

Key decision point for Land Bank and its shareholder

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Published: 26 November 2020_v2 (23 November 2020_v1)

Previous update/s: [Land Bank: A vital role-player in SA](#)

We believe that Land Bank is a vital and necessary role player in South Africa's agricultural sector and that the government, likewise, considers it a strategic contributor to agricultural development. This is supported by the additional R3bn equity injection provided to the Land Bank in September 2020, as well as the mention of an additional R7bn over the next three years, as mentioned by Finance Minister Tito Mboweni in the [October MTBPS speech](#).



At the onset of the Land Bank crisis in April 2020, roughly 27% of agricultural debt in South Africa was supported by Land Bank, making them a significant role-player in our agricultural sector. The risks of Land Bank not functioning effectively are dire and include a possible increase in food inflation, as the country becomes increasingly reliant on imported foods. In the current COVID-19 crisis and with global supply chains being disrupted, supply side risks are real. In the absence of adequate funding from the Land Bank and certainty about the timely resolution of the current situation, emerging farmers don't have access to the capital needed to transition into established commercial farmers. The Land Bank therefore plays a critical role in growing and broadening the South African commercial farming base and therefore securing the current and long-term food security of the country.

Land Bank has a long history of operations and, post its restructure in 2006 to 2007, has shown itself to be largely self-sustaining, profitable and with a suitable credit focus. The evolving nature of Land Bank's operations, as evidenced by their self-stated increased focus on development loans (as opposed to commercial loans) in the years to come, may result in a changed risk profile for Land Bank. Depending on the evolution of this, there may be an impact on the Land Bank's profitability, the quality of the loan book and its ability to support the current levels of gearing.

Liability solution update: An unsatisfactory response

As at the date of writing this update, there is an unsatisfactory response from Land Bank, its shareholder and advisors about lenders' extensive and significant comments on the terms of the proposed 60% government guarantee and the DMTN terms and conditions. Linked to this, there appears to be an alarming lack of appreciation by the Land Bank, its shareholder and advisors, about the necessity for

proper lending terms and conditions in the proposed liability solution. It seems as if lenders are being asked to overlook the fact that the government guarantee on offer is only a 60% guarantee, which by implication means 40% of the c.R41.5bn debt (i.e. R16.6bn) is unguaranteed. It would be unusual, and frankly reckless, for lenders to agree to the liability solution on terms that are substantially weaker than standard lending terms and conditions. This is an entity in default after all - it has been unable to meet its liability obligations since April 2020. In order to ensure acceptance of the proposed liability solution (which, inter alia, is asking lenders to extend maturities), the terms need to be appropriate for pension fund clients. Lenders have spent considerable time and effort crafting a workable proposal that seeks to protect our clients while at the same time, being cognisant of the constraints of the issuer and its shareholder.

Despite noteholders submitting detailed and considered comments on the DMTN (on 12 October 2020) and on the partial guarantee (on the 21 October 2020), we have not yet had a substantive response to the issues and comments raised. It is increasingly difficult to consider the terms of the liability solution when there appears to be a lack of consideration for the valid, and resoundingly unanimous, points raised by both the noteholder and bank lending groups on this matter. Land Bank issued a SENS on 23 November 2020 that provided the market with an update on various matters, and indicated that the execution date of the liability solution has moved to the end of March 2021.

It is apparent to us that we are at a key decision point and the Land Bank and its shareholder need to seriously consider the input already provided by lenders and make a decision on how this much-needed and delayed solution for Land Bank will be executed. Ultimately, the successful implementation of the proposed liability solution requires agreement from almost 100% of lenders (banks and noteholders). Given the most recent document drafts and correspondence, it appears as if there are still significant differences between the parties.

DMTN terms and conditions

We are advised that a revised draft of the DMTN is going to be made available in early December. We have communicated our expectation that this next draft needs to deal substantively with the issues and comments we raised initially at the outset of this process (when noteholders provided Land Bank and its advisors with a list of appropriate DMTN terms and conditions) and repeated again in the October comments to the DMTN and partial guarantee.

