Bank of Ireland

Making an Informed Farm Financial Decision

March 2015
Overview

Commitment and knowledge to build relationships and to tailor solutions for your business

To invest or not to invest
Appraisal

- Physical-Assets:
  - Land base
  - Facilities
  - Stock
  - Labour

- Financial
  - Liabilities
  - Debtors
  - Creditors / OFI

- Personal
  - Age
  - Profile
  - Family Circumstances

- Key Questions:
  - Where am I now?
  - Where do I want to be in 2/3/5 years time?
  - How will I get there?
How efficient are you now?

- Maximise efficiency and profit.
- Benchmark your performance with Profit Monitor farmers.
- Know your costs of production.
- Know your breakeven price & consequences of drop in commodity prices.
- Top 10% versus bottom 10%
  - Where do you sit?
Making the right decision

- Decision
- Logic
- Sustainable
- Efficiency
- Financial Planning
- Manage the Risks
- Know the Risks

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Step by step approach
The following are the key considerations for loan assessment:

1. Customer Information
2. Farm Inventory
3. Bank Track Record
4. Proposal
5. Repayment Capacity
6. Security
Loan Application Form.

Age, marital status, number of dependents, type of farmer.

Description & history of farm system:

- Dairy Farmer
  - (Co-Op and volumes supplied, efficiency level, EBI, Constituents, etc.)

- Beef farmer
  - (sucklers, store to beef, main point of sales, etc.)

- Tillage
  - (crop mix, yields, contract versus own machinery / labour, merchant partner)
Farm Inventory

- Land owned & rented (including rental cost)
- Livestock
- Farm Buildings
- Machinery
  - Are above fit for purpose?
  - Is Investment needed?

Assess your future investment needs

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Bank Track Record

- Existing customers
- New to bank applications
  - bank statements

Debtors & Creditors

- Bank loans and annual repayments
- Non bank creditors and payment arrangements
- Schedule of investments (property, shares, deposits, etc.)
### Source & Use of Funds

<table>
<thead>
<tr>
<th>Uses</th>
<th>€’000</th>
<th>Sources</th>
<th>€’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Development</td>
<td></td>
<td>Term Loan</td>
<td></td>
</tr>
<tr>
<td>Land Purchase</td>
<td></td>
<td>Own Equity</td>
<td></td>
</tr>
<tr>
<td>Livestock Purchase</td>
<td></td>
<td>New Seasonal Loan</td>
<td></td>
</tr>
<tr>
<td>Repay other bank loans</td>
<td></td>
<td>New Overdraft</td>
<td></td>
</tr>
<tr>
<td>Working Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

Projects need to be properly costed in order to account for over runs and additional unforeseen expenditure.
Repayment Capacity

• Looking back to project forward
• Financial accounts & net margin analysis
• Accounts averaged due to volatility
• Projections compared to historical accounts
• Single Farm Payment / Basic Payments discounted
• Adjustments for exceptional non-recurring expenses

Policy limits for balance sheet mix on the size of asset/liabilities categories

<table>
<thead>
<tr>
<th>Assets</th>
<th>Policy limits as a % of Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and leases</td>
<td>70%</td>
</tr>
<tr>
<td>Residential mortgage</td>
<td>40%</td>
</tr>
<tr>
<td>Commercial loans</td>
<td></td>
</tr>
<tr>
<td>Personal loans</td>
<td></td>
</tr>
<tr>
<td>Financial leases</td>
<td></td>
</tr>
<tr>
<td>Financial investments</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
</tr>
<tr>
<td>Intangible</td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Trade</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Policy limits as a % of Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic loans</td>
<td>75%</td>
</tr>
<tr>
<td>Demand loans</td>
<td>42%</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>25%</td>
</tr>
<tr>
<td>Brokered deposits</td>
<td>4%</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>4%</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>12%</td>
</tr>
<tr>
<td>Non-interest bearing liabilities</td>
<td>5%</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>2%</td>
</tr>
<tr>
<td>Trade and other payable</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

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Bank of Ireland Information Classification: Green
## Calculating Debt Service Cover (DSC)

<table>
<thead>
<tr>
<th>CASH IN</th>
<th>CASH OUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise income (dairy, beef, cereals, etc.)</td>
<td>Drawings (including taxation)</td>
</tr>
<tr>
<td>Basic Payment, Area based compensation, AEOS, GLAS, etc.</td>
<td>Existing farm loan repayments</td>
</tr>
<tr>
<td>Non farm income (PAYE typically)</td>
<td>Existing home loan / personal loan repayments</td>
</tr>
<tr>
<td></td>
<td>Proposed new loan repayments</td>
</tr>
</tbody>
</table>

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### Debt Service Cover

- Cash In / Cash Out
  - = Debt Service

- Stress Test
- Interest Rates

1.2 Times Cover
Financial Accounts Analysis

Net Profit + Depreciation + Interest = EBITDA

EBITDA - Earnings before Interest, Tax, Deprecation and Amortisation.
EBITDA is available to service bank debt, farm investment, taxation & living expenses.

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Security

- Typically necessary once borrowings > €65k
- First legal charge over land
- Values in line with National and regional averages
- 70% maximum Loan To Value
- Independent access, additional burdens on folios, rights of residence, etc.
Financial Information Required

Up to date farm accounts (multiple years are preferable)
  - Management accounts / profit monitors (if available)
• Bank statements (if new to bank customers)
• Confirmation of direct payments (SFP, REPS, DAP, etc.)
• Confirmation of off-farm income & tax affairs
• Projections and cash flow forecasts (especially where future cash flow will differ dramatically from historic norms)
• Profit Monitor / Milk Statement / ICBF Co-Op Herd Performance Report
• Information requested to make the right decision for the bank and the customer

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AgriFlex – Responding to Volatility

- Interest only option to offset commodity price / input cost volatility
- Term extension options
- Option to accelerate repayments in favourable market conditions
- AgriFlex is subject to:
  1. Standard application process
  2. Normal Credit Criteria

Warning: the entire amount that you have borrowed will still be outstanding at the end of the interest-only period

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Summary

You are the most important asset on your farm

- Decisions made based on evidence presented.
- Ensure capital expenditure is adequately provided for and appropriately structured.
- Monitor actual performance against budget on a monthly basis and address weaknesses.
- Engage with on-line banking to minimise charges.
Conclusion

• Bank of Ireland optimistic for agri sector; volatility will play a role.
• Long-term commitment means a long-term view.
• We have the capital & appetite to support the development of your farm.
• Plan responsibly for you, your family and your farm.

Bank of Ireland has a relationship-based approach to position us as the leading business bank in Ireland.

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Warning: If you do not meet the repayments on your loan, your account will go into arrears. This may affect your credit rating, which may limit your ability to access credit in the future.