REPUBLIC OF SOUTH AFRICA

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CONTENTS

GENERAL NOTICE

NOTICE 669 OF 2000

DEPARTMENT OF AGRICULTURE

LAND AND AGRICULTURAL BANK OF SOUTH AFRICA

STATEMENT 1

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 1998

	NOTES	1998 R'000	1997 R'000
Capital Employed			
Capital fund	2	200,955	200,955
Reserves	3	2,140,547	1,769,534
Total equity		2,341,502	1,970,489
Debentures	4	2,497,990	2,862,268
Medium term promissory notes	5	935,927	978,223
		5,775,419	**5,810,980**
Employment of Capital		107,123	
Fixed assets	6	6,319,813	107,909
Loans to farmers	7	552,269	5,140,529
Loans to co-operatives	8	212,844	546,477
Loans to statutory agricultural institutions	9	65,847	185,385
Investments	10		42,299
Current Assets			
Section 34 short term loans	7	998,360	527,654
Loans to co-operatives	8	4,275,949	4,391,357
Loans to control boards	11	-	160,065
Loans to agri - related companies	12	31,795	-
Sundry debtors	13	1,133,774	777,441
Other assets	14	68,457	15,893
Bank balance		332,587	31,248
Grain silo loans to non - co-operatives		14	42
Total current assets		6,840,936	5,903,700
Current liabilities			
Promissory notes	15	2,715,500	1,280,594
Bills payable	15	3,030,000	2,755,000
Call bonds	15	1,420,000	1,008,000
Deposits	16	659,220	630,052
Commercial banks		5,751	55,457
Sundry creditors	17	193,407	112,801
Provisions	18	299,521	273,373
Balance of funds received from the State for grain silo loans to non - co-operatives		14	42
Total current liabilities		8,323,413	6,115,319
Net current liabilities		(1,482,477)	(211,619)
		5,775,419	**5,810,980**

We hereby certify that these statements have been compiled from the books of the Bank and to the best of our knowledge and belief are correct.

DR. H.M. DOLNY,
MANAGING DIRECTOR.
PRETORIA, MARCH 1999.

S. VAN SCHALKWYK,
CHIEF ACCOUNTANT.

STATEMENT 2

LAND BANK

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	NOTES	1998 R'000	1997 R'000
Income			
Interest received	19	2,321,489	1,965,798
Sundry income	20	55,065	71,376
Total income		2,376,554	2,037,174
Expenditure			
Interest paid	21	1,738,161	1,576,601
Administration costs	22	194,288	177,033
Permanent diminution in value of Land Bank building		-	2,300
Movement in provisions	24	68,337	179,663
Depreciation		4,755	4,267
Total expenditure		2,005,541	1,939,864
Surplus before transfers to reserves		371,013	97,310
Surplus transferred to reserves	25	371,013	97,310
Unappropriated surplus at the end of the year		-	-

STATEMENT 3

LAND BANK

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1998

	NOTES	1998 R'000	1997 R'000
Cash flows from operating activities		(1,389,581)	434,244
Cash produced by operations	26.1	375,675	103,503
(Increase) / Decrease in loans	26.2	(1,439,565)	205,972
Generated by (increase)/ decrease in working capital	26.3	(325,691)	124,769
Cash flows from investing activities		(3,874)	(14,989)
Proceeds from sale of fixed assets	26.4	9,673	1,075
Additions to fixed assets	26.5	(13,547)	(16,064)
		(1,393,455)	**419,255**
Cash flows from financing activities			
(Increase)/Decrease in financing	26.6	**(1,393,455)**	**419,255**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

1. ACCOUNTING POLICIES

The policies on which the annual financial statements are based conform with South African generally accepted accounting practice.

The most important policy directives which are set out below, are consistent with those of the previous years, except where otherwise disclosed.

1.1 Financial assets and liabilities

Investments in financial assets are initially recognised at cost. Subsequently, financial assets are stated at fair value except for fixed maturity investments such as loans to clients which are stated at carrying value, while provision is made separately for irrecoverable debt. Financial liabilities are recognized at the original debt less principal repayments and amortizations, except for money market instruments which are re-measured at fair value. The recognition of a financial instrument on the balance sheet ceases when the contractual relationship between the Land Bank and another enterprise comes to an end with the result that it no longer represents a financial asset of one enterprise and a financial liability or equity of another enterprise.

A distinction is made between interest earnings, which is the bank's main source of income and income from other sources such as dividends received. All securities held for trading purposes are revalued at balance sheet date and the net profit or loss is accounted for in income. Gains and losses on hedging instruments are accounted for in income for the period.

1.2 Liquidity and interest rate risk

Interest rate risk arises from the new borrowings and the roll-over of maturing debt of existing borrowings. The Land Bank manages the interest rate risk by making use of various funding sources and a number of long and short term financial instruments with a variety of maturity dates.

(Full details of the maturity dates of the financial instruments are provided in Annexure B).

Although all loans to clients are granted at floating interest rates and the rate in respect of short term financial instruments can also be regarded as a floating rate, the rates applicable to debentures and medium term promissory notes are fixed for several years. An Interest Equalisation Fund was specifically created for this purpose.

During a period of declining interest rates the Bank might be exposed to interest rate risk if lending rates are reduced while long term funding rates are fixed at a higher level. To address liquidity and interest rate risks, the bank to a large extent uses its reserve funds, capital fund, funds obtained by issuing debentures and medium term promissory notes and, to a lesser extent, the hard core of deposits, to fund its long and medium term loan portfolio. With due consideration of interest rate viewpoints, limited use is made from time to time of short term funds as a bridging measure for this purpose. For the funding of short term loans, use is made solely of short term funds.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

1.3 Credit Risk Management

Funding

The Bank limits its counter party exposures from its money market operations by only dealing with well-established financial institutions of high quality credit standing. The credit exposure to any one counter party is managed by setting transaction/ exposure limits, which are reviewed annually.

The Bank is also exposed to credit-related losses in the event of non-performance by counter parties to hedging instruments. The counter parties to these contracts are major financial institutions. The bank continually monitors its positions and the credit ratings of its counter parties and limits the amount of contracts it enters into with any one party.

In assessing credit risk, the impact of master netting agreements is taken into account on an aggregated basis, while the value of collateral is not taken into account.

Lending

Debtors comprise of a large number of customers, dispersed across different geographical areas in South Africa. Ongoing credit evaluations are performed on the financial position of these debtors. Although all debts are stated at carrying value, provision is made for bad debt separately. At year end there was no significant concentration of risk for which adequate provision has not been made.

1.4. Interest

Accrued interest payable to and by the bank are reflected in the financial statements. Interest prepaid on bills and promissory notes as at the financial year end is deducted from interest paid, while interest received in advance is deducted from interest received.

1.5 Fair value of financial instruments

At year end the carrying amounts of cash and short term deposits, accounts receivable, accounts payable, accrued expenses, and short term borrowings approximated their fair values due to short term maturities of these assets and liabilities.

The following methods and assumptions were used by the bank in establishing fair values.

Financial instruments traded in an organised financial market:

The amounts disclosed in respect of the market making portfolio are stated at fair value. The fair value of these financial instruments represents the positive or negative cash flows which would have occurred if the rights and obligations arising from that instruments were closed out in an orderly market transaction at year end. Quoted market prices are available for government and semi-government bonds and listed shares, debentures and options.

Financial instruments not traded in an organised financial market:

The carrying amounts of creditors, accruals and dividends payable reported in the balance sheet approximates their fair value. The fair value in respect of debtors represents the carrying value less provision for bad debt.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

1.6 Land Bank Debentures

Primary issues

Land Bank Debentures are stated at cost. Discounts and premiums arising on the issue of stock are amortised over the period of the debt, using the yield-to-maturity basis.

1.7 Hedging

Investments held in other stock for hedging purposes are stated at cost which is treated on the same basis as the hedged liability. Discounts and premiums are amortised over the life time of the stock using the yield-to-maturity method. Profits and losses are recognised on realisation and together with interest received, discounts and premiums amortised, disclosed as interest received.

1.8 Secondary market transactions in Land Bank Debentures and other institutional stock

Debentures and other institutional stock repurchased are valued at fair value as at the financial year end. Profits and losses are accounted for on revaluation. Any surpluses as well as shortfalls arising from market making activities are set off against interest paid.

1.9 Derivative Instruments

The Bank is making use of derivative instruments for both funding and hedging purposes.
Premiums received or paid in respect of derivatives earmarked for funding and hedging, are amortised over the life time of the derivatives. Profits and losses on these derivatives are deferred and recognised onthe same basis as the underlying asset or liability. Derivative instruments held for market making purposes are stated at fair value while profits and losses are included in interest paid. These instruments are exposed to interest rate risk.

1.10 Fixed Assets

Bank premises are independently valued every 5 years on the basis of open market value with current use. The next valuation will be done as at 31 December 1999. Unrealised revaluation surpluses and deficits are transferred to a Revaluation of assets reserve. Furniture, office and computer equipment as well as vehicles are included at historical cost.

Other than Bank premises, on which depreciation is not provided, depreciation on fixed assets is calculated on the straight line basis over their expected useful lives at the following rates:

Computer equipment	33.00%
Furniture and fittings	16.70% to 20.00%
Motor vehicles	20.00%

1.11 Farm property bought in and resold in terms of Section 72 of the Land Bank Act, 1944 (Act No.13 of 1944)

These properties are disclosed at the amount of the outstanding debt on date of purchase of the underlying property. In view of adverse agricultural conditions in the past, it was decided to make provision for irrecoverable debt against which realised shortfalls can be written off. All surpluses and shortfalls on the resale of property bought in as well as shortfalls recovered are accounted for against the provision for irrecoverable debt. In accordance with generally accepted accounting practice only realised surpluses are accounted for. The provision is accounted for against the asset in note 14. Also refer to note 24.1.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

1.12. Provision for bad debt

Although specific provisions are made against identified doubtful debt, general provisions are maintained to cover potential losses which, although not specifically identified, may be present on any portfolio of advances. Accrual of interest on advances is suspended when the recoverability of the advance becomes uncertain. Advances are written off once the probability of recovering any significant amounts becomes remote.

1.13 Post employment benefits

1.13.1 Contributions to medical aid fund

It is the Bank's current policy to pay the medical fund subscription fees on behalf of all pensioners, in full.

Since this policy creates a contingent liability in respect of expired service, it was originally decided to fund the actuarially calculated accrued commitment over a period of time. At 31 December 1998 a total amount of R65 782 000 was provided for the actuarially calculated commitment of R73 710 000 as at 31 December 1997 (refer note 24.6).

The following valuation assumptions are applicable:

- The accrued commitment is calculated by discounting the projected contributions at a rate of 15% per annum.
- Contributions will increase by 12.5% per annum which will result in a net yield rate of 2.22% per annum.

The amount already provided for is currently invested in a separate fund.

1.13.2 Land Bank retirement fund

The Land Bank retirement fund which functions as a defined contribution fund, 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. Membership of the Fund is compulsory for all permanent staff members. Statutory actuarial valuations of the Fund's commitments are conducted on a triennial basis whilst interim valuations are carried out in other years. According to the valuation as at 31 December 1997 the fund was in a healthy financial position in that its assets were sufficient to meet its liabilities in respect of members' shares and pensioners. The fund does however not have sufficient assets to establish a satisfactory Investment Reserve and therefore members and pensioners are vulnerable to fluctuations in market values. The actuarially calculated current value in respect of future benefits amounted to R53.8 million on 31 December 1997. On 31 December 1998, 1 181 employees were members of the Land Bank Retirement Fund.

