PART 2

6. LAND BANK DEVELOPMENT PROGRAMME

6.1 Introduction

The new democratic dispensation ushered in a new approach to development of emerging farmers in the Agricultural sector as part of a national agenda to transform South African society. The Land Bank of South Africa has been at the centre of the execution of this mandate since 1912, though it predominantly catered for middle class Afrikaner farmers. The new dispensation was faced with a challenge to put policies in place that would give development a new meaning, viz. to include black farmers and women who were previously excluded from this sector.

In line with this policy shift, all facets of Land Bank had to be transformed to meet the new challenge. Critical to the transformation of Land Bank was the change of attitudes and approach towards development of the emerging farmer. In line with this required change the Land Bank adopted the slogan "Making development a way of life" as a philosophy guiding the Land Bank in all the things it does in its operations .The Land Bank therefore, had to align its development mandate with the policy directions that originated from the Departments of Agriculture & Land Affairs. In return, the Department of Agriculture & Land Affairs would benefit from the expertise and infrastructure provided by Land Bank as an intermediary in executing these programmes.

6.2 Development target market groups

	1	2	3	4
	Micro-scale subsistence farmer	**Small scale farmer**	**New commercial farmer**	**Established Commercial farmer**
Key Needs	• Input grants • Micro finance • Operate as group	• Mentorship • Production credit • Infrastructure grants • Business training	• Equity to reduce gearing • Mentorship • Advisory service	Holistic commercial offering

In an attempt to address the key needs of the target market stipulated above, the Land Bank is primarily concerned with the delivery of financial assistance and how to distribute financial services to the rural communities. This the Land Bank does through coordination with other initiatives such as the Comprehensive Agriculture Support Programme (CASP), the Land Redistribution for Agricultural Development (LRAD), the Micro-Agricultural Finance Schemes of South Africa (MAFISA) and the AgriBEE framework.

6.3 Comprehensive Agricultural Support Programme (CASP)

A key recommendation of the Strauss Commission was the establishment of enabling products for the beneficiaries of the Land Reform Programme. These enabling products are premised on the understanding that the Land Reform Programme will require capital for the acquisition of land and post land-acquisition services. It is also further envisaged that the combination of capital and post land-acquisition services would lead to a sustainable and successful Land Reform Programme.

6.4 Land Redistribution for Agricultural Development (LRAD)

In recognition of the fact that many of our people had been denied access to finance for many years, the primary objective of LRAD is to address this problem. This strategy serves as a breather for any development farmer, as the acquisition of land will be facilitated through partial grants and own finance. It is also envisaged that each case will be evaluated on its own merit.

6.5 Micro Agricultural Finance Institutions of South Africa (MAFISA)

In line with LRAD, MAFISA aims to enhance the drive towards rural economic development. MAFISA's objective is to bring the rural poor into the mainstream of the economy and to assist aspirant rural development farmers with the funding necessary to participate in the agricultural sector. The acquisition of land alone is not sufficient; the beneficiaries of land have to be assisted further through programmes such as MAFISA, so that the objectives of LRAD become a reality.

MAFISA, in essence, becomes one of the immediate interventions that need to be made post land-acquisition. The expected role of Land Bank would be:

- the design and pricing of products that are suitable for the target market;
- the creation of a distribution channel that will make the product accessible to the rural poor;
- to develop an awareness campaign that will make the underlying products of MAFISA known to the target market; and
- to design credit policies that are aligned to the target market where credit records are completely non-existent;

6.6 Capacity Building

The intention to support development farmers is underpinned by the desire to graduate them to become fully fledged commercial farmers. It is against this background that capacity building becomes an essential ingredient of the entire development chain. Capacity building continues to stand out as a national challenge because of our legacy and an even much more needed tool in the economic development of the rural poor, particularly those that would like to participate in farming. Any piece of land can be worked and commercialised, however, without the requisite support services the desired results will remain remote.

Land Bank is well placed to design, select, monitor and report on the capacity building activities needed for emerging farmers. Land Bank also recognises that it alone might not have all the solutions as some are not its core activities. Land Bank intends to utilise its extensive business networks, resources and research that has been done to administer capacity building of development farmers in such a way that will ensure that a farmer elevates to a fully fledged commercial farmer.

