MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Land Bank's ratings to Ba1; outlook negative

21 Jan 2020

Limassol, January 21, 2020 -- Moody's Investors Service, ("Moody's") has today downgraded Land and Agricultural Development Bank's (Land Bank) Issuer ratings to Ba1/Not Prime from Baa3/P-3, and its long-term national scale issuer rating (NSR) to Aa3.za from Aa1.za. Concurrently, the rating agency confirmed Land Bank's b1 Baseline Credit Assessment (BCA) and assigned a Corporate Family Rating (CFR) of Ba1. The outlook on the issuer has been changed to negative from ratings under review.

The ratings downgrade reflects Moody's assessment that ongoing fiscal challenges suggest that the South African government will be more selective in dispersing financial support to state-owned enterprises, including to Land Bank, hence the rating agency limits its government support uplift to three notches, from four previously. The negative outlook primarily reflects the potentially weakening capacity of the South African government to support Land Bank in case of need, as captured by the negative outlook assigned to the sovereign rating, as well as on-going pressures on the bank's financial performance.

The full list of ratings is provided at the end of this press release. This rating action concludes the review for downgrade that began on 5 November 2019.

RATINGS RATIONALE

BCA CONFIRMED

According to the rating agency, the confirmation of Land Bank's BCA to b1 reflects the rating agency's view that its standalone assessment is correctly positioned in light of rising solvency pressures due to elevated credit risks (including high environmental risks relating to sustained droughts and increased frequency of disease outbursts), low earnings and a modest capital cushion to the minimum required lending covenants; balanced by its historically stable funding profile, but which remains dependent on market funding in an environment where debt and capital markets are volatile.

In confirming the b1 BCA, governance risks affecting the bank's anticipated performance have also been captured. While the rating agency acknowledges initiatives taken by Land Bank to strengthen governance in light of generally heightened attention to South African state-owned enterprises, the prolonged period of uncertainty in relation to appointing a permanent CEO who will ensure sustained oversight of the bank's operations and strategic direction is a cause for concern. For Land Bank, corporate governance remains a key credit consideration and, while Moody's does not adjust for corporate behaviour in its assessment, the rating agency will continue to monitor developments going forward.

ISSUER RATINGS DOWNGRADED

According to the rating agency, the decision to downgrade Land Bank's issuer ratings is driven by a reduction in government support uplift to three notches from four previously. Moody's government support assumptions are aligned to those used for the other rated South African development banks, and balance increased fiscal challenges which suggest that the government will be more selective in dispersing financial support to state-owned enterprises, against the government's willingness to support these institutions in view of its full ownership and the development banks' policy mandates.

Moody's assumes a high likelihood of government support for Land Bank given the bank's full government ownership and its development and policy mandate in financing the agricultural sector. The government's capacity to provide such support is defined by the sovereign's Baa3 (negative) rating and, as such, we incorporate three notches of government support uplift on Land Bank's b1 BCA and which led to the assignment of a Ba1 CFR, in line with the requirements under Moody's Finance Company methodology to establish a CFR for sub-investment grade issuers.

The downgrade of Land Bank's issuer ratings to Ba1 from Baa3 reflects its Ba1 CFR and the alignment of the issuer ratings at the same level, reflecting the absence of structural subordination of unsecured obligations under Moody's Loss Given Default (LGD) analysis for Speculative Grade Companies.

NEGATIVE OUTLOOK

The negative outlook on Land Bank primarily reflects the increasing risk of a weakening capacity of the South African government to support Land Bank in case of need, as captured by the negative outlook on the sovereign rating. The latter reflects the material risk that the government will not succeed in arresting the deterioration of its finances through a revival in economic growth and fiscal consolidation measures. The challenging operating conditions, as well as the inability to appoint a permanent CEO who will ensure sustained oversight of Land Bank's operations and strategic direction, also place pressure on its financial performance, standalone assessment and investor confidence.

WHAT COULD MOVE THE RATINGS DOWN / UP

Any weakening in the South African government's credit profile or willingness to support Land Bank, could lead to a downgrade. In addition, any material further deterioration in Land Bank's asset portfolio that would also affect its capital buffers, continued uncertainties about its future strategic direction and vacant CEO position that could also lead to a tightening of its funding and liquidity position, would also exert downward rating pressure. Likewise, Land Bank's issuer ratings could be downgraded due to an increase in leverage through secured borrowings that would reduce the recovery rate for senior unsecured debt classes, although this remains a low probability event.

There is a low likelihood of upward rating movement in view of the negative issuer outlook. Land Bank's outlook could change back to stable, if both the sovereign rating outlook is stabilized and Land Bank is able to stop the deterioration in its asset quality, strengthen its capital metrics and develop and implement a credible strategy for the future.

LIST OF AFFECTED RATINGS

Issuer: Land and Agricultural Development Bank

Downgrades

....Long-term Issuer Ratings, downgraded to Ba1 from Baa3

....Short-term Issuer Ratings, downgraded to Not Prime from P-3

....NSR Long-term Issuer Rating, downgraded to Aa3.za from Aa1.za

Affirmations

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

Assignments

.Long-term Corporate Family Ratings, assigned Ba1

..Outlook Action:

....Outlook, changed to Negative from Rating Under Review

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Finance Companies Methodology published in November 2019, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale

Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1174796 .

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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JPY250,000,000.

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