010				
Individual stocks and indices	10	65,890	10	15,972

The effect on equity has been calculated using the equity balances at year-end.

Currency risk

LBIC'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	United States Dollar	Total
	R'000	R'000
31 March 2011		
Equities and similar securities	75,545	75,545
Cash, deposits and similar securities	7,428	7,428
Bonds	13,731	13,731
Foreign currency exposure	**96,704**	**96,704**
Exchange rates (rand):		
Closing rate	6.77	
Average rate	7.19	

35 Risk management (continued)

35.4 Market risk (continued)

Group	Euro	United States Dollar	Other currencies	Total
	R'000	R'000	R'000	R'000
31 March 2010				
Equities and similar securities	-	76,645	-	76,645
Cash, deposits and similar securities	2	13,079	1	13,082
Foreign currency exposure	**2**	**89,724**	**1**	**89,727**
Exchange rates (rand):				
Closing rate	9.83	7.29		
Average rate	11.29	8.04		

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 balance sheet 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 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 2011:

Rate analysis	Interest income R'000	Net impairment releases, claims and recoveries R'000	Non-interest income R'000	Loans and advances R'000	Effect on equity R'000
31 March 2011					
As at 31st March 2011: 5%	1,305,815	(131,254)	52,711	14,299,153	-
Potential movement: 10%	1,319,142	(106,015)	54,822	14,339,830	40,677
Potential movement: 0%	1,292,489	(156,493)	50,599	14,258,476	(40,677)
31 March 2010					
As at 31st March 2010: 15%	1,754,723	(157,298)	85,663	12,294,424	-
Potential movement: 20%	1,770,565	(129,274)	88,266	12,340,893	46,469
Potential movement: 10%	1,738,882	(185,323)	83,059	12,247,955	(46,469)

35.5 Insurance risk

* This note relates to Land Bank Insurance Company only

35.5.1 Insurance risk - long-term

LBIC provides mortgage and credit life insurance for persons who take out loans with the Land Bank. Until 2008, LBIC 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. During the course of 2008 and 2009, LBIC developed and issued a number of new mortgage and credit life products.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.5 Insurance risk (continued)

Mortality risk

Mortality risk is the risk to the Group that mortality experience in future is worse than provided for in premium rates. Higher than expected mortality will give rise to losses and will necessitate an increase in valuation assumptions.

This risk is mitigated by the following factors:

- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks
- Adequate pricing and reserving
- Specific testing for HIV/AIDS is carried out in cases where applications for risk cover exceed a set limit
- 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

Expenses are managed through the Group's budgeting process and monthly monitoring of actual versus budgeted expenses is conducted and reported on.

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.

Sensitivity analysis

The objective of the sensitivity analysis is to demonstrate the effect on the policyholders' liability for changes in key assumptions underlying the valuation of liabilities.

The sensitivity analysis illustrates the effect of a change in a particular assumption on the value of the policyholders' liability as at 31 March 2011, 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).

2011 Policyholders' liability			Value R'000	Change R'000	%
Base value			**43,334**		
Investment return	+1%	from 7.74% to 8.74%	41,453	(1,882)	-4.34%
	-1%	from 7.74% to 6.74%	45,459	2,124	4.90%
Mortality	+10%	1.1 x mortality	48,128	4,793	11.06%
	-10%	0.9 x mortality	38,517	(4,818)	-11.12%
Expenses	+10%	from 38% to 42%	47,595	4,260	9.83%
	-10%	from 38% to 34%	39,162	(4,173)	-9.63%

2010 Policyholders' liability			Value R'000	Change R'000	%
Base value			**43,776**		
Investment return	+1%	from 7.74% to 8.74%	41,372	(2,404)	-5.49%
	-1%	from 7.74% to 6.74%	46,098	2,322	5.30%
Mortality	+10%	1.1 x mortality	49,192	5,416	12.37%
	-10%	0.9 x mortality	37,954	(5,822)	-13.30%
Expenses	+10%	from 38% to 42%	47,315	3,539	8.08%
	-10%	from 38% to 34%	39,951	(3,825)	-8.74%

35.5.2 Insurance risk - short-term

LBIC provides indemnity for crops while still on the field, against hail, drought, fire and excessive rain fall. Cover ceases as soon as harvesting has taken place.

