Northern Ireland Assembly

Committee for Agriculture and Rural Development

OFFICIAL REPORT (Hansard)

Financial Crisis in Farming: Danske Bank Briefing

27 June 2013

NORTHERN IRELAND ASSEMBLY

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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 Oliver McMullan
Mr Robin Swann

Witnesses:

Mr John Henning	Danske Bank
Mr Kevin Kingston	Danske Bank
Mr Robert McCullough	Danske Bank

The Chairperson: On behalf of the Committee, I welcome from Kevin Kingston, deputy chief executive officer and managing director of business and corporate banking; Robert McCullough, head of agribusiness; and John Henning, head of agricultural relations. You are very welcome to the Committee, gentlemen, to discuss what we believe is a very serious issue in the farming industry.

Members have already had the chance to read your briefing paper. Therefore, I ask that you take no more than five minutes to make an opening presentation, because we are limited for time. If you could please outline the main issues and provide information that is not already included in your briefing paper, it would be much appreciated. When five minutes is up, I will stop you. We will then proceed to a question and answer session. I ask that you keep your answers as succinct and concise as possible. That goes for members too; I ask that you keep your questions succinct, focused and clear, and it would be helpful if we could keep statements out and just go with the line of questioning. If that is clear, we can begin. Kevin, are you taking the lead?

Mr Kevin Kingston (Danske Bank): Yes indeed, Mr Chairman, and I will try not to take up the allotted five minutes. First, I thank the Committee for the opportunity to meet you today. I am joined by John Henning, who is, as I am sure many of you know, our main sectoral commentator and specialist; and Robert McCullough, who heads up our agribusiness team.

I trust that you have had a chance to look at our briefing note. I would summarise it by saying that Danske Bank's development and growth over its 200-year history and, indeed, the development and growth of our group, are very much intertwined with the agrifood sector. Not only is farming a key market for us, we would say that it is part of our history and our very heritage. The importance of the sector to us is reflected, I think, in the points that we have made in our briefing note. We have had a sectoral specialist team for some 40 years. Today, that team comprises 39 managers, assistants and advisers who serve the farming community. We regard that team as one of our key competitive differentiators and a key reason for setting us apart from the other major banks within the farming sector.

We have provided you with some market share statistics. Those show our share of the customer base and, perhaps more importantly for today's discussions, our share of lending within the farming community. You can see from the information provided that we have consistently grown our market share of lending throughout the financial crisis. We are proud of that consistency and commitment.

We have provided some service statistics on our customer satisfaction. You will see in that data, which is independently produced by PricewaterhouseCoopers, that we are number one in customer satisfaction. Indeed, we are number one across a range of key performance indicators: everything from trust, to rapport, to value. I would be the first to say that we are not perfect, nor do we claim to be, by any means. However, that data tells me that, for a key market, which farming is for us, we are making progress and our customers seem to respond positively to the offer that we put in front of them.

The sector has had a difficult time over the past few months, and we have provided some data in that regard as well. A combination of weather and rising input costs has had a definite impact. We talk in the briefing paper about the level of short-term requests and temporary credit facilities that we have provided to the farming community. In the past six months, that has amounted to 2,400 requests, totalling about £30 million of additional support to the farming community. I was able to access the information for the same period last year. Interestingly, in the same six months, we had 1,400 requests, totalling £15 million last year, as opposed to 2,400 requests totalling £30 million this year. As you can see, we have been able to meet nearly every one of those requests.

Despite all that, let me be clear that we remain very positively disposed to the agrifood sector. We are optimistic for the industry and sector in the medium to longer term. We believe that it is a key sector for Northern Ireland that will drive growth and, very importantly, drive recovery for Northern Ireland. We, as Danske Bank, are very proud of the role that we play, and will continue to play, in realising that potential.

Mr Chairman, we look forward to the discussion today, and are very happy to take any questions.

The Chairperson: Thank you very much, Kevin, and thank you for keeping to the allotted time, as promised. That is always helpful.

You very clearly have a massive share of the market in Northern Ireland. Like every business, the sector will rely on banking to support it and help it to grow. You have outlined the percentage share and even the amounts that you are able to lend at the present time, but how do the credit facilities and perceived inflexibility at the current time compare with what happened in the past? I know you said that you have been able to expand throughout the financial crisis, but how does that compare with the situation before the financial crisis hit, say 2006?

