Northern Ireland Assembly

Committee for Agriculture and Rural Development

OFFICIAL REPORT (Hansard)

Financial Crisis in Farming: Bank of Ireland Briefing

27 June 2013

NORTHERN IRELAND ASSEMBLY

Committee for Agriculture and Rural Development

Financial Crisis in Farming: Bank of Ireland Briefing

27 June 2013

Members present for all or part of the proceedings:
Mr Paul Frew (Chairperson)
Mr Joe Byrne (Deputy Chairperson)
Mr William Irwin
Mr Kieran McCarthy
Mr Robin Swann

Witnesses:

Mr Alan Bridle	Bank of Ireland
Mr Ciaran McGivern	Bank of Ireland
Mr William Thompson	Bank of Ireland

The Chairperson: I welcome from Bank of Ireland Alan Bridle, UK economist and market analysis manager, Ciaran McGivern, head of business banking Northern Ireland, and William Thompson, agriculture manager for Northern Ireland. Members have already had a chance to read your presentation. I ask you to present for no more than five minutes. I will stop you after five minutes, and we will go straight into questions and answers. I ask that you use those five minutes to give us information that is additional to what is in your presentation; that would be very good and a more valuable use of all of our time. I also ask members to keep their questions succinct and to the point.

Mr Ciaran McGivern (Bank of Ireland): Mr Chairman and Committee members, on behalf of Bank of Ireland, I thank you for your invitation and for giving us the opportunity to meet you today. Mr Chairman, you have kindly done the introductions, so I will not repeat those.

An important message that we are keen to convey to you all is that, from a strategic context, Bank of Ireland has a very strong commitment to this sector. Unlike some of our competitors perhaps, we continue to have growth aspirations. On the back of successes in recent years, we hope to continue to build our market share in the segment. We are very pleased to be able report that, since we appointed William and launched our agri fund about 18 months ago, we have had considerable success in growing our market share in respect of account numbers and net-lending share to the segment.

We make no secret of the fact that, historically, we are not considered a bank of choice in the agri segment. Going back many decades, the Northern Ireland market has been dominated by a duopoly of two banks constituting up to 80% of the market. That has made the farming sector, arguably, the most concentrated banking segment in the Northern Ireland marketplace. In latter years, we have noticed a change in sentiments towards change in banking. That clearly presents a great opportunity for us as a challenger to that duopoly. We are very pleased to be able to report the recent need to extend our agri fund. Having originally pledged £50 million, we have now doubled that fund in the hope that we will continue to see tangible progress in the agri segment.

As regards our current market position, we estimate that Bank of Ireland has a 10% market share. Our overall net lending, including that of our subsidiary company NIIB, is approximately £100 million. Over the last 12 months, that has grown by 10% or thereabouts; that growth is split roughly half and half between new-to-bank customers and extensions to existing customers. That obviously does not include our share of lending to larger corporate businesses in the agrifood and, notably, food-processing and animal-feed segments. On the all-island basis, Bank of Ireland in the Republic of Ireland has about a 40% market share in farming. Therefore, we hope that we have a very good grasp, on an all-island basis, of the key emerging issues affecting farmers.

While farming has nuances that make it different from other businesses, we broadly treat farming accounts just as we treat the accounts of any other small business such as retailers, local cafes and supermarket retailers. Fundamentally, our lending approach is aimed at identifying cash generation. From everyone's perspective, that and the ability to retire debt are the critical determinants of the success or otherwise of a proposal. We approve around 90% of all applications. The figure is probably slightly higher than that in the farming segment specifically. However, credit demand across Northern Ireland continues to be relatively muted, so it is 90% of a lower number than we would like.

We recognise the particular difficulties, notably weather-related difficulties, affecting a number of our customers in the farming sector. A few individuals have approached us regarding tighter financial conditions and the need for short-term extensions and so on. However, at an overall, high-level basis, we have not seen any real or noteworthy move in our overall credit risk profile in the last two or three years. We also pleased to confirm that, as of today, we do not have any farm enterprises in possession or under imminent threat thereof. Indeed, the challenge portfolio that we manage has practicably negligible exposure in this sector.

