



Land Bank

Select Committee on Finance

06 October 2020

1. Introduction
2. Organisational Overview
3. Issues Arising from FY2018/19 Annual Report
4. Recent Developments / Liquidity Challenges
5. Immediate Corrective Initiatives
6. Strategic Issues Arising from COVID-19 Impact
7. Medium to Long Term Strategy
8. Timelines for finalizing the FY2019/20 Annual Report
9. Conclusions / Recommendations



INTRODUCTION



Land Bank is requested to brief the Select Committee on Finance with an Overview of Recent Issues, including the following:

- Recent 2018/19 Annual Report and Issues Arising therefrom
- Timelines for finalization of 2019/20 Annual Report
- Strategic Issues Arising for the Bank because of COVID-19



ORGANISATIONAL OVERVIEW



Organisational Overview

About Land Bank



About Land Bank

Who we are

We are a wholly government owned DFI promoting inclusive agricultural and rural development for improved food security and economic growth.

Our wholly owned insurance subsidiaries, Land Bank Insurance Company SOC Ltd (LBIC) and Land Bank Life Insurance Company SOC Ltd (LBLIC) complement our other financial services by providing insurance and risk management solutions to the agricultural community.

Our Mission

To collaborate with all stakeholders to build an adaptive and competitive agricultural sector that drives environmental, social and economic development and contributes to food security.



Our Vision

To be a world-class agricultural development bank that stimulates growth, drives solid performance, and spurs innovation.



Our Values

- Meaningful contribution
- Empowerment
- Organisational synergy
- Accountability
- Pro-activity



Development Finance Institution:

- **The Bank of “gap closure”** in Land and Agricultural Finance Services
 - The gap which commercial financial services providers (due to risk appetite and returns choices) and state organs (resource and capability gap) are unable to fill.
- **Catalyst of Sector Development**
 - Focus on rural development – rural economy.
 - Support the sector through counter-cyclical investments.
 - End to end Agricultural Value Chain – inclusive of agro-processing and value adding services.
 - Commercialisation of emerging / development farmers.
 - Definition of Commercial and Development clarified.
- **Advancing Development Impact**
 - Small Holder Farmers / Entrepreneurs – focus on previously disadvantaged persons.
 - Women and Youth.
 - Transforming the Patterns of Ownership.
 - Jobs / Employment.
 - Sustainable Practices (preservation and restoration of natural capital).
 - Enabling Support (i.e. Pre- and Post-Finance Support including Market Linkages), as well as Affordable Access to financing.
- **Support Agriculture in general - Food Security**

State-Owned Entity

- Reason of existence is to meet the defined SOE's particular mandate
- Financially Sustainable – reduce the strain on the fiscus
 - Self-funded Commercial activities.
 - State-funded Development Mandate – to be appropriately costed, and measurable.

The pre-requisite of a financially sustainable entity implies the existence of tension (and trade-offs) between commercially oriented outcomes and development outcomes

- Fit-for-Purpose Funding Model will inform / validate:
 - The proposed Optimum Mix of Development and Commercial portfolio (currently targeted at 60 : 40 by 2025).
- High dependence on State Capability to inject capital:
 - Current liquidity challenges will place heavy burden on the State to just rescue the Bank's **current business continuity risk**.
 - Unlikely support for Development Costs (“Unfunded Mandate”) is a material risk to the realism of the desired 60 : 40 target.
- Commercial objectives remain a significant part of the solution.

Land Bank's Importance: A Strategic Player in the Economy and the Agricultural Sector

Land Bank is a strategically vital SoE in the economy and the agricultural development finance sector, in particular.

- **29% of South Africa's agricultural debt is financed through Land Bank.**
 - The Bank is a significant contributor to food security.
- **In FY20 the Bank disbursed a total of R20.5bn in loans** made of re-advancement / re-financing of loans (R19.6bn), and new facilities (R900m) to support the agricultural sector.
- **Significant risk of inability to support the sector going.**
 - **No new funding** in during the Restructuring phase.
 - Persistent **Non-Performing Loans** – currently at R6.4bn.
 - High borrowing levels, with relatively **large short term maturities.**
 - **Cost of Funding** is going to increase leading to escalation of pricing to clients.
- Land Bank strategic positioning and sustainability will be significantly threatened – clients already seeking alternative financiers.

Land Bank's Importance: A Strategic Player in the Economy and the Agricultural Sector