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
- 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 LBIC faces are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, provide to be insufficient.

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.

Pricing

LBIC 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.

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.5 Insurance risk (continued)

The net claims ratio for LBIC, which is important in monitoring insurance risk is summarised below:

Loss history	2011	2010
Short-term claims paid and provided % (expressed as a percentage of net earned premiums)	**142%**	78%

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.

As this is the first year that LBIC has entered the short-term insurance environment, a claims development table is not included.

Reserving
Reserves are maintained at levels that are aligned to statutory requirements and at year-end, LBIC believes that it's liabilities for claims are adequate.

Reinsurance
LBIC has third party reinsurance cover to reduce risks from single events or accumulations of risks that could have a significant impact on the current year's earnings.

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
- Catastrophe cover to the extent of 300% of the total exposure across the board.

The LBIC 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 an internal credit rating of no less than A+ .

35.6 Capital management

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 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 basis. 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. Rather it is an independent benchmark against which the solvency level of an insurer can be measured.

LBIC is in the process of applying for registration with the Financial Services Board (FSB), in which case the minimum CAR would have to be met.

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) - R2.9 million; or
- Minimum CAR (MCAR) - Higher of R10 million and 13 weeks' operating expenditure.

For the short-term insurance portfolio, a minimum CAR has been allowed for, as required by the FSB based on the greater of:
- R5 million; or
- 15% of premium income, net of reinsurance, which amounts to R8.8 million.

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 company thereby providing a degree of security to policyholders
- 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 policyholders and stakeholder
- 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
- Management of operational risk. Internal controls are used to reduce operational risk which has a positive effect in the calculation of required capital
- The capital requirements are routinely forecast on a periodic basis, and assessed against both the forecast available capital and 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 Annual Financial Statements (continued)
35 Risk management (continued)
35.6 Capital management (continued)

	Group			Bank		
	R'000	Risk %	Weighted assets R'000	R'000	Risk %	Weighted assets R'000
Assets						
Property and equipment and Intangible assets	171,677	100%	171,677	171,677	100%	171,677
Investments	1,199,335	100%	1,199,335	227,862	100%	227,862
Loans and advances[1]	14,453,043	100%	14,453,043	14,453,043	100%	14,453,043
Derivative financial instruments	6,855	100%	6,855	6,855	100%	6,855
Trade and other receivables	181,831	100%	181,831	189,166	100%	189,166
Other assets	197,412	100%	197,412	96,003	100%	96,003
Cash and cash equivalents	2,087,520	20%	417,504	2,003,899	20%	400,780
Contingent liabilities						
Individual farmers - if irrevocable	333,371	20%	66,674	333,371	20%	66,674
Total weighted assets			**16,694,331**			**15,612,060**
Total liabilities			**13,557,919**			**13,252,019**
Total capital and reserves			**4,739,754**			**3,896,486**
Government guarantee			**1,753,300**			**1,753,300**
Capital adequacy ratio						
Capital divided by total liabilities			34.96%			29.40%
Capital divided by total liabilities - including guarantee			47.89%			42.63%

[1] Includes assets of disposal group classified as held-for-sale.

35.7 Carrying amount and fair value of financial assets

Group	2011 Carrying amount R'000	2011 Fair value R'000	2010 Carrying amount R'000	2010 Fair value R'000
Financial assets				
Designated at fair value through profit or loss				
Repurchase agreements	-	-	14,779	14,779
Investments	1,199,335	1,199,335	1,073,879	1,073,879
Derivative financial instruments	6,855	6,855	15,149	15,149
Loans and receivables:				
Cash and cash equivalents	2,087,520	2,087,520	1,934,823	1,934,823
Trade and other receivables	181,831	180,962	140,939	140,401
Loans and advances	14,453,043	14,453,043	12,448,322	12,448,322
Total financial assets	**17,928,584**	**17,927,715**	**15,627,891**	**15,627,353**
Financial liabilities				
Designated at fair value through profit or loss				
Derivative financial instruments	21,673	21,673	21,649	21,649
Funding - debentures and floating rate notes	1,317,442	1,317,442	1,178,573	1,178,573
Financial liabilities at amortised cost:				
Trade and other payables	199,348	199,348	183,128	183,128
Funding	11,221,591	11,221,591	10,122,143	9,871,910
Provisions	399,335	399,335	416,227	416,227
Post-retirement obligation	218,844	218,844	190,149	190,149
Policyholders' liabilities	44,747	44,747	45,071	45,071
Total financial liabilities	**13,422,980**	**13,422,980**	**12,156,940**	**11,906,707**