We were pleased to provide you with a briefing document, and you will doubtless pick up some of the key themes in that. Perhaps you will offer Alan the opportunity to comment specifically on the Agri-Food Strategy Board (AFSB) initiative from an economist's lens. We are keen to share our views on that. I am happy to hand over to you, Mr Chairman.

The Chairperson: I will ask Alan to contribute to the answers as we go along. I am sure that that issue will be teased out.

You were very pointed in remarking that you have a 10% share in the agriculture business. You also talked about the other two banks. So, apart from the weather, all the issues with lending are the fault of the other two banks.

Mr McGivern: No; it is fair to say that we feel that we have punched below our weight in this sector, not by dint of a lack of appetite but because, not just in farming but in small business in general, there is a high degree of inertia and reluctance to move bank. A high proportion of small businesses never re-bank other than in the event of a decision that results in a decline that gives them a clear catalyst to move. We have not had a stated policy not to lend into this sector. However, we now recognise that the flux in the market gives us an opportunity to exploit differing views in particular subsegments. It has not been by choice that we have been under-represented. It has been more a case of it being very difficult to get traction.

The Chairperson: I have a burning sense of fairness here as to what I have asked the other banks, so I will try to keep to that line as much as possible. You have said that you have a lower market share, but that it is rising. How does your lending compare with what it was before the financial crisis, in 2006, for instance? How does it compare against the starkness of this year compared with this time last year before all the crises hit — before we had the poor spring, summer and winter of last year?

Mr McGivern: It is easier for us to talk about that in the context of the aftermath of the fund launch, because prior to that we would not have been individually tracking farming as a subsegment under an initiative. However, we would estimate that, probably, our market share since 2011 has grown from about 6% to about 10%. Is that correct, William?

Mr William Thompson (Bank of Ireland): It is there or thereabouts. Talking specifically about the £50 million fund through the course of the past 18 months, we have seen that approximately 40% of that fund has been attributed to working capital needs. Not all have been weather crisis-related, but it is in that space across the segment.

That said, we are still seeing an appetite for businesses that are looking to expand. The crisis, in my opinion, is not widespread. We are still getting enquiries on a weekly basis about business expansion plans, whether about buying land or diversifying into poultry or whatever it might be. There are businesses that still have an appetite to borrow more money and which have profitable enterprises in the background to support that.

The Chairperson: OK. There is a belief out there — some would say that it is a perception, others that it is a reality — that the banks have tightened up their lending practices, not just for new business but for existing business. There is a belief that they have moved the goalposts; that they have changed overdrafts mid-flow and that they have tried to change interest rates mid-flow. How do you answer that?

Mr McGivern: In my opening comments, I mentioned that we have a very small number of customers who might be deemed to be under that distress banner; however the individual banks describe it. Certainly, where facilities are under pressure, our approach, although there is not a "one and done" approach to every customer, is to endeavour to support them to a manageable debt level by whatever means that can be delivered.

It is not a big feature in farming. The one benefit in having a relatively new and growing market share is what you might call new pricing, which is a lot of what William has already been doing under the fund. While some of the other banks that you have met, on the back of historical high levels of business, are into the debate around old-level bank pricing compared with today, it is not a feature for us because we came relatively late to the game.

Mr Thompson: To go back to your point about overdrafts, working them back and, potentially, taking part of them and terming it is certainly not our strategy. I am in close communication with our credit department, and we recognise, on an all-island basis, the difficulties in farming at present. It is not our position to take funds from an overdraft and put them onto a term loan, where, obviously, there are monthly repayments, and put the farmer under more financial pressure. That said, if the farmer has a hard-core overdraft and it is in his interest to decrease that debt and he can afford to do so, why would he not want to bring his borrowings down? We work with them and take everything on a case-by-case basis.

The Chairperson: We can see levels and trends of investment increasing and lowering as government tries to incentivise the farming industry. There have been different schemes for the farming industry in the past, including modernisation schemes, rural development programmes, and nutrient and nitrate schemes. You are doing the sums and the lending and also speaking to the customers. What can government do at present to incentivise investment?