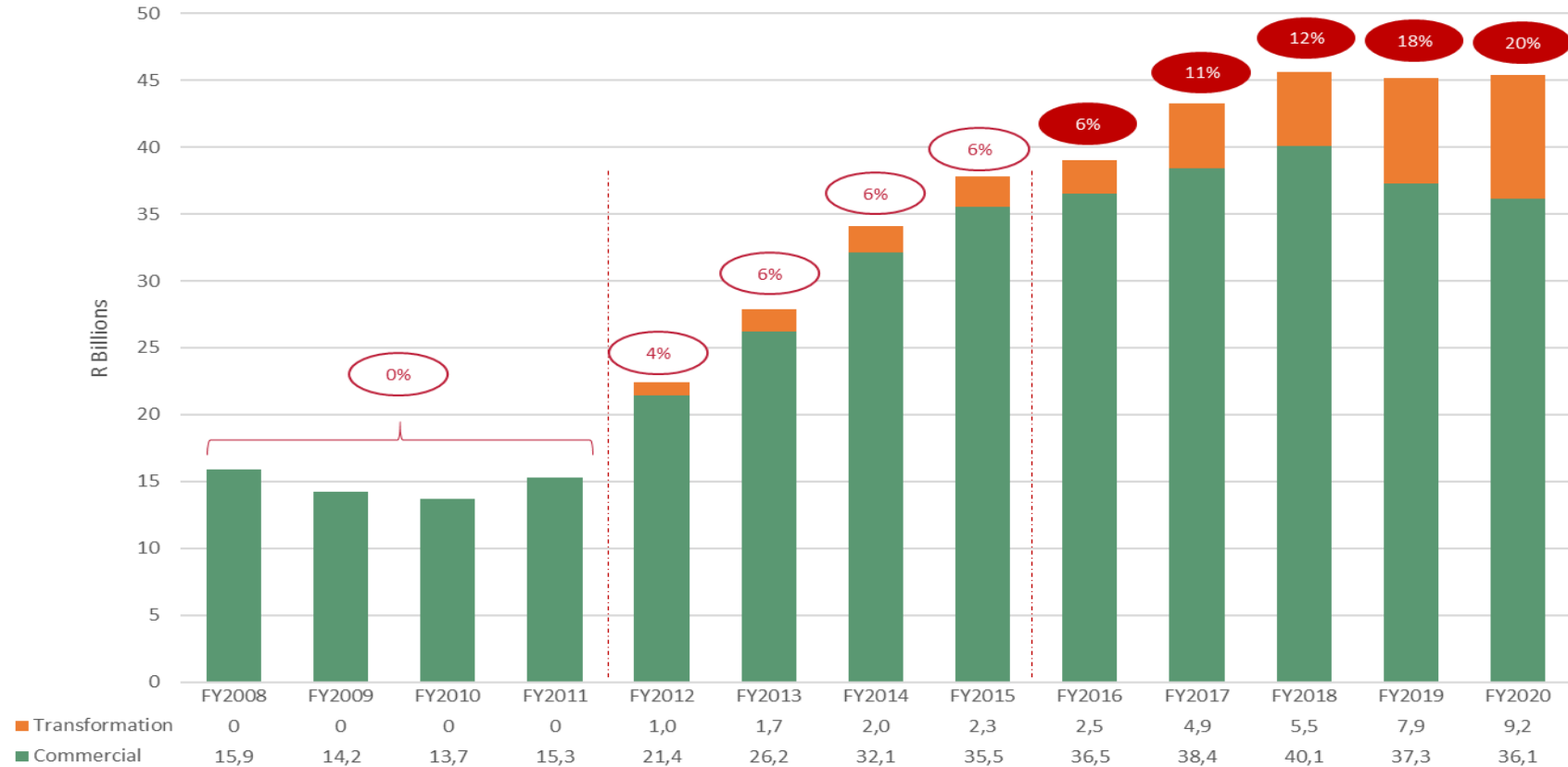
The Role of Land Bank as a Development Finance Institution.

- The Bank's mandate is primarily to **transform ownership patterns in the agricultural sector.**
 - Contribute to **closing of the financial services gap** in the agricultural sector.
 - Facilitate the closing of the pre-financing, financing and post finance support gap where the commercial financial services providers (due to risk appetite and financial returns choices) restrict their financing programmes in the sector, and state organs (due to resources and capability gaps) are unable to fill the void.
- The Bank's **support for the development and transformation segment has increased from a portfolio of R2.5bn in FY16 to R8.4bn in FY20**, increasing the percentage of this portfolio from **6% to 18.6% of the total loan book** for the respective financial years.

Organisational Overview

Increasing Development and Transformation

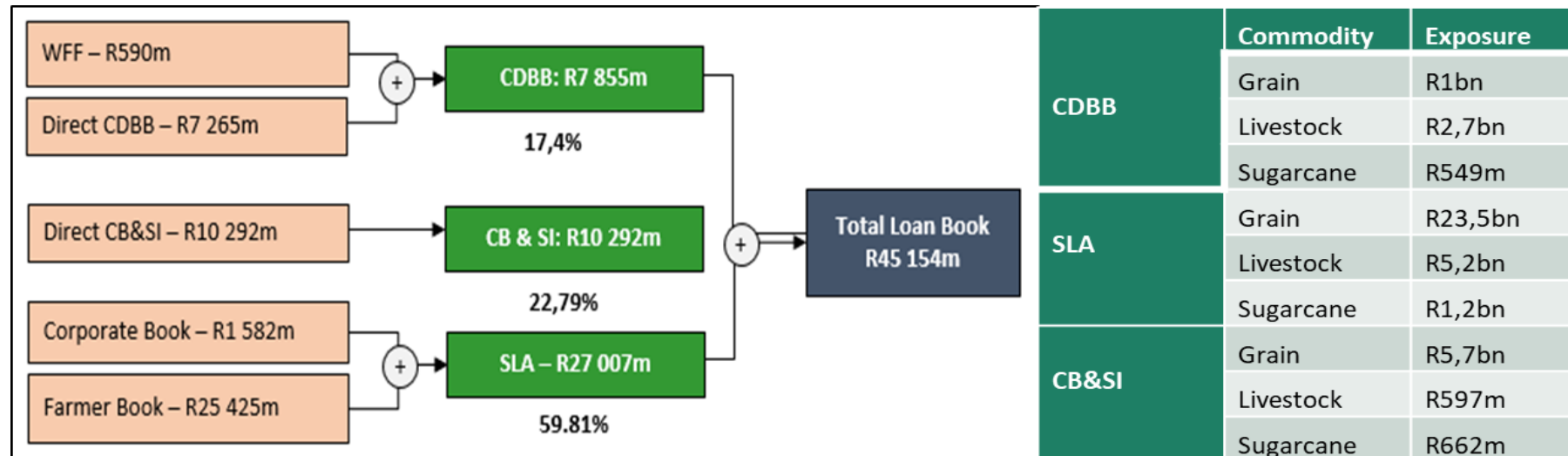
As at the end of March 2020, the value of the Bank's Development and Transformational loans as a percentage of the loan book is approximately 20%.



- In the last five years significant effort has been made to grow the Development and Transformational Loan Book – this book has grown by **R6.7 billion**.
- Supporting **Development and Transformation** has proven to be a challenging task as a result of:
 - The cost of the Bank's funding is based on **commercial interest rates from the capital markets**; and
 - The **strict financial covenants** that the Bank has to adhere to.

