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LAND BANK

LAND AND AGRICULTURAL DEVELOPMENT BANK

CORPORATE PLAN

2006/7

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LAND BANK CORPORATE PLAN

1. BACKGROUND

The Land and Agricultural Development Bank (Land Bank) is an agricultural development finance institution wholly owned by the South African Government. Land Bank provides retail, wholesale, project and micro finance to rural and commercial farmers, as well as agribusiness entities. Land Bank also wholly-owns the South African Mortgage Insurance Company Limited (SAVVEM), which provides mortgage insurance to the Bank's clients.

Land Bank is governed by the Land and Agricultural Development Bank Act of 2002. The Bank is exempt from requirements of the Banks Act and other prudential guidelines for banks set out by the Registrar of Banks. Land Bank is also exempt from the payment of income tax. Furthermore the Bank does not pay dividends to its shareholder. The imputed income tax and dividends are "ring fenced" and used to fund the development loan book. Land Bank's Board is appointed by the Minister for Agriculture and Land Affairs and is ultimately accountable to Parliament.

The new Land Bank Act expanded the scope of the Bank's activities considerably to include emerging farmers and rural small and medium sized agricultural businesses as major players in the Bank's client base. The AgriBEE framework now under discussion will further expand the roles and responsibilities of the Bank in the transformation of South Africa's agricultural sector. However, established commercial farmers still form the bulk of Land Bank's clients and remain South African agriculture's core growth and profit drivers.

1.1 Vision

Land Bank's Vision is to be the leading provider of world-class agricultural financial services to agriculture and related rural sectors in South Africa. The Bank views its Development mandate as its core business and its Commercial business as the context. It has to do its commercial business which is commoditized very well in order to be able to fund its development mandate.

1.2 Mission

Land Bank is an agricultural development finance institution that supports economic growth in South Africa through the provision of retail, wholesale, project and micro financial services to agriculture and related rural services.

1.3 Objectives of Land Bank

The objectives of the Bank are the promotion, facilitation and support of:

- Equitable ownership of agricultural land, in particular the increase of ownership of agricultural land by historically disadvantaged persons;
- Agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons or groups of such persons for the development of farming enterprises and agricultural purposes;
- Land access for agricultural purposes;
- Agricultural entrepreneurship;

- The removal of the legacy of past racial and gender discrimination in the agricultural sector;
- The enhancement of productivity, profitability, investment and innovation in the agricultural and rural financial systems;
- Programmes designed to stimulate the growth of the agricultural sector and the better use of land;
- Programmes designed to promote and develop the environmental sustainability of land and related natural resources;
- Programmes that contribute to agricultural aspects of rural development and job creation;
- Commercial agriculture; and
- Food security

1.4 Values

Land Bank values guide staff in the conduct of their relationships with all their stakeholders and inform the guiding principles that govern those relationships. The values are:

- Customer Focus - We aim to provide the highest quality service and product value to meet the needs of our customers.
- Mutual Respect and Dignity - We treat each other with mutual respect, care and sensitivity, and we uphold human dignity and self-worth in all we do
- Openness and Transparency - We communicate openly and share relevant information.
- Equity - We provide fair and equitable access to services and development opportunities to all our stakeholders.

- Integrity and Trust - We are honest and open in our dealings and adhere to the highest standards of business ethics to earn the trust and loyalty of others.
- Team Spirit - We create an inclusive work environment that supports individual and team effectiveness.
- Accountability - We personally accept responsibility for our performance and development.
- Recognition and Reward - We recognise and reward excellence and superior performance.

2. EXECUTIVE SUMMARY

2.1 Introduction

The Land Bank is in the process of turning around its business to make it sustainable into the future. In the past four years the bank has seen its reserves reduce from R3.1bn to R1.6bn. Six areas have been identified as the focus areas for the corporate plan period to turnaround the Bank namely, People, Systems, Risk, Capital, Revenue & costs, and Brand & Image .