Mr Thompson: There are a couple of things. When you look at the weaknesses in farming at present, you see that there are factors that are within our control and there are things like weather sensitivities, which are outside our control. When it comes to the weaknesses that are within our control, it seems that farmers are probably price takers across the supply chain. There needs to be a balance struck across the supply chain. Now that we are talking and now that the industry is talking about one supply chain, it is probably important that there is a balance struck in a fair share of the profits across that. That is one aspect on which government can work more closely with the industry to make sure that that happens.

Promoting the strengths and opportunities has already kicked off. The Executive are doing a good job in promoting Northern Ireland produce outside Northern Ireland, whether it be in GB or globally, in places such as south-east Asia. That is very important in maximising the produce of Northern Ireland and picking up on the advantages we have that other parts of the world do not. For example, we have grass and water, those natural advantages; in other parts of the world that is becoming less and less so, and that makes things very difficult for them. So, it is about minimising the weaknesses and maximising the strengths.

Mr McGivern: Another thing I would like to add is that we would welcome anything that could be done to increase the uptake of the benchmarking work that the College of Agriculture, Food and Rural Enterprise (CAFRE) is promoting in education. We would welcome the promotion of that scheme and the driving of the efficiency model across the production chain.

The Chairperson: The vision in the Agri-Food Strategy Board report 'Going for Growth' is to grow sales by 60% to £7 billion, to grow employment by 15%, to grow sales outside Northern Ireland by 75% and to grow by 60% to £1 billion the total added value of products. To make that growth happen, you have to sprinkle on the £400 million from Government and the £1·3 billion from industry. You have done the sums, I am sure, on the report. The first question is this: do you see that adding up? Secondly, a lot of that £1·3 billion of investment from industry is going to have to come through the banks. Can the industry sustain that and can the banks support it?

Mr Alan Bridle (Bank of Ireland): First, we welcome the report. Like any such report, it is something of a curate's egg, in my view. I think that we are probably all signed up to and certainly would agree with the restructuring of parts of the industry; the de-layering, de-duplication and things like that. The reality for Northern Ireland plc, whether it is agri or any other business, is that we have to make things that people are prepared to pay a price for and we have to sell things outside the parameters of this small place. The focus on external sales is very welcome.

It carries a number of challenges. As an economist, I look at the report and say that 118 recommendations is far too many and that we should focus on the top 25, say, that we can deliver. However, acknowledging the size of the industry, the nature of the report, the inputs and so forth, I can understand why that is the case. I think that having nearly 100 recommendations for government is a significant point, given that, in many cases, there are at least two Departments — in some cases three — where the action and responsibility is. We know that government, by its very nature, is constrained from executing any strategy at a pace. The best strategies in the private sector that we have been involved in had momentum from the start and were executed at a pace. Given the constraints that government operates under — consultations, etc — that is a potential weakness.

You mentioned the numbers involved, Chairman; £400 million of public money is a huge additional ask. If you work that out in terms of the number of jobs — 15,000 jobs — it appears to me, in simple terms, that they are fairly expensive jobs, at £27,000 a head. You could make the case that the jobs themselves are indigenous, so there would be a certain multiplier effect; they would create other jobs and may be more sustaining than other jobs that we bring in from foreign direct investment. However, benchmark that average of £27,000 a head subsidy against recent inward investment from Invest NI, Deloitte, Almac and so forth, and you will see that those jobs tend to come in at less than £10,000 a head. The challenge is whether 15,000 jobs for £400 million of public money is ambitious enough or whether we could get 15,000 jobs with less than that? The authors of the report said that they have costed it, and that detail has not been shared. To put this into context, £400 million is about three years of Invest NI's total budget. So, there is an issue of scale.

On the prospect of £400 million of public money multiplying, or leveraging in, £1·3 billion of private money, it is not completely obvious that there is enough cash generation and profitability in the sector today to incentivise further investment and attract further bank lending. The total stock of agrilending, or farm lending, in Northern Ireland is about £800 million, and those figures are publicly available. That is stock that has accumulated over decades. It is a huge ask to double that amount within three years or seven years or whatever. There is probably a reality check on some of the numbers, but I am saying that as an economist and not being privy to whatever detailed work went on behind the report.