Take Note

Loan Book Segmentation:



- The Land Bank loan book is split into 3 segments, namely (i) Commercial Development & Business Banking segment (CDBB), (ii) Corporate Banking & Structured Investments segment (CB&SI), and (iii) Service Level Agreement strategic intermediary partners (SLAs).
- Loan origination is skewed towards SLAs (59%), followed by CB&SI (23%) and CDBB (18%) respectively. All the segments remains a key strategic delivery channel for the Bank to reach out to its intended customers. Because SLAs are mainly co-operatives with large national footprint, they ensure that farmers have easy and reliable access to finance, essential farming inputs and food storage facilities.

Gross Loan Book – Credit Exposure by Tenure / Maturity

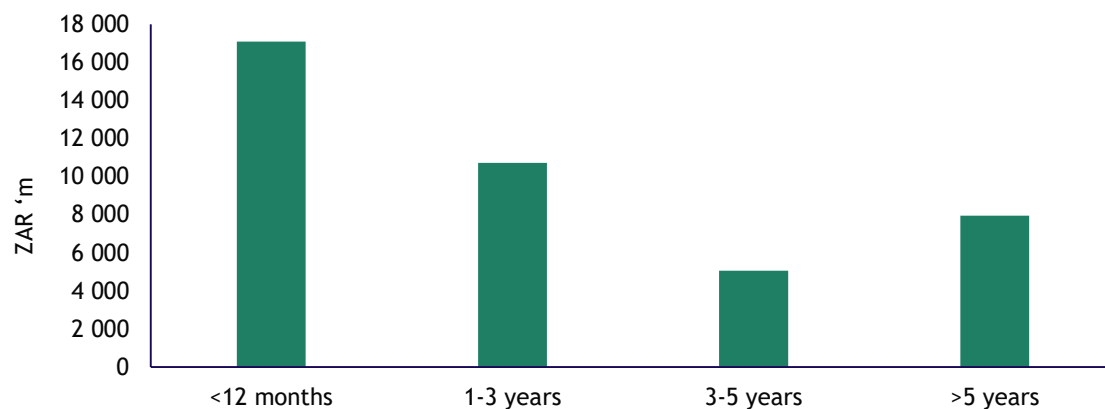
	2020	%	2019	%
Short-term (includes RLF, Production & monthly facilities)	15 057	33%	14 739	33%
Medium-term	5 936	13%	6 761	15%
Long-term	24 371	54%	23 709	52%
	45 364		45 210	

- The short-term loans mainly relate to revolving production loans. These loans are normally settled after harvest (around mid calendar year) and re-drawn for crop preparation / planting (towards the end of the calendar year).

Break down of total funding by source (including capital and accrued interest):

Source	R 'm
South African capital market note issuances	16 248
Step rate notes	1 014
Promissory notes	11 261
Other commercial funding	5 919
Term loans – amortising	3 636
Adjustment	(7)
Term loans – bullet	1 002
Development and multilateral funding	1 925
Drought relief amortising loan	287
	<hr/>
	41 284

Summarised debt maturity profile:



- The Majority of the 12 month maturities consist of:
 - Promissory notes
 - Bills
 - Deposits
 - Bank overdraft facilities

Note: The amortising debt in the profile above is included as a bullet on maturity. This skews the >5 years graph as most of the profile will roll off within the initial 5 year period.



ISSUES ARISING FROM FY2018/19 ANNUAL REPORT



Highlights

Transformation disbursements



FY2018:
R1.55 billion

Irregular expenditure



FY2018:
R2.1 million

First crop insurance assessors programme launched in the country to train 20 Black assessors

LBIC received clean audits (FY2018: Unqualified with findings)

We started a debt redemption plan/sinking fund that currently supports four emerging Black fund managers *

Challenges

Non-performing loan ratio



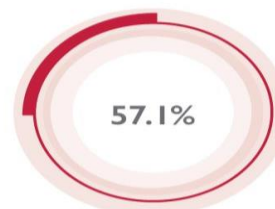
FY2018: 6.7%

Net Interest Margin



FY2018: 3.0%

Cost to Income Ratio



FY2018: 60.5%

Crop insurance claims paid



FY2018: R513.0 million

* Please note that this statement is correct for the FY2018/19 Annual Report. The Sinking Fund has however, since been largely drawn down as part of addressing the current liquidity challenges. Only illiquid Land Bank Bonds remain in the Sinking Fund – and these are managed by two Black Fund Managers.

FY2018/19 Annual Report

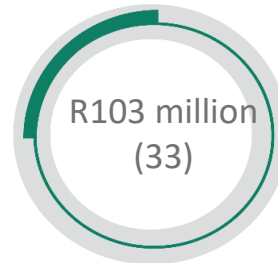
Development and Transformation Highlights



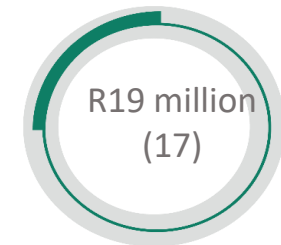
Interest Rate Subsidies



Women owned enterprises supported



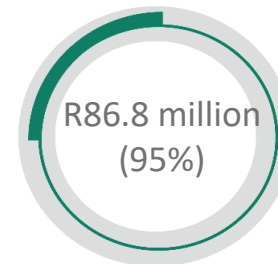
Youth owned enterprises supported



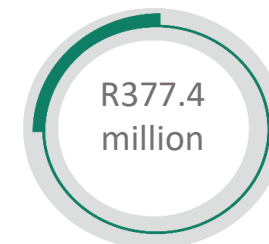
CSI Spent



Procurement spent on suppliers with BBBEE 1 to 4



Drought Relief approved since 2016



Land Bank continues to strengthen their development contribution.

