

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's affirms Land and Agricultural Development Bank's Baa3 rating; changes outlook to negative from stable**

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28 Feb 2019

Limassol, February 28, 2019 -- Moody's Investors Service ("Moody's") has today affirmed Land and Agricultural Development Bank's (Land Bank) issuer ratings at Baa3/Prime-3 and its national-scale issuer ratings (NSRs) at Aa1.za/P-1.za, and changed the issuer level outlook to negative from stable.

The affirmation of Land Bank's ratings primarily reflects its government ownership and Moody's assumptions of a high probability of government support in case of need. The decision to change the outlook to negative is predominantly driven by pressures on Land Bank's standalone assessment, stemming from (1) declining capital buffers that will challenge its ability to meet some loan covenants while fulfilling its developmental mandate and related loan growth targets; and (2) downside risks regarding the impact of the upcoming Land Reforms.

At the same time, Moody's has also withdrawn the instrument level outlooks for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, [www.moody's.com](http://www.moody's.com).

A full list of affected ratings can be found at the end of this press release.

#### RATINGS RATIONALE

#### RATING AFFIRMATION

According to the rating agency, the decision to affirm Land Bank's ratings is underpinned by Moody's assumptions of a high probability of government support in case of need, owing to its full government ownership, developmental mandate and evidence of past capital and funding support. As a result, Land Bank's long-term Baa3 issuer rating incorporates a three notch uplift from its ba3 standalone assessment. The rating also incorporates Land Bank's capacity to absorb some unexpected losses, given its tangible common equity (TCE)-to tangible managed assets ratio of 13.1% as of March 2018, but also the still challenging macro-economic environment and resultant elevated credit risks, with non-performing loans (NPLs) at 6.7% of gross loans as of March 2018 and an additional 7.6% classified as underperforming.

#### NEGATIVE OUTLOOK

The rating agency noted that the decision to change the outlook to negative from stable reflects Land Bank's gradually declining capital buffers that could pressure both its ability to meet lending covenants and fulfill its targets for strong balance sheet growth. More specifically, some of Land Bank's loan covenants include a minimum capital adequacy requirement (CAR) of 15%, with the reported ratio at 17.3% as of March 2018. However, the CAR ratio includes ZAR1.3 billion (15% of capital) of National Treasury guarantees that will be utilized for raising funding and hence gradually deducted from the CAR ratio. The limited capital cushion, combined with modest earnings generating capacity, also challenges Land Bank's ability to fulfill its development mandate in an environment where the debt and capital markets remain volatile and confidence-sensitive.

The negative outlook also reflects downside risks related to the potentially broad powers granted to authorities under the anticipated Land Reforms and the underlying principle of "expropriation without compensation", which creates uncertainty as to the scope of its implementation and the associated risks of increased credit costs for Land Bank, more challenging access to market funding and loss of business. Moody's highlights that ZAR9 billion of Land Bank's debt securities include a market clause on "expropriation" as an Event of Default.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

A change in outlook back to stable will require Land Bank to build up its capital buffers, as well as greater clarity surrounding the impact of the upcoming Land Reforms. Further positive actions will additionally require a significant improvement in macro-economic conditions, also leading to an improvement in the sovereign

credit profile.

Conversely, Land Bank's ratings could be downgraded if the company fails to strengthen its capital buffers, or if the implementation of Land Reforms materially disrupts Land Bank's business and operations. In addition, any weakening of the South African government's credit profile and/or willingness to support Land Bank, or any significant deterioration in its capacity to extend financial support, would also exert downward ratings pressure.

#### LIST OF AFFECTED RATINGS

Issuer: Land and Agricultural Development Bank

..Affirmations:

...Long-term Issuer Ratings, affirmed Baa3, previously Stable debt level outlook withdrawn

...Short-term Issuer Ratings, affirmed P-3

...NSR Long-term Issuer Rating, affirmed Aa1.za

...NSR Short-term Issuer Rating, affirmed P-1.za

..Outlook Action:

...Outlook changed to Negative from Stable

#### PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Finance Companies published in December 2018, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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