Mr Kingston: There are two points to make in response to that. In broad terms, our approval rates did not change significantly throughout that period. The figures that we refer to at paragraph 37 indicate approval rates in excess of 95%, and they have consistently been at that level. However, I would say that demand fluctuated significantly over that period.

We saw significant increases in demand in 2006-07 and 2007-08, partly on the back of some of the schemes such as the farm nutrient management scheme. In 2010-11 we saw demand fall back a bit. Ignoring the past couple of months, over the past year from the start of 2012 into 2013, we saw volume start to grow again. That has taken a bit of a setback because of the current conditions in the industry.

I would make a differentiation between what we are seeing in demand and customer experience and our approach to that demand at very different levels, but our overall approval rates have been very consistent.

The Chairperson: There is talk about inflexibility and, if you like, the tightening or changing of conditions for overdrafts. I hear all the time from businesspeople or householders who are saying that conditions have changed and that they are not allowed so much time or that interest rates have risen, etc. How do you see it from your side of the table? Is it a perception or is it reality? I realise that things have had to be tighter and that banking has had to change its practices. We have had the financial crisis and things have had to be tighter, but what is your perspective on it?

Mr Kingston: I agree with the comment that the level of understanding and due diligence that we undertake has increased over the course of the financial crisis. As you said, you understand the background to some of that. The key thing for me is whether we reach the right solution for us and for the customer at the end of that process. So, yes; there is a bigger investment for our borrowers in the level of information that we ask for. We do now expect a basic business plan, and most people in the farming community understand that and can deliver that. The bank puts a higher level of work into making sure that we really understand our customers and their needs. However, the integrity of the process is the key thing: do we reach the right solution? The information that we have put in front of you says to me that we are getting there in being able to support our customers.

Robert, do you want to comment from a customer perspective?

Mr Robert McCullough (Danske Bank): Kevin hit the nail on the head. Increased due diligence goes with the territory these days after 2007-08, and that is the reality of the world that we live in now. Most customers expect that higher level of chasing up of financial information and the key performance indicators of the business so that everyone can see a better way forward for that business. That means that, if there is a problem, it is not latent and you can look at it early and try to do something about it. It is a fact of our world now, across all fronts.

The Chairperson: Yes. You mentioned the demand and the various schemes, such as the farm nutrient scheme, which increased demand for investment. How do you see that playing out in the next couple of years? What does government need to do to assist the farming industry in the proper way so that you can come alongside the industry and government to assist growth?

Mr Kingston: I will ask John to comment on that but, before he does so, there are a couple of comments that I want to make. Government has a key role to play in partnership with other stakeholders, one of which is the banks. It has a key role to play in the differentiators at industry level; I am thinking particularly about quality of traceability.

As far as the schemes are concerned, I suppose that we have seen a lot of schemes over the years for the farming community and across business as a whole. I would urge the Committee to recognise that, in any of those schemes, we need to be very clear about the objective. What are we trying to achieve? What is the problem that we believe exists? What are we fixing? What is the changed behaviour that we are trying to deliver? Some of the schemes, I think, have missed that point; they have been too general. Simply delivering a subsidy across a sector is not going to achieve the specific targets that we need. In today's climate, we cannot afford to deliver subsidies across entire sectors. It needs to be very clear, and very clearly aimed at delivering specific outcomes.

John, do you want to comment on the role of government?

Mr John Henning (Danske Bank): From our perspective, there are some things that government could do to address, as you mentioned, the strengths and weaknesses of the sector. First, it could promote and guard of some of the key competitive strengths that we have: product quality; the image of the product produced on Northern Ireland farms; the fortress concept for the industry; traceability; the animal and public health information system (APHIS); farm quality assurance schemes, and so on.