A number of key performance trends emanating from the FY2018/19 Annual Report continue to provide challenges for the Bank in FY2019/20 and going forward:

- Increased **Non-Performing Loans** (Increased from 6.7% in FY2018 to 8.8% in FY2019)
 - Drought conditions, particularly in the North West province, and diseases contributed to the pressure on NPLs.
 - Increased provisions necessary to cover Expected Credit Losses.
- Reduced **Net Interest Margins** (Decreased from 3.0% in FY2018 to 2.7% in FY2019)
 - A squeeze in the margins was experienced on the back of increased Cost of Funding that came with the shifting of the liability profile towards a longer dated facilities, as well as the mismatch in the pricing of the loan book to the liability portfolio.
- **Muted growth in the Loan Book** (only R1.1bn net growth) due to late rains and late planting.
 - The current liquidity challenges faced by the Bank will have an enduring negative effect, and so will the need to resize the Balance Sheet have an impact on the extent of revenues that the Bank is able to generate going forward.

At the end of FY2018/19 the Bank was still in a strong liquidity position (as measured in line with the negotiated covenants with investors, and where specific deviations from Banking Regulations were applied):

- ✓ **Liquidity Coverage Ratio of 549.8%** was achieved against a target of >80%.
- ✓ **Net Stable Funding Ration of 102%** was achieved against a target of >100%.

