



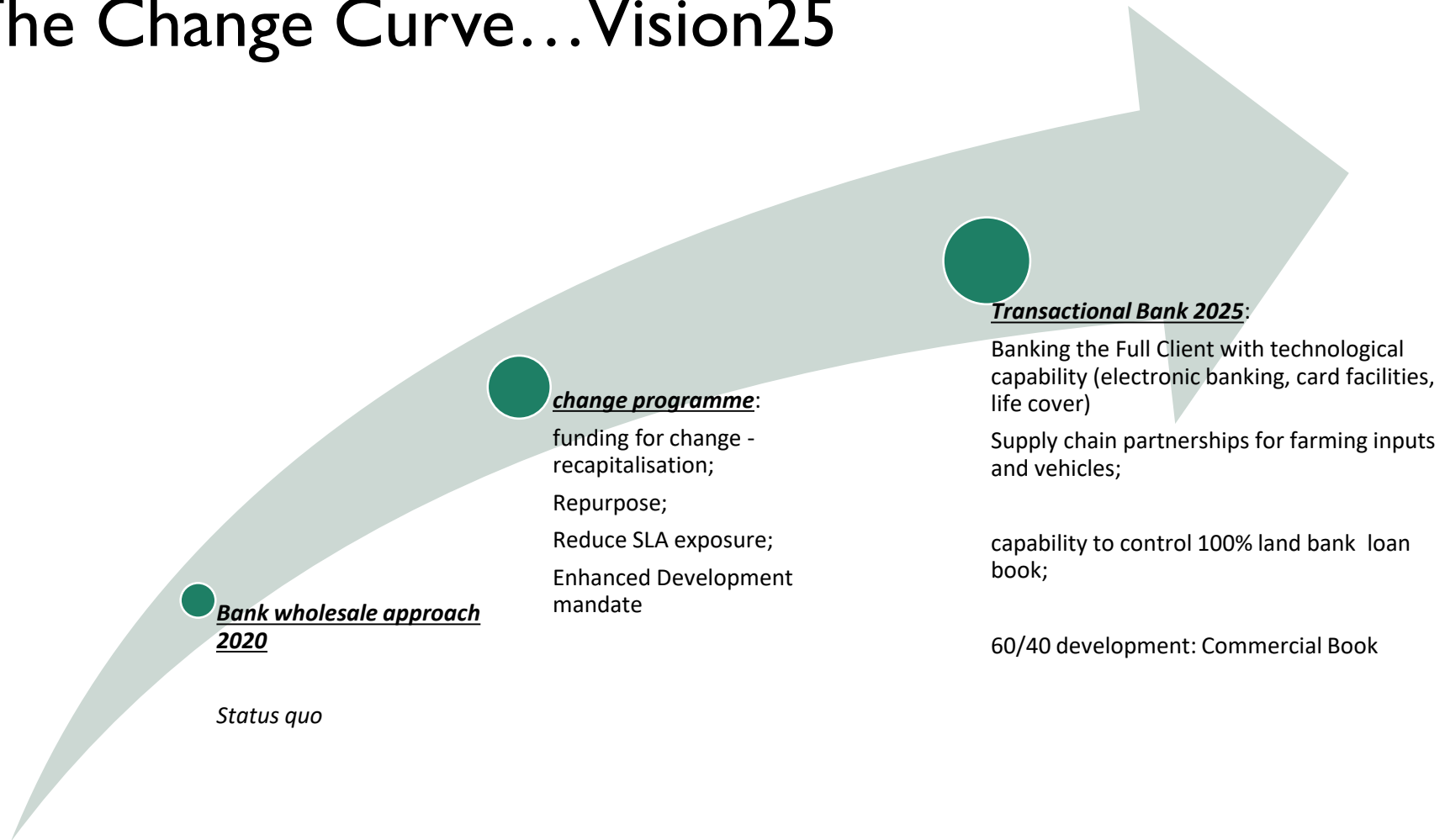
Land Bank Strategic Direction

October 2020



I. Strategic Direction

The Change Curve...Vision25



I. Strategic Direction



- **Sustainable Land Bank**
 - Business model aims ultimately to not depend on the state for funding.
 - Use of land/transfer into the balance sheet of the LB
 - 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