The Chairperson: Thank you very much for your answer. I have one more question before I open the meeting to members. I have asked this question to all of the presenters: what frightens you in the industry at present?

Mr McGivern: We have touched, to varying degrees, on the theme of the ability of the industry, individual farmers or enterprises to sustain the levels of debt that they are carrying. Mr Chairman, you touched on the cost of that debt relative to historical levels of bank borrowing margins. We need to be mindful that this historically low level of base rate is, even with today's higher banking margin, by historical standards, still very cheap money. As soon as that picks up, enterprises carrying a legacy level of debt that is not sustainable with a degree of insulation from interest rate movements will struggle. Alan discussed potentially significantly uplifting the quantum of debt in the sector. We need to keep one eye on that, but, in five years' time, you may be looking at all-in funding rates of 9% and not 5%. That is still, by historical standards, at the upper end of the norm but without necessarily having had the ability to build up an earnings stream that will support that level of repayment. That is one potential downside risk. I am sure that Alan will have ample others.

Mr Bridle: My answer is the sector's overdependence on subsidy. The recent Organisation for Economic Co-operation and Development (OECD) report suggested that the average subsidy across the globe is about 19% or 20%. Northern Ireland, as a share of the total receipts, is way at the upper end of that.

The dependence on subsidy is at a time when, in the context of UK public expenditure constraints, we are in only the foothills of austerity. One ask might well be for the Government to form its opinion on the report very quickly, because, although we feel that we are constrained now in public expenditure, after the next election, things might well be even more challenging when you look at what has happening to the trends in UK national debt. In effect, we have kind of put the brakes on what is called austerity to date while the national debt continues to rise.

The key for Northern Ireland, as we saw yesterday, is that we are cushioned to some extent by the continued ring-fencing on health spending. As we get into the next Parliament, that position looks increasingly unsustainable. If that is the case, the impact on public expenditure and on the pot in Northern Ireland will be much more severe than at the minute, and, therefore, it will be much more difficult to fund additional significant proposals. Although the public expenditure outlook for Northern Ireland over the next couple of years is tighter than it was, it is likely to be better than what it will be over the next 10 years. The Government should form an opinion on what we can do in the report fairly quickly and try to get momentum.

The Chairperson: OK. William, what keeps you up at night?

Mr Thompson: Well, I was just going to bring it back down to farm level. Obviously, the weather in the past 12 to 18 months has been very challenging for farmers. I suppose that my fear, and what we all need to be very mindful of, is that, if weather patterns are changing, farming practices need to change. We have seen the impact that bad weather, whether that be the cold winter or the wet summer, has had in the past 12 months. It has now led us into a fodder crisis. You may or may not know that a fodder task force is in place, on which I sit. At present, it meets regularly. Obviously, as a group, we know that pressures will continue into next year. Our message to farmers on the ground is very much about planning ahead now and into the next six to 12 months.

We also need to be mindful of how volatile the sector is, because it has ups and downs. It is about being mindful of that. In particular, if we are looking at a plan to grow the industry, I think that, again, a balance has to be struck with regard to some sort of price levelling, instead of the peaks and troughs that we have had in the past few years, in which you could have had malt priced at 30p, for example, and, six months later, it could be down to 22p. It is very difficult for farmers to manage cash flow and plan ahead in those situations.

The Chairperson: OK. Thank you very much. I will open up to members to ask questions.

Mr Byrne: I welcome your presentation. I like the fact that we are getting three variations of the story. It is better than getting one homogenous story from the three of you. I welcome the fact that you have up to £100 million in the agrifund. That is welcome. Is the 10% market share 10% of the farming primary-producer market or of the total agrifood sector?

Mr Thompson: That is 10% of the farming primary-producer market.

Mr Byrne: Do you support or are you engaged with, let us say, any of the dairy processors or feed plants?

Mr McGivern: We are not. We have considerable exposure to that. However, it would not all be under what we call "agri".

Mr Byrne: So, it is separate from that 10%?