The agrifood strategy report highlighted the fact that the agrifood industry should be one supply chain. We feel that there is a definite role for government to help to deliver that and make sure that there is a fair return across the supply chain, particularly to the producer. In Northern Ireland, we have an industry of primary producers. In 2012, total income from farming was £144 million, yet the single farm payment to farmers in Northern Ireland was £100 million more than that. That is not sustainable in the long term. There are areas in which government could perhaps do more to help improve that situation. One, perhaps, is to be clear about tax reform. Some farmers and landowners are farming for tax reasons, and that is not conducive to younger people coming into the industry or to giving them the potential to establish businesses and perhaps approach the business in a more motivated fashion. Obvious issues include reducing red tape to allow farmers to do the job that they can undoubtedly do and investing more in research and development to improve the technical efficiency of more farmers. We have benchmarking: we have the top 25%, middle farmers, and the bottom 25%. If we could move more to that top 25%, that would benefit the overall industry and the business management on those farms. Government should continue the great work that is done through the likes of the College of Agriculture, Food and Rural Enterprise (CAFRE), by investing in young people and delivering motivated and very competent young people into the industry. That would help to deliver the change and improvements that will undoubtedly be needed in the future.

The Chairperson: One last question before I put bring in members: what frightens you out there in the farming industry? What particular sector needs more support than others?

Mr Kingston: I will begin on that one. The point that John made in his remarks about the need for a fair return across the supply chain is what stands out for me. We have all studied the Agri-Food Strategy Board (AFSB) report. The movement towards increasing scale and commercialisation is inevitable. It is going to happen. If that is going to happen, there has to be a proper and fair return on investment for primary agribusiness. That is a big change from where we are now. If we commercialise, we move to hard economics. Hard economics requires a proper return to justify the investment. I am not having a go at processors or multiples, or any of that. It may be that we all, as consumers, end up paying more for our food at the end of the process — so be it. We need to think about the return that primary agribusiness in Northern Ireland is getting and whether that is a fair return on the sort of investment that they are going to need to make over the next few years if they are going to stay competitive. John, do you want to comment?

Mr Henning: Thanks, Kevin. That is a very good question, Chairman. The initial thought in response — I am thinking purely of farmers who are primary producers — is whether there is the capacity, willingness or skills out there to enable farmers to change in the way in which they need to change. As we all know, if you do what you have always done, you will get what you have always got. Is that ability there, or is it going to be a generational thing? Do we have to wait a generation to get that? We, as a collective industry, need to address that question.

Mr Byrne: I welcome the three gentlemen from Danske Bank. I very much appreciate the detailed written submission that you have provided to us. Congratulations on having the position of 50% of the farming sector loan book. I put three questions to you. Have the loan-to-value ratios changed, given the changed economic climate? What is the change in land acreage for security? As to the intensive sector, particularly for poultry, are you for it, against it or cautious about it? Given that we hear that there will be a major expansion, it requires a capital build of three chicken houses, which will cost about £900,000. How can a young farmer enter that business? He may have 60 acres and want to build three chicken houses, which are roughly £310,000 a piece to build at the moment. In relation to the pattern of lending that you have had, what proportion of your bad debts or write-offs are farm-related?

Mr Kingston: Robert, do you want to start from the agriteam perspective?

Mr McCullough: We have not seen any great change in loan-to-value ratios. Quite often, the amount of security placed on farming would be quite high against the loans. The key thing is the cash flow from the business. That will repay the debt, at the end of the day. We have not seen any significant change in loan-to-value.

Mr Byrne: Are they largely the same ratios?

Mr McCullough: They are largely the same. There has not been any massive change.

Mr Kingston: I will come in on the poultry issue. Poultry is by no means the largest sector for us. You will understand from the scale of our involvement that it is primarily around dairy and cattle. Obviously, we have some involvement in poultry.

Mr Byrne: Is it one of your lesser sectors. Is that correct?

Mr Kingston: Yes, but that reflects the scale of the industry in Northern Ireland. The problems that we tend to see with poultry are around access to deposits or access to a stake. It is very much a clear example of a commercialised industry that has defined cash flows and can sustain only certain levels of debt. There is a need for a stake. There is a good conversation happening at the moment in the context of the AFSB report about support for the poultry sector primarily. That is a very interesting scheme in the context of poultry, but I would also ask about how that scheme can be applied to other sectors because it needs to be a broad offering.

We have a scale of concern. If we see a customer whom we believe may be in financial distress, we have a clear process for how we look to manage that situation and assist the customer. The trend over 2012 was of a reducing number of customers in distress in the farming community, through to the start of this year. Again, we have seen an increase in the number of distress situations over the past three months in particular. It is not an avalanche by any means, but it is a reversal of the trend that we have seen. Our approach in those situations is always to aim to reach an agreement by mutual consent and, in most cases, that is exactly what we are able to do. I do not think that we have not had any forced repossessions in the past year, and we are certainly not expecting any in the next six months.