The Bank, in executing its development mandate, leveraging on its infrastructure and financial knowledge, serves as an intermediary and facilitator of these programmes. The Bank over the years has put an emphasis on the appropriate design of products and services that are aligned to LRAD and other related Land Reform Programmes so as to achieve its development mandate. The Land Bank will continue on this path with a continuous review process of the impediments to the sustainability of these projects. At the same time it will be imperative that Land Bank isolates the lessons learnt from success stories of these programmes.

A clear and honest assessment will allow the Bank to innovate and improve on the product. A development impact report which will be issued annually by the Bank, indicating the following:-

I. Size of development book in Rand value.
II. Level of elevations achieved (emerging to commercial development).
III. The impact of the Bank's activities:
   a. Job creation and permanent employment opportunities
   b. Agriculture
   c. Borrowers
   d. Investors & Government
   e. Skills transfer and capacity building
   f. Sustainability of projects funded
   g. The profitability levels of the projects funded

All this is aimed at ensuring that there is a data base that will continuously give us strategic information for the advancement of development.

6.7 Black Economic Empowerment (BEE)

Black Economic Empowerment (equitable access and participation) in agriculture means economic empowerment for black people, including women workers, youth, people with disabilities and people living in the rural areas. BEE should be governed by the following approaches:

i. Ownership management of agriculturally productive assets is equitably distributed;
ii. Skills development and capacity building is in place;
iii. Preferential procurement is applied;

Land Bank will use its internal and external resources to assist black people to participate in Black Economic Empowerment in the agricultural sector. Land Bank, through its financial strength in such transactions, will foster deals that are inclusive of all people as envisaged in the Broad Based Black Economic Empowerment Act.

6.8 Equity Investments by the Land Bank

Black Economic Empowerment compels the Land Bank to consider introducing equity finance as a product. The Land Bank Act makes provision for the Bank to make investments, meaning taking equity stakes in agricultural enterprises or agriculture related enterprises. History has shown that pure lending has created heavily geared agri-businesses resulting in project failure. An equity funding model will also give the Bank further muscle to collaborate with other Development Finance Institutions (DFI) and commercial banks on a syndication basis so as to enhance its reach. Equity investment would allow the Bank to have board representation in the investee enterprise. This strategy carries the potential of mitigating business failure and risk.

The core strategy behind an equity finance model would be to benefit the Bank and its development clients in particular. The Bank will therefore evaluate development transactions on its own merits and will structure the equity deal accordingly. Depending on the context, a deal could take any of the following formats:

i. Straight equity - capitalisation of the project.
ii. Convertible debt - loans that can be converted into equity at some stage.
iii. Debt and equity mixed.

The Bank has recognised that it has limited resources to take up investment in projects. Prioritisation will have to take place along the following lines:

i. Jobs created or preserved;

ii. Extent of Black ownership;

iii. Return on investment and pay-back period;

iv. Extent of women, youth and people living with disabilities participation in the transaction;

v. Spatial focus and region where the equity deal comes from. An attempt will be made to have deals spread in such a way to bring more people from the rural areas into the mainstream of the economy.

The Land Bank shall strive to measure its developmental success in the next three years along the following deliverables:

- Strong relationship with the Department of Agriculture and other relevant stakeholder organisations to execute the development mandate of the Land Bank;
- Meaningful participation and ownership in agriculture by previously disadvantaged individuals through provision of funding to BEE transactions;
- Creation of sustainable jobs within the agricultural sector whilst endeavouring to maintain existing jobs;
- Solicit, design and monitor mentoring projects that will continuously give support to emerging farmers;
- Seek to create a strong entrepreneurial emerging farmer base that will graduate to fully fledge commercial farmers;
- Capacitate the technological advancement in agriculture whilst insisting on innovation.

7. LAND BANK TURNAROUND PLAN

7.1 Introduction

Land Bank management began the implementation of a turnaround strategy in 2005/6 to ensure that profitability is maintained going forward, sustainability is assured and capital adequacy is significantly strengthened. The turnaround strategy will continue as the central feature of this corporate plan to ensure the viability and sustainability of the Land Bank.

