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MEDIA RELEASE

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For immediate release **(4pp, including questions & answers)**

New approach to farming capital from The National Bank

Farmers seeking additional capital to fund more productive farms have a new funding option with the launch today of The National Bank's Rural Growth Funding.

Rural Growth Funding complements traditional capital sources – borrowing through mortgage finance and personal or family equity, The National Bank General Manager Rural Banking Charlie Graham says.

"We need an innovative means of providing capital for farmers. An aging farmer population means more owners are looking to pass on farms to the next generation. At the same time, rising land values are making farms less affordable for farmers looking to buy properties with growth potential," Mr Graham says.

Rural Growth Funding addresses this issue by providing another avenue of capital for highly skilled and innovative farmers to buy properties with high growth potential. These farms may be out of reach for farmers relying solely on traditional forms of funding, Mr Graham says.

"This is possible because the Rural Growth Funding provides capital on the basis of a property's potential value and a farmer's proven ability to realise that potential."

The National Bank's Rural Growth Funding offered a number of benefits for qualifying farmers, Mr Graham says.

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“Farmers will be able to access equity funding without having to take on a partner who wants a say in running the farm. Also, if farmers increase the value of their farm above the national average for rural land (as published by the Quotable Value All Rural Land Index) they get to keep more of the benefits than if they sell a shareholding to others.”

With Rural Growth Funding, a special purpose company owned by The National Bank invests in preference shares in farming companies for up to 20 years.

The preference shares have no voting rights, which means farmers retain managerial control and pay a pre-agreed dividend. The dividend is adjusted at regular intervals - for example, every five years - based on growth of the national average value of rural land as measured by Quotable Value’s All Rural Land Index.

The farmer shareholders have the right to buy the preference shares from the investor company after 10 years; equally, the investor company has the right to require the farmer shareholder to purchase its shares in certain circumstances, for example a default situation.

The price paid for the preference shares when they are acquired by the farmer shareholders is based on the change in the QV Index, not on the particular farm’s value at the time.

“By linking the exit price to the QV Index, the farmer has an incentive and an opportunity to outperform the national average growth in rural land values. The farmer can then capture a far greater share of the capital gain he or she has built up in their own farm,” Mr Graham says.

“The National Bank’s Rural Growth Funding is designed to boost the primary way that the New Zealand farming sector has produced wealth, which is by using the skills and dedication of the next generation’s farmers to boost farm productivity,” Mr Graham says.

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Media Questions & Answers on following 2 pages

MEDIA QUESTIONS & ANSWERS

What will be the initial value of the funding available for investment?
The amount of such funding available will change over time and depend on the level of interest in the market

What will be the source of the capital in the investor company
The Bank will be providing the capital of the investor company

How is it that a farmer could obtain more funding as a result of Rural Growth Funding than they would receive by way of a mortgage?
Two reasons.

1. Rural Growth Funding takes a higher level of risk. First ranking mortgage finance lending ranks ahead of other finance and is extended on a more conservative basis – at lower levels.
2. the lower running dividend yield on Rural Growth Funding is lower than the cost of debt. This allows the farm cash flow to service a higher level of external funding.

Will Rural Growth Funding provide cheaper finance than a traditional mortgage?
Such funding is by way of equity investment which would generally be expected to have a higher cost of capital than first ranking mortgage finance.
However, it's likely that initially a farm company would be paying less by way of dividends to the Investor than in interest on a mortgage, which could have cash flow benefits for the farm company.

Is Rural Growth Funding a way for the Bank to make "easy credit' available to farmers?
With equity-type investments the Bank's aim is to work with those with the potential to outperform the market, such as farmers with a proven track record of creating production growth and increasing the value of farms by more than the national average. Our Rural Banking Managers would work through a process with a potential client to assess whether Rural Growth Funding would work for them.

How does Rural Growth Funding help address the issue of older farmers who want to exit their farms or scale back?
Rural Growth Funding will create more options for raising capital for those wishing to buy farms, which should also help those wishing to sell.
In addition, such funding offers a member of a family a means of raising capital on his or her family farm allowing other family members to withdraw some of their equity in the farm.

What happens when the Investor company is to no longer hold the shares?
The farmer has a number of options including refinancing through a mortgage, introducing more equity, restructuring the funding or selling some part of the asset.

The thinking behind this funding is based on increasing farm values over the next 20 years or so. Is this realistic?

Well of course we can't offer any guarantees. But we can look at the evidence.

Farming has traditionally been seen as offering relatively low returns on capital invested. But those calculations ignore the appreciation of land values, which on average, has been 9.1% since 1953. Land values are driven up by a number of factors, including the farmer increasing the productivity of land, and by outside factors, such as alternative uses, driving increasing demand.

We believe growth is likely to continue because of a number of factors including:

- Technology change – in areas such as IT, breeding, pasture, species and farm management practice, and irrigation – will further intensify land use and the value of farms.
- The move to economies of scale and labour efficiencies will mean larger, more productive farms.
- The worldwide demand for agricultural products is predicted to remain strong because of global population growth and increasing wealth in developing countries.

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