Mr Byrne: The Agri-Food Strategy Board says that the sector needs £400 million from government and that £1·3 billion will be needed from the private sector over the next three to five years. Given that you are enjoying being top of the pile at 50%, could you sustain £650 million in extra spending over the next —

Mr Kingston: I do not think that the plan was all bank debt for the balance.

Mr Byrne: I am a simple man. *[Laughter.]*

Mr Kingston: Do we have capacity to continue to support the industry? Yes, of course. Given the position in which we are in with the industry you would be astounded if I said anything else. We are very proud of our position in the farming community and our title of "the farmers' bank".

Do I think that £650 million of debt on top of the farming community would necessarily be a fantastic outcome? I would have to say that I do not know whether the industry can sustain that level of borrowing, by any means. That goes back to the point that I made about returns. An investment of anything amounting to a fraction of that scale is going to require a review of returns and issues such as dependence on CAP, and so on.

Mr Byrne: OK. I will make one final comment. I live in the middle of a big farming community in Omagh. I am from Castlederg originally and I have lived in Strabane. A lot of your customers in Beragh, Fintona, Castlederg and Newtownstewart enjoyed a local Northern Bank or Danske Bank branch, but all four have closed in the past two years. All those farming community customers in those towns now have to go to two places: High Street, Omagh; or Lower Main Street, Strabane. Parking is impossible outside those branches. What can you do to address the needs of those farmers?

Mr Kingston: We are very conscious of the impact of our changes in branch footprint, particularly for rural communities and the farming community. We are seeing changing customer behaviours, and that is a reality. Probably half of our borrowers now use our online channels as their primary means of banking with us. That has a consequence for branch footprints and the use of branches. Like any business, we cannot deny those realities. Look at the high street, and names such as Jessops, HMV, and so on, that perhaps tried to go against that tide. Over the longer term, we feel that we have to face up to the realities of the changing nature of doing business and the changing ways in which customers want to interact with us.

We are changing the opportunities and the ways for customers to interact with us. Small-farming customers can now phone us on a Saturday morning to arrange an overdraft; they were never able to do that previously. They can phone to arrange an overdraft after teatime during the week. Therefore we are trying to mitigate some of the impact with a broader provision of services. We have market leading online apps and market leading online banking offerings, and a lot of customers are embracing those. That is part of what is driving change branch footprints.

The Chairperson: On that point, it is not just happening west of the Bann; it is happening in north Antrim, which is just east of the Bann, in Portglenone.

Mr Kingston: We are very conscious of the impact and the changes. Our customers have been great in working with us and understanding the changes and the reasons why we need to make them.

Mr McMullan: Thank you for your presentation. What effect is Europe having on the farmers' bank at the minute? Are you being driven by Europe? You are certainly not being driven by the farmer. What I am hearing today is more what you are not saying than what you are saying. Indeed, what you are saying is that it is now down to a business plan for farms, as opposed to what we understood the farmers' interaction with the banks to be in the past, and we are into a whole new arena. How are you driven by Europe? Look at what the central Government and Mr Cameron have done through his opposition to Europe and the cut in the money to the farming industry. What influence does your bank, or any bank, have on government thinking that can filter down? The geographical spread of farms here does not allow for big farms, and it will become more difficult for those farms to interact with you in looking for funding. My colleague talked about the poultry industry and investment in that and in other sectors. How is that going to be viable? Are we going to look at viable farms? How do you see the industry and yourselves changing in line with the call on Europe and the call on the central Government and their stance against Europe?

Mr Kingston: Those are good questions, Mr McMullan. I will ask John to comment on the sectoral perspective on Europe, and Robert is in a very good position to comment on interaction with customers and some of the unique features that Danske has in addressing business plans and understanding the business of farming.

Mr Henning: As you said, Mr McMullan, the impact of Europe as a corporate body is very much a part of all our lives, especially farmers' lives, regardless of the scale of the business, because of the single farm payment. We quoted the numbers earlier and said how big a part that plays in the future viability of many farms, if not most farms, in Northern Ireland. So, it is a reality and it is there. The Minister announced today that she is very satisfied with the outcome of the CAP reform negotiations, which concluded yesterday, and said that they are good for this part of the world. That provides some additional confidence for the future.

