



Banking the Tillage Sector

**Newbridge
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**Patrick Butterly
Agri Advisor**



Agenda

- Agri Banking Market
- Bank Funding Issues
- Agriculture & Tillage in the Irish Economy
- Cash flow pressures - options
- Conclusions

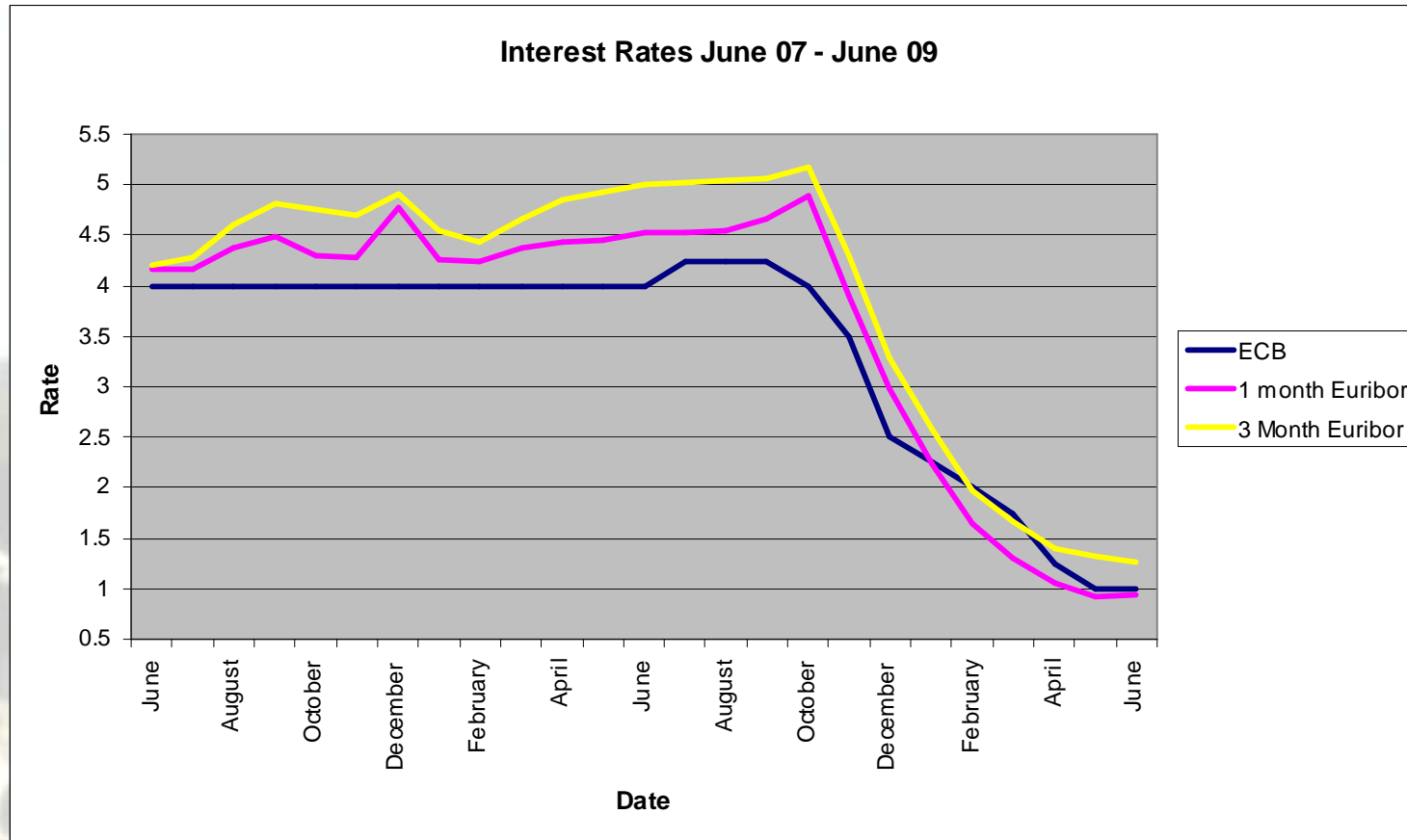


Agri Banking Market

- Considerable on farm investment – FWMS scheme
- Record level of debt on Irish Farms at €5.42bn.
- Debt is manageable for majority of our customers
- Farm investment still taking place
(albeit at reduced levels).
- Cash flow difficulties with some of our farmers
- AIB still open for business