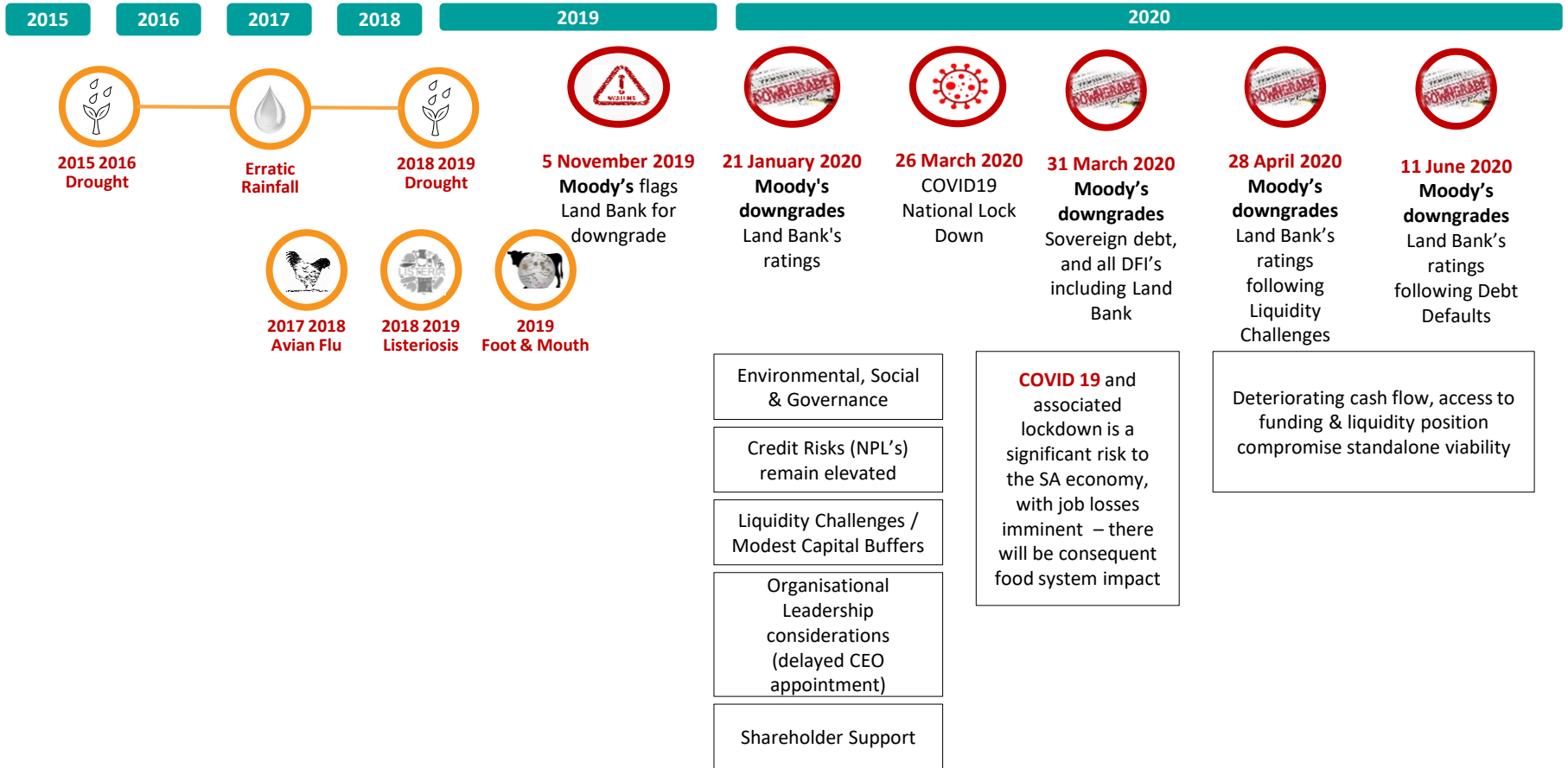


RECENT DEVELOPMENTS AND LIQUIDITY CHALLENGES



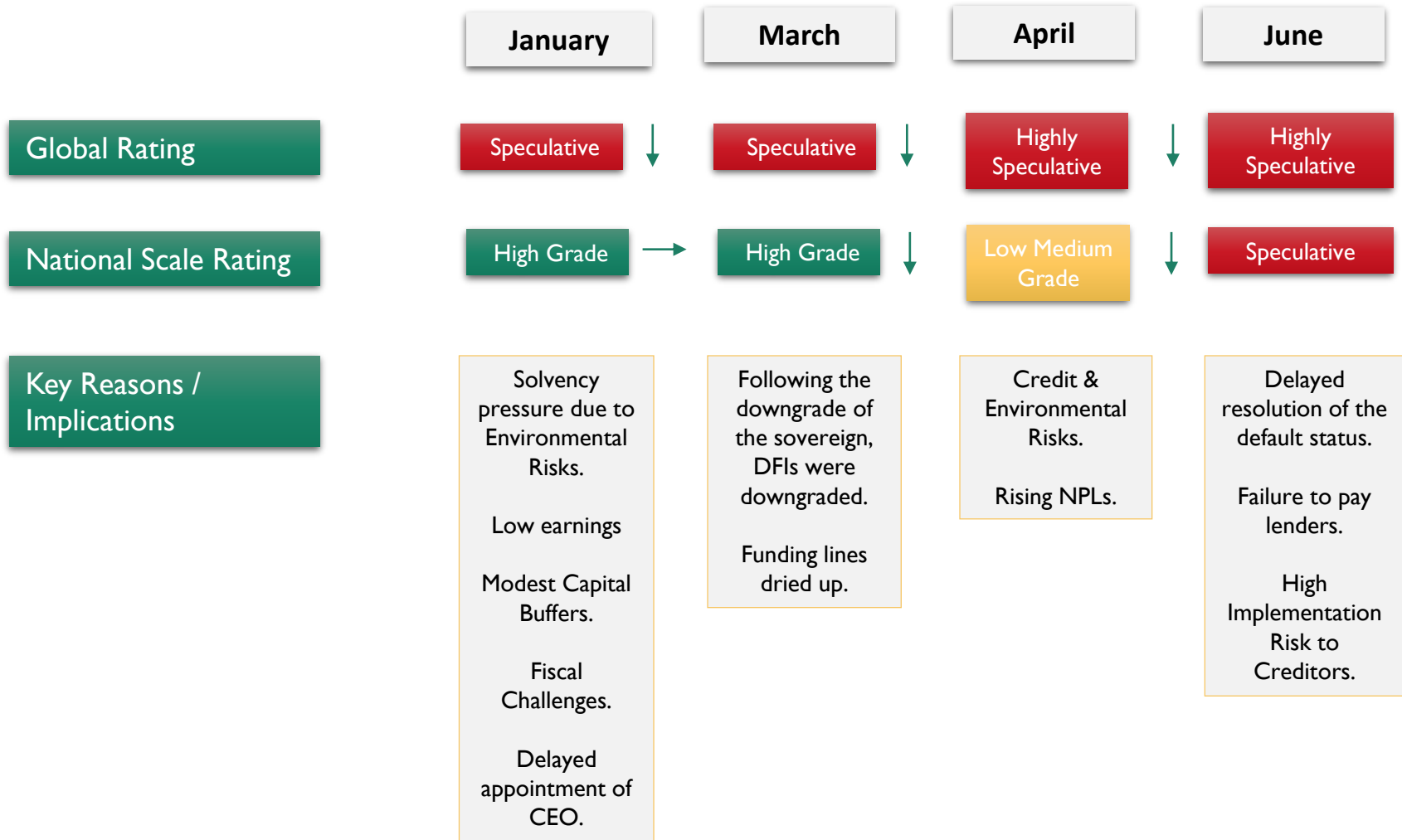
Contextualising the Problem Statement

Leading to the current Liquidity Challenges



Contextualising the Problem Statement

Reasons of Credit Downgrades



The Problem Statement

The Bank is in financial distress:

- The Bank has been in default on its liabilities since April 2020 and cannot service its current debts in their current form and terms.
 - **The going concern status is at risk.**
- A **de facto standstill** is in place whilst the restructuring of the debts is being undertaken.
 - **Funders will only recommit facilities on the back of State Guarantees – otherwise the default status will not be cured.**
- The Bank is expecting to post significant financial losses for FY2019/20 and projects a turnaround in approximately three (3) years.
- **The Bank's credit rating has significantly declined**, with the current global credit rating at B3 (highly speculative grade, substantial risk) and Ba2 (non-investment grade, speculative) level at national scale rating, as at June 2020 credit rating – resulting in the **inability of the Bank to raise funding from the Capital and Debt Markets**. The majority of the short term investors require a minimum credit rating of A on the national scale.

The Bank needs Further Shareholder Support.

- It is **unable to turnaround on its own**, and requires shareholder support.
- Shareholder support is required to **enable financial performance turnaround; funding of cost of development; and to set the platform for long term financial sustainability.**



CORRECTIVE INTERVENTIONS



Immediate Key Interventions undertaken since the start of the liquidity challenges include:

- In **August 2019** the Bank requested a R5.0bn recapitalisation to address capital buffers and advance the development mandate – these funds would be ring-fenced for disbursements to qualifying development projects or small holder farmers.
- Appointments of CEO and CFO in February and March 2020 respectively, to stabilise executive leadership.
- In **February 2020** the Bank receives support from the Shareholder in the form of R5.7bn of guarantees for its fund raising programme.
- In **March 2020**, following the 2nd downgrade and the increased pressure on liquidity, the Bank undertook an assessment of the magnitude of the liquidity challenge and because of the seriousness of the challenge took a decision to establish a Board-led Restructuring Committee to provide closer guidance and support to the executive management's efforts to address the challenge.
- In **April 2020** the Bank engaged the Legal services of ENSafrica.
- In **May 2020** the Bank engaged a Corporate Finance Advisor, RMB.
- The Board has approved a **Financial Stabilisation and Sustainability Plan**.
- The new **Corporate Plan** has been submitted which covers the next 3 financial years.
- Key solutions underway – **Liability Solution, Equity Solution and the Asset Solution**
- **The Ministry of Finance (MoF) and National Treasury (NT) have been an integral part of the process to support Land Bank** in its endeavours to find solutions for the current challenges, and for the future sustainability of the Bank.

