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**BOOM! Land Bank drops a bombshell on 13 January 2021…**
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Previous updates on Land Bank: Land Bank - a vital and necessary role-player in SA? | Key decision point for Land Bank and its shareholder | Land Bank New Year's Eve results release - plus an update on the capital repayment

Perhaps the ticking clock in our last update was actually the sound of a bomb about to explode, as just after lunch on Thursday 13 January 2021 Land Bank released a SENS containing this alarming announcement:

"*A combination of factors, including the nature of the guarantee required, the fiscal pressure on the state and a 26 October 2020 government directive regarding the issuance of new government guarantees* ***has resulted in Land Bank being informed by National Treasury that the partial government guarantee will not be available to support the restructured debt.*** *This has necessitated a reformulation of the proposed Liability Solution."* (The emphasis is the author's.)

In addition to the above, the SENS advises that the new proposed Liability Solution will ask all lenders (except for DFI [1]and MIGA[2]-guaranteed lenders) to restructure their existing exposures to a new 5-year amortising note. This is a significant departure from the previous position where original maturities were extended proportionately. So, for example, if your original maturity was 13 months, the previously proposed liability solution envisaged an extension of 13 months, and if your original maturity was 3 years, the previous position extended this exposure by 3 years.

The SENS represents a sharp change of strategy in dealing with Land Bank's restructure, and its future. In effect, National Treasury is proposing to provide only an equity capital injection – which is highly subject to approvals – instead of the previous offer which included a partial RSA Guarantee on Land Bank debt **AND** additional equity as credit enhancements to the new notes. There will be continued uncertainty around the provision of equity capital, the operational efficiency of Land Bank (e.g. cost:income ratio), and the ability to wind-down and collect Land Bank's credit book. This all leaves concomitant risks for Land Bank's lenders.

After nine months of constructive negotiations, this is a material change in the terms and undertakings as regards to Land Bank and is deeply problematic on a number of fronts:

1. **The removal of the partial guarantee as part of the restructured liability solution at this stage in the process**
    a. Lenders have been negotiating in good faith with Land Bank, its shareholder and advisors since the first event of default in April 2020, to restructure the liabilities of Land Bank and place it on a sustainable funding path.
    b. As part of this negotiation, and in an effort to cure the events of default and get lenders to agree to the terming out of existing exposures, the proposed liability solution included additional credit enhancement in the form of a partial (60%) guarantee by the shareholder (as represented by National Treasury).
    c. The partial guarantee was an integral part of the proposed solution offered by Land Bank, its shareholder and advisors since the very beginning of the restructure process and has been included in discussions and presentations to Noteholders, SENS announcements to the market, and briefings to SCOPA[3] to date, and was included as part of the documentation pack sent to Noteholders for commentary in late September 2020.

[1] Development Finance Institution
[2] Multilateral Investment Guarantee Agency
[3] Standing Committee on Public Accounts

d. After over the eight months of detailed discussions between Noteholders and Land Bank, its shareholder and advisors, many pages of detailed legal and other documents were reviewed, and a multitude of advisors consulted, with all parties creatively considering the terms of a possible solution. To fundamentally alter the terms of the restructure at this late stage in the process, and when there is a looming deadline of 31 March 2021 for the agreement on the liability solution, is a problem, to say the least. Changing the very nature of the deal at this stage significantly elevates the risk that the liability solution will not be agreed by the deadline.
e. In addition, this development largely ignores the enormous efforts (and high costs incurred) by all parties involved to engage deeply and appropriately to ensure that the appropriate risk-sharing takes place between lenders and the shareholder.

**2. Terming out to a 5-year note and the impact on money-market funds**

a. The original liability solution envisaged a staggered liability profile, where the original short-term lenders would retain shorter-term maturities and the original longer-term lenders would continue to have longer-dated exposures to Land Bank.
b. The latest SENS removes this distinction, and requires all lenders to agree to invest in a new 5-year unlisted amortising note.
c. For money market funds, which have regulatory constraints regarding the maximum maturity of instruments they may hold and restrictions against unlisted instruments, this results in significant breaches to those regulatory constraints.
d. While it is not clear to us how the money market funds conundrum will be resolved, it is evident the fund management industry will engage with National Treasury, and we are hopeful of a rational resolution.

**3. The equity injection – timing and quantum uncertainty**

a. The SENS affirms previous statements made by the Minister of Finance around further equity injections for Land Bank.
b. While we agree that additional equity is needed for Land Bank, the process to get that equity may have an unknown outcome. Further, the timing and quantum of the equity injections are unknown at this stage.
c. Additional equity was one part of the proposed solution to place Land Bank on a more sustainable funding path. With the removal of the offer to partially guarantee the new notes, this new equity is the only buffer that Noteholders can rely on and, on its own, we believe is not enough to significantly reduce the risk of the proposed new notes to an appropriate level for pension funds.
d. Specifically, while the Minister may have signalled this intent to further capitalise Land Bank, the fact remains that certainty on this will only be achieved once the national budget is presented in February 2021 and once it has gone through the usual budgetary, legislative and appropriations processes.
e. While R7 billion in additional equity (this is in addition to the R3 billion already injected on 30 September 2020) is what we understand has been requested, we do not know if this quantum will be approved (it may be less) in the upcoming Budget or whether this amount will be provided in one lump sum or staggered over a number of years.
f. As of today, Noteholders do not have certainty that the equity injection that we all agree is needed and that has been signalled by the Minister, will indeed be forthcoming. And while we would like to be able to accept the shareholder's bona fides around this intent, it is becoming increasingly difficult to do so when considering the latest action around the partial government guarantee that was previously offered and is now unexpectedly no longer available.

**4. The repurposing of Land Bank's book**

a. It has been part of Land Bank's strategy to tilt its lending more towards developmental finance (as opposed to a blend of developmental and commercial funding, which it currently does).

b. As seen in the results for FYE 31 March 2020 and the interim results for the six months to 30 September 2020, many of Land Bank's commercial clients have been repaying their loans and moving their business to the commercial banks. This means that Land Bank's loan book is increasingly tilted towards developmental borrowers, who have a different risk profile.
c. Noteholders are being asked to take a 5-year view on the performance of this book, which is problematic when we consider that this book is performing worse than expected (this is seen in the higher NPLs as presented in the recent results). What will the performance of this book be over the longer-term, during which we are reliant on collections from this book to repay our loans?

**5. Contagion effect on other SOEs**

a. There is now an elevated risk that this latest action may impact the ability of other SOEs to raise funding in the domestic capital markets (i.e. your and my pension fund).
b. Already, many have struggled in the wake of the state capture era, and more recently with the impact of COVID, to return to the capital markets. The events around the Land Bank restructure may impair their ability to access capital market funding (which remains a very important source of funding for SOEs like Eskom, DBSA, IDC, Transnet and others).
c. This has implications for the shareholder of these entities, as they may become increasingly reliant on equity funding from the state (which, as we all know, is fiscally constrained).
d. It may also have credit ratings implications for these issuers.

We are still processing the information contained in the SENS of 13 January 2021. We believe that this latest action by the shareholder is of deep concern and we implore Land Bank, its advisors and National Treasury to reconsider their position and place the restructure of Land Bank on a more sustainable path.

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