



AGRIBUSINESS AWARD

Report No. 1

March 2009

IN THIS INITIAL REPORT WE EXPLORE ...

- ★ Multi-tasking all in a day's work
- ★ Who are the agribusiness players?
- ★ Products tailored to the farming sector
- ★ FMD vs TD – which is better?
- ★ Borrow against your crop
- ★ Taming risk: protection strategies
- ★ Who is Australia's Best Value Agribusiness Bank?

MULTI-TASKING ALL IN A DAY'S WORK

There's not much these days that a farmer can't turn his or her hand to. Weather forecasting, animal husbandry, plant entomology, diesel mechanics, staff management, business leader, book keeper, web surfer – a farmer uses all of these skills and many more on a daily basis. The unique nature of life on the land producing saleable food and fibre commodities is a constant challenge. An ever-changing mixture of climate, water (too much or too little), market conditions and labour availability means one season is never the same as the next.

With farm income largely being tied to the often yearly sale of crops, livestock and fibre, it's feast or famine, as far as finances go. The specialised nature of farming enterprises requires a very different banking approach. Targeted rural products and a good relationship with the bank's agribusiness manager are paramount to the overall success of any farming or associated enterprise.

WHO ARE THE AGRIBUSINESS PLAYERS?

Most of financial institutions who service business clients are also likely to service agribusinesses. However, there are some providers who differentiate the segments by providing specific products to this industry. Thirteen banks, two credit unions and one building society cater to the specific needs of farming operations in Australia. Along with the list of familiar major banks are Elders Rural, the finance arm of Elders Rural Services and the credit unions, Bananacoast CU in northern New South Wales and Police CU South Australia, plus Newcastle Permanent Building Society in the Hunter Valley. All have dedicated agribusiness sections to cater for their share of financing the nation's 134,000 agricultural industries.

AGRIBUSINESS PROVIDERS

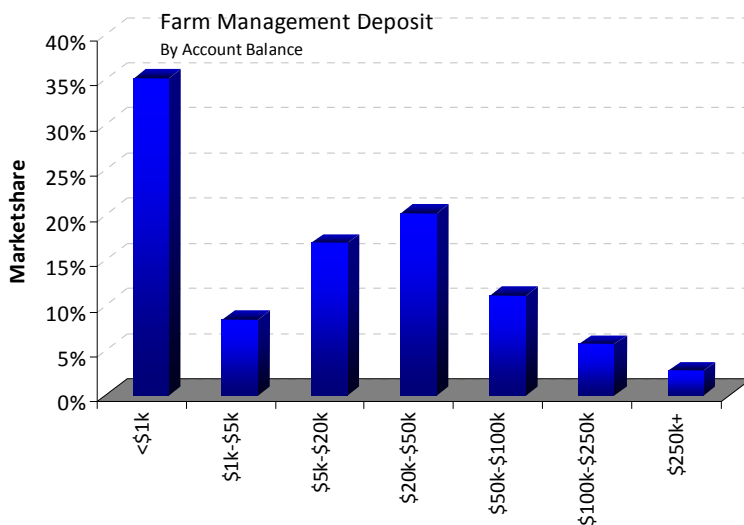
Adelaide Bank/Bendigo Bank
ANZ
Bananacoast Community CU
BankWest
Bank of Queensland
Commonwealth Bank
Elders Rural Bank
nab
Police Cu SA
Newcastle Permanent BS
Rabobank
Suncorp
St George Bank/BankSA
Westpac

PRODUCTS TAILORED TO THE FARMING SECTOR

Balancing the finances needed to run a rural enterprise is not easy. Day-to-day cashflow is a necessity to keep the farming family going and to pay wages. A line of credit is typically used for cashflow in place of the traditional transaction account. Equipment has to be carefully considered using lease finance or an equipment loan. Seasonal finance secured against future crop income is a popular way of operating. When the crop has been harvested and sold, the debt is paid down and the surplus, hopefully, may then be directed to new plant and equipment or a Farm Management Deposit (FMD) account.