The following **Stabilisation Interventions** have been adopted / are being implemented:

Liability Solution.

- **Curing of current default** and **terming out of existing debt maturities** – this requires **credit enhancement** through Shareholder Support in the form of **State Guarantees**.

Equity Solution.

- **Shareholder Capital Injection** to contribute to **sustainability of the Bank** through improved **Gearing; Capital Adequacy**; and **Cost of Funding**. This should also improve the potential uptake of the liability solution by key investors.

Asset Solution.

- **Addressing the lack of access to Capital Markets.**
 - Asset Solution – Reduction of the Loan Portfolio, and Sale of Non-core Equity Assets.
- **Addressing Asset Portfolio Profit Turnaround:**
 - **Repricing** of the loan portfolio for increased margins.
 - **SLA Intermediary Improvement Plan** to renegotiate revision of Commercial Terms.
- **Revised Disbursement Strategy** to prioritise deployment / allocation of funds to clients for the protection of the Bank's lending and investments portfolio.

Business Efficiency Improvement Initiatives.

Financial Stabilisation and Sustainability

Management of Interrelated and Moving Parts

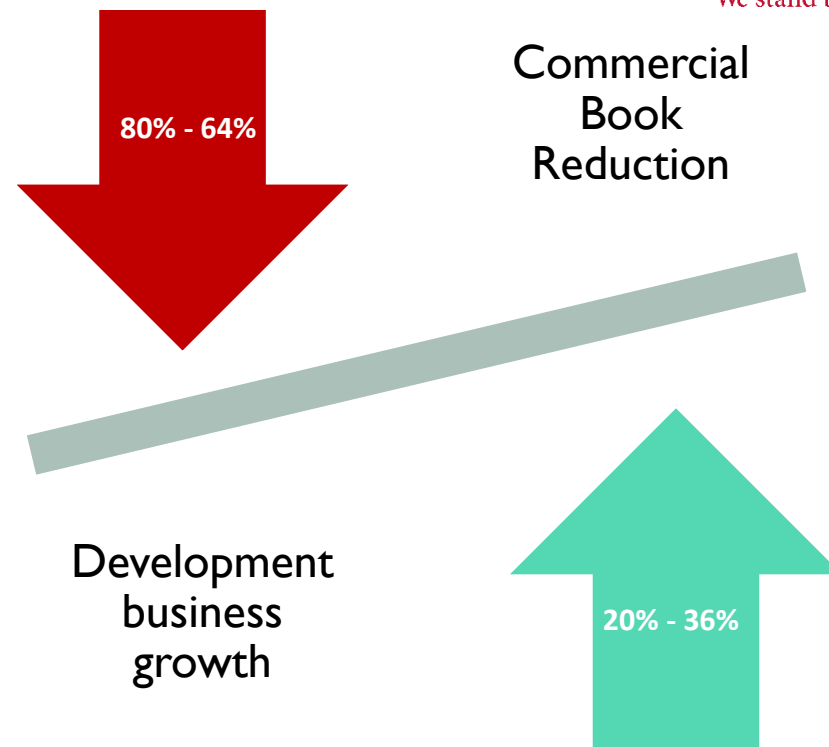
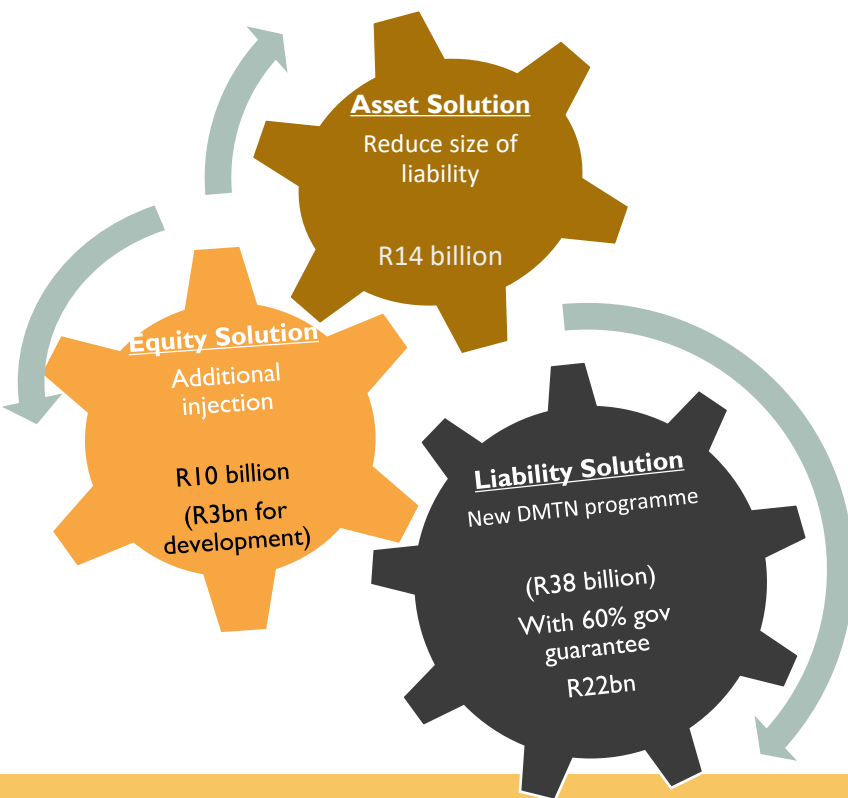
Self-help Asset Reduction Solution:

- R13.5 billion on settlement of SLA assets.
- R3 billion reduction of exposure > R500m.
- R1 billion of non-food exposure.
- R700m of non-core investments

Total Self Help = R18 billion over 5 year period.