Government guarantee

We are advised that Land Bank's advisors are in discussions with National Treasury and given the importance of the partial guarantee to the successful implementation of this liability solution, we have again communicated our expectation regarding clarity on the mechanism and wording of the partial guarantee. You may ask why this is important – is the mere existence of the partial guarantee not enough for lenders and better than the current situation? The answer is no - the proposed guarantee for the liability solution is a partial guarantee (of 60%) and as far as we can recall, we have no prior example of a partial government guarantee in the capital markets. Accordingly, it is important that the mechanism for calling on the guarantee, and the impact this may have on the unguaranteed portion in terms of its acceleration and other rights, is clarified. The Noteholder Committee sent a letter on 18 November 2020 to Land Bank, its shareholder and advisors requesting urgent clarity on this matter. We are advised that the next draft of the guarantee is going to be made available in early December, together with the revised draft DMTN.

Update on Standard Chartered litigation matter

The update we have been provided on the Standard Chartered Bank litigation indicates that this matter is set down for court on 2 December 2020. This is confirmed in the SENS of 23 November 2020. Land Bank's legal team have advised that if the case goes against them, and they are granted leave to appeal, they will be exercising their right to do so. We are watching the events on this matter closely to

assess the impact that the outcome of this case may have on our position, as well as the principles of INSOL which requires that all financial creditors are treated fairly. Of concern is that if the court case finds against Land Bank and directs Land Bank to repay Standard Chartered all amounts due (in excess of R400m) and denies them leave to appeal, Land Bank will be obliged under the law to pay the amounts due to Standard Chartered Bank.

Update on the 5% partial capital repayment

In our [previous update](#), and as per Land Bank's [SENS dated 22 September 2020](#), the 5% capital repayment undertaking (which was required by noteholders in response to Land Bank's intention to repay capital on certain DFI loans) would be made together with the liability solution. It was anticipated that the liability solution would have been executed by 30 November 2020. We have now been advised that the liability solution will likely only be completed in 2021, and despite repeated requests for a detailed timeline on the execution steps and decisions, we have yet to be provided with this. [The SENS of 23 November 2020 confirms that](#), with the delay in execution of the liability solution, Land Bank intends to make this partial capital reduction by no later than 28 February 2021.

The SENS of 22 September 2020 stated that *"if the Liability Solution is not implemented by 30 November 2020, Land Bank will start the processes necessary to enable the Part Capital Reduction Repayment to take place as soon as reasonably possible, but in any event, by no later than 28 February 2021"*. The [SENS of 23 November 2020](#) confirms that, with the delay in execution of the liability solution to 2021, Land Bank intends to make this partial capital reduction by no later than 28 February 2021.

The way forward

Futuregrowth continues to be an active participant in the Noteholder Committee with the goal to achieve a sustainable solution for our clients and the Land Bank. At this stage in the process, the key focus of the Noteholder Committee is to negotiate appropriate terms and conditions for the liability solution, including the DMTN and the proposed partial guarantee. We continue to believe that a key determinant of the likely success of the proposed liability solution is investors being suitably comfortable that the terms and conditions of the DMTN and the proposed guarantee are appropriate and mitigate the risks of continuing to lend our clients' money to a distressed entity. It is not clear to us that Land Bank and its advisors have the same appreciation of this point. In order to implement the liability solution, the current (and ongoing) Event of Default needs to be cured. Curing the default requires that close to 100% of lenders (noteholders and banks) agree to the new terms, as such it is not possible that a sub-optimal solution will be forced on lenders. We (noteholders and banks) are *ad idem* on the need for the liability solution to be sustainable and to provide the appropriate protections for the risk.

We highlight that there continues to be significant execution risk to the successful completion of this restructuring - the further delay in the expected execution date to 2021 provides further evidence of this and the ongoing uncertainty may possibly negatively impact Land Bank's business and investor sentiment. In the meantime, two days ago on Tuesday 24 November 2020, Moody's has further downgraded Land Bank to Caa1 (which is deeper in sub-investment grade territory). Moody's cited specifically the ongoing delays in the implementation of the liability solution as one of the reasons for the downgrade. We have also been advised in the [SENS dated 23 November 2020](#) that Land Bank's financial statements and audit opinion for the year ended 31 March 2020 are delayed and that *"Land Bank has applied for extensions from the relevant regulatory bodies but continues to work towards the finalisation of the Annual Financial Statements as soon as possible."* In this SENS, Land Bank commits to publishing its unaudited interim financial statements on or before 31 December 2020.