The Land Bank does not plan to execute significant development initiatives in the first year of this corporate plan as it is fixing its commercial business in a sustainable way; from the second year onwards development will be a major focus of the Bank. 90% of the Bank's business is funded by the private sector and they expect both a return on their investment and the return of the capital, hence the need to sort out the commercial business and use the profits from this business to do the developmental work in which the Bank can then take higher risks without affecting the stability of the Bank. This does not mean that the Bank will not do any developmental work but the scale will be limited as the Bank's own resources have diminished over the years. In brief the key areas will cover:

People	Ensure the Bank has properly skilled people in the right jobs, and there is proper selection, recruitment, training, development, coaching, mentorship and retention

Systems	Ensure the bank has proper information systems to supply management with timeous, relevant and reliable information to make management decisions
Risk	Ensure that the enterprise wide risks of the Bank are properly monitored and managed
Capital	Ensure that the Bank has the right level of capital to perform its mandate and that this capital is grown in a sustainable way
Revenue & costs	Design and implement strategies on revenue and costs to ensure quality, consistency and sustainability of results.
Brand & Image	Ensure that the Bank is seen in a favourable light by its stakeholders

2.2 PROGRESS TO DATE:

2.2.1 *People*

The section heads have been appointed in the key areas of Risk, Credit, Finance, and Information Technology and a process is in place to appoint the Head of Operations (Sales).

An environmental assessment has been done and processes are in place to deal with the issues raised by staff in the environmental assessment workshops. A two day management workshop led by the CEO was held with all managers of the Bank. A new performance management system is being rolled out to be effective 1st April 2006. Workshops have been planned for reviewing the values of the organisation.

2.2.2 *Systems*

SAP Finance module went live in November 2006. The banking solution blueprint has been completed.

2.2.3 *Risk*

An enterprise wide risk management framework was rolled out in the organisation and a dedicated risk department has been established, led by a Chief Risk Officer, who joined the bank in the third quarter of the 2005/6 financial year. The enterprise wide risk management framework deals with capital adequacy, asset quality, management quality, earnings quality & consistency, liquidity ,market risk , etc and structures have been created to support the risk framework both at the Board level and at the Management level.

2.2.4 *Capital*

Discussions have been held with both National Treasury and the Department of Agriculture on a capital injection for the bank. In the meantime a letter of comfort in the amount of R1.5bn has been given to the bank as a guarantee to creditors should the Bank's liabilities exceed its assets. The turnaround will not be successful without an injection of capital from National Treasury as current reserves are insufficient for the bank to successfully fund its operations and growth.

2.2.5 *Revenue & costs*

The distribution system has been redesigned to ensure that the bank is closer to its clients and that unnecessary cost duplications are avoided to improve the customer service and improve the profitability of the Bank. A dedicated credit department has been established, led by a General Manager who sits on the company's executive committee. This department is currently recruiting people with the relevant credit skills. A number of these people have already started working for the Bank. The objective is to improve the quality of the loan book and limit the amount of poor loans getting into the bank.

2.2.6 *Brand & Image*

Presentations have been received from various advertising agencies and the Bank has to select the agency have completed its turnaround in three years and make a profit of R346 million whilst reducing its provision for loan losses from 15% of gross loans to assist it with building the brand.

3. MACRO REVIEW OF DEVELOPMENTS IN THE SOUTH AFRICAN AGRICULTURAL INDUSTRY IN 2005 AND PROSPECTS FOR 2006

The most recent data available on the performance of the South African agricultural industry relate to the year ended 30 September 2005. According to the national accounts data published in the Reserve Bank bulletin December 2005, the agricultural industry's contribution to the growth in the country's gross domestic product (on a seasonally adjusted annualized basis) increased by 3 percent in the second quarter of 2005 and by 10 percent in the third quarter. The large maize crop contributed to this upsurge in agriculture's contribution to the growth in GDP, but this growth figure will have to be lowered as the maize crop originally estimated for 2005/6 has since been revised down.