The New Land Bank... Vision25



A number of moving parts

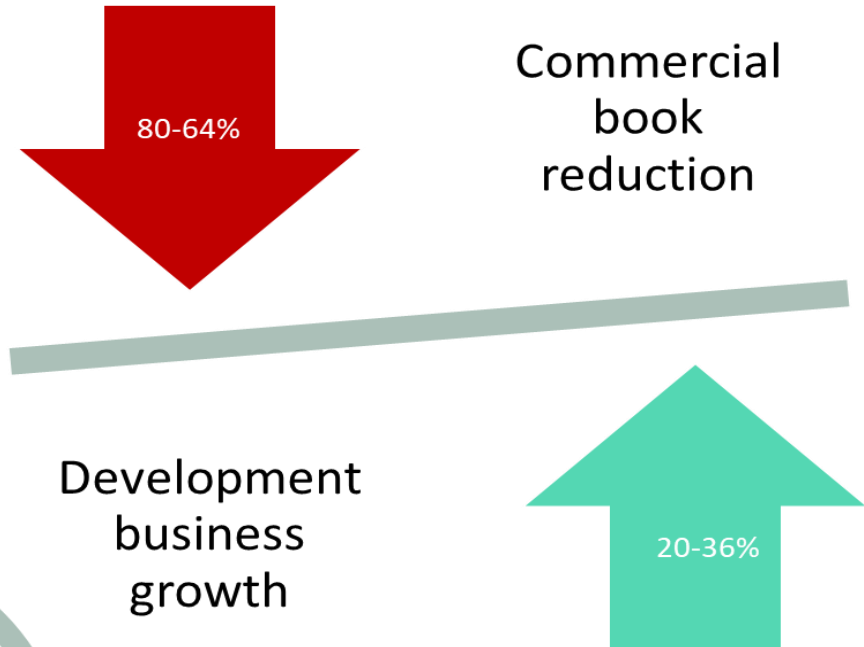
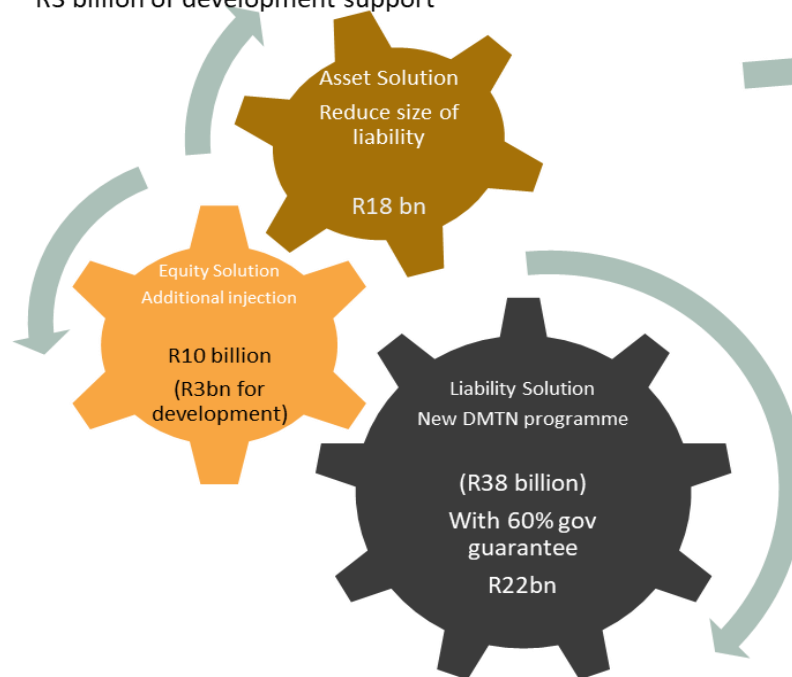
Self-help:

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

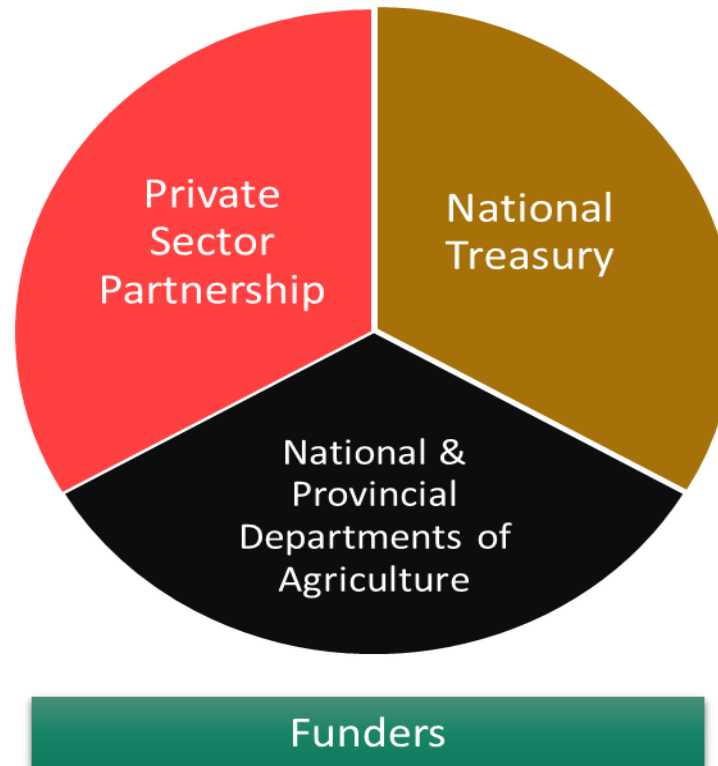
Equity

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

Key Dependencies for vision25





2. Executive Summary

2. Executive Summary

Equity Injection Framework – Taking Stock of the Current Situation



LAND BANK MANAGEMENT AND SHAREHOLDER KEY OBJECTIVES

Financially self-sustainable over long term

Deliver development & transformation mandate

Optimise capital structure (Debt vs. equity)

Optimise cost/level of equity injection by shareholder

Executable turnaround and growth strategy

IDENTIFIED COMPLEXITIES IN DESIGNING A SUSTAINABLE SOLUTION FOR LAND BANK

R8.7bn of debt maturing in 2021 with no ability to roll

Limited # of short-term self-help measures (fixed asset book tenor)

Success of Liability Solution (curing of debt) is dependent on the equity injection

Impact of CV19 on market conditions and growth plan

Self-help measures to raise equity (Reduce debt + generate profits)

Assets sales/restructure

- Single-name sell down of exposures
- SLAs repurchase of their loan book
- Restructure SLA agreements

Cash flow management

- Improved collections
- Reduce disbursements
- Optimised asset and liability management

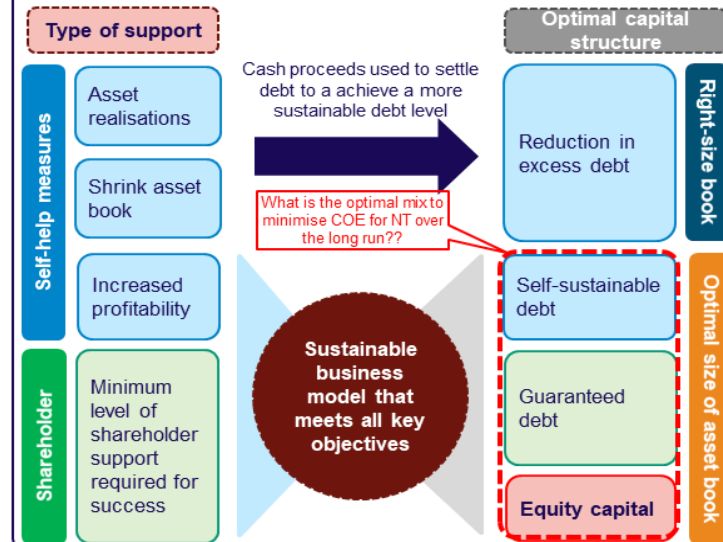
Pricing and credit risk management

- Increase pricing on SLAs and Direct books
- Improve credit risk profile of portfolio
- Capital allocation

Operating costs

- Minimise staff and shared service costs
- In-source activities (economies of scale) where possible – including SLA management fees

Optimal capital structure that meets all key objectives



Funders and shareholder support (Refinance risk + self-sustainability)

Funders (Liability solution)

- Liability solution is required to cure default and operate as going-concern
- Move maturities

Guaranteed debt (Liability solution)

- Government guarantee to implement liability solution – support gearing + cost of funding