ECB vs Euribor '07 – '09



- Differential between ECB & Euribor has widened significantly
- Loans now priced off 3-month Euribor interest rate
- Banks paying additional premium over Euribor to obtain funds

Global Money Markets

- Increased funding costs for Banks
- Banks now pricing to reflect these costs
- Loans not priced at ECB rate but at Euribor rate plus a funding premium
- Level of deposits being paid by institutions gives an indication of the current cost of funds
- Unwelcome for Banks & Customers

Nevertheless

- Actual rates are at historic lows – comfort to those with larger borrowings



Importance of Agri Sector

Agricultural in the Irish Economy

- 6.6% of GDP
- 8.5% of direct employment
- 60% of indigenous exports

The importance of the tillage sector

- 9% of total area farmed
- 6% of Gross Agricultural Output
- 15,000 jobs in the food processing sector
- An integral part of the other farm sectors



“Kilo of carcass gain 23% cheaper on ad lib meal feeding as opposed to feeding silage and and meal”

- Justin McCarthy Farmers Journal

Rolled Barley @ €145/tonne values Baled Silage at €16/bale

Current prices of €30 - €35 per bale

- Teagasc

Tillage sector an important supplier of feed ingredients to pig, poultry & cattle sectors

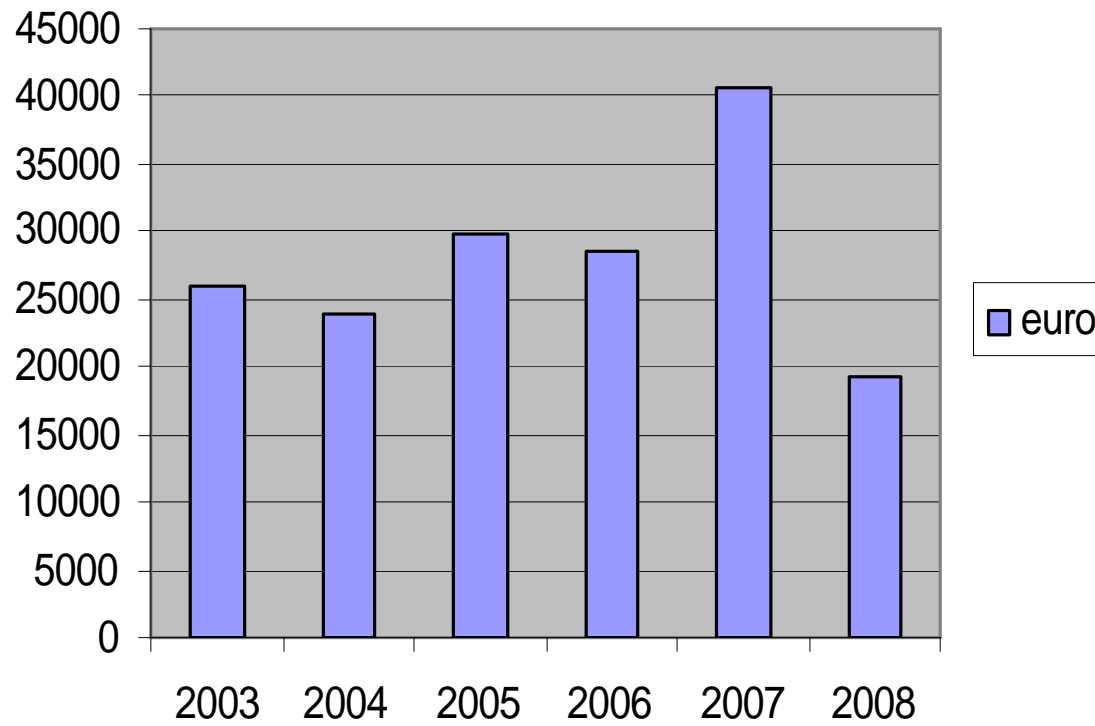


Farm Incomes 2006

•Dairying	€ 36,221
•Dairying + Other	€ 24,774
•Tillage	€ 28,536
•Cattle Rearing	€ 8,291
•Cattle Other	€ 11,292
•Sheep	€ 11,902