According to the agricultural data for the year ended 30 September 2005 published by the National Department of Agriculture, in the Economic Indicators and Trends tables, gross farm income declined by 5.5 percent relative to the same period ended 30 September 2004 (which itself was a poor year). The decrease was caused largely by a decline of 17.9 percent in the contribution from field crops (the decline will now be higher) and 9.4 percent for horticultural products.. The decline in net farm income was no less than 34.8 percent and the terms of trade for the industry worsened by 9.9 percent. Overall there was a worsening of the financial position of the farming sector in South Africa. However, animal products, with an increase of 4 percent in gross income (in nominal terms), recorded some financial stability. The conclusions to be drawn from the above data are that:

- Farmers have to cut their expenditure sharply (even at the expense of maintenance) in order to survive financially. Bankruptcies will increase and farm land prices, in general, will come under pressure.

- Farm debt will escalate and more and more farmers will experience cash flow problems.

- It is becoming increasingly difficult to establish development farmers successfully in agriculture.

- The risk profile for financing agriculture is on the increase and the risk of incurring bad debts is rising. Proper risk analysis is essential before loans are granted and a strict policy of debt collection (and risk exposure monitoring) needs to be pursued.

- The external value of the Rand, which strengthened in the first 11 months of 2005, was instrumental in depressing domestic agricultural prices and prospects are that no material change in this regard is foreseen for 2006 – which is bad news for exporting industries such as citrus, table grapes, wool, etc.

- Droughts in certain regions of the country affected farming operations in the past year. Wheat production in the Western Province (early part of the season) and Free State, citrus (Limpopo) and deciduous fruit production, cattle farming (Limpopo and North-Cape provinces), sugar in Mpumalanga and sheep farming (mostly Northern Cape). Below normal rains were experienced in the summer rainfall area late in 2005, but good rains fell in early January 2006. The Southern Free State, however, remained dry.

- It must be taken into account that the data relates to a period of declining producer prices in South Africa and although international agricultural prices are expected to stabilize around existing levels and the Rand is expected to remain fairly strong in 2006, the indications are that on average South African food prices are on the rise. This will provide some relief to the farming community – provided droughts stay away.

All field crop commodities, except sugar cane, recorded declines in gross farm income for the year ended 30 September 2005. Maize declined by 21.5 percent, wheat 17.7 percent, sunflower seed 17.7 percent and tobacco 50.2 percent. However, gross farm income of the sugar industry increased by 17.5 percent. The gross farm income in respect of all commodities recorded declines, namely 20 percent in respect of deciduous fruit, 16.2 percent for citrus fruit, 0.7 percent for vegetables, 7.1 percent for viticulture products and 3.3 percent for subtropical fruit. Animal products (except milk which recorded a decline of 6.2 percent), however, performed better. Poultry meat recorded an increase of 4.5 percent in gross profits; cattle and calves slaughtered increased by 13.3 percent, eggs by 1.5 percent and sheep slaughtered 4.5 percent. It must of course be kept in mind that the cheaper feed costs (e.g. maize) also contributed to the better financial performance of the cattle industry, etc.

4. COMPETITOR ANALYSIS

In May and June 2005 the Bank commissioned a study of agricultural clients to better understand what they consider important when they are making a decision to take out a loan. The reputation of the financial institution as well as the features and benefits of the products and services offered by the Land Bank were investigated and compared with those offered by other financial institutions. Some of the features considered were the competitiveness of loan pricing, the range of products offered, the level of service offered by the financial institution, and the strength of the brand.

The study was based on interviews with potential, current and past clients and both the Bank's Corporate Banking unit (CFU) and Retail clients participated in the survey. 85% of the sample consisted of commercial clients and 15% development clients.

The first task performed in the study was to identify the factors that clients considered important when doing business with a financial institution. Once the factors were identified, Bank management and the client were asked to rank the importance of the feature on a 1 to 5 scale, with 1 low or not important and 5 high or very important. The results are presented separately for CFU and Retail below.

The factors included in the study in Table 1 show that CFU management considered recommendations from a friend, the Bank's reputation and advertising the most important factors to consider in the relationship with a financial institution. CFU clients also consider personal recommendations very important, but ranked personalised service as the single most important feature in their banking relationship. In this ranking exercise, competitive pricing did not rank as an important factor relative to the other features. The Bank's reputation and advertising is regarded significantly more important by the Bank managers than it is by clients. Clients again regard personal service much more important than do bank managers.