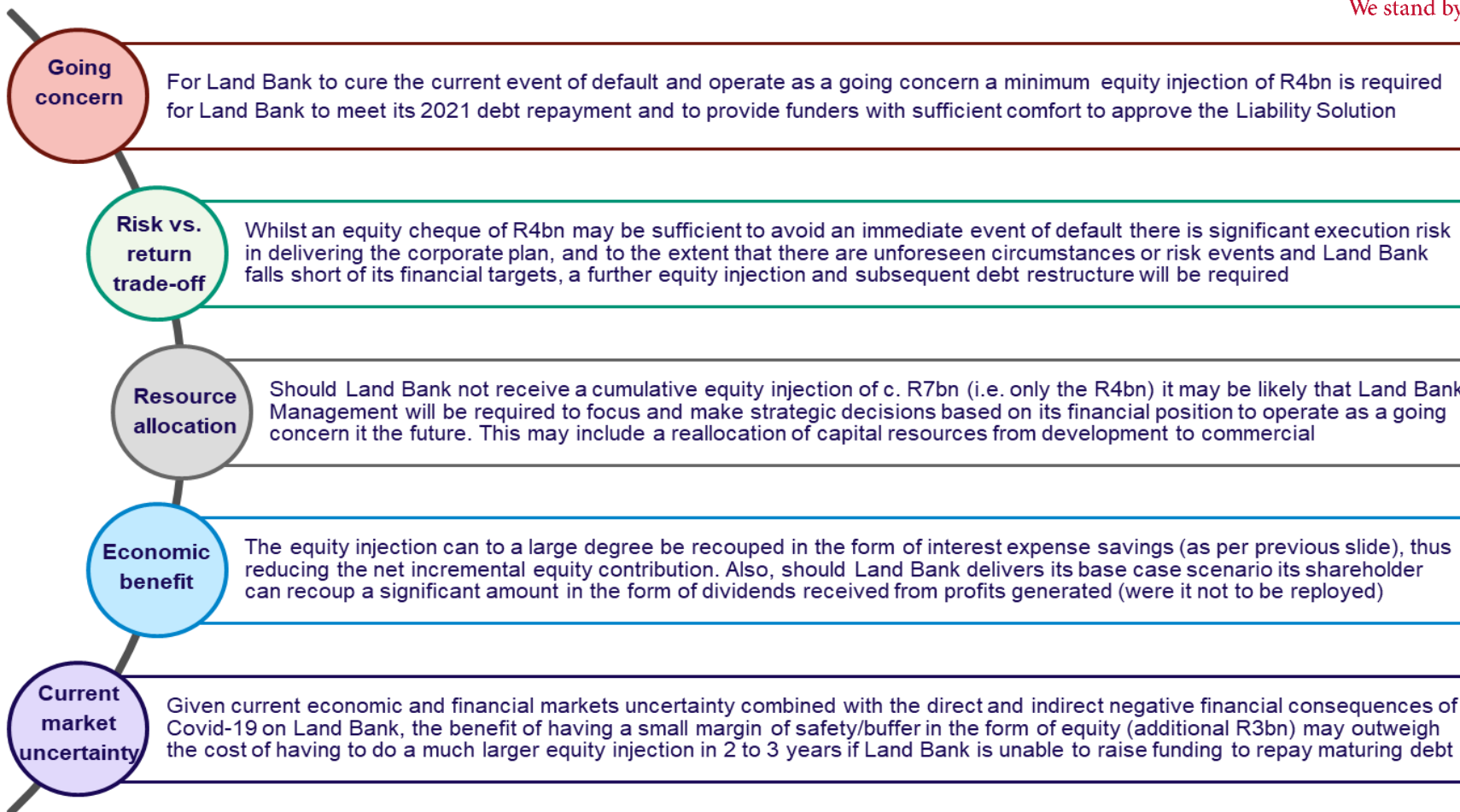
Equity capital (Equity solution)

- Required for liability solution
- Operate as going concern vs. becoming financial self-sustainable

What is the minimum level of equity required post implementation of self-help measures that allows Land Bank to meet its development objectives and remain financially self-sufficient taking cognisance of Land Bank's current financial situation and level of execution risk involved with delivering its corporate plan?

2. Executive Summary

Key Considerations for Quantifying Optimal Equity Injection



Based on the above considerations, Management believes that the benefit of having a cumulative capital injection of at least R7bn outweigh the costs given that its shareholder recoups a large portion of the economics and allows Management to focus on delivering its corporate plan (development objectives)



3. Introduction and Context

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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.
 - Applying the Development Impact Assessment Model (based on the latest available data related to enterprise budgets and annual variations in employment and other related production costs) which is only indicative of the potential direct, indirect and induced jobs created or maintained in the agricultural and related sectors, **the amount of R20.5bn invested in the sector contributed to the following employment impacts:**

Total Disbursements	Potential Employment
Direct Employment	119 941
New	5 255
Maintained	114 686
Indirect and Induced Employment	195 958

- The total direct potential employment impact is significant at 119 940, most of this has, however, been created in earlier years given the nature of the investment in all commodities are mainly maintenance investment. New potential employment opportunities amounted to 5 255 for the FY20.

3. Introduction and Context (Continued)

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.

The Bank is currently in financial distress.

The demise of the Bank will have a significant negative effect on the agricultural sector.