Given the understanding of the major components of recent bank turnaround initiatives and the Board of Directors and management's understanding of the issues facing Land Bank, the turnaround plan is focused on the following key areas:

7.1.1 Improving management capacity from top to bottom

7.1.2 Enhancing the Bank's revenue and cost models

7.1.3 Installing information systems and processes

7.1.4 Managing risk

7.1.5 Managing and protecting capital

7.1.6 Improving the Brand

The specific activities that have been implemented in 2005/6 and constitute the key areas of continued emphasis in this corporate plan are summarized as follows:

7.1.1. *Improving management capacity from top to bottom*

There have been several changes at the senior level management at Land Bank in the past 9 months and a new Board of Directors was installed in October 2005. However, most of the improvements in management's knowledge and skills will involve upgrading the capacity in the Bank to recruit and train people to perform their jobs more effectively and efficiently, upgrade skills of existing staff, and put in place a recognition and reward system that motivates staff to perform at a higher level.

As part of the process to improve management capacity at the Bank the firm Brian Eyre Consulting was engaged to gather information from staff regarding their perceptions of things that were working well, things that were not working well, and actions that could be implemented to improve the performance of the Bank. During the months of September and October 2005 over 460 members of staff and management from the branches and head office participated in the project. The findings have been summarized by Brian Eyre and have been considered by the executive committee of the Bank. Each member of the executive committee has been instructed to consider how his or her department can contribute to resolving the problems that were identified by the staff, and to implement action plans that will result in improving the performance of their individual departments as well as the overall performance of the Bank. Some of the findings and subsequent action plans affect individual departments; other findings are more general in nature and will require a change in the way the Bank manages employee and client relationships, communicates what is important, how its employees live & and practice its values and shares its vision. Thus some action plans were developed by departments to address specific problems; other actions are the responsibility of all staff to do things differently in the future. There are many action plans that are currently in place, or will be implemented in the near future to respond to the recommendations Land Bank staff provided as part of this process.

The overall responsibility to set the human resources plan in motion is delegated to the Human Resources Department in the Bank, but the execution of the plan is the responsibility of all the employees of the Bank. There are several activities that the Human Resources Department is in the process of implementing in response to the Brian Eyre initiative, some of which will be completed in 2005/6 and others that will be completed during the corporate plan period. A comprehensive review of the Human Resources initiatives, including those underway from 2005/6 and those that will continue into the corporate plan period are outlined below.

a. Selection, recruitment and retention of key personnel were identified in the staff interviews as HR issues that need to be addressed in the turnaround plan. There were specific concerns that staff are placed in the wrong roles and are under developed and under utilised. The objectives of improved performance in the area of selection, recruitment and retention will be demonstrated through retaining properly skilled and qualified staff, the introduction of succession planning, staff promotions both horizontally and vertically across the organisation, enhanced career advancement opportunities, and appointing the best skilled person that match the job.

Action plans that were implemented and completed in 2005/6 to achieve better performance in the selection, recruitment and retention of key personnel include the following:

ACTION PLANS	RESPONSIBLE UNIT	DATE COMPLETED
Revise all recruitment and selection policies, procedures and practices	HR	Nov 2005
Provide interviewing skills training for all line managers	HR	Feb 2006
Identify key positions to be filled and carry out a rigorous recruitment drive to fill them	HR	Nov 2005
Implement an induction programme to ensure new recruits fit in	HR	March 2006

b. The Performance Management system was also identified as a problem area in the staff interviews. The suggestions for improving the performance management system include aligning it better with the output of each employee, review employees regularly and ensure the system contributes to the development needs of the employee.

Action plans that were implemented and completed in 2005/6 to improve the Performance Management system include the following:

ACTION PLANS	RESPONSIBLE UNIT	DATE COMPLETED
Train, explain and clarify the Performance Management System	HR	Feb 2006
Coach, guide and influence managers on proper Performance Management practices	HR	March 2006
Monitor, report and feed back on actual performance on a regular basis	HR	Feb 2006
Ensure that Performance Management is driven through an effective Balanced Score Card	HR	March 2006

c. Training and development was perceived by the staff as ineffective during the interviews.

They recommended that staff should take ownership for their own development. They suggested a training centre be established for employees where training could be better planned and prioritized, supported with training manuals, and where improvements in knowledge and skills by the employees would be rewarded. They further recommended that an induction course delivered by a skilled person be a requirement for all new appointees.