FFI on Specialist Tillage Farms in Ireland



Wheat Yields / tons per hectare

Belgium	8.71
Czech Republic	5.88
Germany	8.18
Ireland	9.36
Lithuania	3.97
Netherlands	8.98
Poland	4.12
Portugal	1.03
UK	7.89



2009 Yields and Prices below Target

	2 year average (2007/8)	Yield to cover variable costs in 2009
Winter Wheat	9.3	10.0 (€1,300)
Winter Barley	7.95	9.3 (€1160)
Winter Oats	8.0	8.6 (€1,070)
Spring Wheat	7.2	7.6 (€1,070)
Spring Barley	6.6	7.2 (€900)

Availability of Agri Credit

- AIB continues to support our agri customers

But

- Any credit request must be viable
 - Repayment capacity is No. 1 consideration
- The cost of credit will be higher
- Working with customers who experiencing cash flow difficulties to find solutions
- Same lending criteria
- No withdrawal of existing loan facilities



If you have a cash flow problem?

- **Contact your Bank early**
 - Basle
 - Process
 - Track record / impression
- **Bank will work with clients to find optimum solutions with viable farm businesses**



If you have a cash flow problem?

- What is the cause of it?
 - Current Prices
 - Adverse weather / Yields
 - Carried out capital investment from cashflow
 - Off-farm investments
 - Off-farm employment
 - Ongoing problem
 - High level of short-term debt (e.g. machinery leasing, personal loans etc.)

If you have a cash flow problem?

- Arrive Prepared
 - Know your farm details – acreage (rental cost), direct payments, livestock, machinery, debtors & creditors
 - Up to date trading accounts – study them/ discuss with your accountant / Profit monitor
 - Level of debt & repayments- be honest
 - » Term Loan
 - » Stocking Facilities
 - » Hire Purchase / Leases
 - » Mortgages & Personal Loans
 - What is the level of off-farm income
 - What is your level of drawings
 - **You then know how much the business needs to make!**
- Bring somebody with you if you desire



Dealing with your Bank

- Evaluate your financial position
 - Explain & cost it
 - What will you need to get through the next 12 months
- Show a strong proposition
 - Track Record
 - Farm Development / Expansion (history)
 - **Cashflow (Short-term & longer term)**
 - Profit Monitor
 - Farm plan – lower land rent, lower labour, reduced machinery
- Early intervention is vital
 - The sooner your Bank knows the easier it will be to deal with the problem
 - Worst effects of pig crises were averted by early intervention



What does a bank consider

- Repayment Capacity
 - 3 years of trading accounts (adjusted Profit)
 - Off-farm income
 - Level of Debt Elsewhere
 - Adjusted Profit – (Living Expenses + Bank Repayments)
- Track Record
 - Credit Bureau / with all Banks / 6 months of current account statements
 - Previous experience with bank / individual track record
 - Current account performance
- Security
 - Realisable Value
 - Loan to Value
- Liquidity
 - Level of stock vs debt
- Purpose of loans / proposition
 - Where did the debt come from



What banks may be willing to do?

- Looking at the long-term position of customer (not just current position)
- Advancing additional Working Capital / Term Debt
- Extending terms of loans
- Placing debt on Interest Only
- Holiday repayments on Leasing
- Re-organising debt
 - Amalgamating loans
 - Maybe take out Leasing (high repayments)

Conclusion

- 2009 is a very challenging year for Irish Tillage Sector
- Early intervention vital to avert financial problems
- Lenders look at underlying profitability
- AIB here to support our Agri customers through these times
- Agriculture has been & will continue to be a vital part of our business



AIB
AIB logo featuring a red shield with a gold crown and the letters 'AIB' in white on a blue background, with a green bar at the bottom.

Your Partner in Farming

Thank You