4. Problem Statement

4. 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.**
 - **Indications are that the leniency of lenders / funders is waning and a call up of facilities may become a reality if the liability solution is not concluded by end of October 2020.**
- The Bank has posted significant financial losses for FY2019/20 and projects to post losses for the next three (3) financial 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 investors require a minimum credit rating of A on the national scale.

The Bank needs Shareholder Support.

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

4. Problem Statement (Continued)

The Strategic Case for Shareholder Support:

- **Financial Rescue, Stabilisation and Financial Sustainability.**
 - Avoid negative systemic impact on the sector.
 - Immediate Support should reduce the long term strain on the fiscus and state resources.
- **Advancement of Development and Transformation.**
 - Land Bank is the only agricultural finance institution specifically established for the purpose of advancing the development and transformation mandate of the sector.
 - Shareholder Support is necessary to enable affordable financing of the sector.
- **Contribution to Economic Growth and Food Security.**
 - The Bank currently supports 29% of financing in the agricultural sector.
 - **A reduction of the Bank's role in the economy will compromise the sector and threaten food security** given the relatively lower risk appetite of alternative financiers (i.e. Commercial Banks).
 - The Bank is a key player to contribute to the implementation of the government's Agricultural Master Plan.



5. Financial Rescue, Stabilisation and Sustainability

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Executive Summary of Interventions



The following Rescue and 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**.
- **Debt redemptions through proceeds from assets disposal (loan book and non-core investments)** – this is a self-help measure for:
 - **Optimal balance sheet structure and size** – reduction of both Assets and Liabilities.

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, like PIC.

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.

5.1 Liability Solution

The Liability Solution entails a **restructuring of the Land Bank financial liabilities**.

- Impacted lenders will be approached to tender their **existing borrowing agreements in exchange for notes to be issued off a newly established R38bn DMTN programme**.
- In order to incentivise lenders to participate in this tender process, a **partial Government Guarantee will be required for the following reasons**:
 - The partial Government Guarantee provides credit enhancement which will be critical **to compensate lenders for the deterioration in Land Bank's credit rating** from Aa1.za (AA+) in January 2020 to the current national scale credit rating of Ba2.za (BB) – a downgrade of 10 rating notches;
 - Most institutional investors, who are the largest source of Land Bank's funding, require a credit rating of at least A (national scale) for the bond to meet their mandate requirements. It is expected that **the minimum level of guarantees that would be required will be a 60% of the capital and interest to derive an "A" credit rating on the note**;
 - A guarantee will **provide all investors with comfort** to enable agreement on the proposed debt restructure while Land Bank regains investor confidence and support in the market.
 - A significant deterioration in the Land Bank's own credit rating will make the cost of **raising funding on an unguaranteed basis extraordinarily penal**, impacting on the Land Bank's ability to deliver on its mandate; and
- The intention is for **Land Bank to reduce its reliance on governmental support as the market's appetite for Land Bank's credit improves**.

5.1 Liability Solution (Continued)

The implementation of the Liability Solution (assuming a 100% acceptance of the Tender and Exchange process) requires that **Land Bank obtains additional Government Guarantees for an amount of R22.8bn, being 60% of the R38bn DMTN Programme.**

- International and local Development Finance Institutions (“DFIs”) will not be approached to participate in the Tender and Exchange but will be required to waive their existing events of default.
 - In order to cover 60% of these DFI’s outstanding capital, guarantees amounting to R3bn will also be required which can be accommodated under the guarantees that Land Bank already has at its disposal.
 - Furthermore, Land Bank wishes to defer next year’s capital amortisation payments with these DFIs to align with the rest of the Liability Solution approach of a 12 month capital holiday to allow the asset solution to be implemented.
- The **proposed reduction of Guarantees on the DMTN programme** is as follows:

Cancellation Date	Reduction	Guarantee Balance
31 March 2021	-	R22.8bn
31 March 2022	(R4.0bn)	R18.8bn
31 March 2023	(R4.0bn)	R14.8bn
31 March 2024	(R4.0bn)	R10.8bn
31 March 2025	(R4.0bn)	R6.8bn
31 March 2026	(R1.022bn)	R5.778bn

- As part of the Liability Solution, **new financial covenants are being formulated by the Bank which have been proposed to all lenders.** These covenants will, amongst other things, seek to ensure that the amount of short-term debt, relative to total debt, is kept within a manageable level to avoid future liquidity crises and will also seek to limit the extent of gearing relative to Land Bank’s equity base.

5.2 Equity Solution

The Equity Solution is essential for the survival and sustainability of the Bank.