On the point about business plans, when we are looking at a farming customer who is undertaking an annual review for his business or, perhaps, assessing a new lending proposition, we are not necessarily looking at a full-blown glossy covered business plan for the small to medium-sized farm. It is more a perception of what the business needs and a structure around how they feel that they can service that. Based on the track record, financial accounts and bespoke internal assessment, which includes the farmer's capital statement, it is then up to us to assess whether the proposal stacks up and warrants the additional support.

In the past number of years — maybe 10 or 15 years — we have seen increased sophistication around that, but a lot of it is down to our understanding of the business and the relationship that we have with the customer. Some of our relationship managers would even be able to give some credence to a customer, based on his track record, who came to them with some numbers almost on the back of an envelope, whereas others would have it in a more formal way. If you have the evidence of how that particular individual has been working and operating their account over the past 10 or 15 years, or maybe even in previous generations, you have a reasonably good feel for the individual who you are dealing with.

The level of sophistication of the business plans varies according to the individual and what they are being asked to do. If, for example, it was a proposal for two or three additional poultry houses, obviously a lot of the information would be provided through the like of Moy Park to help support that. So, the level of sophistication of the business plan would vary according to the proposition or the individual who we were dealing with.

Mr McMullan: You said at the start that there needs to be a better return for the primary producer. The farm incomes here are just half of what is coming in from Europe in single farm payments. How does that stack up with your argument, if you are saying that the producer is not producing enough? If the single farm payment was withdrawn or greatly reduced, it would leave a lot of those farmers exposed to the economics of business. I can understand you going down the road of business and getting a return for your money, but there has to come a time when the friendly bank to the farmer thing goes and we are into hard-nosed business. That is the point I am making. When does a 30, 40 or 50 acre farm become viable? Is it viable in today's farming as far as getting the produce out is concerned, and considering the problems that we have here, which we debated in Committee, about how we have to export across the water? There are higher returns for the same produce in England, Scotland and Wales than we are getting here.

Mr McCullough: There will undoubtedly be huge challenges for us to retain the viability of some of those small farms. What we try to do, when we are sitting down with clients in a close relationship management basis, is understand and tease out some of those questions with the client. Is it going to be viable? Do we need to look at other avenues to have an income stream for the family and the business? Are you putting your farm at risk by taking on a new level of debt that you cannot necessarily afford? It is a huge challenge for everybody in the room here to deal with that going forward. It goes back to the point that Kevin and John made earlier about having that share of profit right down the supply chain for farmers, because, as it stands, and if the CAP gets gradually pulled back on us over the next number of years, which it may do, we will have a problem arising there.

John covered the question about business plans very well. We have done a lot of work in going around different farming groups explaining to them how to develop relationships with their bankers, their accountants and anybody who they interact with. Sometimes, when you talk about a business plan, you can see people's eyes glazing over. They think that a business plan is a 60-page document with lovely Excel spreadsheets all through it. That may not necessarily be the case. Just some simple strategy, even if it is on the back of an envelope, will sometimes be enough. It is just so that we feel that the farmer has a plan in place for where he wants to go and milestones as to how he is going to achieve that so that he can measure himself against it. We can look at it within six months or a year to see how someone is performing against the objectives that they set. Those are good indicators. It makes sound economic sense, but it also makes good sense to give the farmer peace of mind. Your points are very valid, Mr McMullan. There are huge challenges to address about how the farming industry deals with the issues in the next number of years.

Mr McMullan: To finish, I just want to say that you have closed the bank in Cushendall — the only bank in the glens. It is now nearly a 40-mile round trip to get to a bank, and you have driven everybody to the deli counter in the local supermarket. Is that progress? That all seemed to happen on the back of bank incompetence. There is a thought out there that the farming industry and the agriculture industry is suffering because of those who —

Mr Kingston: I want to reassure you on that point, Mr McMullan. That is not what is driving it. It is about changing customer behaviours.

Mr McMullan: Maybe we should get that out more.

Mr Kingston: That is why we appreciate the opportunity to have these conversations.

Mr Swann: You just closed the one in Randalstown, too.