Action plans that were implemented and completed in 2005/6 to improve training and development in the Bank include the following:

ACTION PLANS	RESPONSIBLE UNIT	DATE COMPLETED
Establish a Training Work Group to develop a Learning and Development Strategy	HR	Feb 2006
Generate Learning and Development programmes aligned to competency requirements and business objectives	HR	Feb 2006
Ensure bank complies with legislative Training and Development requirements (i.e. Skills Development and Skills Levy Act)	HR	Feb 2006

d. The staff survey revealed that employees felt that Land Bank has a poor working environment and that there is a lack of Industrial Relations training and management. The issues were addressed in action plans that are to be completed in 2005/6 plan year as follows:

ACTION PLANS	RESPONSIBLE UNIT	DATE COMPLETED
Improve management skills in grievance and disciplinary management	HR	March 2006
Train managers and employees on all IR policies and procedures to ensure compliance	HR	March 2006
Ensure application of sound practices through monitoring and reporting	HR	March 2006
Provide coaching and guidance on handling dismissals, CCMA and Labour court cases	HR	March 2006

e. The process of rewarding and recognizing the performance of staff was considered to be unrelated to their accomplishments and outputs. Action plans that were implemented to address these concerns include the following:

ACTION PLANS	RESPONSIBLE UNIT	DATE COMPLETED
Revise all Bank remuneration principles, philosophies, policies, procedures and practices	HR	Feb 2006
Implement a Recognition and Incentive scheme	HR	Jan 2006
Implement efficient and effective practices around salary reviews, payroll and administration	HR	Annually

f. Other activities that are not directly related to the turnaround plan but are ongoing responsibilities of Human Resources include ensuring that an effective employment equity plan is in place and implemented in all business units. To ensure a transformation programme is implemented the Human Resources Department must rely on other business units to embrace the concept and effectively engage in ensuring the desired outcome is achieved. Action plans that address the transformation programme comprise of the following elements:

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPLETED
Develop a well canvassed Employment Equity (EE) plan with clearly stated goals and targets covering: • Focused Recruitment that addresses EE requirements • Talent management and retention initiatives for key individuals • Accelerated Development programmes for HDIs • Overseas Executive Education for selected individuals	HR	March 2006

7.1.2. Enhancing Bank Cost and Revenue Model

Land Bank management made the decision to engage a consulting firm to assist with the development of a cost and revenue model and a business operating structure that would address the problem of low net income at the Land Bank. In September and October 2005 LetsemaBlueshift / McKinsey, a consulting firm with extensive experience in executing bank turnarounds, both in South Africa and in other countries was engaged to support management in developing a revised business model as part of the turnaround strategy. The project was run in 2 distinct phases, a feasibility phase and a business case phase. The feasibility phase involved developing and refining an "end state" design of the business model including high-level structures, business flows and economics. The business case phase focused on determining the "what" and the "how" of the turnaround strategy.

The turnaround plan presented by LetsemaBlueshift / McKinsey was based in part on the following conclusions:

a. The competitive and political landscape is shifting, creating threats and opportunities for Land Bank. Overall farm profits have declined and the sector has become more volatile. The increased competition from both commercial banks and agricultural companies is making it more difficult for the Bank to compete effectively, particularly in the retail space.

b. The performance and organizational health in Land Bank is poor. Land Bank is making substantial losses in its retail operations; the Bank is being outperformed by competitors, and development activities have been largely ineffective.

LetsemaBlueshift / McKinsey recommended a new business model that entails a focused corporate and investment business, a retail presence though a public-private JV with a group of agricultural companies, and a dedicated development unit.

Land Bank management reviewed and considered the LetsemaBlueshift / McKinsey recommendations and agreed in principle that Land Bank should:

- Create a dedicated development unit that finances and assists in the creation of viable development ventures using both direct and indirect channels to serve clients
- Retain its corporate banking business
- Consider building an agricultural focused investment banking business

The consultant's recommendation for the Land Bank retail business model to be housed in a public-private JV with a group of agricultural companies was accepted by executive management together with an alternative retail business structure. The recommended retail structure will focus on three activities; increasing revenue, reducing costs and decreasing non-performing loans. The key features of the retail business model are as follows:

The increase in revenue will be accomplished by increasing the existing loan business by R340 million over the next 24 months and by introducing four new retail products which include :

- a farm housing scheme that will provide funds to purchase or improve the housing stock in rural communities

- a small holding finance scheme that will provide funds to purchase or improve land that is not intended to be the primary source of income for the resident. This program will appeal to rural residents who have substantial off farm income but prefer to live in rural communities rather than in a more urban setting