The key milestones and outcomes that we are currently closely monitoring include:

1. The outcome of the legal action undertaken by Standard Chartered Bank.

2. The continued adherence by the Land Bank of their public undertaking to treat all creditors fairly during this restructure process and not to advantage one set of creditors over another.
3. The receipt of the new execution timeframes and our assessment of the likely successful implementation of the proposed liability solution within these timeframes.
4. The terms and conditions of the new DMTN that appropriately address the requirements sent by noteholders to Land Bank in late June 2020 and repeated again in October 2020.
5. The terms and mechanism of the proposed partial government guarantee.
6. In addition to the DMTN and guarantee terms, the timely receipt of the proposed terms of the liability solution (the maturities and pricing of the new instrument) that are needed to assess the overall investment case of the proposed liability solution.
7. Certainty that the required very high percentage (close to 100%) of existing funders will agree to the terms of the proposed liability solution.
8. The receipt of the 5% capital repayment that Land Bank has undertaken to make to funders in their SENS of 22 September 2020 and again confirmed via SENS on 23 November 2020.
9. The quantum, timing and any conditionality of the additional R7bn support promised by the Finance Minister in the recent MTBPS.
10. Our review of the report following the independent review of the Land Bank's book, which is needed to confirm Land Bank's solvency and ensure its ongoing sustainability.
11. When released, Land Bank's latest financial results as reflected in the Annual Financial Statements to 31 March 2020 and the interim results to 30 September 2020.
12. The proposed restructuring of Land Bank's business to reduce the size of their operations and to focus more specifically on developmental farming, which has obvious implications for the quality of the underlying loan book, Land Bank's historic business model and funders' assessment of the risk profile of the entity.

As at the date of this update (26 November 2020), we note that all of the above remains outstanding despite noteholders raising these matters repeatedly over the last few months. We are disappointed with the lack of progress on certain key issues of principles that we believe are needed for the timely execution of these outcomes.

Conclusion

We are conscious that more than seven months have elapsed since the date of the first SENS notifying the market of Land Bank's Event of default – while there has been some limited progress, the timelines and deadlines indicated by Land Bank in their SENS of 17 June 2020 have been missed and we are no closer to agreeing an appropriate position to cure the Event of Default and to execute on the liability solution.

We reiterate that there continues to be an urgent need for Land Bank management, National Treasury (as represented by the Minister of Finance), and its advisors to seriously consider the merits of the comments and requirements made by lenders to date and to respond fully so that all role-players are able to rapidly execute on solving the Land Bank's longer-term capital, funding and structural challenges. These challenges have been exacerbated by the continuing Events of Default on Land Bank's obligations. Ultimately, the successful implementation of the proposed liability solution requires agreement from almost 100% of lenders (banks and noteholders). Given the most recent document drafts and correspondence, there appear to be significant differences between the parties.

We continue to believe that ongoing adherence to the undertaking by Land Bank to treat all creditors fairly, as well as, a liability solution that is sustainably structured and contains suitable terms, conditions, reporting and pricing, enhances the likelihood of a successful debt restructure. A key determinant of the likely success of the proposed liability solution is investors being suitably comfortable that the terms and

conditions of the DMTN and the proposed guarantee are appropriate and mitigate the risks of continuing to lend our clients' money to a distressed entity.

We continue to assess evolving information and the status of our client exposures to determine the necessary next steps, including assessing our legal remedies, to ensure the best possible outcome for our client funds.

This note is based on information we have at the time of writing, and we will endeavour to update it as and when circumstances change.

[See our previous update](#), which contains the genesis of the crisis as well as some previously asked Q&A.

Timeline of events

20 April 2020: SENS notifying market of Event of Default

24 April 2020: Letter sent from CEO to ASISA requesting Noteholder Committee be formed

28 April 2020: SENS announcing appointment of financial adviser, requesting deferral from funders

20 May 2020: Land Bank presents to Parliament: Standing Committee on Appropriations

1 June 2020: SENS announcing upcoming interest payments due between 1-9 June will not be met

17 June 2020: Noteholder call with Land Bank, RMB – proposed liability solution introduced by RMB. SENS update on liquidity and debt restructure process