- The Bank is in a default position and currently in a de facto Standstill with lenders / funders.
- The proposed terming out of the facilities as per **the Liability Solution will only postpone the repayment of facilities that have fallen due by another 12 months.**
 - The Bank will be required to honour **maturities that will be falling due in FY22 (R9bn) and FY23 (R12bn).**
 - The ability to honour these maturities / repayments can only come on the back of Capital Injection given that **the self-help asset solution (approximately R6bn and R5bn of estimated proceeds from the sale / disposal of assets in FY21 and FY22 respectively) which will be used to settle liabilities will not be sufficient** for the honouring of these maturities.
- The Capital Injection is **important to improve the Bank's Gearing; Capital Adequacy; and Cost of Funding**, and to improve its **financial sustainability and "going concern status"**, going forward.
- The reduction in Cost of Funding that will come with Capital Injection, particularly the additional capital earmarked for development, is **important for the advancement of developmental lending.**

5.3 Assets Solution

The Bank will institute “**self-help measures**” in which a major component is the **assets solution** wherein the Bank will **reduce its loan portfolio and use the proceeds of the disposal of assets to reduce liabilities**, and strengthen the capital base in its balance sheet.

- The SLA portfolio offers the biggest opportunity for a **reduction of the Bank’s loan assets**.
 - A gradual reduction of the SLA portfolio is envisaged. SLA partners have been engaged on the proposed reduction target and have expressed their in-principled support and willingness to partner with the Bank to achieve the target.
 - The proposal will be realised through the refinancing of existing clients with other Funders, based on one of the following methods:
 - Buy Back / Settlement.
 - Disposal with Full Security.
- **The Repricing of the Loan Book is also a major focus in the Asset Solution** to improve the squeezed margins that has come with the increased Cost of Funding.
 - Repricing of facilities that may result in clients seeking better pricing with other financiers.
- The asset reduction process will come with **the risk of potential loss of quality clients and the retention of more riskier portfolio. The potential deterioration of the quality of the remaining portfolio is a significant concern expressed by long term lenders**.
 - A client management process is being developed to ensure proactive selection of clients for retention and disposal.
- **A Disbursement Strategy will be put in place to prioritise deployment / allocation of funds to clients** for the protection of the quality of the Bank’s lending and investments portfolio.
- The Bank is in the process to **sell off its shareholding in the non-core equity assets** which will yield proceeds estimated at R500m.

5.3 Assets Solution (Continued)

High level Asset Solution Action Plan



Step	Action	Description	Indicative Timing
Step 1	Interim measures	Negotiate with SLAs and commercial funders on settlements and security sharing arrangements	0-6 months
Step 2	Repricing	Aggressively reprice maturing loans to reflect increased funding cost and an appropriate risk-adjusted margin	Immediately
Step 3	Negotiated sale	Disposal of larger block(s) of business	Likely post implementation of liability solution
Step 4	Renegotiate SLA agreements	Set up vehicles that will allow partnering with other commercial funders and sharing of security, risk-adjusted pricing requirements, NIR penetration, rebalanced sharing of risk and economics	3-12 months
Step 5	Internal retooling	Optimise operating structure and enable management of larger portion of direct business	24 months
Step 6	Restructuring development function	Agree appropriate levels of development funding, appropriately funded from a combination of profit from commercial business and grant-type funding from both SA government and international DFIs	12-18 months
Step 7	Expand development strategy	Partner with SA government, DFIs and private sector to better utilise and develop resources for the benefit of developing agriculture	12-36 months
Step 8	Insourcing intermediated business	Insourcing portions of business currently run by SLA partners where it makes sense and Land Bank can do so profitably	3-5 years

5.4 Business Efficiencies

The Bank has in the last 18-24 months implemented/enhanced a number of **business efficiency improvement interventions to enable some of its key business processes**. Significant effort will be undertaken to implement technology solutions in line with the Bank's IT and digitisation strategy.

- In addition to the **technology initiatives**, the Bank will be undertaking **initiatives to improve the productivity and effectiveness of its human resources** as well as **process improvements**, including the following:
 - Developing and a Fit for Purpose Organisational Structure.
 - Skills, Capability and Capacity to be assessed throughout the organisation.
 - Learning Academy - to improve skills of frontline teams.
 - Rebuilding of a positive organizational climate and employee motivation.
 - Reviewing internal processes (especially origination and credit processes) on an ongoing basis.
 - Insurance
 - Embedment of the Bancassurance Model.
 - Dividend Policy Review.
 - Risk Management
 - Credit policy review (including the current improvement plan to align credit management of SLAs to the Bank's direct channels.
 - Collateral management policies and skills.
 - Collections systems and skills.
 - Review and Enhancement of the Pricing Models.