Mr McGivern: Some of that may be sitting in our core corporate business as a manufacturing enterprise and distinct from being labelled as "farming". We have a much stronger market share in the "mid market", as we call it.

Mr Byrne: So, Ciaran, you have, obviously, taken a policy decision in the Bank of Ireland in Northern Ireland to go for a more targeted approach to growing the farming business sector.

Mr McGivern: As I mentioned earlier, historically, we would have had aspirations that we could not fulfil. Now, with the flux in the market, we hope that there is an opportunity to fulfil them.

Mr Byrne: That begs the question, which is coming in at a bit of an angle; do we see it is as a growth sector for banking business and, therefore, as a lucrative business of the future, or is there a cautionary note with all of that? I welcome the fact that you have very much critically examined the £400 million and the £1·3 billion from the private sector and how much which will be channelled or funded through the banks. Where are we at with regard to what we want to get as a market share for farming?

Mr Bridle: In any market, if you have a market share of circa 10%, you can measure it in different ways, whether that be the number of accounts or the level of lending that you have, for example. There is considerable headroom to grow if you want to grow. If you are sitting at 40% or 50%, you might have a different strategy. So, we consider that, at our current market share, there is considerable headroom for Bank of Ireland to grow —

Mr Byrne: Is that by poaching from the existing two or growing new —

Mr McGivern: Both.

Mr Thompson: To come in on that; I think that, probably, it is a case of taking it off the competitors because, as you know yourself, the number of farmers has decreased, year on year, for the past 10 or 20 years. There are not too many start-ups out there. So, I think that it is inevitable that we will take it off competitors, and have been doing so successfully over the past 18 months.

Mr Byrne: OK. What is your attitude to the poultry sector growing the number of people who want to go into building poultry houses? What is the Bank of Ireland's general attitude towards those businesses?

Mr Thompson: We have an appetite for it. We recognise that there is an opportunity for the poultry sector with regard to the UK multiples and retailers wanting to purchase local meat. So, again, it is one of the sectors in our strategy. We are targeting all sectors. We are certainly not homing in on the likes of poultry or the more intensive sectors and looking to increase our market share more in them. We are taking a broad view.

Mr Byrne: I take it that you are more keen on those sectors that have an identifiable source of income and repayment. Obviously, the poultry sector is one that, probably, has that if producers have a contract with particular poultry —

Mr McGivern: The particular poultry process that you are referring to is one for which we already have a dedicated tripartite agreement in place. If it is the one that I think you are talking about, you are absolutely right. However, to be clear, we are not excluding propositions in other meat-processing or supply-chain businesses purely because there is no absolutely ring-fenced contract. We will look at every business in the context of its cash flow.

Mr Byrne: Lastly, with regard to farm loans, are the rates of interest and charges keener or more expensive than for, let us say, a shop?

Mr McGivern: They would be the same.

Mr Byrne: There is no differentiation?

Mr McGivern: Indicatively, all in, the cost to funds is around 5%, typically.

Mr Swann: Thanks, gentlemen. Thanks, Alan, for the clearest analysis of Going for Growth that this Committee has received. We have received analyses, mostly, from industry and the authors. That was a very realistic take on what is being presented. That has to be taken on board.

You are talking about growing your agri share. Where do you see that being targeted? William, I know that you said that everybody would be targeted. Surely, to grow from 10% even to 11% and 12%, you would have to target a specific sector.

Mr Thompson: The answer is that we are not. We are seeing opportunities across each of the main sectors, whether they be dairy, red meat or the intensive sectors. There are opportunities. We, as a bank, are looking to work with and, potentially, refinance or help, new customers to expand their business across each of those enterprises. If they have a track record and can demonstrate that they are profitable and sustainable, and they want to expand, we are more than happy to do business with them. We have certainly no strategy in place to target any specific sector. That is definitely not the case.

Mr Thompson: By way of internal aspiration, our estimated share of the non-farming business-banking market is, probably, a percentage in the low twenties. We, clearly, recognise that we are significantly underweight in farming as a sub-segment relative to that.