The most important valuation assumptions can be summarised as follows:

Active members:

- SA56 – 62 mortality rates.
- Morbidity rate at a particular age will be equal to 33.3% of the mortality rate applicable at the same age.

Pensioners:

- Pensions payable were valued at a 6% interest rate.
- Regarding mortality, the unisex table, derived from a (55) male and a (55) female tables, was employed with a weighting of 67% a (55) male and 33% a (55) female rates.

Sedgwick Noble Lowndes is responsible for the administration of the Fund.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

1.14 General Reserve

In terms of section 67(1) of the Land Bank Act,1944(Act No.13 of 1944) the surplus, after transfers to specific reserves, is credited to the general reserve.

2.. CAPITAL FUND

The capital fund consists of appropriations by the State to the Land Bank from 1936 up to 1979 when they were discontinued. Interest thereon, at rates which vary between 3.5% and 4.75% per annum, is payable half yearly on 31 March and 30 September. The average effective interest rate amounts to 4.7% for both financial year

3. RESERVES

	1998 R'000	1997 R'000
3.1 Distributable		
General reserve	1 812 146	1 628 742
Silver and bonze development fund	96 609	-
Interest equalisation fund	100 000	100 000
Building reserve	9 000	18 000
Total distributable reserves	**2 017 755**	**1 746 742**
3.2 Non – distributable		
Revaluation of assets	22 792	22 792
Reserves earmarked for Development funding	100 000	-
Total non – distributable reserves	**122 792**	**22 792**
Total reserves	**2 140 547**	**1 769 534**

Silver and bronze development fund

In order to separate the funding of emerging farmers (silver and bronze range) from the commercial loan book (gold range) an amount of R96 609 000 was transferred from the general reserve to the silver and bronze development fund. Also refer to Annexure A note 2.

Interest equalisation fund

During a period of declining interest rates the Bank's long term funding costs may exceed interest earnings on mortgage debt. The fund can then be utilised to replenish the deficit.

Building reserve

This reserve serves as a provision for future capital expenditure regarding existing and new bank premises.

Revaluation of assets
Refer to note 1.10.

Reserves earmarked for development funding
An amount of R100 million was transferred from the general reserve to make provision for further loans to be granted under the silver and bronze range during the next financial year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

4. DEBENTURES	**1998 R'000**	**1997 R'000**
Funding portfolio (capital)	2 701 572	2 886 172
Discount	44 574	179 302
Funding portfolio (at cost)	2 746 146	3 065 474
Hedging portfolio (at cost)	(375 660)	(268 285)
Hedging portfolio (capital)		
Nominal value 1998 – R444 000 000;	371 754	
1997 – R288 000 000		264 719
Discount	3 906	3 566
	2 370 486	2 797 189
Options (net at fair value)	4 772	2 158
	2 375 258	2 799 347
Market making portfolio (net at fair value)	122 732	62 921
	2 497 990	**2 862 268**
Average effective interest rate for debentures.	**15.20%**	**15.92%**

The bank's market making activities are exposed to interest rate as well as market risk. Should interest rates decline sharply while the interest rates on capital market instruments are fixed at higher levels, a cash flow risk may occur.

5. MEDIUM TERM PROMISSORY NOTES

	1998	1997
Balance at year end	**935 927**	**978 223**
Average effective interest rate	**15.23%**	**16.42%**

6. FIXED ASSETS

6.1 Bank premises

	1998	1997
Valuation	93 772	84 948
Carrying value	84 948	72 771
Purchases	-	41
Building projects completed	9 204	14 966
Sales	(380)	(530)
Written off	-	(2 300)

Capital projects

	1998	1997
Building projects in progress	-	8 595
Carrying value	**93 772**	**93 543**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

(Bank premises continued)

	1998	1997
	R'000	R'000

Bank premises were independently valued during December 1994 by Landdata Valuations (Pty) Limited, members of the South African Institute of Valuers, at open market value with current use as basis. This valuation was increased in the interim by additions to establish the value at 31 December 1998.

6.2 Furniture and fittings

	1998	1997
Carrying value (opening balance)	6 340	5 358
Purchases	656	2 577
Sales	(13)	(22)
Depreciation	(1 680)	(1 573)
Carrying value (closing balance)	**5 303**	**6 340**
Cost price	9 685	11 899
Accumulated depreciation	(4 382)	(5 559)
Carrying value	**5 303**	**6 340**

6.3 Computer equipment

	1998	1997
Carrying value (opening balance)	3 097	1 714
Purchases	2 995	2 731
Sales	(23)	(1)
Depreciation	(1 664)	(1 347)
Carrying value (closing balance)	**4 405**	**3 097**
Cost price	10 063	7 123
Accumulated depreciation	(5 658)	(4 026)
Carrying value	**4 405**	**3 097**

6.4 Motor vehicles

	1998	1997
Carrying value (opening balance)	4 929	3 927
Purchases	125	2 497
Sales		(148)
Depreciation	(1 411)	(1 347)
Carrying value (closing balance)	**3 643**	**4 929**
Cost price	8 148	8 084
Accumulated depreciation	(4 505)	(3 155)
Carrying value	**3 643**	**4 929**
Total fixed assets	**107 123**	**107 909**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

		1998 R'000	1997 R'000
7.	**LOANS TO FARMERS**		
7.1	**Long and medium term loans**		
	Gold range (refer to Annexure A for funding details)		
	Long term mortgage loans	4 817 444	4 144 405
	Long term charge loans	277	319
	Total long term loans	**4 817 721**	**4 144 724**
7.2	**Section 34 medium term loans**	1 421 154	995 8058
		6 238 875	**5 140 529**
	Silver and bronze range (refer to Annexure A for funding details)		
	Section 34 medium term loans	80 938	-
		6 319 813	5 140 529
7.3	**Short term loans**		
	Gold range (refer to Annexure A for funding details)		
	Section 34 short term loans	984 198	527 654
	Silver and bronze range (refer to Annexure A for funding details)		
	Section 34 short term loans	10 011	-
	Step up loans	4 151	-
		998 360	527 654

Section 34 medium term loans are mainly granted for the purchase of livestock and implements while Section 34 short term loans are used for production credit.

		1998 R'000	1997 R'000
8.	**LOANS TO CO-OPERATIVES**		
	Long term mortgage loans	552 269	546 477
	Short term cash credits	4 275 949	4 391 357
		4 828 218	4 937 834
9.	**LOANS TO STATUTORY AGRICULTURAL INSTITUTIONS**		
	Long term mortgage loans	212 844	185 385

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

10. INVESTMENTS

	1998 R'000	1997 R'000
Opening balance	42 269	22 435
Yield/ (loss) on investment	(7 928)	2 534
Additional contribution	31 441	17 300
	65 782	42 269
* Shares in the South African Mortgage Insurance Company Limited (SAMIC) Directors valuation – 30 June 1998 (R 201 million)	30	30
SUMS service account	35	-
	65 847	42 299

The amounts transferred to the medical fund provision since 31 December 1995, were entrusted to a portfolio manager. The net yield/loss on the investment for the relevant year was credited/debited to the Provision account and does therefore not form part of the Bank's Income. The investment is stated at market value and does not include any unlisted shares. This investment Is exposed to interest rate and market risk.

* The Land Bank is the sole shareholder of this company which undertakes the insurance of Land Bank mortgage and charge loans to natural persons on a group basis. Although the Land Bank guarantees the solvency of SAMIC , the company's actuarial value of the surplus as at 30 June 1998 amounted to R201 million (1997-R219 million). The Board is of the opinion that it would not be meaningful to consolidate the financial statements of SAMIC. The financial statements of the said company are attached as an annexure to these financial statements.

11. LOANS TO CONTROL BOARDS

	1998	1997
Short term cash credits	-	160 065

12. LOANS TO AGRI – RELATED COMPANIES

	1998	1997
Short term cash credits		
Gold range	30 029	-
Silver and bronze range	1 766	-
	31 795	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

		1998	1997
		R'000	R'000
13.	**SUNDRY DEBTORS**		
	SAMIC	1 256	64
	Arrear interest	204 406	140 836
	Accrued interest (receivable)	780 569	552 379
	Interest pre-paid	110 691	42 410
	Sundries	36 852	41 752
		1 133 774	777 441
14.	**OTHER ASSETS**		
	Landed property account	23 146	19 497
	Properties sold - being transferred	7 788	1 818
	Unsold properties on hand	15 358	17 679
	Less: Provision – irrecoverable debt (Refer note 24.1)	(6 029)	(3 615)
		17 117	15 882
	Section 34 shortfalls	1 340	11
	Dividend declared by SAMIC	50 000	-
		68 457	15 893
15.	**PROMISSORY NOTES ,BILLS AND CALL BONDS**		
15.1	**Promissory notes**		
	Balance at year end	2 715 500	1 280 594
	Average effective interest rate	18.59%	17.31%
15.2	**Bills**		
	Balance at year end	3 030 000	2 755 000
	Average effective interest rate	18.03%	16.98%
15.3	**Call bonds**		
	Balance at year end	1 420 000	1 008 000
	Average effective interest rate	19.17%	17.20%
16.	**DEPOSITS**		
	Co-operatives	97 073	45 305
	Control boards	290 018	309 674
	SAMIC and other small institutional deposits	1 432	9 189
	Forced stock sales	210 233	226 787
	Retirement fund	6 549	1 877
	Sundries	53 915	37 220
		659 220	630 052
	Average effective interest rate	17.92%	16.78%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

17. SUNDRY CREDITORS

	1998 R'000	1997 R'000
Accrued interest (loan funds)	63 011	46 274
Audit fees	652	537
Interest received in advance	5 496	972
Prepaid installments	79 714	52 915
Interest due	12 073	-
Sundries	32 461	12 103
	193 407	**112 801**

18. PROVISIONS

	1998 R'000	1997 R'000
Irrecoverable debt	165 971	123 385
Accrued leave	7 574	9 207
Section 47 grants	8 007	7 121
Upgrading of computer system	19 834	30 000
Transformation	1 550	4 250
Medical fund	65 782	73 710
Retrenchment packages	30 803	25 700
	299 521	**273 373**

19. INTEREST RECEIVED

	1998 R'000	1997 R'000
Mortgage loans	819 891	684 673
Section 34 medium term loans	253 644	166 716
Section 34 seasonal loans	149 001	83 985
Wholesale	890 144	888 590
Sundries	208 809	141 834
	2 321 489	**1 965 798**

20. SUNDRY INCOME

	1998 R'000	1997 R'000
Application and valuator's fees	1 133	789
Bond fees	294	238
Commission earned	228	261
Rent received	648	648
Unclaimed interest on debentures	1 648	7 613
Surplus on sale of fixed assets	93	374
SAMIC administration fees	1 020	1 419
Dividend from subsidiary - SAMIC	50 000	60 000
Sundries	1	34
	55 065	**71 376**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

