Northern Ireland Assembly

Committee for Agriculture and Rural Development

OFFICIAL REPORT (Hansard)

Financial Crisis in Farming: Ulster 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 Robin Swann

Witnesses:

Mr Ian Jordan	Ulster Bank
Mr Cormac McKervey	Ulster Bank
Mr Richard Ramsey	Ulster Bank

The Chairperson: On behalf of the Committee, I welcome Ian Jordan, director of corporate banking division; Cormac McKervey, head of agriculture; and Richard Ramsey, Northern Ireland economist. You are very welcome to the Committee. Members have had a chance to read your briefing paper. I notice that it is as much a speech as a presentation. I know that you could narrate this for us, but I ask you to resist doing so. I will give you five minutes to speak, after which I will ask you to stop. Maybe you give us something additional to complement your opening statement and briefing paper, if that would be OK.

Mr Ian Jordan (Ulster Bank): Thank you very much, Chairman. Again, we welcome very much the opportunity to come here, and we look forward to answering your questions. If I may, I will introduce my colleagues. Many of you will know our economist Richard Ramsey. Cormac McKervey is our senior agriculture manager. Cormac is our key interface with all our managers who cover the Northern Ireland farming sector for us. Chairman, you asked me to keep it brief, and I will.

Agriculture and the related food processing industry are absolutely key to the fabric of Northern Ireland. We understand that the activity that we have seen over the past 12 months continues to reflect the fact that the sector is absolutely fundamental to Northern Ireland and its recovery from current economic conditions. We are totally committed to that.

I am not going to repeat what we have done, but I would like to mention the Balmoral show, because I think that anybody who was there saw how vibrant the agricommunity is, the potential there and just how the whole of Northern Ireland, and, indeed, broader than that, responded to that. From our perspective, the important thing is to support that confidence and keep moving forward. In spite of the significant difficulties in the sector, we are committed to supporting it. I hope that our weather fund was an indicator of that support. This is about building momentum. If we can build momentum in the sector, we believe that it will flow into other sectors. So, we are committed to that. That is crucial to our future as well as everyone else's.

If I have a minute or two left, I would just like to let Richard say a couple of words.

Mr Richard Ramsey (Ulster Bank): Good afternoon, Chairman. I want to give a bit of context to the agrisector. Notwithstanding the difficulties that the sector has experienced over the past number of months or so, it is worth putting into context how that sector has fared during the downturn.

Over the past five or six years, agri has been one of the few sectors that has seen output and employment rise. Contrast that with the likes of the construction sector, which has haemorrhaged employment. Also, if we look at exports and sales, we see that over half of our manufacturing sales are now accounted for by food, drink and tobacco. Even though we are reliant on the Republic of Ireland economy, we have actually seen food and drink sales and exports to that region growing by 40% in the five years since the downturn. A lot of that is due to the impact of the weakness of sterling against the euro, but it highlights growth there.

Another key thing is the fact that, while a lot of the sectors are struggling with the twin threat of demand, or the lack of it, and inflation, the agri sector has been struggling only with inflation; demand is not a problem. Going forward, I do not see demand being a problem. When we think of deficits, it strikes fear into the hearts of us all. Food trade with GB is running at a deficit of about £18 billion a year, but that is a massive opportunity for Northern Ireland producers and the agri sector to be getting into. So, there are challenging times ahead, with CAP reform and all those sorts of things, but demand, thankfully, is not an issue. It is going to be a question of profitability and cost.

The Chairperson: OK. Thank you very much for your presentation. I will go straight into questions. I have a burning sense of fairness here; I am going to have to try to remember the questions that I asked the previous witnesses.

You also have a massive share of the market in Northern Ireland, and, again, a lot of that is agriculture based. I know that you have the funding for lending scheme, which I am sure you will want to get in to the questioning somewhere, but how do your lending rates and capacity to lend now compare with those before the financial crisis in the global market back in 2006? Added to that, how do they differ even from this time last year to now, given all the crises that the farming industry has faced?

Mr Jordan: I will kick off, and then I will pass to Cormac who is right at the coalface on this one.

The fundamental criteria for lending have not changed. Clearly, economic conditions have. What we have certainly seen is that the proportion of lending to the agrifood sector has increased. So, lending to the sector remains robust.

In 2012, we saw our overall lending increase, and that is net of repayments. So, while substantial money was lent out, there were always substantial repayments. Even taking those repayments into consideration, there was a modest increase, but it was still an increase. That would not have been the case in other sectors. So, fundamentally, the agrifood sector has continued to sustain the level of lending, and our approval rates for applications have not changed either during that period.

Mr Cormac McKervey (Ulster Bank): I will deal with the general financial crisis and where we have been since then. Ian talked about the Balmoral show. We did not sponsor the Balmoral show for the hell of it; we did it because we wanted to grow our market share, and that is what it has done, along with other things that we have done. For example, we set up specialist agricultural managers who deal only with farming. We have business development managers whose role is to get new business in, and we started a switcher package to encourage farmers to come across. All that ensured that we increased our growth. We are not going to do that at the same time as putting in additional measures to prevent that from happening. So, generally speaking, that has worked.