Mr Swann: Alan referred to £821 million in 2012 as being the biggest borrowing by farming. Cash flow was £156·6 million. It was a good business to get into then.

Mr Bridle: When you think about it, from the bank's point of view, the strength of the sector is almost a weakness as well, because it is so heavily subsidised. As an economist, I am thinking about whether those levels of subsidy are sustainable further down the line. When you look at the sector, we always say that our risk, as a circa 10% player, is adverse selection; it is perhaps a bigger player trying to move farm accounts out that they do not want, for whatever reason. That is the risk to players such as us. It is for us to look at the sector, at each business on its own merits, and say that, given the size and scale of the Bank of Ireland in this marketplace, there is scope for us to grow without taking huge risks.

There is a perception that all farmers are poor. That is not borne out. We also have farmers' deposit accounts. We have a view of the sector. Very often, the deposit account is not necessarily with the bank that has the loan account, for obvious reasons. Some farmers may be cash poor at times. We look at any market in segments, whether it be the farming market or the housing market. We can all make general statements. However, when you look at segments, clearly, there are attractive ones and some that are less attractive in every market. The skill or competence of the bank is being in the right ones.

Mr Swann: You are almost talking about risk versus asset. Do you see that as an attraction?

Mr Bridle: From the bank's point of view, we always consider the asset to be secondary. I speak as someone who has never lent a pound; I have never worked on the credit side of the bank. I remember, as a younger person joining the bank, attending a credit class. The thing that sticks in your head — it is still the maxim today — is that good security or asset does not make a bad lending proposition good. The proposition has to stack up. The guys who are more familiar with that can talk about it. It is about the cash the business can generate, the principle involved, the track record and all those things. It gets into that personal relationship. Is the asset and the security value secondary, Ciaran?

Mr McGivern: Yes. I can bring a pure banker's lens to this, having been rehabilitated from formerly being an accountant. I do not know whether that is good or bad.

The last thing that we sign off on, if you read the flow of a credit application, is security. You are hoping that you never have to worry about it. In my preamble, I talked about the fact that we assess a farming proposition exactly as we would a proposition that has no security. It is about whether there is a cash flow that can repay the debt. If it does not get over that hurdle, the reality is that it almost becomes secondary that you have a second way out. To Alan's point, that is not a proposition that you want to look at, because, as soon as there is any kind of shock around earnings, be it bad weather, BSE or any other sectoral-specific issue, you are going to call on the security at the exact time that you would not want to have it.

Mr Swann: You said that you have no distressed accounts or that you do not have any in the pipeline at the minute; I do not remember your exact phrasing. If you expand your market share, how quickly would you be to manage a distressed account? How will you manage it?

Mr McGivern: How quick would it be?

Mr Swann: Aye.

Mr McGivern: Do you mean to manage it out, or do you mean to spot that there is a problem?

Mr Swann: To manage it out.

Mr McGivern: Hopefully, those are two different answers.

As you would expect, we, like all banks, have a significant proportion of our legacy book, particularly in the property segment, that is in work out at varying degrees of progress. Quite a number of those cases have been there since 2008. The last thing that we want to do, if we have a co-operative borrower, is sell any asset, be it a farm, trading business or flat, into a market in which there is no demand to buy it other than by opportunistic cash buyers who are picking things up on the basis that they are the only show in town.

A farm account will be treated no differently to any other trading business. We will do everything we can to avoid ever having to crystallise our security. That is not in anybody's interests; all it does is destroy the farmer's equity and livelihood and our security. There is no simple answer. There are cases that go in and out because you are able to do so consensually, and nobody loses money, very quickly, but, unfortunately, our experience is that, particularly in this climate, it tends to take a lot longer than that. Time is not a limiter; it tends to be borrower behaviour that leads the strategy to be changed.

Mr Irwin: I will ask similar questions to those I asked the other banks about; margin over base rate. If one had a deposit account, they would get maybe 1% on it, but some banks are charging 5%, 6%, 7%, 8% and 9% over base rate. Many in the farming community believe that banks are trying to get back what they lost. Some of the other banks, especially one of them, were very heavily committed to land banks and the development of land. There is certainly a feeling out there that banks are trying to recoup losses from the decent businessman, who has worked very hard and is expected to pay exorbitant rates over base.