21. INTEREST PAID

	1998 R'000	1997 R'000
Capital fund	8 999	8 999
Debentures	440 732	382 163
Medium term promissory notes	131 407	91 230
Bills	475 370	499 668
Promissory note	348 586	322 140
Call bonds	225 200	143 664
Deposits and credit balances	107 156	127 812
Commercial banks	711	925
	1 738 161	**1 576 601**

22. ADMINISTRATION COSTS

	1998 R'000	1997 R'000
Personnel costs	150 698	139 698
Maintenance and transport	5 641	4 564
Banking costs	1 237	402
Repairs and maintenance	9 511	9 418
Professional fees	3 760	1 898
Rates and taxes	7 273	7 049
Stationery	2 402	1 708
Postage, telephone, etc.	6 134	4 980
Transformation expenditure	-	4 000
Printing and advertisements	3 909	575
Audit fees (External)		
For audit	577	513
Expenses	30	24
Under provision prior year	-	114
Audit fees (Internal)	296	145
0ther	2 820	1 945
Total administration costs	**194 288**	**177 033**

23. SHORTFALLS WRITTEN OFF

	1998 R'000	1997 R'000
Landed property account	301	3 086
Section 34 loans	5 528	2 206
Personnel housing loans	254	18
	6 083	5 310
	(219)	(1 033)
Surpluses realised	106	463
Shortfalls recovered	52	457
Sundries	61	113
	5 864	4 277
Set off against provision - irrecoverable debt	(5 864)	(4 277)
	-	-

(Refer note 24.1)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

24. MOVEMENT IN PROVISIONS

24.1 Irrecoverable debt

	1998 R'000	1997 R'000
Opening balance	127 000	40 000
Net shortfalls written off (note 23)	(5 864)	(4 277)
	121 136	35 723
Transfer from Profit and Loss account	50 864	91 277
	172 000	127 000
Provision for shortfalls under Landed Property Account	(6 029)	(3 615)
	165 971	123 385

(Refer note 14)

24.2 Accrued leave

	1998 R'000	1997 R'000
Opening balance	9 207	12 838
Paid out	(7 526)	(5 626)
	1 681	7 212
Transfer from Profit and Loss account	5 893	1 995
	7 574	9 207

24.3 Section 47 grants

	1998 R'000	1997 R'000
Opening balance	7 121	5 000
Paid out	(4 114)	(2 879)
	3 007	2 121
Transfer from Profit and Loss account	5 000	5 000
	8 007	7 121

24.4 Upgrading of computer system

	1998 R'000	1997 R'000
Opening balance	30 000	-
Paid out	(10 166)	-
Transfer from Profit and Loss account	-	30 000
	19 834	30 000

Due to the fact that the existing computer system does not support the core business processes which are still paper driven, it was decided to modernise the system.

24.5 Transformation costs

	1998 R'000	1997 R'000
Opening balance	4 250	-
Paid out	(4 177)	-
	73	-
Transfer from Profit and Loss account	1 477	4 250
	1 550	4 250

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

(Movement in provisions continued)

24.6 Medical fund provision

	1998 R'000	1997 R'000
Opening balance	73 710	37 300
Yield/(loss) on investment	(7 928)	4 969
Transfer from Profit and Loss account	-	31 441
	65 782	73 710

The restructuring process has resulted in a number of retrenchments which will reduce the liability. As a result, no additional provision was made during the current year.

24.7 Retrenchment packages

	1998 R'000	1997 R'000
Opening balance	25 700	10 000
Transfer from Profit and Loss account	5 103	15 700
	30 803	25 700
Total transfers to provisions	68 337	179 663

(Refer note 18)

25. TRANSFERS TO (FROM) RESERVES

	1998 R'000	1997 R'000
Opening balance	1 769 534	1 672 224
Current years transfers to reserves	371 013	97 310
Building reserve	(9 000)	(1 500)
Retirement Fund Stabilisation Fund	-	(5 000)
Silver and Bronze Development Fund	96 609	-
Reserves earmarked for development funding	100 000	-
General reserve	183 404	103 810
Closing balance	2 140 547	1 769 534

26. NOTES TO THE CASH FLOW STATEMENT

26.1 Cash produced by operations

	1998 R'000	1997 R'000
Income from operations	371 013	97 310
Adjustment for depreciation	4 755	4 267
Permanent diminution in value of a Land Bank building	-	2 300
	375 768	103 877
Surplus on sale of fixed assets	(93)	(374)
	375 675	103 503

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

(Notes to the cash flow statement continued)

26.2 (Decrease)/ Increase in loans

	1998 R'000	1997 R'000
Increase in loans to farmers	1 649 991	714 339
Decrease in loans to co-operatives	(109 616)	(904 419)
Decrease in loans to control boards	(160 065)	(42 863)
Increase in loans to private companies	31 795	-
Increase in loans to statutory Agricultural institutions	27 460	26 971
	1 439 565	(205 972)

26.3 Generated by increase / (decrease) in working capital

	1998 R'000	1997 R'000
Increase in other assets and investments	76 112	15 321
Increase in sundry debtors	356 333	24 403
(Increase)/ Decrease in sundry creditors	(80 606)	6 429
Increase in provisions	(26 148)	(170 922)
	325 691	(124 769)

26.4 Proceeds on sale of fixed assets

	1998 R'000	1997 R'000
Carrying value of assets sold	9 580	701
Surplus on sale of fixed assets	93	374
	9 673	1 075

26.5 Additions to fixed assets

	1998 R'000	1997 R'000
Bank premises	9 184	15 007
Building projects in progress	589	(6 748)
Furniture, computer equipment and motor vehicles	3 774	7 805
	13 547	16 064

26.6 (Increase) Decrease in financing

	1998 R'000	1997 R'000
Decrease (Increase) in debentures	364 278	(694 193)
Decrease (Increase) in medium term promissory notes	42 296	(678 172)
(Increase) Decrease in promissory notes	(1 434 906)	1 347 962
(Increase) Decrease in bills payable	(275 000)	519 000
(Increase) in call bonds	(412 000)	(254 000)
(Increase) Decrease in deposits	(29 168)	267 985
Decrease (Increase) in bank balance	351 045	(89 327)
	(1 393 455)	419 255

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

		1998 R'000	1997 R'000
27.	**COMMIITMENTS AND CONTINGENT LIABILITIES**		
27.1	**Loans granted but not yet paid out**		
	Individual farmers	1 030 539	494 151
	Co-operatives	85 294	264 948
		1 115 833	759 099
27.2	**Guarantees in respect of co-operatives**	129 917	139 439
27.3	**Secondary market**		
	Commitments in respect of transactions effected during December with a settlement date in January.		
27.3.1	**Debentures/ Stock purchased**		
	Land Bank Debentures Nominal value 1998 – R 25 000 000 1997 – R 36 000 000	19 586	33 362
	Other institutional stock Nominal value 1998 – R 310 000 000 1997 – R462 000 000	275 921	448 540
		295 507	481 902
27.3.2	**Debentures/ Stock sold**		
	Land Bank Debentures Nominal value 1998 – R 288 000 000 1997 – R274 000 000	246 104	255 218
	Other institutional stock Nominal value 1998 – R 18 000 000 1997 – R125 000 000	14 705	120 767
		260 809	375 985
27.4	**Liability in respect of SAMIC**		
	Land Bank has the liability to guarantee the solvency of SAMIC		
	Assets – Actuarial value as at 30 June 1998	376 373	384 691
	Liabilities – Actuarial value as at 30 June 1998	(174 707)	(165 864)
	Surplus as at 30 June 1998	201 666	218 827

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A

FUNDING OF THE LOAN BOOKS

In accordance with the Strauss commission report development financing is seperated from other financing activities. Although all the Bank's financing activities are disclosed in one set of financial statements the following information is provided to indicate how the two loan books are funded. As the undermentioned figures represents only the various loan books and not all the Bank's assets, the amounts indicated in respect of the financial instruments will not necessarily correlate with the figures provided in the financial statements.

	1998 R'000	1997 R'000
1. GOLD RANGE		
Total loan book	12 294 164	10 951 467
Funded by:		
Reserves	2 070 523	1 896 850
Capital fund	200 955	200 955
Debentures	2 837 878	3 204 870
Medium term promissory notes	935 916	978 232
Bills	2 889 165	2 657 437
Promissory notes	2 557 318	1 236 395
Call bonds	198 635	189 620
Deposits and credit balances	603 774	587 108
	12 294 164	10 951 467
2.. SILVER AND BRONZE RANGE		
Loans to farmers	95 100	-
Loans to agri – related companies	1 765	-
Less: Net credits	(291)	-
Commercial bank (Step up loans)	35	-
	96 609	-
Funded by reserves.	96 609	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SCHEDULE A
ANNEXURE B

MATURITY, SECTORIAL AND GEOGRAPHICAL ANALYSIS

1. FUNDING PORTFOLIO

MATURITY AND PORTFOLIO ANALYSIS

1.1 DEBENTURES	1998 R'000	1997 R'000
Within 1 year		
LB00 11.50% 30/06/1998	-	1 336 082
	-	1 336 082
From 1 year to 3 years		
More than 3 years		
LB01 11.50% 30/06/2010	1 244 116	914 034
LB06 12.50% 15/05/2002	1 502 030	815 358
	2 746 146	1 729 392

1.2 HEDGING PORTFOLIO	1998 R'000	1997 R'000
Within 1 year		
Eskom stock	-	28 860
Transnet stock	-	4 862
	-	33 722
From 1 year to 3 years	-	-
More than 3 years		
Development Bank stock	-	8 695
Government stock	293 587	192 789
Transnet stock	71 459	33 079
Eskom stock	10 614	-
	375 660	234 563

1.3 OPTIONS	1998 R'000	1997 R'000
(Nominal value)		
Within 6 months	60 000	40 000
Total calls bought	-	100 000
Total puts bought	160 000	210 000
Total calls written	140 000	200 000
From 6 months to 18 months		
Total puts written	300 000	150 000

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A
ANNEXURE B (Continued)

(Funding portfolio continued)

1.4 MEDIUM TERM PROMISSORY NOTES

	1998 R'000	1997 R'000
Within 1 year	127 692	195 835
From 1 year to 3 years	634 226	639 049
More than 3 years	174 009	143 339
	935 927	978 223

1.5 PROMISSORY NOTES

Within 3 months	2 635 500	1 257 077
From 3 to 6 months	80 000	23 517
	2 715 500	1 280 594

1.6 BILLS

	-	-
Within 91 days	3 030 000	2 755 000

1.7 CALL BONDS

At call	1 420 000	1 008 000

2. LOAN PORTFOLIO

2.1 LOANS TO FARMERS

2.1.1 SECTORIAL ANALYSIS

(Details of the total loans book (gold range) are not available but information regarding loans granted during the respective years is provided)

Long term
(Gold range)

Purchase of land	1 244 116	598 257
Repayment of bonds	1 502 030	140 290
Settlement of debts	2 746 146	350 391
Purchase of stock	14 954	12 910
Purchase of equipment	18 750	11 301
Improvements	59 370	20 780
Working capital	981	575
	1 8036 087	1 134 504

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A
ANNEXURE B (Continued)

(Loan portfolio continued)