- An agribusiness Small, Micro and Medium Enterprise (SMME) financing program aimed at small businesses in rural communities. Land Bank's Corporate Finance Unit (CFU) has been very successful at providing financial services to large agricultural companies for many years. The minimum size of business typically financed by CFU has an annual turnover of more than R20 million. The retail SMME product will provide financial services to rural businesses with turnover of less than R20 million and

- a land management company that will provide management services for properties in possession (PIPs) that are acquired by the Bank as a result of loan collection activities. This land could be rented to start-up farmers by the Bank rather than being sold. The rental arrangements can reduce the cash flow requirements of start-up farmers, making their entry into agricultural production easier. The Bank could also manage other farm properties either for their own account or on behalf of other landowners.

The increase in revenue on current retail products will be further enhanced by improving the pricing and management of these products. There are opportunities to improve the pricing of retail loans without impairing the competitive position of these products, especially on the non-prime borrowers. This implies the loan pricing will be more closely based on the risk associated with the borrower, with the risk being based more on repayment ability rather than on the collateral position. In addition, much more emphasis will be placed on increasing the non interest revenue in the retail portfolio, recognizing that the commercial banks are much more effective than Land Bank at generating revenue through fees and other charges.

Other supplemental programs that will increase revenue include rebuilding the Land Bank Brand to increase sales opportunities. The brand has suffered in the recent past and a rebuilding program will be launched as part of the turnaround plan. Existing products do not meet client needs adequately, accessibility and flexibility of service delivery must be improved and interest rates must be competitive to regain market share. Improving the brand includes improving the relationship between the client and the Bank, trying to make the Land Bank experience one that meets and exceeds the clients' expectations. This requires improving the interface with the clients by improving the processing efficiencies, communicating better, enhancing transparency, and effectively meeting the needs of the client. Actions have been implemented to address these needs and include the following:

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPETED
Improve market intelligence on competitive products, interest rates, fees and service delivery through frequent market research	Marketing	Dec 2005
Regularly visit clients (at least annually) by sales, Agricultural Economics Specialists(AES) or relationship management staff	Operations	Dec 2005
Implement the SAP Client Relationship Management Module	IT/Operations	Apr 2006
Implement new products to meet customer needs	Marketing/Operations	June 2006
Develop product information manuals	Operations	Feb 2006
Train sales and other staff to enhance client service delivery	Operations/HR	Feb 2006

During the Brian Eyre initiative the staff expressed the view that the current Land Bank processes, policies and procedures are outdated, laborious and often ineffective. Bank staff identified several specific issues such as turnaround times are too long, policies and procedures are unclear and ineffective, and new policies and procedures are implemented without necessary training or documentation. Often the results of these problems are manifested in poor customer service, this being the reason why 31% of the former clients left the Bank. To address these issues the following action plans have been implemented.

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPLETED
Review all policies, procedures and processes to ensure they are relevant, in line with best practices and are effective.	Ops & Credit	Feb 2006
Train staff on the new or revised procedures	Ops/Credit/HR	Apr 2006
Review all credit policies, procedures and processes and train staff on loan approval requirements.	Risk / Credit	Feb 2006
Appoint skilled and experienced credit staff	Credit	Feb 2006
Implementation of SAP Loan Originating Module for faster decision making	IT	Nov 2006
Develop uniform loan application forms, information requirements and credit criteria	Credit	Feb 2006

According to the Brian Eyre responses from Land bank staff, a wide range of issues need to be addressed from the marketing perspective. The issues include a lack of proper branding in the branches, no common "look and feel" at branches, exposure and publicity is insufficient, information flow to branch from head office is currently poor and negative publicity is not remedied. Action plans to address these issues are as follows:

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPLETED
Marketing will appoint an advertising agent to assist the Bank with all advertising and external communications	Marketing	March 2006
Regular internal communications will be implemented through the Intranet, e-mails and weekly circulars	Marketing	Nov 2005
A Marketing strategy will be implemented in cooperation with the new advertising agency	Marketing	March 2006

The revenue side of the business will be further expanded by a change in the delivery structure of retail products and services. Agency agreements will be signed with agricultural companies where they will sell Land Bank products on a commission or fee basis. This agency arrangement will also increase the Bank's footprint by spreading sales functions into rural communities.