Table 1: CFU ranking of importance of buying and service features, 1 is low, 5 is high

FEATURE OR BENEFITS	MANAGEMENT RANKING	CLIENT RANKING
Bank reputation and advertising	3.2	2.6
Ability to provide personalised services	2.2	3.7
Competitive pricing	4.3	3.6
Recommendation from a friend	3.7	3.5
Broad range of products and services	3.7	2.3
Overall service experience	2.8	3.1
Product approval process	1.8	3.5
Communication effectiveness	2.3	3.9

These findings suggest the Bank should build the capacity of the staff involved in client relationship management and proceed cautiously on a campaign to advertise and promote the Bank. If the relationship management piece is not in place and functioning smoothly the funds spent to improve the brand or image of the Bank may be poorly utilised. Communication effectiveness and the ability to offer personalised service are features that are highly regarded by the clients.

The clients also rank the product approval process as being much more important than do the CFU bank managers, and the clients seem to be particularly interested in effective communication as it ranked highest of all the factors considered in a relationship with the bank. Competitive pricing was ranked third by the clients, not as high a consideration as management view it but still a significant consideration.

Table 2 shows Retail clients require an overall satisfactory experience when dealing with the Bank, followed by other closely related service categories such as the ability to provide personalised services and communication effectiveness. The approval process and competitive pricing are other important features. Clients are not as interested in a broad range of services as do the bank managers, and rank this feature much lower than the bank managers. The bank managers also rank the importance of the reputation and advertising greater than clients do. These results suggest that the relationship managers and all other personnel who have an impact on the experience the client has with the Bank are the most important element in acquiring and keeping retail clients.

Table 2: Retail ranking of importance of buying & service features, 1 is low, 5 is high

FEATURE OR BENEFITS	MANAGEMENT RANKING	CLIENT RANKING
Bank reputation and advertising	3.1	2.8
Convenience of Branch location	2.7	3.1
Ability to provide personalised services	2.7	3.7
Competitive pricing	3.2	3.4
Broad range of products and services	3.3	2.3
Overall service experience	2.9	3.9
Product approval process	2.6	3.2
Communication effectiveness	3.4	3.1

Competitive pricing ranked very high as a desired feature for both CFU and Retail clients. The survey indicated that 44% of existing CFU clients and 60% of existing Retail clients do not think that the Bank has the ability to meet their overall pricing requirements; 59% of CFU clients and 67% of Retail clients rate the Bank as more expensive than competitors. Land Bank's perceived lack of competitiveness in pricing is a major stumbling block for acquiring and retaining clients.

Land Bank's products in both the Retail and CFU are rated on par with those of competitors. Interestingly, Land Bank's narrow product range is not seen as a key constraint in the acquisition and retention of new clients.

Of the existing CFU clients, 67% think the speed at which loans are processed and decisions are made is too slow and 52% rate the overall service experience as either average or below. Of the Retail clients, 74% of the respondents think the speed at which loan applications are processed and decisions made is too slow and 53% rate the overall service experience as average or below. Since both of these have a major impact on the buying decision it is imperative that Land Bank improve its service performance in order to attract and maintain its client base.

Land Bank does not score well when the clients are asked to rank their satisfaction on the level of service they receive from the Bank compared to services offered by commercial banks. CFU clients rated Standard Bank as the best out of the five banks tested in the survey. Standard Bank scored 4.1 on a 5 point scale, ahead of ABSA with 3.8 and First National with 3.7. Nedbank scored 3.0 followed by Land Bank with a score of 2.9. When Retail clients were asked to respond to the same level of service question, Standard Bank again ranked highest of all the banks with a 4.1 score, followed by First National scoring 3.7, and ABSA with 3.5. The Retail clients again ranked Land Bank as the worst performing bank on the level of service, with a score of 2.8, slightly below Nedbank with a score of 2.9.