Notes to the Annual Financial Statements (continued)
35 Risk management (continued)
35.7 Carrying amount and fair value of financial assets (continued)

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Bank	**R'000**	**R'000**	**R'000**	**R'000**
Financial assets				
Designated at fair value through profit or loss				
Repurchase agreements	-	-	14,779	14,779
Investments	227,862	227,862	211,200	211,200
Derivative financial instruments	6,855	6,855	15,149	15,149
Loans and receivables:				
Cash and cash equivalents	2,003,899	2,003,899	1,923,138	1,923,138
Trade and other receivables	189,166	188,297	47,922	47,383
Loans and advances	14,453,043	14,453,043	12,448,322	12,448,322
Total financial assets	**16,880,825**	**16,879,956**	**14,660,510**	**14,659,971**
Financial liabilities				
Designated at fair value through profit or loss				
Derivative financial instruments	21,673	21,673	21,649	21,649
Funding - debentures and promissory notes	1,317,442	1,317,442	1,178,573	1,178,573
Financial liabilities at amortised cost:				
Trade and other payables	75,076	75,076	95,422	95,422
Funding	11,221,591	11,221,591	10,122,143	9,871,910
Provisions	397,393	397,393	415,219	415,219
Post-retirement obligation	218,844	218,844	190,149	190,149
Total financial liabilities	**13,252,019**	**13,252,019**	**12,023,155**	**11,772,922**

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 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 accounts in default 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.

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 Fruitless and Wasteful Expenditure (F&WE)

The Bank has during the last two financial years been challenged by a number of legacy matters where the resolution of the matters resulted in F&WE, mainly in the form of late payment penalties and interest charges. The nature of such legacy payments was as a result of a breakdown in governance structures and controls as well as a high turnover in management and staff at the time. Although there has been a significant reduction in F&WE to R0.1 million (2010: R0.9 million) in the current year, the Bank experienced isolated incidences where penalties and interest were levied on late payment of telephone and utility accounts.

36.1 Reconciliation of fruitless and wasteful expenditure

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	R'000	**R'000**	**R'000**	**R'000**
Opening balance	**-**	-	**-**	-
Fruitless and wasteful expenditure incurred in the current year	**116**	931	**116**	931
- Legacy matters	**-**	495	**-**	495
- Current matters	**116**	436	**116**	436
Less: Amounts approved for write-off	**(116)**	(874)	**(116)**	(874)
- Current year: Legacy matters	**-**	(495)	**-**	(495)
- Current year: Current matters	**(116)**	(379)	**(116)**	(379)
Less: Amounts transferred to receivables for recovery	**-**	(57)	**-**	(57)
Fruitless and wasteful expenditure awaiting approval for write-off	**-**	-	**-**	-

Notes to the Annual Financial Statements (continued)
36 Fruitless and Wasteful Expenditure (continued)

36.2 Analysis of Current Fruitless and Wasteful Expenditure

	2011 R'000	2010 R'000
Legacy matters		
- Penalties and interest	**-**	495
Current matters	**116**	436
- Employee overpayments	**-**	57
- Penalties and interest	**116**	379
	116	931

36.3 Amounts transferred to receivables for recovery

	2011 R'000	2010 R'000
Opening balance	**285**	596
Current year employee overpayments transferred to receivables	**-**	57
Less: Amounts recovered and settled	**(11)**	(368)
Closing balance	**274**	285

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 Comparative numbers

The following comparative figures have been restated to conform to changes in presentation in the current financial year and had no effect on the results of the previous year.