To reduce costs in the new retail business model the 28 branches will be reorganized into three Regional Offices with the current branches reduced in size to mini branches. Many of the back office functions will be located in the regional offices with the mini branches retaining the major functions of maintaining and expanding client relationships, providing client servicing and product sales. This will help to reduce turnaround time by making decisions closer to the client, and will result in significant delegation of responsibility and authority to the regional branches. To further reduce costs and turnaround time a credit scoring system will be implemented for loans under R100 million. In addition, a feasibility analysis of ways to reduce interest expense through deposit taking or by other means will be launched, making the Bank less dependent on the money market as the only source of funding.

To decrease non-performing loans the first emphasis will be placed on stopping the inflow of bad loans. This will be accomplished by releasing new credit policies that will tighten up the credit analysis process, and clarify the roles and responsibilities of all the decision makers in the credit decision chain. Some of the credit decisions will be centralized to further strengthen the credit process. Loans already with non performing status will be ring-fenced and consolidated into a single new department that will only deal with distressed loans. This new department will be a consolidation of the existing business units of Workout and Restructuring, Legal Collections, Properties in Possession, Insolvencies, and Arrear Management. All non performing accounts will be assigned to this new non performing loan department.

Action plans are already being implemented to address the problems identified with the current retail branch structure. The new structure is being designed such that it provides an environment where staff can function to their full potential, provide excellent customer service and in return achieve job satisfaction. Policies and procedures are being reviewed with the objective of improving the process and leading to better and faster decisions. The following action plans outline these initiatives, some of which were completed in the past financial year and some that will be carried over into this corporate plan period.

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPLETED
Implement a better business delivery model to enhance branch structure, functions and profitability	Retail	March 2006
Review all policies, procedures and processes to ensure they are relevant, in line with best practices and are effective.	Risk	March 2006
Train staff on the new or revised procedures	Risk	Apr 2006
Review all credit policies, procedures and processes and train staff on loan approval requirements.	Risk/Credit	March 2006
Appoint skilled and experienced credit staff	Credit	Feb 2006
Implementation of SAP Loan Originating Module for faster decision making	IT	Nov 2006
Develop uniform loan application forms, information requirements and credit criteria	Credit/ Risk	March 2006
Improve market intelligence on competitive products, interest rates, fees and service delivery through frequent market research	Marketing	Nov 2005
Regularly visit clients (at least annually) by sales, AES or relationship management staff	Operations	Nov 2005
Implement the SAP Client Relationship Management Module	IT/Operations	Apr 2006
Implement new products to meet customer needs	Marketing	June 2006
Train sales and other staff to enhance client service delivery	Operations	Feb 2006

7.1.3 Installing Information Systems and Processes

The current Information Technology infrastructure does not support the Bank's business strategy and is hampering the Bank's ability to compete in the changing market environment. A new SAP based system is currently in the implementation stage, and has been given the programme name of Kopano.

The objective of the Kopano programme is to develop and implement an Integrated Banking and Financial Package Solution, aligned with the streamlined business processes, so as to enable the Bank to achieve its strategic intent. This new and technologically advanced system will allow for flexibility and scalability so that the Bank can conduct its operations more efficiently and effectively and thereby enable the rapid delivery of products to the market.

Once completed and operational the new information system will enable the Bank to offer a broad range of customizable financial products. It will also improve customer service, enable rapid product delivery, deliver user friendly, simplified, accurate, consistent data and information, and increase efficiency.

Progress to date on implementing the new information system includes the establishment of a Programme Management Office, selection and purchase of the software (SAP) and hardware, going live of the financial module and the completion of the Blue Print for the Banking Module.

Action plans have been identified for Information System activities that will be part of the turnaround plan in the coming fiscal year and include the following:

ACTION PLAN	RESPONSIBLE UNIT	DATE COMPLETED
Blue print and implement Loan Origination system	IT	Nov 2006
Blue print and implement Business Warehouse system	IT	Nov 2006
Blue print and implement Strategic Enterprise Management System	IT	Dec 2006

7.1.4 *Managing Risk*

The Land Bank subscribes to an "Enterprise-wide Risk Management Framework" (ERMF), which provides for a cohesive, integrated approach to the vital area of risk management. Corporate Governance as practiced at the Bank is referenced to inter alia, the Land Bank Act, the Public Finance and Management Act and local risk management best practice, such as King II (King Report on Corporate Governance for South Africa).

