

AFGRI Land Bank deal means more funds for farmers, same great service

Johannesburg, 06 December 2011 – GroCapital, the financing arm of AFGRI, has sold its debtor's book to the Land Bank and the transaction was successfully implemented on 1 December 2011. Although the transaction holds various benefits for the AFGRI Group, it also holds many competitive rates for farming clients of AFGRI.

The biggest single advantage from a farmer's perspective is that there will be sufficient funds available at very attractive rates for seasonal needs, capital expenditure and future extensions. The transaction also realises both AFGRI and the Land Bank's goal to grow the farmer debtor's book.

"AFGRI and GroCap have strong and established relationships with farmer clients and our focus was to do a transaction whereby we can continue to maintain these relationships and, at the same time, create the capacity to grow the financial offering in future," explains Chris Venter, CEO of AFGRI.

The relationship that GroCapital has built up with farming clients over many years will continue unchanged, mainly because:

- GroCapital will maintain the relationship with the farmers and will manage all relationships;
- GroCapital will manage all debt considerations in line with its existing tried and tested credit policy;
- GroCapital will continue to manage all administration, which includes collections, pay-outs, journal entries and monthly statements; and
- GroCapital will still manage the collection of repayments.

It is thus clear that the transaction holds no negative administrative costs whatsoever for farmers, but many advantages.

The purchase price of the farmer lending book, which fluctuates according to the utilisation of facilities, was sold at face value on the effective date. The utilisation usually peaks in February of each year, in accordance with the planting season of the crops. The total aggregate amount of the available farmer lending book facilities is approximately R2.4 billion, and will be sold to the Land Bank in various tranches.

"The substantial reduction in debt is extremely important to AFGRI. A R1.886 billion reduction in debt, which is the first tranche, impacts on the leverage ratio by 40% for the financial year ended 30 June 2011, which – after the transaction – improves to 3.47 from 5.81 and the Debt to Equity ratio improves from 2.88 to 1.68," Venter goes on to say.

The transaction with the Land Bank is akin to AFGRI's agreement with Wesbank, which funds farmers' hire purchases and terms loans. For many years, the Land Bank has been a key supporter of AFGRI's debtor's book. The only difference is that the book is now on the Land Bank's balance sheet and not on GroCap's, although GroCap will still manage the book.

On the back of its relationship with National Treasury, the Land Bank was able to secure access to more agricultural financing capital at a more competitive rate than the commercial banks. The transaction also enables the Land Bank and GroCapital to develop and support more emerging farmers.

“From an AFGRI group perspective, a lot of capital is made available through which AFGRI can make further investments in other divisions, to ensure enhanced return on investments. Secondly, the Group’s financial relationship with shareholders is also positively influenced by taking the debtor’s book off the balance sheet,” concludes Venter.

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