I do not know whether it is appropriate, but I declare an interest as a Danske Bank customer. According to the Department, in 2012, agriborrowing was at £821 million and cash flow was at £158·6 million. That is a balance there of roughly five times as much. Do you have a feel from your customers for how much other agridebt is out there with feed suppliers, fertilizer suppliers and fuel suppliers?

Mr Kingston: It is more than it was six months ago.

Mr McCullough: We have had regular engagements with the Grain Trade Association, and huge levels of debt have been talked about. John can correct me on this if I am wrong, but the estimate was that in excess of £40 million additional working capital was required over the winter. I cannot be certain where we are on that curve now, but that was the figure that was talked about over the winter.

Mr Kingston: It is not fully reflected in the numbers that we talk about. The additional £30 million that we have contributed over the past few months does not reflect all the additional headroom that I am sure has been soaked up in working capital requirements across suppliers and right across the industry.

Mr Swann: Unfortunately, for individuals and businesses, debt is debt no matter who owns the money. I will not say that the bank reacts quicker, but it has more tools or experience to move faster. Kevin, you referred to a process of managing customers in distress. As a bank, are you moving more quickly to manage that distress?

Mr Kingston: We have learnt the importance of engaging with customers more quickly when we detect a customer who is in distress. We have a range of measures to help us to do that now. We have everything from a customer helpline, where a customer can ring up and say that they have a problem, right through to the skills of our agribusiness team, which is so close to the customers that it is detecting signs of distress. It is crucial that that engagement process happens early before things get to a potentially much worse position and out of control. So, we are much better at spotting warning signs. We are much better at engaging, and there is a much clearer process about how we should engage sympathetically and positively. Those factors are key to heading off problems before they turn into irreversible situations. Our experience of the number of cases that have ended up as irreversible situations is very few in the farming community. For me, a lot of that is down to the quality and the timeliness of engagement.

Mr Swann: You talked about irreversible situations. You said earlier that you were able to come to mutual agreement. What does that mean?

Mr Kingston: In the more extreme situations, it may refer to a situation when a farmer cannot service the level of borrowing on the business because, for whatever reason, something happened or something did not work out the way that we all expected it to. It would range from a simple restructuring of debt to better align the level of obligations that the business has in the context of the cash flows that are coming in, through to a more extreme situation of a farmer taking a decision that a number of acres needed to be sold. However, the key thing is that, in by far the vast majority of cases, the business remains intact. In the past 12 months, the number of forced repossessions was zero.

Mr Swann: You mentioned restructuring. That comes back to something that I hear quite often in my constituency. I know that you are the top lender to agribusiness. Do you see a change in lending to or borrowing by farmers? You talk about being a cash-flow lender and providing access to credit throughout the economic downturn. Is there more lending now through restructuring and refinancing, rather than borrowing in order to buy new equipment or to upgrade or rebuild?

Mr Kingston: It certainly changes over the course of a cycle and depends on circumstances, to be honest, from one year to the next. Robert is at the coalface on that issue.

Mr McCullough: Early in 2012, you would have seen borrowing requirements to grow business and to develop business further. Then, we had the year that none of us will forget, starting from around May 2012. In the early part of 2012, it was all about borrowing and investing in your business to grow it. As we worked our way through the latter part of 2012 and into 2013, it was about propping up positions. Although it was not across the board, quite often, you would have seen more requirements coming through just to sustain people's positions in order to give them a platform on which to start to build again when things turned round. You could see that very clearly. Early 2012 was all about investment. Late 2012 was about crisis management across the farming world.

Mr Swann: This is not directed just at you, but at all banks: when it comes to crisis management — and this goes back to what Oliver was driving at — and you see that sort of crisis, is there a temptation for the business to move in and look for a higher interest rate when the opportunity is there?

Mr Kingston: Margins have changed over the past few years. There is no doubt about that. Our input costs have moved. Like any business, we cannot ignore that. What I would say is that, in a restructuring situation, part of our policy and procedures is to, very carefully and responsibly, consider exactly what a business can sustain. It is in nobody's interests, least of all ours, to put a business under in the context of charging a higher interest rate if the business cannot sustain that. That comment applies right across business banking. Our normal approach to pricing is always to consider risk. That is part of the pricing calculation for a modern bank, but we would not impose an interest rate that the business cannot sustain. I am very confident that the team are very conscious of the dangers of doing so. From our perspective, and the customer's, it just does not make sense.