The management and board level risk management and risk monitoring activities are clearly identified and split amongst a number of executive and board level committees, which, in aggregate, covers the entire risk universe. The Risk Department has an oversight responsibility in order to ensure that all risks are identified, managed and monitored by the specialist bodies and committees best qualified to manage and review these risks. The Department includes all aspects of credit, market and operational risk monitoring in its scope of responsibilities. In addition, the compliance and internal audit functions are housed administratively in the Risk Department in order to facilitate timely and complete exchange of information regarding the risks facing the Bank and its operations.

Whilst the Board retains the overall responsibility for the risk management of the Bank, the sub-committees appointed by the board exercise the risk review duties using a specialized, focused, approach. The Chairpersons Committee has in its ambit risks related to corporate strategy, including new business and the reputation of the organization. The Risk Committee reviews risks pertaining to enterprise-wide risk, insurance and assurance risks, information technology risks, market risks, liquidity risks, investment risks, credit risks and other general operational risks. The Audit Committee oversees the effectiveness of internal controls and compliance functions whilst also reviewing the quality of financial reporting.

The Human Resources and Remuneration Committee has responsibility for the review of people risks. The Social and Environmental Committee reviews risks in its area of purview, such as "triple bottom line" issues.

The board committees and sub-committees mentioned above are supported by related Land Bank executive committees which have overall risk management responsibility and report into the Executive Committee. Operations which are reviewed and managed from a risk perspective include all geographic locations, business lines and legal entities, specifically, SAVVEM.

During the past year specific emphasis was placed on building an enhanced risk monitoring capability, restructuring governance committees into logical and specific areas of expertise, developing a common risk language and culture, centralize and enhance risk reporting, analyzing risk information and providing comprehensive risk profiles of the organization.

Provision has also been made for consolidated risk measurement including methodology, and portfolio risk monitoring and analysis.

7.1.8 Managing and Protecting Capital

In the past few years Land Bank's net capital and reserves have been reduced significantly due to bad debt write-offs and provisions for bad debts in line with the new accounting standard known as "AC133: Financial Instruments: Recognition and Measurement" and International Accounting Standard IAS 39. This has resulted in the reduction of its capital adequacy to below 10% of risk weighted assets in terms of the Banks Act.

Compared to other development finance institutions like DBSA and NHFC, Land Bank capital adequacy is currently low for its risk profile. In terms of the Bank of International Settlements (BIS) risk philosophy, the degree of capital required to support a bank is dependent on the level of lending risk undertaken by the Bank.

The higher the level of risk, the greater the degree of capital required. Historically Land Bank's capital adequacy has been kept above 15%. In the past two years the ratio has fallen to 8.8% as at 31 March 2005 (after effecting the shareholder R201m loan conversion to capital as at 31 March 2005). In order to provide sufficient cushion for future adverse events that may beset the agricultural sector and to restore investor confidence in the financial strength of the Bank, a prudent capital adequacy level would be at least 20%, or nearly double the current level. The Auditors have suggested a minimum adequacy level of 15%.

This low level of capital adequacy will limit the Bank's ability for growth. The Bank's capital adequacy of 8.8% means that the Bank can only fund almost nine cents of each one Rand of risk weighted assets which makes private sector investors nervous as they are taking bigger risks for each Bank loan. This low level of capital will hamper the Bank's ability to drive the Agri BEE charter funding targets.

8. CORPORATE KEY PERFORMANCE INDICATORS

8.1 Financial Indicators

8.1.1 Growth in Loan Book

The Land Bank loan book is divided into three segments, loans made by the bank directly to commercial farmers termed the retail book, loans to corporate clients, usually cooperatives and agribusiness termed the wholesale book (Corporate Finance), and loans to beginning and emerging farmers and agribusiness termed the development book which is included under retail. The growth targets for the two segments of the loan book are as follows:

LOAN GROWTH	MAR. 2005	MAR. 2006	MAR. 2007	Mar. 2008	Mar.2009
Retail	(5.6%)	(6%)	7.6%	5%	5%
Wholesale	16.6%	(11%)	10.8%	53%	8%

8.1.2 Business Efficiency

Business efficiency is measured as the ratio of total costs to total income. The key performance objectives are as follows:

Business Efficiency	Mar. 2005	Mar. 2006	Mar. 2007	Mar. 2008	Mar.2009
Cost to income ratio	108%	81%	93%	57%	56%

8.1.3 *Loan Book Quality*

Loan book quality is measured by the total value of the non-performing loans (those with arrears greater than one year) as a percent of total loans.