I got figures for the past year from the fodder task force group that we sit on. We have over 2,200 farmers, and we have seen that, while their overdraft limits may not have increased, within those limits, they have used an awful lot more of their overdrafts, to the extent of about £14 million or £15 million. On top of that, another £6 million of new overdraft money was given purely because issues from last year rolled into this year. On top of that again, we had the weather fund, through which three quarters of a million was lent purely for cash flow for farmers who were short of fodder. So, it is a fairly substantial increase across the board.

The Chairperson: You say that you will not do anything to tighten it up when you are trying to attract business, but there is this talk right across business, not least in agriculture, about tightening the nets, changing the overdraft arrangements and increasing interest rates halfway through a cycle. That is changing the goalposts. How do you answer that?

Mr Jordan: The criteria have not changed. Fundamentally, it is still about whether the borrower can repay the debt. That is ultimately what we are about, and that has not changed. What certainly changes in certain circumstances is the ability of the borrower, in any industry, to articulate how they will generate the cash to repay that debt. It is much more broad than farming. Collectively, we have a responsibility to ensure that businesses understand the case that they have to make and that we do not put them through a lot of red tape and hoops to do that. However, they must be able to articulate the risks that attend to those cash flows and how they can be mitigated. It is not even so much about convincing us, but they must convince themselves and look forward to ensure that they can repay.

In some cases, it is a bit of a shock to even be asked those questions because, historically, when the economy was rising year on year, overdrafts were renewed and even increased without those questions being asked. Sometimes, when businessmen are asked that question for the first time ever, it is nearly like an insult. It is not meant to be an insult. I absolutely understand that. With human nature being what it is, it is taken as an insult. We have a collective responsibility, and we have tried to work on that with the advisers and the likes of the accountancy firms across the piece to try to get across a message of what we need and the format that we need it in. However, more importantly, businesses must understand what cash flow lending is about and how to express their case. Some people are excellent at it and make fantastic submissions, but other people are less thorough. Sometimes we have to challenge that, and it is a fundamental part of banking to do that. Some people take that in a positive light and others do not. Our business is to lend. If we do not lend money, we cease to have a point. It is absolutely in our interest to do that. That is what Cormac's team is about.

Mr McKervey: Up until the recent past, if a farmer had, for example, a £100,000 overdraft and £50,000 of that was sitting solid year on year, the farmer only had £50,000 to play with. It is only right that, at every review, we point out that if that £50,000 is not going to be addressed, or the turnover in the account is not going to show me that it will get into credit or anywhere near it, and it is sitting solid year on year and you are charging interest and an arrangement fee and yet you cannot even use it, is it better put out over a term loan and you start to run it down? Do you follow me? There is sometimes a learning experience for farmers, and that was maybe not the issue previously. If you are sitting with a rock-solid overdraft, it is not doing anything for your business either.

The Chairperson: I understand. We talked earlier about the different tranches and schemes that government has for the industry, such as the farm nutrient scheme and other farm management schemes, modernisation and that type of thing. That can create trends in investment and incentivise the industry. There is also a massive social side to farming, and government, not least in Europe, keeps a very close eye on that and on the production of food. What more can government do at this time for the farming industry, given all that it has been through over the past five or even 12 years, which has been even more stark? How can the bank fall into place and put its shoulder to the wheel?

Mr Jordan: At Ulster Bank, we have embraced government initiatives as they have come out, whether that is the enterprise finance guarantee scheme, the national loan guarantee scheme or the funding for lending scheme. You can have too many schemes, and one issue that we have generally in Northern Ireland is trying to keep the support that is there in a format whereby everyone can see that it is applicable to their business. It should be simple to understand how to get your hands on it, and we should not overcomplicate it. So, one of the things that I would advocate very strongly to government is that it should look at how it communicates those schemes and try to ensure that the message gets out in a very simple and clear way. Collectively, we have failed at that, and people can say that the banks failed at that too.

In terms of government initiatives, we fully support the work that the Agri-Food Strategy Board has done. It is wonderful to see it all being collected together in one place and that we actually have a coherent strategy now. As that moves forward we will be fully engaged in it. That is a very good example of bringing people together and getting a coherent strategy for Northern Ireland.

If we compare ourselves with our colleagues in Scotland in particular, and how they have brought together what were formerly almost competing subsectors and have presented Scotland as a whole, there is a lot that we can learn from that. We are starting to see the signs of that.

The Chairperson: How do your clients and customers view the Agri-Food Strategy Board's report? Are they excited about it, and can they relate to it at the moment? I see a gap; the report tells us where we need to be, but it has not told us how to get there. The farming community has no idea or concept of getting there. What is your view?

Mr McKervey: In fairness, I would have to say that it is still early days. As you may be aware, we have just started discussions on the poultry sector with Moy Park. There is some talk that there will be an equivalent scheme for pig producers, so we are going to concentrate on the more intensive sectors first. I suppose that the blueprint is there to do it.