	1998 R'000	1997 R'000
Section 34 medium term loans (Gold range)		
Purchase of livestock	356 507	188 692
Purchase of implements	361 193	320 869
	717 700	509 561
Section 34 medium term loans (Silver and bronze range)		
Purchase of livestock and implement	80 938	-
Section 34 short term loans (Gold range)		
Sector		
Wine	139 931	100 673
Deciduous fruit	203 683	172 033
Sugar cane	68 739	85 708
Citrus	47 839	43 304
Nuts	1 483	164
Hops	1 000	490
Wood	7 860	8 020
Battening	20 875	6 630
Tropical fruit	19 968	6 980
Ostriches	3 918	8 430
Poultry	7 868	80
Herbs	4 897	2 228
Green houses	11 446	-
Grain	286 356	20
Processing	2 814	43
Vegetables	52 025	300
	880 702	435 103
Section 34 short term loans (Silver and bronze range)		
Production credit	8 881	-
Establishment	1 130	-
	10 011	-
Step up loans		
Micro financing	4 151	-
	14 162	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A ANNEXURE B (Continued)

(Loan portfolio continued)

2.1.2 MATURITY ANALYSIS

	1998 R'000	1997 R'000
Long term loans (Gold range)		
Within 5 years	97 413	104 137
From 5 years to 10 years	650 970	576 157
From 10 years to 15 years	1 068 911	1 199 087
From 15 years to 20 years	1 771 206	1 379 327
More than 20 years	1 229 221	86 016
	4 817 721	4 144 724
Section 34 medium term loans (Gold range)		
Within 1 year	504	402
From 1 year to 5 years	177 769	123 962
From 5 years to 10 years	1 029 015	758 049
More than 10 years	213 866	113 392
	1 421 154	995 805
Section 34 medium term loans (Silver and bronze range)		
From 1 year to 5 years	687	-
From 5 years to 10 years	62 779	-
More than 10 years	17 472	-
	80 938	-
Section 34 short term loans (Gold range)		
Within 1 year	51 625	17 512
More than 1 year	932 573	510 142
	984 198	527 654
Section 34 short term loans (Silver and bronze range)		
Within 1 year	30	-
More than 1 year	9 981	-
	10 011	-
Step up loans		
Within 1 year	4 151	-
	14 151	-

The maturity analysis is based on the remaining Period from year end to contractual maturity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A

ANNEXURE B (Continued)

(Loan portfolio continued)

2.1.3 GEOGRAPHICAL ANALYSIS

Long term loans
(Gold range)

Province	1998 R'000	1997 R'000
Eastern Cape	760 010	668 008
Free State	763 768	717 266
Gauteng	46 927	38 816
Kwa-Zulu Natal	655 867	558 372
Mpumalanga	427 982	363 697
Northern Cape	548 402	490 521
Northern Province	339 317	243 023
North West	798 540	428 893
Western Cape	776 908	636 128
	4 817 721	4 144 724

Section 34 medium term loans
(Gold range)

Province	1998 R'000	1997 R'000
Eastern Cape	150 187	90 133
Free State	304 357	220 832
Gauteng	36 106	17 400
Kwa-Zulu Natal	114 700	91 918
Mpumalanga	165 578	110 759
Northern Cape	128 941	90 773
Northern Province	147 712	108 989
North West	224 761	119 147
Western Cape	148 812	145 854
	1 421 154	995 805

Section 34 medium term loans and
Section 34 short term loans
(Silver and bronze range)

Province	1998 R'000	1997 R'000
Eastern Cape	7 706	-
Free State	12 215	-
Gauteng	2 704	-
Kwa-Zulu Natal	2 337	-
Mpumalanga	4 380	-
Northern Cape	4 530	-
Northern Province	16 853	-
North West	41 570	-
Western Cape	2 805	-
	95 100	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A
ANNEXURE B (Continued)

(Loan portfolio continued)

	1998 R'000	1997 R'000
Section 34 short term loans (Gold range)		
Province		
Eastern Cape	54 041	23 679
Free State	67 827	506
Gauteng	9 209	993
Kwa-Zulu Natal	141 155	136 239
Mpumalanga	66 285	16 010
Northern Cape	80 589	50 368
Northern Province	32 140	4 235
North West	68 532	2 301
Western Cape	464 420	293 323
	984 198	527 654

Average effective interest rate (Gold range)		
Long term loans to farmers	18.1 %	16.8 %
Fixed loans to co-operatives	18.1 %	16.7 %
Section 34 medium term loans	21.2 %	18.6 %
Cash credit advances to co-operatives	20.4 %	16.8 %
Section 34 short term loans	21.8 %	18.3 %
Average effective interest rate (Silver and bronze range)		
Section 34 medium term loans	23.23 %	-
Section 34 short term loans	24.68 %	-
Step up loans	23.44 %	-

2.2 LOANS TO CO-OPERATIVES, STATUTORY AGRICULTURAL INSTITUTIONS, CONTROL BOARDS AND PRIVATE COMPANIES

2.2.1 SECTORIAL ANALYSIS

Including loans to:		
Co-operatives (note 8)	4 828 218	4 937 834
Statutory Agricultural Institutions (note 9)	212 844	185 385
Control Boards (note 11)	-	160 065
Private Companies (note 12)	31 795	-
	5 072 857	5 283 284

NOTES TO THE FINANCIAL STATEMENTS CONTINUED SCHEDULE A
ANNEXURE B (Continued)

(Loan portfolio continued)

	1998 R'000	1997 R'000
Sector		
Citrus	73 267	76 306
Dairy	15 532	16 176
Fruit	29 343	30 560
Grain	3 154 318	3 303 178
Irrigation boards	212 844	221 673
Manufacture	116 282	121 105
Meat	189 258	197 109
Ostriches	68 958	71 818
Tobacco	50 813	52 922
Trade	218 420	227 480
Wine	366 548	365 577
Sundries	577 274	599 380
	5 072 857	5 283 284

2.2.1 MATURITY ANALYSIS

	1998 R'000	1997 R'000
Long term mortgage loans		
Within 5 years	28 117	25 563
From 5 years to 10 years	418 173	380 379
More than 10 years	318 823	325 920
	765 113	731 862
Short term cash credits		
Within 1 year	404 446	466 168
More than 1 year	3 903 298	4 085 254
	4 307 744	4 551 422

2.2.1 GEOGRAPHICAL ANALYSIS

	1998 R'000	1997 R'000
Eastern Cape	243 678	253 786
Free State	548 431	571 180
Gauteng	380 954	394 917
Kwa-Zulu Natal	274 246	285 622
Mpumalanga	155 552	162 004
Northern Cape	309 009	321 827
Northern Province	341 736	355 912
North West	1 721 871	1 795 135
Western Cape	1 097 380	1 142 901
	5 072 857	5 283 284

SOUTH AFRICAN MORTGAGE INSURANCE COMPANY LIMITED

REPORT OF THE INDEPENDENT AUDITOR'S TO THE MEMBERS OF SOUTH AFRICAN MORTGAGE INSURANCE COMPANY LIMITED

We have audited the annual financial statements set out on pages 2 to 7 for the year ended 30 June 1998. These financial statements are the responsibility of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements,
- Assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 1998 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Companies Act.

PricewaterhouseCoopers Inc.
Chartered Accountants (SA).
Registered Accountants and Auditors.

PRETORIA.

10 NOVEMBER 1998.

SOUTH AFRICAN MORTGAGE INSURANCE COMPANY LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 1998

1. **PRINCIPAL BUSINESS AND ACTIVITIES**

The main business of the company is the insurance of mortgage and charge loans granted by the Land and Agricultural Bank of South Africa.

2. **GENERAL FINANCIAL OVERVIEW**

The financial position of the company and the results of its activities are clearly shown in the attached annual financial statements. The net income for the accounting period was R35 337 852 (1997: R52 468 419) which income could be directly associated with the main business of the company.

3. **DIVIDENDS PAID AND PROPOSED**

A dividend of R50 000 000 was provided for during the current financial year.

4. **DIRECTORS AND SECRETARY**

The Board of Directors currently consists of the following persons:

Dr. H.M. Dolny
Dr. A.S. Jacobs
Mr. A.R. Toms
Mr. S. van Schalkwyk
Mr. C.J. du Toit
Mr. H.D. Bardner
Mr. J.N.D. Mativandlela

The Secretary is Ms. C.M. Cilliers.

5. **MATERIAL FACTS OR CIRCUMSTANCES THAT OCCURRED AFTER THE BALANCE SHEET DATE**

No important facts or circumstances which are of importance to the asessment of the company's financial position did occur during the period from the balance sheet date to the date of this report.

BALANCE SHEET AT 30 JUNE 1998

	NOTES	1998 R	1997 R
CAPITAL EMPLOYED			
SHARE CAPITAL	2	30,000	30,000
INSURANCE FUND	3	326,343,493	341,005,641
		326,373,493	341,035,641
EMPLOYMENT OF CAPITAL			
INVESTMENTS	4	367,022,275	323,508,141
NET CURRENT (LIABILITIES)/ASSETS		(40,648,782)	17,527,500
CURRENT ASSETS		9,544,125	77,777,921
Outstanding premiums	1.2	8,143,679	13,656,157
Premiums accrued		13,197,824	13,781,800
Provision for outstanding claims		(4,900,223)	(121,457)
Interest		(153,922)	(4,186)
Cash in Bank		8,397	5,375
Call Money		1,392,049	64,116,389
CURRENT LIABILITIES		50,192,907	60,250,421
Dividend declared to Land Bank		50,000,000	60,000,000
Sundry creditors and provisions		192,907	250,421
		326,373,493	**341,035,641**

INCOME STATEMENT AT 30 JUNE 1998

	NOTES	1998 R	1997 R
PREMIUM INCOME		19,579,513	21,884,605
REALISED CAPITAL AND INTEREST ON PORTFOLIOS		45,328,947	40,533,127
INTEREST ON INVESTMENTS		6,338,053	20,682,432
		71,246,513	83,100,164
LESS:			
TOTAL EXPENDITURE		35,908,661	30,631,745
Administration cost		1,400,982	1,867,508
Directors remuneration		16,700	5,949
As directors		*16,700*	4,200
Other		-	1,749
Auditor's fees - for audit		18,457	9,883
Current year		14,706	9,883
Prior year under provision		3,751	-
Other administration cost	5	1,365,825	1,851,676
Claims paid		29,866,789	23,493,982
Portfolio management fees		1,810,999	1,059,806
Interest paid		2,793,495	3,046,484
Regional services		36,396	74,362
SCMB Investment written off		-	1,089,603
SURPLUS INCOME FOR THE YEAR		35,337,852	52,468,419
INSURANCE FUND AT THE BEGINNING OF THE YEAR		341,005,641	348,537,222
INSURANCE FUND BEFORE DECLARATION OF DIVIDEND		376,343,493	***401,005,641***
DIVIDEND DECLARED		(50,000,000)	(60,000,000)
INSURANCE FUND AT THE END OF THE YEAR		**326,343,493**	**341,005,641**

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 1998

1. ACCOUNTING POLICIES

The main accounting policies of the company are as follows:

1.1. Claims reported up to 30 June of each year but not yet paid, are shown as claims payable in the financial year.

1.2. Outstanding premiės are shown as current assets in the financial statements. A provision is made for probable uncollectable premiums.