6. Repurposed Strategy / Vision25

6. Repurposed Strategy and Vision25

Desired State

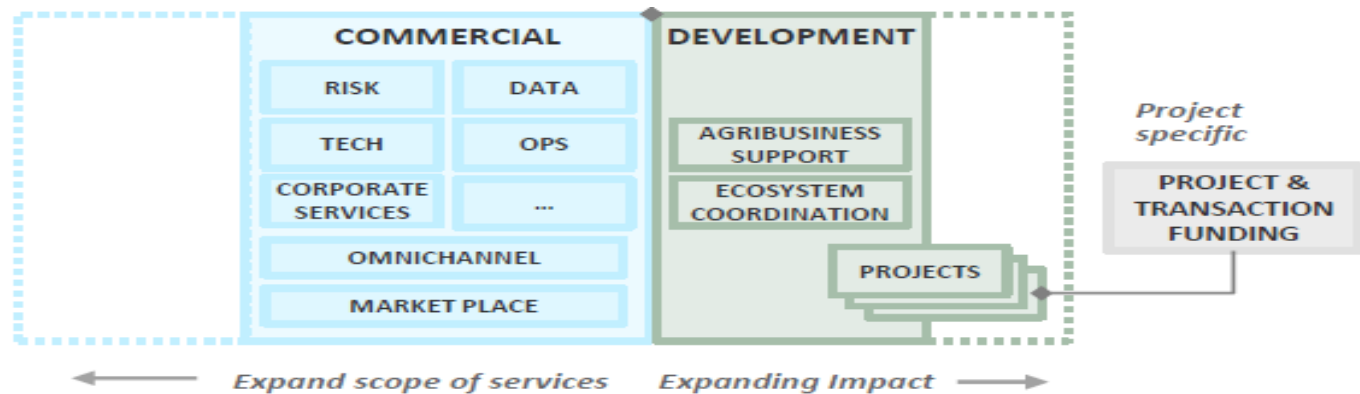
- To ensure the long term financial sustainability of the organisation the Bank has repurposed its strategy towards FY2025 (Vision25).
- The essential focus areas of the envisaged desired state:
 - Change in the operating model to facilitate an improved development approach, and reduced reliance on Intermediaries for the delivery of the core mandate.
 - Focus on orchestrating the agricultural ecosystem across the value chain.
 - Driving the Aggregation of Farmer Producers through Off-take Agreements with Retail Corporates.
 - Development and empowerment of staff and focus on client service.
 - Organisational change from manual to automated systems.
 - Management of business efficiencies and costs.



6. Repurposed Strategy and Vision25

Operating Model

- As part of remodelling its Operating Model the **Bank will establish two distinct business operations:**
 - **The Commercial Unit** will be focused on optimising commercial returns that will assist with the part-subsidisation of development, and
 - **The Development Unit** will be focused on optimisation of development impact.



- **Increased Scope of Products and Services:**
 - Enhanced value proposition.
 - Diversification of, and increase in revenues – including increased non-interest income.
- **Revised Channel Strategy:**
 - Omni-channel approach – seamless, multiple touch points backed by technological enablement.
 - Reduced reliance and improved Commercial Arrangements of Intermediaries – building a more effective Direct Channel.

6. Repurposed Strategy and Vision25

The Cost of Development



- The **Development and Transformation portfolio** is projected to post a **loss making position up to FY25**, as per table below. The main driver of the loss is **the expected higher Impairments** for this portfolio because of its relative riskier profile.
- Additionally, **the cost of pre- and post-Finance support** required to enable successful commercialization of smallholder farmers has been taken into account, resulting in **higher operating costs (“cost of doing business”)** for the **Development portfolio**.