26 June 2020: Meeting between Futuregrowth and RMB on proposed liability solution

17 July 2020: Noteholder Committee letter to National Treasury raising concerns

5 August 2020: Noteholder Committee meeting with RMB, National Treasury and Land Bank

20 August 2020: SENS confirming executive and senior management appointments

25 August 2020: Letter of intent sent to Noteholder Committee, in which Land Bank indicates it intends repaying certain DFIs

31 August 2020: Further Noteholder Committee meeting, meeting with broader noteholder group, letter of demand sent to Land Bank, National Treasury and RMB

4 September 2020: SENS update on the LBK22 bond, interest and principal payment

23 April 2020: SENS retracting earlier default, yet confirming default likely later

24 April 2020: SENS confirmed Event of Default

19 & 20 May 2020: SENS update on the liquidity and debt restructuring process, Land Bank confirms “no creditor worse off” principles

20 May 2020: First Noteholder Committee meeting held, includes appointment of Weber Wentzel to act for noteholders (paid for by Land Bank)

9 June 2020: Noteholder Committee meets with National Treasury

26 June 2020: Noteholder Committee sends list of DMTN terms to Land Bank and its advisors

9 July 2020: Meeting between Noteholder Committee, National Treasury, RMB and Land Bank

30 July 2020: Noteholder Committee letter to National Treasury again, following no response to 17 July letter

7 August 2020: SENS notifying recommencement of interest and general update

25 August 2020: SENS confirming commencement of legal proceedings by Standard Chartered Bank

26 August 2020: Noteholder Committee meeting to discuss recent SENS and the letter of intent

4 September 2020: Letter from ENS responding to noteholder demands

15 September 2020: SENS update on the liquidity facility, the provision of financial information and a board update

30 September 2020: Land Bank confirms to the Noteholder Committee that the R1.8bn to be used for the 5% liability reduction has been set aside as required by Noteholders

5 October 2020: Noteholder Committee meeting with Land Bank, their advisors and National Treasury. Land Bank present a brief summary of their corporate plan, advisors provide an update on the liability solution process and an update on the Standard Chartered litigation matter

12 October 2020: Noteholders submit their comments and mark-ups to the draft DMTN

21 October 2020: Noteholders submit their comments and mark-ups to the wording and mechanism of the proposed 60% guarantee

5 November 2020: Email sent from Futuregrowth and Stanlib to Land Bank, National Treasury and their advisors, requesting a detailed response to the comments provided on the guarantee and DMTN, a detailed timetable of the sequence of events for the conclusion of this solution and a date for the previously promised meeting with National Treasury on the issues of principle

11 November 2020: Lenders (noteholders and banks) meeting with Land Bank, their advisors and National Treasury during which lenders express their dissatisfaction with the letter received the previous day and noting that no response received on guarantee and DMTN comments as yet. Land Bank undertook to provide DMTN comments "very soon". RMB indicated that discussions with National Treasury were underway on the guarantee

23 November 2020: SENS issued updating the market on the liability solution and other matters.

7 September 2020: N/H Committee meeting to discuss next steps

16 September 2020: Letter from Land Bank to noteholders confirming agreement with the list of demands (including the 5% capital reduction) sent in the noteholders letter dated 31 August 2020

30 September 2020: Land Bank confirms to the Noteholder Committee that the R3bn equity, appropriated in the June Budget, from government has been fully received

7 October 2020: SENS confirmation of R3bn equity injection received in September 2020 and release of financial information for FYE 31 March 2020 and selected information for the period to 30 June 2020

14 October 2020: Lenders (noteholders and banks) meeting with Land Bank, their advisors and National Treasury. Discussion about the delayed timetable, Noteholder requirement for engagement with NT on issues of principle raised in the DMTN comments, the additional R10bn equity requested by Land Bank and an update on Standard Chartered litigation

2 November 2020: Lenders meeting with Land Bank, their advisors and National Treasury during which National Treasury provided detail on the additional R7bn mentioned in the MTBPS. Land Bank advisors indicated that an "offer letter" will be forthcoming with the terms of the proposed solution

10 November 2020: Letter from Land Bank indicating a change in approach, no detailed response to comments made by noteholders, lack of clarity on key issues

18 November 2020: Letter sent from Noteholder Committee requesting (inter alia) detailed response on the DMTN and guarantee, as well as, clarity on the processes underway for the 5% capital repayment by 28 February 2021

24 November 2020: Moodys downgrades Land Bank.

Published on www.futuregrowth.co.za/newsroom.

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