2. SHARE CAPITAL

	1998 R	1997 R
Authorised		
50 000 ordinary shares of R 2 each	**100,000**	**100,000**
Issued		
15 000 ordinary shares of R 2 each	**30,000**	**30,000**

3. INSURANCE FUND

Life Fund	326,343,493	341,005,641
Balance at beginning of year	341,005,641	348,537,222
Add:		
Net surplus for the year	35,337,852	52,468,419
Less:		
Dividend declared	50,000,000	60,000,000

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 1998

(continued)

4. INVESTMENTS

	1998 R	1997 R
Portfolio investments	367,022,275	323,508,141
Rand Merchant Bank (Market value R156,202,242)	137,439,197	110,976,121
Investec (Market value R122,104,624)	114,367,537	104,970,485
Coronation (Market value R121,725,485)	115,215,541	107,561,535

5. ADMINISTRATION COST

The Board approved that commission, re-insurance premium and administration cost due to the Land Bank be replaced by an administration cost of R60 per policy per year. The effect of this decision is disclosed below:

	1998 R	1997 R
Administration cost	1,365,825	1,851,676
Other administration cost	242,417	279,167
R60 per policy per year	1,123,408	1,572,509

6. No provision is made for Income Tax, as the Company is not taxable in terms of the provisions of Section 10 of the Income Tax Act of 1962 (Act 58/1962).

7. In terms of Section 21(5) of the Land Bank Act, No. 13 of 1944, this company is exempted from the provisions of the Insurance Act, No. 27 of 1943.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 1998

	NOTES	1998 R	1997 R
Cash obtained from activities after the (increase)/decrease of R5 454 964 (1997 - R644 928) in working capital has been taken into account	1	37,248,258	35,477,399
Less:			
Interest paid		(2,793,495)	(3,046,484)
Add:			
Interest received on investments		6,338,053	20,682,432
Funds available from working activities		40,792,816	53,113,347
Less:			
Dividend declared		(60,000,000)	-
Funds available from activities		(19,207,184)	53,113,347
Less:			
Investment activities:			
(Increase)/Decrease in investments		(43,514,134)	(138,321,709)
		(62,721,318)	(85,208,362)
CASH EFFECTS OF FINANCING ACTIVITIES			
(Increase)/Decrease in call account		62,724,340	85,209,419
(Increase) in cash in bank		(3,022)	(1,057)
Cash utilised/(available)		62,721,318	85,208,362

NOTES

1 MOVEMENT IN NET WORKING CAPITAL

	1998 R	1997 R
(Increase)/Decrease in outstanding premiums	5,512,478	618,360
(Increase)/Decrease in sundry creditors	(57,514)	26,568
Net (increase)/decrease in working capital	5,454,964	644,928

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE LAND AND AGRICULTURAL BANK OF SOUTH AFRICA FOR THE YEAR ENDED 31 DECEMBER 1998

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 24 to 58, for the year ended 31 December 1998 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 68 of the Land Bank Act, 1944 (Act No. 13 of 1944). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Board. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Nature and scope

2.1.1 Financial audit

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 Compliance audit

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

2.2 Audit opinion

2.2.1 Financial audit

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Land Bank at 31 December 1998 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the relevant act.

2.2.2 Compliance audit

The transactions of the Land Bank that I have examined during the course of the audit were in my opinion, in all material respects, made in accordance with the relevant laws and regulations, applicable to financial matters.

3. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

3.1 Delegation of power of authorisation

As reported on page 2 in paragraph 3.1 of the previous report, the Board had delegated powers of authorisation to the Managing Director in terms of the Land Bank Act. These powers were delegated to facilitate the process of transformation. Corporate governance requires that the ultimate responsibility remain with the Board. It was also suggested to the Bank that these delegations be reviewed regularly and confirmed or adjusted as the situation changes.

Authorisation of loans has also been delegated to the branch directors during the year under review. The branch director could use his or her discretion to delegate these powers of authorisation to the branch loan team. Formal procedures on how these powers can be delegated and the fixing of responsibilities in such cases have not been prepared and authorised by the Board. However, a comprehensive review is near to completion.

3.2 Outstanding motor vehicle loans

Motor vehicle loans were granted to certain employees as part of their conditions of employment. On termination of service of two officials, the outstanding amounts totalling R322 359 have, however, not been recovered. These amounts have been outstanding since July 1998. At the time of compiling this report legal action was in process and summonses were issued in both cases.

3.3 Fruitless expenditure

Two delegates of the Human Resources Department who were booked and paid for did not attend a Performance Measurement Conference. As the Bank did not cancel their bookings before the time specified in the agreement, they were liable for the payment of R10 465. An agreement was reached between the Bank and the company that the amount will be paid and that the Bank will be allowed to sent any two employees at a later stage. After one year no employees have been sent and this expense is considered as fruitless as the offer was only valid for six months.

3.4 Year 2000

With reference to paragraph 4 on page 4 of the previous report regarding the status of the Year 2000 problem, the Bank appointed a project manager with the responsibility to address the issue, investigate the areas of possible impact and present the Bank with a formal plan to address the issues.

Regarding the information systems, the Bank is in the process of replacing its entire suite of programs with a package solution. This will be finalised before the end of 1999. This package has been certified as being Year 2000 compliant. However, this Office did not perform any procedures to test whether the Land Bank's systems or any other related systems are Year 2000 compliance.

3.5 Maize Board Loan

Loans to control boards were terminated in terms of the amendments to the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996) The outstanding balance of R150 million owed by the Maize Board was repaid by the state during the year.

3.6 Requirements of the Public Entities Act

3.6.1 Corporate governance

The Land Bank was listed as a public entity on 1 January 1998. Management has successfully implemented the majority of the requirements of the King Report on Corporate Governance. An Affirmative Action programme and a Code of Ethical Conduct have not been formally adopted by the Bank. The Board has informed this Office that the Employment Equity Bill and a Code of Ethical Conduct is currently being discussed.

3.6.2 Directors report

The Director's report, as required by The Public Entities Act, 1992 (Act No. 93 of 1992), is regarded as part of the financial statements. The financial statements were presented to me on time but it took a considerably long time before the Director's report was presented and there was no written request for extention of time as required by my Office. This is the first Director's report in terms of the Act and although certain improvements can be made, I am satisfied that the basic requirements of the Act have been met in all material respects.

3.6.3 Subsequent events: Allegations against the Managing Director

On 20 July 1999 a special investigation team was appointed by the Board of Directors of the Land and Agricultural Bank of South Africa (Land Bank) to investigate allegations made by the former chairperson of the Board against the Managing Director. These allegations included racism, mismanagement, nepotism and the violation of regulations by granting herself a salary increase.

The investigation was not a governmental, judicial or a quasi-judicial process, but an internal investigation of the Land Bank authorised by the Board. The process conducted by the investigators was entirely independent of the Land Bank and its Board. On 30 August 1999 the investigators presented their report to the Board. The findings contained in this report indicated that allegations of racism, mismanagement and nepotism are without foundation. The Board has not yet taken a decision regarding further action in respect of the report. The alleged irregularities made by the former chairperson of the Board could, in any event, not have resulted in a material financial loss of the Land Bank.

The Public Protector is also conducting an investigation into a complaint against the Managing Director of the Land Bank, which includes the above allegations, in terms of the Public Protector Act, 1994 (Act No. 23 of 1994). At the time of compiling this report no further feedback had been given.

4. APPRECIATION

The assistance rendered by the Bank during the audit is sincerely appreciated.

A.N. DZUGUDA,
for *Auditor-General.*

PRETORIA
18/10/1999

Director's Report

1998 was a successful year for the Land Bank, marked by significant progress in transforming the Bank. The main highlights were:

- the launch of a new corporate identity and product range and
- the restructuring of Head Office and redesign of the branches

The Bank also enjoyed a successful year financially, with appreciable increases in volumes, income and operating efficiencies over the previous year.

The Land Bank is now recognised as the principal government agency responsible for transforming the rural financial sector to facilitate rural development and alleviate poverty. To fulfil its new mandate, the Minister of Agriculture, representing government, the main shareholder, indicated that the Bank must ensure that it:

- Delivers new and appropriately designed products for previously disadvantaged clients
- Increases its support for commercial farming enterprises and agri-business
- Operates efficiently and provides competitive services and
- Fulfils its development mandate.

In the twenty months since the appointment of the new Managing Director and Board, the Bank has worked hard to meet these objectives. Some of its achievements are set out below.

Transformation began in 1997 with the aim of enabling the Bank to address the changed role set out in the new government mandate. The launch of the new corporate identity marked a significant change in the Bank's approach to its business. In the past, it maintained a low profile, depending on subsidised interest rates to attract clients. The broader role set out in the mandate and government's decision that the bank must operate according to commercial sector benchmarks without subsidies meant that this had to change. The launch of the new corporate identity was a major step in a campaign to increase awareness of the Bank's role and raise its profile amongst target markets in the agricultural sector. Backing this up is the new product range, designed to meet the needs of emerging farmers as well as commercial farmers.

The Development Finance Fund

To fulfill its new mandate to facilitate lending to medium and high risk clients, the Bank has established a Development Fund. The fund was established in May 1998 with a R100 million transfer from the reserve fund. It will be topped up annually with internal transfers in the form of an imputed tax (the Bank is statutorily exempt from paying tax) calculated at 30% of net revenue (R29 million for 1997 and R111 million for 1998). If required the Bank will also transfer an imputed notional dividend to the fund.

This internal transfer has the advantage of creating a firewall between the higher risk portfolio and the mainstream lending portfolio of the commercial farming client. Credit rating agencies have the assurance that the mainstream portfolio is intact, and the Bank should maintain the good AA rating that allows it to raise funds in the money market at favourable rates.

New products for clients

The development mandate requires the Land Bank to service a wide range of previously disadvantaged clients. They include emerging black commercial farmers, both large and small scale, and rural people, particularly women, engaged in small-scale agricultural production and marketing activities at survival level. To meet their needs the Bank has launched a series of new products designed for specific segments of the agricultural market. It has placed particular emphasis on meeting the needs of people who lack a financial track record or have insufficient collateral to meet normal banking requirements. Here are some details of the new products.

Silver and Bronze product ranges

In addition to revising its existing range of products for the Land Bank's traditional low risk commercial farming clients (now called the Gold category), the Land Bank has added product ranges for medium and high risk, Silver and Bronze category clients. New criteria have reduced the collateral needed by people in these risk categories. Depending on the loan size, the net asset value required ranges from half to one-and-a half times the loan amount as opposed to double the loan amount required from low risk clients. By taking account of farming ability and access to resources, including land and equipment, the criteria recognise the limitations of saleable assets as a measure of potential in a development context. A Risk Fund, loan ceilings and a firewall between low risk and medium and high risk category clients limit the Bank's exposure to bad debts.

These measures give medium and high risk clients access to the same range of medium and short term loans as low risk clients. All clients have access to the Land Bank's long term loans for land purchase as long as they meet repayment criteria. In this case, the land being purchased provides collateral. In addition, historically disadvantaged people have access to the Land Bank's Special Mortgage Bond discussed below.

By giving medium to high risk clients access to a complete package of financial services, the Land Bank both promotes agricultural development and expands the market for banking services.