Group
Statement of comprehensive income for the year ended 31 March 2010

	Note	Previously Reported 2010 R'000	Reclassifi-cations 2010 R'000	Restated 2010 R'000
Net interest income		748,517	-	**748,517**
Interest income	22	1,754,394	-	**1,754,394**
Interest expense	23	(1,005,877)	-	**(1,005,877)**
Net impairment releases, claims and recoveries	9.4	(157,298)	-	**(157,298)**
Total income from lending activities		591,219	-	**591,219**
Non-interest income[1]	24	81,371	(16,123)	**65,248**
Operating income from banking activities		672,590	(16,123)	**656,467**
Operating income/(loss) from insurance activities[1/2]	25	15,305	(4,269)	**11,036**
Investment income	26	214,075	-	**214,075**
Fair value gains	27	37,799	-	**37,799**
Operating income		939,769	(20,392)	**919,377**
Operating expenses[2]	28	(511,623)	20,392	**(491,231)**
Net operating income		428,146	-	**428,146**
Non-trading and capital items	29	17,781	-	**17,781**
Net profit before indirect taxation		445,927	-	**445,927**
Indirect taxation	30	(23,131)	-	**(23,131)**
Net profit from continuing operations		422,796	-	**422,796**
Net loss from discontinued operations	21	(68,353)	-	**(68,353)**
Net profit		354,443	-	**354,443**
Other comprehensive income				
Actuarial gains on the post retirement medical aid liability		9,556	-	**9,556**
Revaluation of land and buildings		15,090	-	**15,090**
		24,646	-	**24,646**
Total comprehensive income for the year		379,089	-	**379,089**

1 Commission received from insurance activities was reclassified from non-interest income to operating income/(loss) from insurance activities.
2 Commission and administration costs from insurance activities were reclassified from operating expenses to operating income/(loss) from insurance activities.

Notes to the Annual Financial Statements (continued)
37 Comparative numbers (continued)

Group
Statement of financial position as at 31 March 2010

	Note	Previously Reported 2010 R'000	Reclassifications 2010 R'000	Restated 2010 R'000
Assets				
Cash and cash equivalents[1]	3	2,857,916	(923,093)	**1,934,823**
Trade and other receivables	4	140,939	-	**140,939**
Short-term insurance assets	5	64,353	-	**64,353**
Repurchase agreements	6	14,779	-	**14,779**
Non-current assets held-for-sale	7	30,803	-	**30,803**
Investments	8	1,073,879	-	**1,073,879**
Loans and advances	9	12,294,424	-	**12,294,424**
Assets of disposal group classified as held-for-sale	10	153,898	-	**153,898**
Derivative financial instruments	11	15,149	-	**15,149**
Intangible assets	12	4,600	-	**4,600**
Investment property	13	110,890	-	**110,890**
Property and equipment	14	116,178	-	**116,178**
Total assets		16,877,808	(923,093)	**15,954,715**
Equity and liabilities				
Capital and reserves		3,706,956	-	**3,706,956**
Distributable reserves	15	3,585,243	-	**3,585,243**
Non-distributable reserves	15	121,713	-	**121,713**
Liabilities				
Trade and other payables	16	183,128	-	**183,128**
Short-term insurance liabilities	5	90,819	-	**90,819**
Derivative financial instruments	11	21,649	-	**21,649**
Policyholders' liabilities	17	45,071	-	**45,071**
Funding liabilities	18	10,661,930	-	**10,661,930**
Provisions	19	416,227	-	**416,227**
Funds under administration[1]	32	923,093	(923,093)	**-**
Post-retirement obligation	20	190,149	-	**190,149**
Liabilities directly associated with the assets classified as held-for-sale	21	638,786	-	**638,786**
Total equity and liabilities		16,877,808	(923,093)	**15,954,715**

[1] The cash balance held for the funds under administration was set-off against the liabilities.