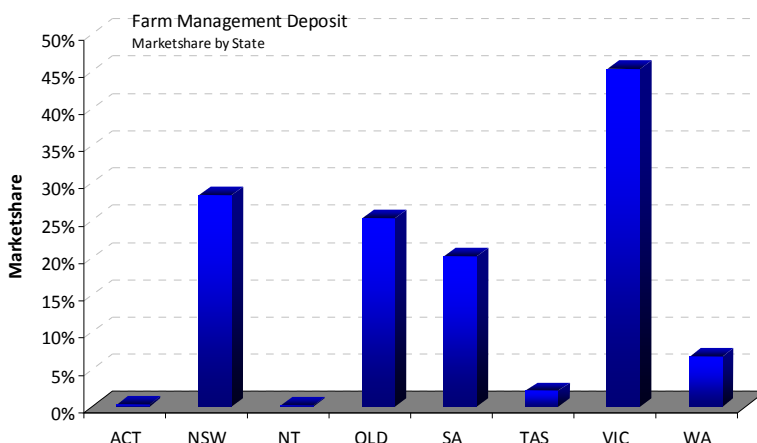
The Farm Management Deposit scheme was introduced by the government a decade ago as a cash flow management tool. It's essentially a tax-deferring scheme that allows eligible primary producers to shift before-tax income from years when they need it least to years when it is most needed to help them manage their exposure to adverse economic events and seasonal fluctuations. FMDs also take into account off-farm income of up to \$65,000 p.a. when determining total taxable income. FMD deposits are capped at a maximum of \$400,000 and can be either at call or fixed deposits.

There are currently in excess of 42,000 FMDs, worth \$1.5 billion, according to our figures. The average balance is \$46,000 with almost 35% of these accounts carrying a balance of under \$1,000. This is possibly a symptom of the tight conditions many farms have experienced this last decade.



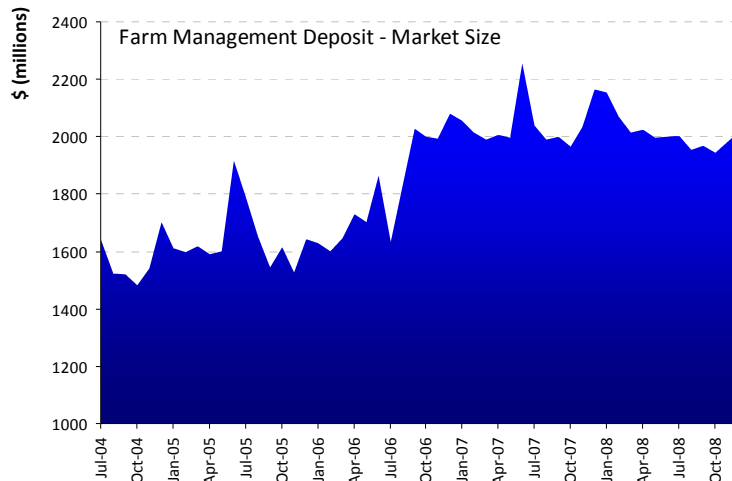
FMDs by account balance

- Close to 35% of accounts have balances less than \$1,000
- Average balance - \$42,272.66



FMDs by state

- Victoria holds 45% of FMD accounts, with the Territory and Canberra jostling for wooden-spoon position.



FMDs' market share graph

- Despite dramatic peaks and troughs over the years, FMDs currently account for \$1.5 billion made up of in excess of 42,000 individual accounts.

FMD vs TD – WHICH IS BETTER?

The idea behind the Farm Management Deposit scheme is to iron out the sometimes erratic income earned by farmers. In a good year, eligible farmers can minimize taxable income by diverting surplus funds into their FMD for use in leaner times. Naturally, less tax will be paid if farm income dips and has to be topped up by funds kept in the FMD.

Given that term deposits (TDs) usually offer a higher rate of interest than an FMD, which is the better option when it comes to maximizing money? We looked the difference between a one-year term deposit within the FMD at 4.5% interest and a standard one-year term deposit at 5% interest. The comparison scenario we have chosen to illustrate this is based on a farming family who earns \$150,000 from the farm, supplemented by \$45,000 in off-farm income per year. The family's annual living cost has been calculated at \$70,000.

As you can see in the table below, the annual farm income of \$150,000 dives to \$20,000 in the following two lean years. As a direct result of the tax advantages the FMD gives, the farm family is better off in the long run by \$5177.72 after tax adjustments.