Step Up micro loans

The Step Up micro loan, launched in April 1998, is intended for people who want some credit to improve production of vegetables, poultry, pigs or other agricultural production activities.

The entry level is a R250 loan. Once this is paid back the client can 'step up' to a loan of R500 and thereafter continue up nine steps to a maximum loan of R5 000. The initial pilot group of 2 000 clients achieved a repayment rate of 92%. By the end of 1998 there were over 14 000 Step Up clients with a total of R7 million loaned out during the year. The balance at year end was R4,1m. This product is proving that 'high-risk' clients have the ability and willingness to repay loans while providing an important channel for people at the bottom end of the market to build a financial track record and progress towards more formal loan products. The 2% per month interest rate paid by Step Up clients is well below rates prevailing in the micro finance sector.

Bonus discount for on time payment

The interest rates paid by medium and high risk are contractually higher than those offered to low risk clients -fairly reflecting the higher expectation of default. However, although the medium and high risk product ranges carry higher interest charges, Silver and Bronze category clients get a bonus for on time repayment. Therefore, if they meet their repayment schedule they only pay slightly more interest than low risk clients do.

Special Mortgage Bond

The present high price of farmland in South Africa makes it impossible to finance land purchases solely from returns on farming activities. This is a major barrier to entry into farming for historically disadvantaged people. To assist in redistributing land through the market, the Land Bank introduced a Special Mortgage Bond for historically disadvantaged clients. The bond has a 12% interest rate fixed for the first 18 months. Thereafter the Bank will review it with the intention of keeping it as low as possible. The bond has a ceiling of R250 000, people who want larger loans must pay the normal Land Bank bond rate on the additional amount. In the first three months of its operation, the Bank has given out five loans with a total value of R1million.

Bought-in properties

The agreement between the Land Bank and the Department of Land Affairs (DLA) to deal with repossessed or bought-in land will also fast track the provision of farm land for land reform beneficiaries and new entrants.

In terms of this agreement, the DLA will have first option on repossessed land to use for the redistribution programme. If the DLA does not want a property, it is offered exclusively, for a period of 30 days, to 'bankable' historically disadvantaged people such as black entrepreneurs or black farming associations.

The programme came on stream in 1999. In the first five months of the year 11 loans, with a total value of R2.8 million, were granted to six individuals and five communities comprising approximately 140 members. In addition, two joint ventures in the Free State, have received loans amounting to R555 000.

Black Economic Empowerment

- Many of the elements discussed above form part of the Land Bank's broader Black Economic Empowerment Initiative. A number of other black empowerment initiatives are being planned. The Land Bank is investigating
- Sub-division of large farms to make land more accessible
- Social-dividend rebates for employers with programmes to train workers or improve their social conditions
- Equity investments to support worthwhile projects that cannot afford the cost of loan repayments
- Graded entry and grace periods to reduce the burden of loan repayments in the first years of establishing or consolidating a business
- Agents and intermediaries to extend the Land Bank's outreach to rural areas and create new job opportunities
- Capacity building to improve the administrative and financial skills of agents and intermediaries
- An endowment policy to provide income to farm workers on retirement. This would be undertaken in a joint venture with employers and has considerable potential for improving social conditions and owner-worker relationships on farms.
- Bridging finance for intermediaries buying land for agri-village initiatives.

Diversification and growth

The 1998 Land Bank Amendment Act has made it possible for the Bank to extend loans to agribusiness and to make equity investments. The amendment opens up major opportunities for the Bank to diversify and grow its portfolio, which was just over R12,5 billion in 1998. This is important for long term sustainability. Because their portfolios are limited to a particular area of operations, specialist Banks like the Land Bank are exposed to greater risk. Diversifying the portfolio is an important part of risk management.

Agribusiness

Agribusiness, defined as up and downstream activities, comprises input manufacturing and supply and output processing activities. The bank is in the process of establishing an agribusiness unit with the appropriate corporate banking skills to service this sector. The unit will be established alongside the existing Corporate Finance Unit.

Equity investments

Many projects don't get off the ground because they cannot afford loan repayments in the early years. Equity investments that take a share of profits but do not charge interest are one way of overcoming this. The Development Finance Fund will provide the funds to undertake equity investments and the Research and Development unit is establishing monitoring mechanisms and principles and criteria for project selection. International investors such as the International Fund For Agricultural Development have shown some interest in equity investments linked to agri-business and job creation.

Products for commercial farmers

The Bank continues to provide a full range of financial services for established commercial farmers incorporating long, medium and short term loans. These clients will gain many benefits from the transformation of the Land Bank discussed below. These benefits include reduced turnaround times on loan approvals, better communication, greater flexibility on interest rates and rapid development of new products to meet expressed needs. Proof of this is the Bank's decision to change its accounting system in response to client requests. The new system is in line with practice in commercial banks, giving clients the advantage of reduced interest and tax benefits.

Improved service
To provide its clients with cost effective services the Land Bank has undertaken a thorough transformation, restructuring its Head Office and Branches, streamlining work processes and introducing new computerised systems. The redesign focussed on turning the Branches into business units with the Head Office providing essential support services. A new IT system, a research and development department to initiate new activities and greatly improved stakeholder and internal communications were central features of the transformation. Regular stakeholder forums have become a part of normal operations, providing invaluable feedback.

Clients will also benefit over time from reduced transaction costs as more streamlined systems are introduced to deal effectively with the larger volume of transactions implicit in the development mandate.

Transformation

The Land Bank initiated a transformation process in July 1997 to enable it to operate as a financially sustainable business and to deliver on its mandate. Before transformation the organisation operated on bureaucratic lines. An executive board granted all loans while the 25 branches and head office staff processed applications and administered loans and recoveries manually. The system resulted in slow turnaround on loan approvals and costs well above financial sector norms. On this basis the bank could not achieve financial sustainability or cope with the increased loan volumes required to meet its mandate. The Bank also lacked important capacities required for a modern banking operation, most notably Information Technology know-how, a research and development unit and marketing and communications capacity.

The new design was conceptualised during 1997 through a nation-wide consultative process involving staff and stakeholders. It focuses on decentralised decision-making, with marketing, granting and administering of loans done by teams at branch level. With the move away from centralised decision making, Head Office is repositioned to provide support functions and develop policies, strategies and guidelines to ensure uniformity and financial control.

Branch redesign
The redesign of the branches began in 1998 and was completed at all 25 branches at the end of the first quarter of 1998. All branch staff were placed in self managing teams dealing with agricultural economics, loan processing, accounts and maintenance. Work focussed on developing the team structures, introducing new products and processes, motivating and developing staff. Vigorous marketing of new and established products has resulted in a general increase in business, while productivity has increased in some branches and costs have been reduced. Monitoring and evaluation teams drawn from Head Office and the Branches replaced the old inspectorate and were able to identify a number of problems so that remedial actions could be taken. One problem was that the focus on marketing led to a decline in recoveries. This was corrected and performance criteria introduced that included recoveries as well as sales. Team members are engaged in a number of internal and external training initiatives to develop their skills and capacity.

The role of Branch Directors has changed from an essentially supervisory one to one of business leadership. They have set up provincial strategic teams responsible for the provincial business plan and budget. The provincial strategic team provides a forum for ongoing exchange and performance monitoring. At national level the Branch Director's take part in the Extended Management Meetings which include the business and budget planning processes. A number of BDs are taking management training courses.

Head Office restructuring
Head Office Restructuring began with information gathering by a Head Office Task Team tasked with the 'Modernisation of Support Systems'. Its analysis did not provide a strong enough basis to proceed with restructuring and the Board agreed to bring in outside expertise. The PriceWaterhouse - Ebony partnership won the tender and was asked to develop a proposal for rationalising and restructuring Head Office. Throughout the restructuring process the Bank followed the National Framework Agreement on the restructuring of parastatals, sharing information with the Trade Unions represented at the Bank.

The restructuring objective was to define the Head Office role in terms of the new strategic intent and an institutional culture characterised by:

- Decentralisation
- Continuous Learning
- Delegation of responsibility
- Outsourcing of non-core activities
- Performance based remuneration strategy

Within this framework, the project set out to redesign business processes and structures to achieve:

- capability to deliver on the Land Bank's mandate
- a flatter organisational structure
- the elimination of duplication
- the elimination of unnecessary supervisory / checking activities
- the reduction of fixed, input and variable costs
- sustainable benefits within the Land Bank
- increased profitability for the Land Bank
- a focus on core business
- the alignment of organisational structures with the introduction of the 'PeopleSoft' enterprise wide system.

To achieve this the project specifically addressed:

- Business processes with a priority focus on the core business
- The allocation of processes (and hence work), between Head Office and the branches
- The alignment of structures with the re-designed business processes
- Opportunities for outsourcing
- An assessment of the Bank's premises.

The project clarified the distinction between the roles of Head Office and the branches, identified the need to develop an effective management information system as part of the IT package, to outsource non core acitivities and to cut costs by streamlining and automating work processes.

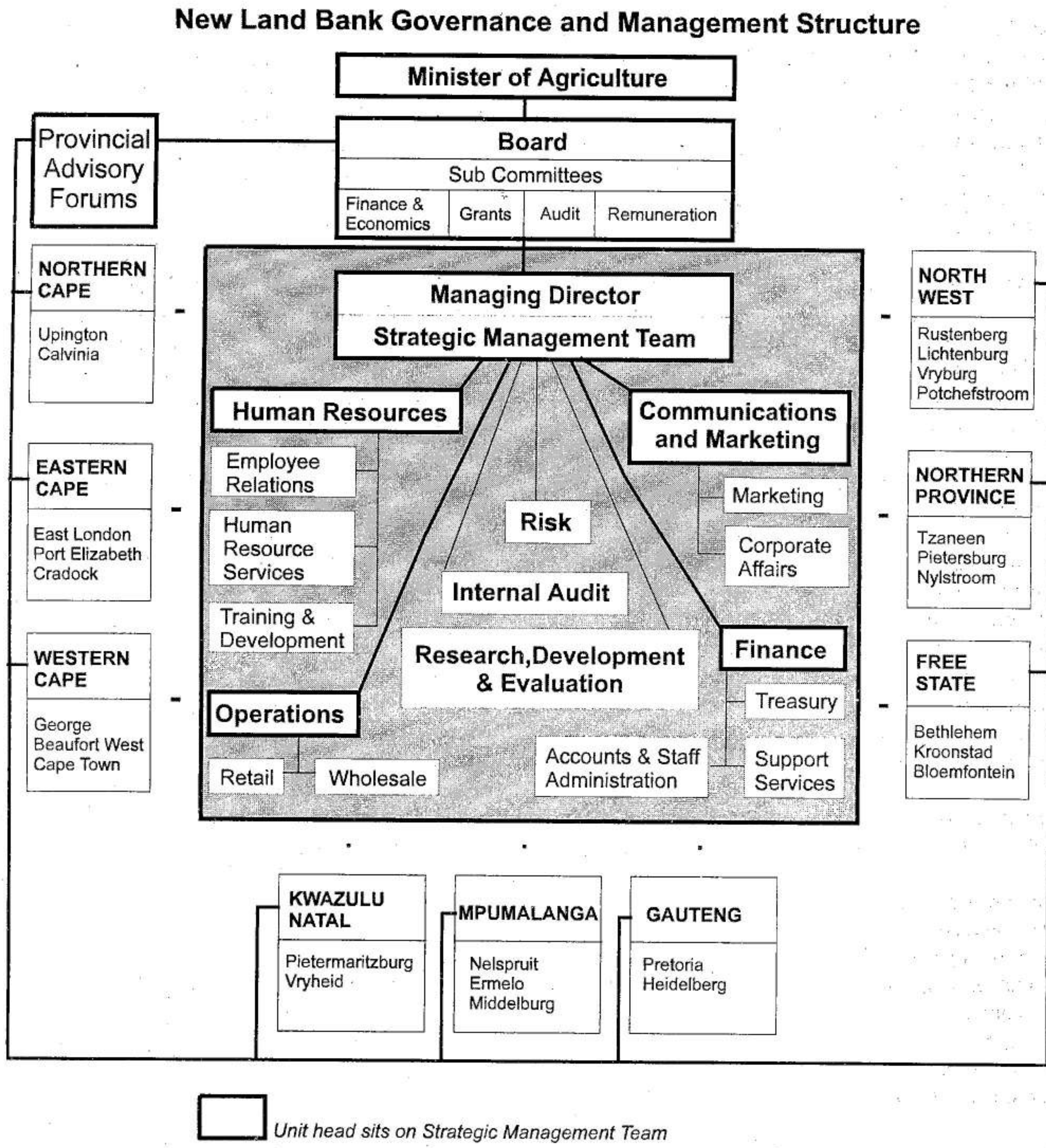
At a strategic planning meeting in April, management had identified the need to reduce Head Office costs to an acceptable level by 2001 in response to government's call to benchmark costs against finance industry norms. The restructuring proposal, presented in July recommended three main ways of achieving the necessary cost savings