Notes to the Annual Financial Statements (continued)
37 Comparative numbers (continued)

Bank
Statement of comprehensive income for the year ended 31 March 2010

	Note	Previously Reported 2010 R'000	Reclassifi-cations 2010 R'000	Restated 2010 R'000
Continuing operations				
Net interest income		748,515	-	**748,515**
Interest income	22	1,754,392	-	**1,754,392**
Interest expense	23	(1,005,877)	-	**(1,005,877)**
Net impairment releases, claims and recoveries	9.4	(157,298)	-	**(157,298)**
Total income from lending activities		591,217	-	**591,217**
Non-interest income	24	65,948	-	**65,948**
Operating income from banking activities		657,165	-	**657,165**
Operating income/(loss) from insurance activities	25	-	-	**-**
Investment income	26	50,811	-	**50,811**
Fair value gains	27	37,799	-	**37,799**
Operating income		745,775	-	**745,775**
Operating expenses	28	(479,490)	-	**(479,490)**
Net operating income		266,285	-	**266,285**
Non-trading and capital items	29	17,781	-	**17,781**
Net profit before indirect taxation		284,066	-	**284,066**
Indirect taxation	30	(23,096)	-	**(23,096)**
Net profit from continuing operations		260,970	-	**260,970**
Net loss from discontinued operations	21	(68,353)	-	**(68,353)**
Net profit		192,617	-	**192,617**
Other comprehensive income				
Actuarial gains on the post retirement medical aid liability		9,556	-	**9,556**
Revaluation of land and buildings		15,090	-	**15,090**
		24,646	-	**24,646**
Total comprehensive income for the year		217,263	-	**217,263**

Notes to the Annual Financial Statements (continued)
37 Comparative numbers (continued)

Bank
Statement of financial position as at 31 March 2010

	Note	Previously Reported 2010 R'000	Reclassifications 2010 R'000	Restated 2010 R'000
Assets				
Cash and cash equivalents[1]	3	2,846,231	(923,093)	**1,923,138**
Trade and other receivables	4	47,922	-	**47,922**
Repurchase agreements	6	14,779	-	**14,779**
Non-current assets held-for-sale	7	30,803	-	**30,803**
Investments	8	211,200	-	**211,200**
Loans and advances	9	12,294,424	-	**12,294,424**
Assets of disposal group classified as held-for-sale	10	153,898	-	**153,898**
Derivative financial instruments	11	15,149	-	**15,149**
Intangible assets	12	4,600	-	**4,600**
Investment property	13	110,890	-	**110,890**
Property and equipment	14	116,178	-	**116,178**
Total assets		15,846,074	(923,093)	**14,922,981**
Equity and liabilities				
Equity		2,899,826	-	**2,899,826**
Capital contributions and reserves	15	2,778,113	-	**2,778,113**
Revaluation reserve	15	121,713	-	**121,713**
Liabilities				
Trade and other payables	16	95,422	-	**95,422**
Derivative financial instruments	11	21,649	-	**21,649**
Policyholders' liabilities	17	-	-	**-**
Funding liabilities	18	10,661,930	-	**10,661,930**
Provisions	19	415,219	-	**415,219**
Funds under administration[1]	32	923,093	(923,093)	**-**
Post-retirement obligation	20	190,149	-	**190,149**
Liabilities directly associated with the assets classified as held-for-sale	21	638,786	-	**638,786**
Total equity and liabilities		15,846,074	(923,093)	**14,922,981**

[1] The cash balance held for the funds under administration was set-off against the liabilities.

Acronyms

ACI	African, Coloured, Indian
BEE	Black economic empowerment
CEO	Chief Executive Officer
CFU	Corporate Finance Unit
DBSA	Development Bank of Southern Africa
DFI	Development finance institution
EXCO	Executive Committee
F&WE	Fruitless and wasteful expenditure
GDP	Gross domestic product
HR	Human resources
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IT	Information technology
LBIC	Land Bank Insurance Company
LDFU	Land for Development Finance Unit
NGP	New Growth Path
PFMA	Public Finance Management Act
SA SAM	South African Social Accounting Matrix
SCOPA	Standing Committee on Public Accounts

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