FMD Term Deposit vs Standard Term Deposit

Assumptions

- Need \$70,000 net every year to cover living costs
- Invest all excess cash to 1-year term deposit
- FMD 1- year rate: 4.50%
- TD 1- year rate: 5%

	GROSS INCOME			NET INCOME (after tax)	
	non-farming	farming	Interest TD/FMD	TD	FMD TD
Current year income	45k	150k		\$130,251	\$70,000
1st year projected income	45k	20k	\$3k/\$4.6k	\$53,700	\$70,000
2nd year projected income	45k	20k	\$2.2k/\$3.5k	\$52,723	\$101,851
Final position				\$96,673	\$101,851

Benefit by using FMD: \$5,177.72



Farm Management Deposit 1-Year Term Deposit

Company Name	Interest Rate (%)
Adelaide Bank	4.00
ANZ	3.45
Bananacoast Comm CU	3.20
Bank of Queensland	3.70
BankSA	3.45
BankWest	4.50
Bendigo Bank	4.00
Commonwealth Bank	3.50
Elders Rural Bank	4.00
nab	3.25
Police Cu SA	3.60
Rabobank	2.60
St George	3.45
Suncorp	4.20
Westpac	3.40

source: www.canstarcannex.com.au 26/02/2009
based on \$50,000 balance

BORROW AGAINST YOUR CROP

Seasonal finance secured against crops is a form of asset finance that can work well for farmers. These products throw a lifeline to farmers who have already harvested and sold their crops but have not yet been paid. The money borrowed against the crops can be used to prepare for next season's planting, while waiting for payment owed, thus minimizing time delays with the farming operation. Individual banks have their own agribusiness products in areas of crop finance specialty. Some only lend on cotton, others on grain, and conditions vary between providers and products.

Working/Seasonal Finance

Company	Product Name
ANZ	Grain Growers Advance
BankWest	Harvest Line
Commonwealth Bank	Grain Inventory Finance
Elders Rural Bank	AgriManager, Stock Builder
nab	NAB Commodity Advance, NAB Wheat Advance
RaboBank	Seasonal Finance – Cotton, Harvest Advantage
Westpac	Westpac Agribusiness one

TAMING RISK: PROTECTION STRATEGIES

The appalling bushfires and floods currently devastating parts of Australia serve to illustrate only too graphically how easy it is to lose not only human lives but crops and livestock as well. Add fluctuating commodity prices, interest rates and currency into the farming mix and the true nature of operational risk starts to become apparent.

With elimination impossible, management of risk is the next best thing and there are a number of products offered by agribanks designed to hedge against downward trends which would impact negatively on cashflow and profitability. Products such as Swaps and Options allow you to 'lock in' a sell price for cattle, fibre and grain crops as a hedge against future market uncertainties.



Bill facilities can also protect rural businesses from adverse interest rate movements, while exporters have the added risk of currency fluctuations to deal with. Exchange rate movements can be incorporated into plans with products such as Forward Foreign Exchanges, Currency Options and Put Options. With the availability of these specialized rural products, there is no substitute for talking about them with the bank's agribusiness manager or your financial adviser.

WHO IS AUSTRALIA'S BEST VALUE AGRIBUSINESS BANK?

When looking for the right bank, farmers usually have a very specific shopping list. Good value, flexible products, and a knowledgeable relationship manager who will understand their needs are right up the top. Bureaucratic red tape is frowned upon but institutional strength is valued, particularly in the tough times. The last thing a farmer wants is the repossession of property by the bank, should lean years hit. Products, too, should be able to support the different cashflow requirements of the seasons so full offerings must include risk management products, crop and livestock finance, equipment finance plus day-to-day cashflow. And lastly, the one institution please. Is it too much to ask to deal with all banking under the one roof?

CANSTAR CANNEX looked at all agribusiness providers in Australia to determine how well they filled the bill. While we cannot measure factors such as the knowledge of each agribusiness manager in the country, we can measure their number and where they are located, as well as key product areas in order to determine the agribank that offers the best value for farmers. In undertaking this comparison, we examined banking products and services valued by farmers. The most important was business lending which comprised term loans, overdrafts and credit cards. We also looked at the suite of deposit products available - term deposits, farm management deposits (FMD) at call, savings and transaction accounts.

In determining the bank that delivered the best value to the Australian rural sector, we also took into account supporting products offered which can often provide the key point of difference in the eyes of the farmer.

- The number of branches and agribusiness managers which should facilitate ease of face-to-face meetings.
- The availability of working capital and seasonal finance secured against crops and livestock.
- Equipment finance – hire purchase, finance lease, operating lease, or equipment loan options.
- Risk management – insurance, hedging, swaps, options etc.

ANZ came out on top after our research showed this bank stands out for its breadth and depth of products targeted specifically at agribusiness. As well as offering a full suite of agribusiness banking services, ANZ has a dedicated agribusiness credit risk team to ensure most farmers' needs can be met under the one roof. A further presence of 300 locations nationwide should make face-to-face meetings with agribusiness bankers more convenient in the majority of cases.



**Best Value Australia
Agribusiness**



To see how we did our comparison, read the Methodology document after the results.