Statement of Profit & Loss	F2020	F2021	F2022	F2023	F2024	F2025	F2020	F2021	F2022	F2023	F2024	F2025
	Comm	Comm	Comm	Comm	Comm	Comm	Dev	Dev	Dev	Dev	Dev	Dev
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Net interest income	939 101	343 479	641 341	1 080 820	1 510 462	1 704 111	(73 718)	186 164	175 468	422 120	755 491	1 019 329
Gross interest income	4 150 380	2 647 848	2 654 651	2 592 942	2 585 028	2 582 202	744 342	699 204	769 115	997 108	1 281 486	1 507 779
Interest expense	(3 211 279)	(2 304 369)	(2 013 310)	(1 512 122)	(1 074 566)	(878 091)	(818 060)	(513 040)	(593 647)	(574 988)	(525 995)	(488 450)
Net Impairments	(1 659 111)	(60 451)	(48 815)	(48 681)	(49 422)	(50 714)	(226 403)	(56 873)	(121 808)	(165 908)	(212 213)	(242 953)
Net Interest Income After Impairment	(720 010)	283 028	592 526	1 032 139	1 461 041	1 653 397	(300 121)	129 291	53 660	256 212	543 278	776 376
Non-interest income/ (expenses)	(128 426)	(174 308)	(158 373)	(90 725)	(82 830)	62 004	101 452	62 997	20 427	18 150	14 674	31 541
Total Operating Expenses	(366 001)	(344 106)	(333 755)	(338 417)	(349 493)	(343 142)	(322 540)	(303 310)	(353 282)	(386 118)	(405 011)	(423 136)
Net operating income/ (loss)	(1 214 438)	(235 385)	100 399	602 997	1 028 718	1 372 258	(521 209)	(111 022)	(279 194)	(111 756)	152 941	384 781
Other income / (expense)	110 025	4 499	35 163	30 871	34 324	38 381	110 025	(9 949)	20 093	15 138	17 899	21 233
Net profit / (loss) before indirect taxation	(1 104 413)	(230 886)	135 561	633 868	1 063 042	1 410 639	(411 184)	(120 971)	(259 102)	(96 618)	170 841	406 014
Indirect taxation	(32 811)	(28 524)	(29 751)	(31 060)	(32 427)	(33 853)	(32 811)	(28 524)	(29 751)	(31 060)	(32 427)	(33 853)
Other comprehensive income	(669 851)	15 000	20 000	25 000	30 000	36 000	-	-	-	-	-	-
Net profit / (loss) from continuing operations	(1 807 075)	(244 410)	125 810	627 808	1 060 616	1 412 785	(443 995)	(149 495)	(288 852)	(127 678)	138 414	372 161



7. The Case for Shareholder Support

7. The Case for Shareholder Support

Considered Scenarios and Level of Support



Land Bank is **currently in financial distress** (having defaulted on its lending and funding facilities) and requires rescue, stabilisation and a financially sustainable turnaround.

In considering the options available for the Bank to turnaround the situation, the following **key observations** are important:

The Bank is in default, and can only cure this default with State Guarantees.

- Lenders / funders will only accept the restructure (terming out) of current facilities into new facilities (a new DMTN program) on the back of guarantees.
- Investors are guided by their policies to invest in “investment grade” instruments, and given the current Land Bank credit rating, the Bank’s instruments are not investible without State Guarantees.

Any scenario without State Guarantees is a not viable:

- The Bank will remain in default.
- The calling up of the Bank’s facilities will result in an inability to settle its dues, and liquidation will be unavoidable (the start of this has taken place with Standard Chartered Bank filing court papers to demand repayment).
- The Bank will be unable to raise further funding in the market.
- Guarantees are tantamount to a business rescue pre-requisite, with the rest of the Bank’s self-help measures completing the turnaround solution.

7. The Case for Shareholder Support

Considered Scenarios and Level of Support (Continued)

Any scenario without Capital Injection is highly precarious.

- If there is No Capital Injection a **risk of further default is increased** when approximately R9bn of funding facilities mature / fall due in FY22, and R12bn fall due in FY23.
- **The Bank's prime sources of repayment** are the Assets Disposal Solution and Retained Earnings which **will not be sufficient to cover the required repayments**.
- Capital injection is an important solution to improve:
 - Gearing;
 - Capital Adequacy; and
 - Cost of Funding;

7. Recommendation

Land Bank recommends the **Up-fronted Capital Injection (R7bn in FY22 plus R1bn per annum over FY23 – FY25) scenario** for these reasons:

1. **Enables the curing of current defaults, and reduces the risk of default in a year's time** when some of the facilities mature.
2. **Reduces reliance on debt and capital market funding**, which will be highly improbable at the Bank's current credit rating level (with a **further credit rating deterioration not an impossibility**).
3. **Provides the platform for long term sustainability (improved profitability and build up of retained earnings)** and the implementation of the repurposed strategy.
 - 3.1. The Key Outcomes / Results (per previous slide) provides the most positive results – including improved gearing, capital adequacy, and cost of funding.
4. **Increased development impact.**
 - 4.1. This scenario will enable an increase of approximately 48% of the development and transformation portfolio from R8.4bn (FY20) to R12.5bn (FY25).
 - 4.2. Whereas the other scenarios provide a relatively flat increase in the development and transformation portfolio, this scenario will shift the portfolio from 18% (FY20) to 36% of the total loan book by FY25.



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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



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