From the clients' perspective Standard Bank has the strongest brand, followed closely by ABSA and First National. Land Bank brand is only slightly better than that of Nedbank, the only bank of the group that does not have a agricultural market offering.

When potential clients were asked "What, if anything, would concern you about doing business with Land Bank" they responded as shown in Table 3. These responses reflect current and prospective client perceptions about the

Land Bank environment that may, or may not, reflect reality from the Land Bank's perspective.

However, it is perceptions that are important in the decision process of clients and prospective clients, and to the extent these perceptions are unfavourable, they must be addressed by the Bank.

Table 3. CFU and Retail prospective client business concerns with Land Bank

CLIENT PERCEPTION	CFU RESPONDENT (PERCENT)	RETAIL RESPONDENT (PERCENT)
No longer financially viable	9	10
Too concerned with politics	12	5
Poor reputation/ bad publicity	11	20
Approval process too long	6	4
Interest rates too high	5	16
Poor customer service	11	11
Brain drain	3	6

Poor customer service was indicated as a concern by 11% of prospective and current clients of both CFU and Retail. However, when former clients were asked the reason they left Land Bank, 31% of the former Retail clients indicated they left the Bank because of "poor customer service / better service from others". Only 14% of the Retail clients left because of "interest rate concerns", whereas 16% of the prospective clients considered interest rates to be of concern when considering doing bushiness with Land Bank.

Improving the Land Bank brand and the Land Bank image are important components of the turnaround plan. This market research indicates that customer service is an essential component of any effort to attract and retain clients in both the CFU and Retail business units.

Therefore an important ingredient in the process of improving the Land Bank brand and image will be to review and revise the client experience with the Bank through improved processes, procedures, communications, client servicing and product delivery systems. This included a review and revision of all policies and procedures that affect the relationship between the Bank and its clients.

Land Bank management is currently reviewing new non interest revenue sources, new products and new delivery channels to better meet the client needs and improve customer service. Some of these initiatives have been developed as action plans and are in the process of being implemented or are part of the action plan activities in the coming fiscal year.

5. CREDIT MANAGEMENT

5.1 Management of Non Performing Loans

In order to create a focus on reduction of provisions for loan losses and the size of the Non Performing Loans, a Credit Head for Non Performing Loans will be appointed. The main function will be recovery of debts in arrears and timeous rehabilitation of those that can be rescued. The Head will be supported by two Workout and Recovery Managers per region. These Managers will be coaching and guiding the branch Recoverists who are the first point of contact for clients in arrears. The reporting lines of the Recoverists and Agricultural Economists have been moved to Credit Division in order to eliminate the potential conflict of interest as branches are measured on the size and profitability of their loan book.

One of the main reasons for poor recovery of bad debts is late action by the Bank and deterioration in the value of security taken when the loan was made. The Bank will be engaging the services of Farm Managers in order to maintain value of farms in possession. We are presently arranging for presentations from numerous players in all provinces and we will be compiling a list of preferred suppliers. This will result in a vast improvement in recovery of the Bank's debts as the security can be sold at real market value and the risk of squatters will be eliminated.

5.2 Retail Portfolio

Two regional Retail Credit Heads have been engaged to focus on the quality of the credit risk assessment/approval of new loans and continuous credit risk management in order to identify potential default early. These Managers will ensure that the Retail portfolio is reviewed in its entirety so that there can be no surprises in the quality of our loan book. Strict time lines will be set and measurement will be ongoing. The approval of new loans is located at the regional offices. New applications will get appropriate attention from a committee removed from client contact and will create consistency in decision making and streamlined processes.

5.3 Corporate Portfolio

This portfolio is presently managed by sales staff which results in less time spent on customer relationship management and less focus on the growth of the Bank's loan book. A credit team consisting of a Credit Head and 6 credit Managers (3 per office) will be engaged to conduct annual reviews of the loan book (+-R10bn) and to perform risk assessment of all new loan applications. Tools commonly used in the market e.g. KMV (Moodys), will be introduced to identify expected default ratios in our portfolio and from new applications.