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CANSTAR CANNEX Best Value Australia - Agribusiness



WINNER



Products

- Agri Finance – term loan with redraw facility for capital funding of farm property
- All Seasons facility – loan with aggregate limit across a range of nominated products
- Grain Growers Advance – cash flow harvest financing for delivered grain crops
- Farm Management Deposits – term deposit & at call account are available
- Rural Premium Investment account – high yield investment product for Agribusiness

Services

- Agricultural commodity swaps & options are available
- A dedicated agribusiness credit risk team

Website: www.anz.com.au Business Banking: 1800 801 485, refer to website for ANZ Regional & Rural Manager

FINALISTS (SORTED ALPHABETICALLY)



Products

- NAB Farmer's Choice Package – a streamline banking solution with ability to reborrow up to an agreed limit with no new application fees and also Repayments can be structured monthly, quarterly half-yearly or annually to suit cash flow requirements
- Farm Management Account Overdraft – combines short and long-term finance, plus an everyday transaction account in one simple solution
- NAB Wheat Advance Facility – flexibility to access equity on harvested wheat
- Farm Management Deposits – term deposit & at call account are available

Services

- Agricultural commodity swaps & options are available
- Over 580 Agribusiness Specialists Australia wide

Website: www.nab.com.au Business Banking Enquiries: 13 10 12 or refer to website to locate your local agri banker



Products

- Agribusiness One transaction account - Simple and flexible plan-based fee structure with line of credit option
- Farm Management Term Deposits are available
- Agribusiness One Loan - combines into one account all borrowing requirements, such as working capital, seasonal funding and longer term funding. Minimum borrowing of \$200,000

Services

- Agricultural commodity swaps & options are available
- Westpac & Charles Sturt University Agribusiness Index – a current economic snapshot of agribusiness

Website: www.westpac.com.au Agribusiness Banker or Country Business Direct: 1300 134 979

OTHER STRONG PROVIDERS (SORTED ALPHABETICALLY)



Founded by farmers in 1970, Bananacoast Credit Union provides full range of banking services for farmers from Port Macquarie, NSW to Beaudesert, QLD. Products offered include rural insurance, equipment finance and also Farm Management Deposits.

Website: www.bcu.com.au

General Enquiries: 1300 228 228



Bankwest provides full range of banking services and also tailored agribusiness products Bankwest AgriOne, Harvest Line and Farm Management Deposits. Harvest Line allows farmers to unlock the value in wheat harvest and repay the loan straight from AWB contributions. Offices are available across WA, NSW, VIC, QLD and SA.

Website: www.bankwest.com.au

Bankwest Rural & Regional: 1800 199 535 (West Coast) or 1800 228 808 (East Coast)



Commonwealth Bank, as a major financial services provider, offers dedicated agribusiness managers nationwide, and a 24/7 phone line to access agribusiness professionals. Full range of products & services (AgriAdvantage Package, Grain Inventory Finance, Farm Management Deposit, and Risk Management)

Website: www.commbank.com.au

AgriLine: 1300 245 463



Elders Rural Bank, is a joint venture between Bendigo and Adelaide Bank Limited and Futuris Corporation Limited (parent company of Elders Limited). Elders Rural Bank provides full range of banking services for agribusinesses (Seasonal Overdraft, AgriManager, StockBuilder loan, Farm Management Deposits and also Risk Management).

Website: www.eldersruralbank.com.au

Refer to website for Branch & Lending Specialist Locator



One of the world's biggest banks with more than 1,600 offices and branches in 43 countries. Rabobank has a strong presence in Australia, providing a wide range of financing banking solutions for farm business, such as Farm Loan, Harvest Advantage, Seasonal Loan, and also deposit products plus risk management services.

Website: www.rabobank.com.au

Agribusiness Line: 1300 30 30 33



St George Bank/BankSA provides a large range of products and services that can be structured to meet the specific needs of rural producers and businesses. Products include equipment finance, Farm Management Deposits and also insurance for both farms & crops