- Rationalising, streamlining and automating work processes
- Outsourcing non-core activities
- Reducing staffing and overhead costs (premises etc)

Progress on restructuring

Successes included the analysis of core and non-core activities, an efficiency review and identification of outsourcing opportunities. By December 1998 the target set for the year of redesigning the Head Office organogram was complete. Restructuring will continue during 1999.

The new structure is shown in the diagram below.



After initial rejection of the proposed retrenchment package and limited industrial action, an acceptable retrenchment package was negotiated with the unions. This has resulted in improved relations with the union based on a better understanding of the situation facing the Bank. By the end of the year the process had reached the point where new organisational structures and job descriptions could be developed. Retrenchments will commence in 1999 with the aim of achieving an optimal IT enabled Head Office staffing level, reducing personnel from just under 300 people to around 130 people. Until the IT system becomes fully operational during the year 2000, the Bank will employ additional staff on contract.

Training

The participatory process used to restructure the Bank has been a major learning experience, involving all staff members in leadership alignment workshops and bringing them together with stakeholders in Provincial and National Future Search workshops. This has done a lot to introduce the new culture of the bank to staff and clients and win staff acceptance of the need to take responsibility for their work. Already there are benefits in reduced costs and increasing productivity. During 1999 the Bank will follow up these initial training initiatives with technical and business skills training to develop the capacity needed to derive optimal results from the new structure and streamlined work processes.

The new business orientation, the decentralisation of decision making, team based and IT enabled work processes all require the development of new skills and capacities by the Bank staff. Prior to 1998 Branch Director's did not receive any business training. During 1998, 36 Branch Directors and succession staff enrolled in UNISA's 'Capable Manager' course. They will graduate in the course of 1999. At the same time work began on planning a comprehensive training strategy, using internal and external training providers to meet both technical and business skill requirements. This programme will get under way in 1999.

Information Technology roll out

The PeopleSoft enterprise wide system was selected because of the best practice business systems and processes that it incorporates. These processes will reduce the time spent on loan processing and improve customer service. The capabilities of the system are integral to the Head Office redesign. Given the low volume of transactions, the existing management information system (MIS) met the administrative and transaction needs of centralised decision making by the full time executive Board. However, the largely manual system delivered information slowly with much duplication of effort. It gathered a limited range of data and was unable to extract the kinds of information needed by management in the present context. Product costing was inaccurate and much of the performance information needed to make business decisions was not available. In addition, it cannot cope with the large increase in the volume of transactions resulting from the growth in product range and market sectors served by the Bank.

The new software incorporates a sophisticated MIS, providing relevant information for decision makers at all levels in the organisation. The new system will become fully operational during 2000.

Outsourcing

Based on a cost benefit analysis the redesign project recommended outsourcing non core activities based on the following principles

- Outsourcing routine maintenance aspects, not the evolving elements that must change as the organisation changes
- Engaging in joint ventures with employees impacted by outsourcing or investing venture capital in their enterprises ('business angel' approach).

Head Office cleaning is currently contracted out on this basis.

Head Office restructuring complements the new team based work processes at branch level introduced in '98 to increase efficiency and improve customer service. It puts the seal on the transformation process begun in 1997.

Business planning

The Land Bank introduced business planning for the first time in its history in February 1998 adopting a zero based activity-driven model. In 1998 the Board approved a national business plan incorporating plans and budgets for the nine provinces and all the Head Office units. Based on a SWOT analysis the plans identified key performance areas and detailed goals, actions, indicators, accountability and time schedules. Analysis of the planning process identified the need for improved market intelligence based on market segmentation and competitor analysis and improved action planning, costing and scheduling. To address these issues the Bank will contract a major market planning and strategy exercise in 1999 and will improve detailed activity planning by applying the Logical Framework Approach (LFA). This will provide the basis for business planning in each Branch and HO Unit.

New units

The new organisation structure includes a Corporate Affairs and Marketing Unit and a Research and Development Unit. Both are essential to the business orientation of the Bank.

Corporate Affairs and Marketing
Corporate Affairs and Marketing focuses on developing the Banks image and on communication with the wide range of external stakeholders, including government, investors and clients. The Bank has established stakeholder forums in each of the provinces to liaise with agricultural unions, agriculture departments and clients from all sectors of agriculture and agri-business. They meet three times a year with branch managers in the province. A Board member is assigned to each forum to keep the Board in touch with stakeholders.

The unit is building relations with key people in the agricultural and business media. It produces the Bank's publications including annual reports and product brochures, handles exhibition and gives each branch a budget for promotions and sponsorships.

The unit is playing an essential role in assisting the Bank to increase its penetration of established and developing markets in agriculture and agribusiness.

Research and Development
Research and Development is a key function for any effective business. The research role is essentially to provide intelligence that will ensure that the Bank is doing the right thing. The development function initiates activities and then adjusts them to improve their design through, implementation, monitoring and refinement stages.

The decision to set up the R&D unit is a new policy initiative aimed at applying specialist knowledge to address the Bank's strategic objectives. In its first year of working with other business units, R&D has successfully developed policy proposals on loan guidelines and several of the new products in development.

Corporate Governance

The Nature of the Bank's business
The Land Bank provides retail and wholesale banking services and financial products to the agricultural sector in South Africa. This is done in terms of a mandate from government, the Bank's sole shareholder. Details of government's mandate to the Bank are set out at the beginning of this report.

The Land Bank is a statutory body governed by the Land Bank Act No. 13 of 1944 as amended. In the past the Bank had a permanent executive board. In 1997 the Minister of Agriculture appointed a non-executive Transformation Board for a two year period to oversee the transformation process at the Bank. Out of keeping with the Code of Corporate Practices and Conduct (as set out in the King Report), only the bank's Managing Director serves on the Board as an Executive Director. The Board is chaired by a Non-executive Director (see Appendix One for the names of Board Members and Senior Management). The cabinet appoints the directors, and the Minister of Agriculture, to whom the board members report, determines the remuneration of board members

The Board
The Board's function is 'to ensure that appropriate, policies, strategies and mechanisms are in place to meet the needs of clients in a way that will satisfy the government mandate whilst enhancing investor confidence.' In addition, as a Transformation Board, it has a particular responsibility to oversee the transformation process at the Bank and to ensure continuity with the new board to be appointed in 1999. It reports annually to government.

During 1998 the Board met regularly on a monthly basis. Board members also attended two planning workshops and a Bosberaad during the year to work with senior management on policy and strategy development Each Board member was assigned to a Province to attend Provincial Forums and liase with Land Bank branches and stakeholders on policy issues.

The Board has four sub committees, namely:

- Finance and Economics
- Section 47
- Audit
- Remuneration.

Finance and Economics sub-committee

The Finance and Economics (F&E) committee is responsible for ensuring that the Board has an in-depth understanding of the Bank's financial position. It reports to the Board on the Bank's compliance with legal requirements including the ratification of interest rates on deposits and credit balances, its exercise of fiduciary responsibility and its evaluation of risk exposure. The committee was chaired by a non-executive Director with strong financial and technical skills and was made up of members with economic, accounting, financing and risk specialisations. The committee met before each Board meeting to consider the financial performance and position of the Bank. Meetings were attended by the Managing Director, the General Manager: Finance, the General Manager: Operations, the Economic Adviser to the Land Bank, The Chief Accountant, the Treasury Manager, the Assistant Treasury Manager and the Risk Manager.

Section 47 sub-committee

Section 47 of the Land Bank Act entitles the Bank to make grants out of its profits to representative agricultural organisations. These grants are made to support education and training, capacity building and development projects in the agricultural sector. A non-executive board member chaired the sub committee. Three non-executive Board Members, the General Manager: Operations, the Corporate Affairs and Marketing Director, the Research and Development Director and the Chief Accountant attended meetings. The committee has an annual budget of approximately R5 million.

Audit sub-committee

The Audit Sub-Committee assists the Board to fulfil its oversight responsibilities for:

- Financial, management and other reporting practices
- Internal control structure and risk management
- Compliance with laws, regulations and ethics.

Legal, accounting, reporting and internal control requirements are still being met by the use of the old systems. Conversion from the old to the new systems will be done in a prudent way, having due regard to control and audit requirements. In the current system, the information available to management is credible and complete and the audit report shows no significant control weaknesses, but the depth of information available needs to be refocused and timeliness needs to be improved. A Non-executive Board Member chaired the sub committee. Its members included representatives from the Auditor General's Office, the Bank's external auditors, its internal auditors (PriceWaterhouse Coopers), The Managing Director, The General Manager: Finance, the Chief Accountant and the Risk Manager.

Remuneration sub-committee

The Remuneration Committee conducts an annual review of the management and staff of the bank and makes recommendations to the Board on remunerations policy and other related strategic issues. During 1998 it determined the retrenchment policy that the Bank followed as part of the transformation process. A non-executive Board member chairs the sub-committee. Its members include two other non-executive Board members, the Managing Director, the General Manager: Finance and the Human Resources Director.

Head Office

Finance Unit

The accounting department focussed on producing a cut off of financial information for transfer to the new system after auditing and to implement the PeopleSoft system shortly after the year end close-off. The year end financial information was completed with no significant adjustments required as a result of the audit.

The Treasury Department provided adequate funding at a competitive cost to support the business of the Bank. Adequate liquidity was maintained and the strategies used to reduce funding costs by amending the funding mix to suit the market were successful, contributing to the margin.

Support Services kept maintenance expenditure within budget by focussing on essential maintenance items. Although the inertia resulting from the ownership of buildings made immediate downsizing of office resources impossible, charging business units a rental for space used helped to change people's attitudes and created some internal pressure for better use of space.