Equity Solution:

- R7 billion of Equity Support
- R3 billion of Development Support



- Reduce SLAs to de-gear
- Dispose of non-core assets
- De-risk the state guarantees through step-down redemptions

Implications of the Current Status



- The Bank cannot access new funding from the market until the default status has been cured.
- Land Bank's liquidity constraints do have a relative negative impact on the agricultural sector – with 29% of the sector's debt being supported through the Bank.
- The Bank does not have the liquidity to support the agricultural sector with financing requirements at a time of high finance needs in the planting cycle.
 - The Bank is only able to recycle loan repayments from its clients towards financing requirements of its existing clients – resulting in less than 50% of the existing clients' requirements being met.
 - No new client applications are being considered at this time.
 - Clients are being encouraged to seek financing from other financial institutions and DFIs.
 - Transformation and development in the sector is being compromised.



STRATEGIC ISSUES ARISING FROM COVID-19





Whereas COVID-19 has had negative impacts on the agricultural sector, as it has had across the entire economy, the sector remains one of the most viable in the economy, with positive growth experienced in the last quarter.

- The Bank's liquidity challenge remains a key challenge for the sector given the Bank's constrained financial disbursements to support production.
- The key considerations addressed below will have a relative negative impact on the Non-Performing Loans of the Bank going forward.

Key Considerations from COVID-19 Impacts to the Agricultural Sector:

- While most of agriculture was allowed to continue with production activities, challenges remained for a number of agribusinesses within the value chain.
- The closure of important institutions such as the Deeds Office during the lockdown period resulted in delays to conclude many property related transactions.
- A survey conducted by Land Bank with the top 10 commodity organisations according to the Land Bank's loan book looked at ability to produce and sell as well as on the domestic and export demand.
 - Certain commodity groups, for example timber, wool and mohair as well as the wine industry were negatively impacted having been taken out of the essential services and products group.
- The wine industry with more than 600 wineries of different sizes contributes an estimated R49 billion to the South African economy was at risk.
 - The embargo on wine exports resulted in loss of export revenues and market share for clients. Further domestic alcohol restrictions also exacerbated the situation.
- Clients in the livestock industry were also affected due to the restriction on auctions which might have affected the performance of these businesses.
- A special dispensation for farmers distressed as a result of the negative impacts of Covid-19 was adopted with tailored measures applied in the bank's lending process alongside other government relief measures.



MEDIUM TO LONG TERM STRATEGY



KEY PROBLEM STATEMENT

How will Land Bank remain **financially sustainable** in the future **whilst ensuring a fit for purpose organisation that fulfils its development mandate** in a way that is attractive for funding and supported by National Treasury