Website: www.stgeorge.com.au

Agribusiness Line: 1300 781 605

Website: www.banksa.com.au

Agribusiness Line: 1300 301 563

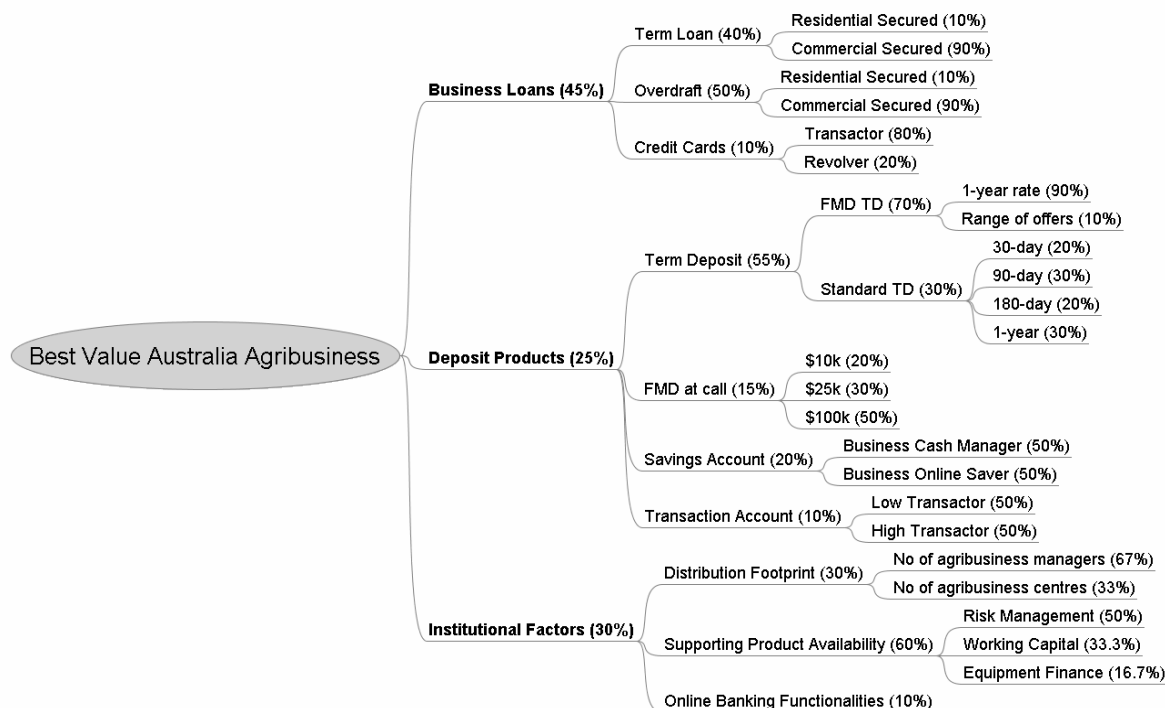


Provides full range of banking services to agribusinesses and also a specific rural insurance policy to cover home and business together - Country Choice (Rural) Insurance.

Website: www.suncorp.com.au

General Business Enquiries: 13 11 75

Overall Methodology



Business Loans

Term Loan & Overdraft: This assessment is assessed as per business banking star ratings. Two type securities are considered in this assessment.

Credit Card: As per business banking star ratings – 80%/20% weight for transactor and revolver profiles

Deposit Products

Term Deposit: This section consists of two parts;

- FMD term deposit (70%)
 - Combination of 1-year FMD TD rate & range of offers across different terms
- Standard term deposit (30%)

It is ranked based on rates available for \$25k & \$100k for 1-month, 3-month, 6-month and 1-year. (20%, 30%, 20%, 30% respectively)

FMD at call: Farm Management Deposit accounts are assessed by comparing their rate offers (no features are used as they are identical). This assessment is based on balance of \$10k, \$25k & \$100k (20%, 30%, and 50% respectively)

Transaction & Savings Account: As per business banking star ratings

Transaction account score is derived from low & high transactor profiles (equal weight)

Savings Account score is derived from online saver & business cash manager (equal weight)

Institutional Factor

This information is based on a list of question asked to each institution for specific features on agribusiness, which carries through into three different segments:

- **Distribution footprints** – measures presence of agribusiness services across Australia
- **Supporting product availability** – measures other products and services customised to agribusiness
- **Online banking functionalities**

How often are Agribusiness products reviewed for award purposes?

All ratings are fully recalculated every twelve months, based on the latest features offered by each institution. CANSTAR CANNEX also monitors changes on an ongoing basis. The CANSTAR CANNEX Best Value Agribusiness award will be decided once a year.

Does CANSTAR CANNEX rate other product areas?

CANSTAR CANNEX researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR CANNEX website at www.canstarcannex.com.au if you would like to view the latest star ratings reports of interest.

Agribusiness
Business banking
Car insurance
Credit cards
Deposit accounts
Health insurance
Home & Contents
Life Insurance
Low-doc home loans
Margin lending
Mortgages
Package banking
Personal loans
Reward programs



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