LOAN QUALITY	MAR. 2005	MAR. 2006	MAR. 2007	MAR. 2008	MAR. 2009
NON PERFORMING LOANS	16.9%	6.9%	5.7%	5%	5%

8.1.4 *Profitability*

Land Bank uses several indicators to measure profitability. Net Interest Margin is the net interest income divided by the average performing loan book. The Return on Assets is the ratio of net profit to average total assets. Return on Equity is the ratio of net profit to average total equity (see capital adequacy below).

PROFITABILITY	MAR. 2005	MAR. 2006	MAR. 2007	Mar. 2008	Mar.2009
Net interest margin	1.8%	2.2%	2.2%	3%	3%
ROA	-1.0%	-2.6%	-0.1%	1.4%	1.3%
ROE	-14.1%	-24.9%	-1.2%	7.7%	7.3%

8.1.5 *Capital Adequacy*

Capital adequacy is measured by the ratio of shareholders equity to average total assets. This table shows the Capital Ratio over the historical period, the March 2006 base projection and the March 2008 capital level that would be achieved with a capital injection of R2.9 billion in the 2007/8 financial year.

CAPITAL ADEQUACY	MAR. 2005	MAR. 2006	MAR. 2007	MAR. 2008	MAR. 2009
CAPITAL RATIO	8.8%	9.8%	8.8%	17%	17%

8.2 Non-Financial Indicators

Non-financial indicators include activities related to the achievement of the Land Bank mandate, especially in terms of the development mandate, land transformation and AgriBEE. The non-financial indicator targets for the upcoming three years are as follows:

NON-FINANCIAL INDICATORS	TARGET - 2005/6
Development Program	Expand outreach, loan volume, gender access, support services, household income and jobs in rural communities and agricultural businesses
Employee relations	Improve job satisfaction based on survey results
Client relations	Improve client satisfaction based on survey results
Safety and Health	Promote better health and safety for clients and staff
Environment	Make loan policies and Bank practices environmentally friendly
Transformation	Lead financial institutions in AgriBEE initiatives
HIV/AIDS	Implement program that demonstrates Bank commitment

9. FRAUD PREVENTION PLAN

Land Bank has implemented a Fraud and Corruption Prevention Plan to prevent and detect corruption from any source within the organisation including employees, customers, suppliers, and other service providers. The Plan is updated on an annual basis and will continuously evolve as the Bank makes changes and improvements in its drive to promote ethics as well as fight fraud and corruption.

The main principles of the Prevention Plan are the following:

- Creating a culture which is intolerant to fraud and corruption
- Deterring fraud and corruption
- Preventing fraud and corruption which cannot be deterred
- Detecting fraud and corruption
- Taking appropriate action against fraudsters and corrupt individuals
- Applying sanctions which include redress in respect of financial losses

The objectives of the Fraud and Corruption Prevention Plan include the following:

- Encouraging a culture within the Land Bank where all employees, the public and other stakeholders continuously behave ethically in their dealings with, or on behalf of the Land Bank
- Improving accountability, efficiency and effective administration within the Land Bank
- Improving the application of systems, policies, procedures, and regulations

- Ensuring the implementation of a Whistle Blowing Policy and fraud hot line to effectively deal with the reporting of fraud and corruption cases. These structures should be regularly communicated to employees, customers and suppliers. Employees must be assured that they will be protected and treated respectfully in the case of lodging complaints.
- Changing aspects of the Land Bank which could facilitate fraud and corruption and allow such incidents to go unnoticed and/or unreported
- Ensuring effective referral and follow-up procedures on fraud and corruption
- Encouraging all employees and other stakeholders to strive toward the prevention and detection of fraud and corruption impacting or having the potential to impact the Land bank.

The complete Land Bank Fraud and Corruption Prevention Plan is included as Appendix A

10. SHAREHOLDER'S COMPACT

Included under separate cover.

Chief Executive Officer

Date: 28 February 2006

Chairperson of the Board

Date: 28/02/2006

Minister of Agriculture and Land Affairs

Date: 02 March 2006