KEY PROBLEM AREAS



INADEQUATE
ENABLEMENT OF
DEVELOPMENT



STRUGGLING
AGRICULTURAL
SECTOR



UNSUSTAINABLE
FINANCIALS and
FUNDING MODEL



INADEQUATE VALUE
PROPOSITIONS PER
SEGMENT



UNCLEAR PATHWAY
TO GROWTH AND
SCALE



HIGH COST OF
FUNDING

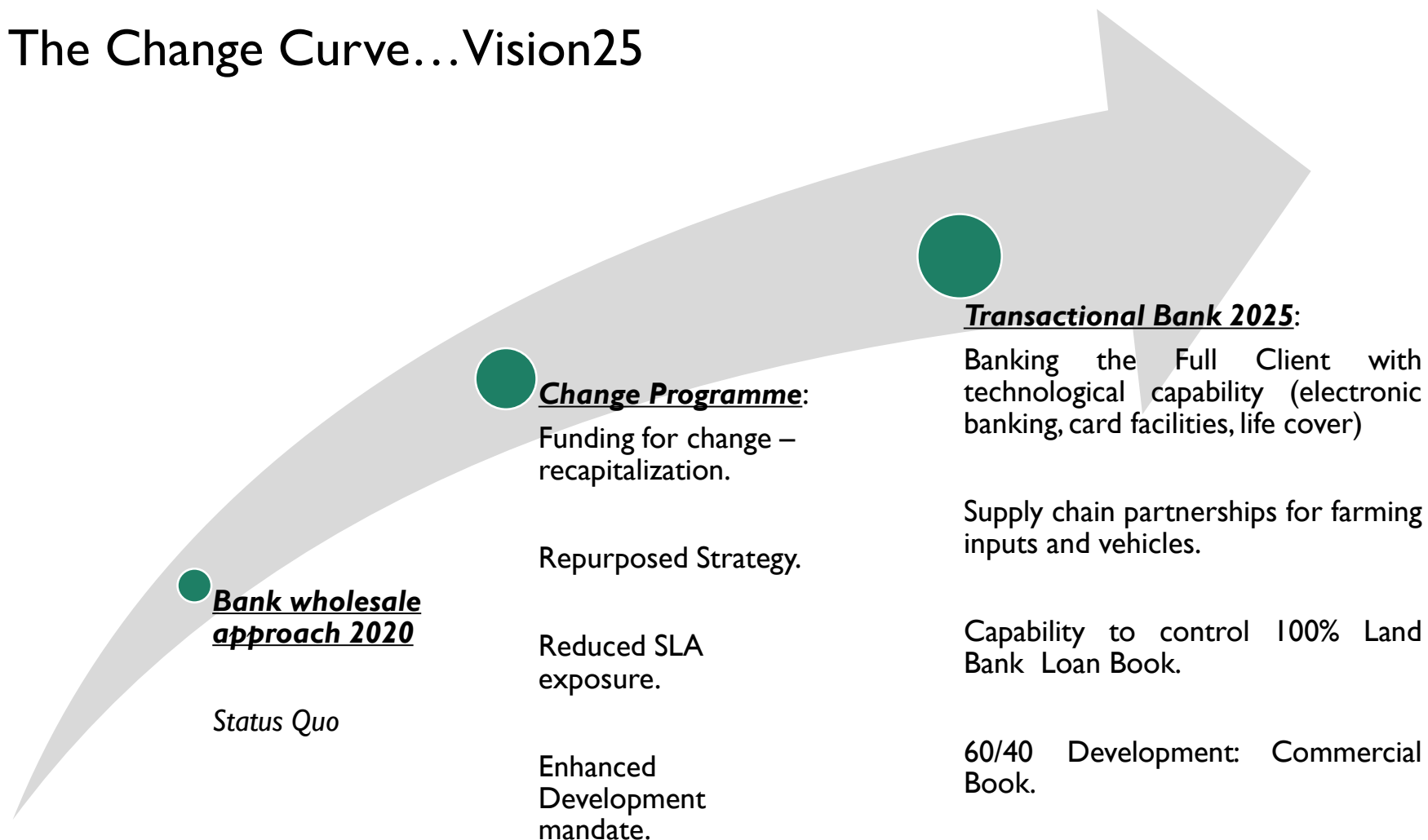


EXPOSURE TO
CLIMATE VOLATILITY



NARROWING
MARGINS

The Change Curve...Vision25



- **Sustainable Land Bank:**
 - Business model aims ultimately to not depend on the state for funding.
 - Use of land/transfer to strengthen the Land Bank balance sheet.
 - R1 billion annual equity funding for development mandate.
 - Lower gearing levels (Less than 400% Net Debt to Equity).
- **Focus on Development:**
 - Integrator Model – integrating a number of small holders into a value chain based business
 - Off-Taker Model – start with the end in mind and then link contracts to black farmers
 - E-commerce platform for subsistence farmers
- **Focus on client service:**
 - Mega – > R50 million – **Platinum** clients ready or are banked by Commercial Banks
 - Small – Medium – R1 - 49 million - **Silver – Gold** – Silver lining & development focus
 - Subsistence Farmers – below R1 million - **Bronze** – Not Commercial. Pipeline & e-commerce clientele
- **Improvement in internal controls:**
 - Digitise the controls in the bank
 - Calibrate credit models and collateral management
 - Close relations with farmers and improved turnaround times through service standards

The New Land Bank

Vision 25 Summary



Improve Customer Experience through online capability.

Internet and Online Banking.

Data analysis and analytics.

Innovations (e.g. GPS and drone technology)

E-commerce for subsistence farmers.

48 hour application approval

Reduce operational costs through SLA insourcing.

Structure that is fit for purpose – reduced asset base.

Empower regions with delegations through online platform to make swifter decisions.

Improve governance and information management (not Excel based).



60 / 40 - Development / Commercial Loan Book split.

Offtake and Integrator approach.

Improved marketing – i.e. visibility at auctions etc.

Transactional banking.

Deposit taking capabilities.

Tailored insurance – including farm workers value propositions.

Fin-partners for mechanisation loans.

Use of land to enhance collateral position.



TIMELINES FOR FINALIZATION OF FY2019/20



Timelines	Deliverables
Mid October 2020	<ul style="list-style-type: none"> ➤ Auditor General (AG) and Land Bank (LB) to resolve “audit findings” by Mid October 2020. ➤ AG and LB to discuss going concern disclosure, forecast and assumptions.
Mid October 2020	<ul style="list-style-type: none"> ➤ AG to receive the “Lender Consent Agreement” for consent to implement the Liability Solution.
End October 2020	<ul style="list-style-type: none"> ➤ “Lender Consent Agreement” signed and Auditor General provides audit opinion and signs off on AFS (exact form of disclaimer/qualification To Be Determined). ➤ Land Bank Board submits AFS to Minister of Finance.
November 2020	<ul style="list-style-type: none"> ➤ Minister of Finance tables AFS to Parliament. ➤ Land Bank releases AFS to JSE and the market.*

* The conclusion of the Liability Solution is dependent on the release of the AFS which is a JSE consideration for approval of the listing of the DMTN Programme.



CONCLUSIONS AND RECOMMENDATIONS



Conclusions and Recommendations

- Implementation of the **Stabilisation and Sustainability Plan**.
- A longer term **Liability Solution** and an **Optimised Balance Sheet** with the appropriate mix of tenures of funding, and loan profile.
- **State Recapitalisation of the Bank** is a consideration in the process to strengthen the Bank's balance sheet.
 - The Bank must demonstrate a **self-sustainable end state** with **significant development impact** to justify significant state capital injection.
- **Repurposing Strategy** for an improved operating model that will deliver a financially sustainable bank, with increased development impact.
- **The Ministry of Finance (MoF) and National Treasury (NT) have been an integral part of the process to support Land Bank** in its endeavours to find solutions for the current challenges, and for the future sustainability of the Bank.
 - ✓ Approval of the utilisation of R5.7bn of State Guarantees for the Bank's fund raising efforts was made in February 2020.
 - ✓ A recent approval of R3bn of Capital Injection as part of the June 2020 Special Appropriations Process has seen R3bn in injection of capital to the Bank in September 2020.
 - ✓ The MoF and NT continue to work with the Bank towards the realisation of the Bank's Stabilisation and Sustainability Plan – including a consideration of State Guarantees to support the Liability Solution, and Recapitalisation to support the Equity Solution.





www.landbank.co.za

THANK YOU!

- 420 Witch-Hazel Avenue
- Eco Glades, Block D, Eco Park
- Centurion Pretoria

Disclaimer

420 Witch-Hazel Avenue
Eco Glades, Block D, Eco Park
Centurion Pretoria



No independent verification of the statements and information set out in this presentation has been made. The March YE 2020 and June Q1 2020 results in this presentation are preliminary and unaudited.

Nothing in this presentation should be construed as legal, financial, accounting, tax or other advice and relevant persons should determine for themselves the relevance of the information contained in this presentation.

By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the foregoing limitations.

Certain information set forth in this presentation contains “forward-looking statements”. Forward-looking statements are provided to allow potential investors the opportunity to understand management’s beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating a transaction.

These statements are not guarantees of performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Any forward looking statement included in this presentation has not been reviewed or reported on by Land Bank’s external Auditors.

www.landbank.co.za