Mr McGivern: That is an understandable sentiment, not least because of the press commentary that has been directed at us and at all banks. I touched earlier on the notion of what the all-in cost of funds is. The traditional banking model uses base or an inter-bank proxy for base as a proxy for the rate at which a bank borrows money. The reality is that, in 2007, the rules of that game changed, and we have gone through a battle for deposits at varying rates of progress. For a number of years, we had the situation where people were getting more on deposits than they were paying on loans, for example. However, the fundamental structural problem is that base rate and LIBOR, which is the interbank market reference rate, bears no resemblance on what it costs the bank to borrow money.

We have to set aside increasingly higher levels of capital, because regulators, just as banks and businessmen, have to take on the lessons of the days when people were borrowing money, when there was no shortage of supply, and when base plus one and two was commonplace in reality. The banks underestimated the risks that they were taking in lending that money. It was not just the property, despite what people think. However, the sentiment would be that it is. Like every bank, we now have to make a forward-looking assessment around, "OK, so, having taken on board all of those lessons around it, for every £1 million that I lend, how much am I likely to lose?" We are clearly having to factor in the fact that we got it wrong historically and make sure that we set aside enough in that pricing structure to make sure that there is not another cataclysmic banking crisis.

The lessons of the past are borne out by the pricing today, but the real cost at which we borrow money is also borne out. We do not borrow money at base. If we did, we would be lending it at base plus two, and I would be delighted to be doing that. The reality is that we are borrowing money at margins that are higher than we historically lent it at.

Mr Bridle: The key metric in banking is what we call the net interest margin, which is the difference between your total funding — your composite funding from deposits, current accounts, any debt bonds or whatever you issue — and it is a matter of public record that the Bank of Ireland Group's net interest margin is less than 1·5%. Our strategic objective is to move that up, because, if we do not do so, we do not have a sustainable business. With regard to Ciaran's point, when we look back, the reality is that lending was underpriced and mispriced: risk was mispriced, and we can see that now with the bad debts that have flowed through.

Mr Irwin: That is the very point that I am making. All the banks have said that farmers were normally let land. Any borrowing to farmers is relatively secure. Very seldom have banks lost with the farmer. Do you understand where I am coming from here?

Mr McGivern: Yes.

Mr Irwin: Yes, bad decisions were made in the past, but it seems unfair that small businesses and farmers have to pay for the mistakes of the banks.

Mr McGivern: There is credence to the argument. However, we are not assuming that the levels of loan losses that you have seen over the past five years are the level that you will see for ever. Instead of saying that for every £1 we lend we will lose 2·5p, we are now saying that we will lose 3p or 4p. However, in addition to that, the big difference is that we have an increasing regulatory capital burden.

On the one hand, regulators and Governments are telling banks that they want us to lend more money while, in the next breath in the next room, they are saying that for every £1 we lend, they want us to set more money aside. Not only do we have to set that capital aside on what we have already lent, we have a double whammy, because we then have to set aside on the incremental bit as well, and that has to be factored in. The cost of capital provided by investors has to be factored in. So there is an element of the fact that the lessons of the past are borne out by the pricing policy, but it is not as simple as saying that all those bad property loans are now being recouped.

The other thing is — I know that you are about to dash off — that the cost of the money that we borrow is the same, no matter who we lend it to. So, if I am lending to a property developer, to Tesco or to a farmer, it still costs me exactly the same. The bond holder does not ask me who I am lending the money to.

The Chairperson: OK. Thank you. I need you to stay until we close.

Thank you very much, gentlemen, for your presentation and for your answers today. You have been very informative, as have all the banks, of course. In the interests of fairness, I must say that. The financial crisis in farming at the present time is a very serious issue and the Committee takes the matter very seriously and, hopefully, the banks will do so, too. At the end of the day, we are all in this to try to find a solution and to try to have an industry that is sustainable and will grow incredibly over the coming years. Again, thank you for your presentation and your presence here today.

Mr McGivern: Thank you, Mr Chairman.