Risk

Managing risk is critical to achieving the Land Bank's mandate. This includes improving shareholder value, liquidity and access to credit. Risks assumed by the Bank arise from extending loans and issuing a variety of debt instruments in the capital and money markets. Credit risk arises where there is a possibility that loans will not be repaid on time and in full. The risks associated with the Bank's treasury operations include liquidity and interest rate risk.

The credit principles employed in managing credit and market related risk include:

- Loan policy guidelines formulated by loan product and customer segment
- Portfolio management and analysis to limit risk concentrations and build flexibility and liquidity
- Line management accountability at every level of the organisation
- Loan approval rules that establish tiers of loan approval authority and checks and balances
- Independent review by the internal auditors of loan approval performance
- Identification of problem loans for the attention of senior management

All loan applications are evaluated based on:

- Capacity defined as the ability to repay loan obligations when due
- Collateral representing the assets available to service the loan
- Character based on a subjective estimate of the clients likelihood of honouring their obligation
- Conditions based on the evaluation of macro-economic trends and regulations affecting repayment ability
- Capital, essentially the client's liquidity and solvency.

Several measures are used to manage the risk inherent in lending to resource poor farmers. These include

- Character based lending
- Acceptance of collateral substitutes
- A gradual increase in the size of repeat loans based on good loan repayment
- Interest rate rebates for timely payment to reduce the cost of borrowing.

Human Resources

Self directed teams began operating in the Branches in March, marketing the new product ranges with much enthusiasm. The team structure has opened new opportunities for people. In a number of instances individuals who were formerly confined to providing support services like cleaning have become successful loan team members and have contributed to the Bank's ability to reach developing sector clients.

Head Office redesign resulted in the need to retrench a considerable number of staff , while salary packages also came up for review. Unrealistic expectations on salary and retrenchment packages led to limited industrial action. Negotiations clarified the need to bring these into line with norms in the financial sector, leading to a better understanding and improved relations between management and the unions.

In general the move to team based operations has been a success. A few initial problems, like the recoveries issue, (see above) were picked up by the Monitoring and Evaluation teams. A longer term issue is the different skills inventory required for team based operations. This is being addressed through training and recruitment. Training initiatives are described elsewhere in the report. Recruitment policy takes account of the requirements of the Employment Equity Act and the Bank's policy on Affirmative Action.

In mid year the Human Resources Director was dismissed following a disciplinary hearing, one staff member resigned and one was re-assigned. The Board decided not to appoint a new HR Director until negotiations on retrenchments were concluded. The General Manager: Finance dealt with Human Resource issues in the interim. However the shortage of staff meant that a number of human resource policies were still only in draft form at the end of the year. Completion of these policies and the establishment of a comprehensive Human Resource management system will be the task of the new Human Resource Director when he takes office early in 1999. The focus will include

The development of

- An explicit human resources strategy
- Policies on career management, training
- Procedures for recruitment and selection,
- A performance management system
- Market related remuneration packages
- A training strategy
- A computerised HR system

Finalisation of

- Affirmative action policy
- Health and safety policy
- Employee relations policy
- Grievances and disciplinary procedures
- Formal induction procedures and manuals

Operations Unit

The Operations Unit contributes to the Land Bank's mission through the delivery of retail and wholesale financial services. The objective is to deliver service efficiently and cost effectively through competent staff, agents and intermediaries. Good relations with all our stakeholders are critically important.

Retail clients are serviced through a network of 25 branches, while a Corporate Finance Unit based in Pretoria and with an office in Cape Town delivers wholesale products. To increase access to the Bank in line with the new mandate, all branches set up satellite offices during 1998. They are also working with a number of agents and are negotiating with a number of strategically based organisations in rural areas to act as intermediaries for the bank.

The Branches

There was a general improvement in Branch performance. In 1998, 22 of the 25 Branches made significant contributions to profitability, a reversal of the situation in 1997 when only three Branches made a significant contribution. The improvement is due to increased loan volumes, more market-related margins and better expense productivity at the Branches.

An initial focus on marketing the new products led to the neglect of recoveries in the second quarter. This was corrected following the report of the Monitoring and Evaluation Teams.

Excellent result for the year included:

- Overall increase in business with some branches registering improvements of up to 40% over 1997
- More loans processed with higher productivity per staff member
- An improved expense to income ratio of 54:100 (1997, 105:100
- Expanding access to new products through more vigorous marketing, outreach strategies and satellites
- Adapting to computers
- Developing branch and provincial business plans and budgets and taking responsibility for achieving targets
- Staff development – teams learning to be self-managed and taking responsibility for achieving targets
- Becoming more client focussed and effectively adapting to the new mandate, showing the Land Bank can play an important development role

Retail loan book, 1998
(loans granted from 1 January 1998 to 31 December 1998)

	Gold		Silver and Bronze	
Loan Type	**Number**	**Amount**	**Number**	**Amount**
Long term	4163	R1 803,1m	27	R3,6m
Medium term	5049	R 717,7m	3040	R102,4m
Short term	2631	R 872,6m	3132	R 23,6m

The Corporate Finance unit
The unit is based in the Pretoria Head Office with an Office in Cape Town. In the past the Land Bank Act limited the Bank's clients to agricultural co-ops, control boards and statutory organisations. Amendments to the Land Bank Act in 1997 enabled the Bank to lend to commercial companies, enabling it to continue its long standing relationship with agricultural co-operatives as many of them changed their status to private companies. The amendments also opened the way for the Bank to support the development of the agricultural economy as a whole. This is in line with our new mandate from government to act as a Development Finance Institution for the whole agricultural sector. The CFU's commercial and emerging client base is currently made up as follows.

- Co-operatives 114
- Companies 26
- Irrigation boards 44

In the past the Bank charged all corporate clients the same interest rate, regardless of their risk profile. In March 1998, the Bank introduced differentiated interest rates for clients with different risk profiles, bringing it in line with normal banking practice

Corporate Finance Unit Loan Book
(loans granted from 1 January 1998 to 31 December 1998)

	Number	Amount
Short term loans	79	4 091,2m
Long term loans	32	83,2m

Financial Report

Quantified objectives
Objectives set in the annual budget and the actual results achieved included the following:

Item	Objective	Actual
Growth in the Loan Book	15%	13%
Net Surplus	R211m	R371m
Expense : income	60%	55%
Capital adequacy	16%	16.6%

High trading margins, combined with contained expenses resulted in a positive trading income of R165 million compared with losses for both Budget and 1997. Income from reserves, at R273 million was higher than both budget and actual due to the increase in reserves resulting from the higher trading income and the higher interest rates prevailing in the market. The net income of R371 million is the highest ever earned by the Bank.

On the balance sheet side the total loan book increased during the year from R10,9 billion at the end of 1997 to R12,5 billion at the end of 1998, an increase of 13,3%. The balance sheet remains solid and the Bank exceeded its target of keeping the Capital Adequacy or Cooke Ratio above 16%. This ratio increased from 17,9% at the end of 1997 to 18,8% at the end of 1998. This is due to strong profits increasing reserves at a higher rate than the increase in the loan book. The funding mix at the end of 1998 was more biased to short term funding than at the end of 1997, reflecting the strategy to fund short term during the cyclical decrease in interest rates. Given the high Cooke ratio and sound profitability, funding capacity for prudent growth of the loan book is available and cash reserves are sufficient to meet loan commitments.

Appendix one

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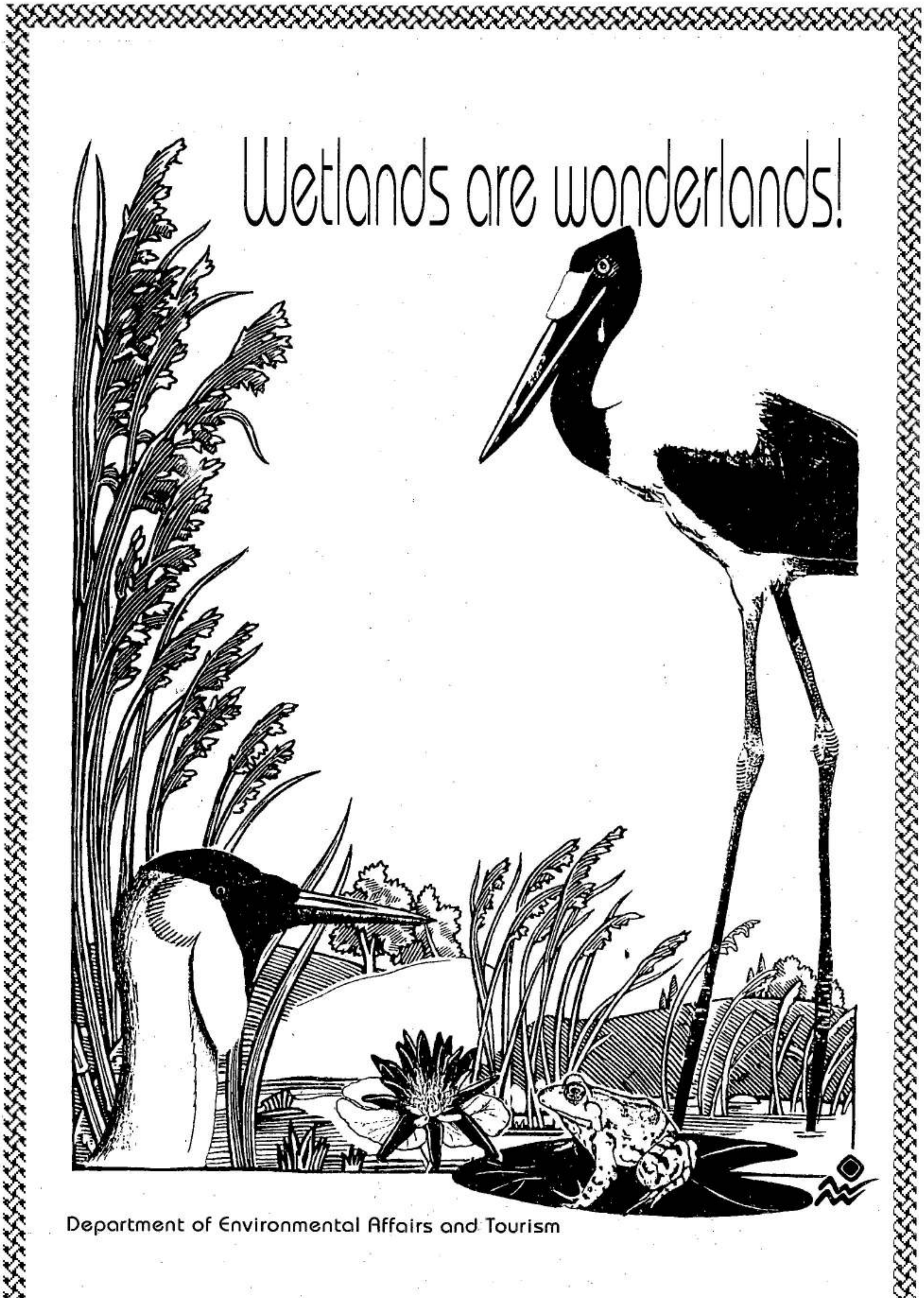
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