Mr Swann: So, you look to your interest rate as to what you think the customer can afford to pay?

Mr Kingston: In a normal, non-distressed situation — so, in an ordinary business — we have a range of parameters that guide us to what is an appropriate pricing calculation. Risk, term, level of security, and so on are part of that. However, in a distressed situation, obviously, it is a different discussion and conversation.

Mr Irwin: I suppose that, before I ask a question, I better declare an interest: I have been a farmer and a customer of Danske Bank. We know that, on interest rates, just a few years ago, banks were doing deals of 1·5% over the base rate. Today, even very strong customers are getting quotes of 5% and 6% over the base rate. Many believe — maybe wrongly — that banks are trying to recoup the losses that they have sustained through lending heavily to the development and land buying sector. Can the bank assure me that that is not the case?

Mr Kingston: The easy answer is that I can. As I said, the cost of raw materials has increased during that period. I am absolutely open about that. That is reflected in margins over the period, but that is the same for everybody. It is not about the farming community in particular.

I am keen that we also include value in this conversation, because interest margin is one element of the equation regarding customers' perceptions of us as a bank and the service that they receive from us. I would be very keen, Mr Irwin, to point you to slide 5, I think, in the pack that we presented, which talks about value. You will see in it that Danske is, very clearly, number one for the value that it delivers. Pricing is part of that, as is the quality of our people, the service that we provide, the electronic platform and access to all the other products that we offer. I think that it is about value, as opposed to one individual element of the pricing equation. In that regard, our customers are saying positive things.

Mr Irwin: I will give you one example. A guy purchased a farm. He paid for it. It was not a large farm, just 35 acres. He went to one of the main banks for an overdraft of £15,000. It quoted him 9% over the base rate. He was totally shocked and amazed. One wonders why that would happen when someone does not owe a penny on a farm. We are told that banks are there to support small farmers. That guy was 101%; there was no risk whatsoever. It seems strange that 9% over the base rate should be quoted to someone like that.

Mr Kingston: I am not sure. Was that us?

Mr Irwin: He was quoted 9% over the base rate.

Mr Kingston: By a bank?

Mr Irwin: Yes. Certainly, all the main banks will say that they are there to help small business. Is that helping small business?

Mr Kingston: I am not in a position to comment about a specific customer, Mr Irwin. I am not even sure whether it was us. The key thing for me is that we are finding that customers certainly appreciate our ability to deliver credit quickly. That is a differentiator for us. Customers are sophisticated enough to look at the entirety of the offering that we deliver. In those regards, I think that Danske's record is very good.

The Chairperson: I have one question that has come out of the discussion. It is about the role of the National Asset Management Agency (NAMA) in all that. Do you have any indication or estimate as to how much land and farm stock is actually with NAMA at present?

Mr Kingston: You will be aware of the history of Danske. We have never been in the position of needing a Government bailout, and so on, so we have not had any direct involvement with NAMA. Throughout the history of the bank, we have tended to support the customer, and to support the customer completely. So, we have not been one of the banks that has entered into a lot of multi-banked situations and proposals. I suppose that the honest answer is that, I am glad to say, for those reasons, we have not had much interaction with NAMA. It is certainly an issue that we and many industries were concerned about. We have not seen as much of an impact as we would have perhaps feared a couple of years ago. However, the situation is not yet resolved either, so we are still watching it.

The Chairperson: You also referred to the grain trade. We have had representation from the grain trade here. It was very stark. It seems to be the case that it, almost as much as the banks, was bankrolling the farming industry at that time. A lot will also depend on you supporting the grain trade.

Mr Kingston: Absolutely. That is an important point: we have a supporting role. I suppose that our conversation today has been largely focused on the farming community, but we have role to support the agrifood industry in its entirety. In our paper, we mention that the sector has seen an increase in demand, and Danske is keen to grow its position in that sector. We refer in the briefing note to the fact that, in the past year, we have offered over £100 million in new-to-bank facilities alone. The true figure is closer to £150 million.

We have no constraints on our capacity to support. As a healthy bank without a Government bailout, we are very keen to grow and play our role in that side of agrifood as well.

The Chairperson: OK. Time is moving on. Thank you very much for your time, presentation and answers.