I think that it has potential. I can understand why farmers have not been totally involved with it at present because there is nothing actually to tell them; we do not yet have a structure in place. As I see it, a lot of the Agri-Food Strategy Board's involvement will be processor-led, so until it has its collective thoughts gathered, including on finance and whatever other partners need to be brought to the table, maybe there is no harm in the fact that messages have not been put out that actually will not be delivered or met. It might be better to take our time and work through it together.

To go back to some of the things that government should do, there are two big structural issues in the sector. One of them is the age structure of farmers, and trying to encourage new entrants into the industry. In that regard it is good to see that, at least, there is some allowance for new entrants under the CAP, as was announced yesterday.

The second issue is conacre, which my colleague, John Henning from Danske Bank, mentioned. Conacre is a huge issue. Farmers who are trying to grow and develop their businesses come to us with a business plan, saying that they want to expand, to do this, that and the other, but 80% of their land is conacre. That is very difficult for us, given that there is a risk that come November that land is lost. It seems crazy that every other developed agricultural economy in the world has long-term leases or tenancies or much better agreements than a six-month or eight-month or ten-month rule for land. It is archaic, and it is a big structural issue.

The Chairperson: I have one more question before I put it out to members. You may already have answered it in that one sentence, because I am acutely aware of that issue. As a bank, what frightens you about the industry at the moment?

Mr R Ramsey: When it comes to the industry and the economy at large I am frightened by inflation, which is particularly acute in the agri sector given how sensitive it is to things like oil prices and how that feeds into fertiliser, feed and all of that. Even over the past five and a bit years since the credit crunch began, the price of food in the UK has risen by 35%.

One the one hand we have that, and on the other we have what was mentioned earlier, which is the need for producers to get a fair profit. If they want to raise food prices, there is a tension with consumers who are feeling the pain from inflation. That affects the agrifood sector, but it cuts across the economy as a whole.

Mr McKervey: If I had to answer that, Mr Chairman, I would say that there is only one thing: the weather. That is not just locally as we experienced in March, but globally. If you have a bad weather event and the harvest goes down, grain prices go through the roof. We are just sitting at the back of it; there is nothing that we can do about it. Global weather events have a huge effect. Another word for it is the inherent volatility of farming. It is great to see better prices for milk, beef prices and everything else, but, because the input costs have risen, there is very little change in the margins. That is a huge issue.

Mr Jordan: You asked for one thing that scared us and, being bankers, we gave you three.

The Chairperson: It was a fulsome answer; you cannot deny that. OK. We are struggling for time, so I am going to put it out to members.

Mr Byrne: Gentlemen, thank you for your presentation. I suppose that I should welcome you to a meeting of your shareholders. We are all shareholders in the Ulster Bank, which is part of RBS, so we are all friends.

What about the loan:value ratios for agricultural businesses in Northern Ireland? Are they the same as they were, or are they more stringent and more difficult for farmers? Does the property loan debt overhang affect the charges and the interest that are being charged to viable businesses? I have heard from the owners of shops, filling stations, pubs and restaurants that their charges are going up. Those who have tried to protect their businesses and kept them viable and running feel that they are being shafted. Are viable farm businesses also suffering the same — what should we say — pain for enduring?

I welcome what Cormac said about the poultry sector. I think that your bank has been heavily involved with that sector. Will you update us on how a young man who wants to build a three-house poultry business would go about doing that?

Mr McKervey: I will take your question about the loan:value ratio first. Thankfully, land values, as assets, are virtually unchanged, so the loan:value ratio has not changed at all. We are quite comfortable with the quality of security that we hold and the loan:value ratios that go against that.

We have done a lot with the poultry sector. We continue to do a lot, not just with Moy Park but with the free range egg-laying sector, which continues to grow. We see that as having great potential. I suppose that that brings me back, in some respects, to what we said about the volatility of the weather. The beauty of those sectors is that they are insulated in that the price a farmer gets for his birds or his eggs is linked to the price of the grain. There is a lot of comfort in that; it takes a lot of the volatility out of it.

We are as keen as ever to fund new growers who want to put up a free range egg house or a Moy Park unit, in terms of the funding that we put in and the other conditions, one of which is security, which I mentioned previously. We like land-based security for that sector — that is our preference. Poultry houses are very good for cash regeneration but have a very poor resale value, as they are very specialist buildings, so we like land-based security behind it, but the loan:value ratio and everything else that goes with it has not changed.

Mr Byrne: In relation to the general economic climate — Richard, I hear your prognosis from time to time on the radio — has the Ulster Bank closed farm businesses over the past six months? If so, what sort of ratio or numbers of closures would you have been involved in?

Mr McKervey: Closed farm businesses?

Mr Byrne: Yes.

Mr McKervey: No.

Mr Byrne: So, you have not pressurised anybody to go out of business?

Mr McKervey: No. Where we see cases that are that distressed, core farming is not the main business. There could be property issues around it or whatever else. We have not closed any ongoing trading faming businesses.

Mr Byrne: Are you sure?

Mr McKervey: Yes. I am quite confident of that.

Mr Byrne: That is OK. Thank you.

Mr Irwin: You are very welcome. I asked Danske Bank about its margins over the base rate. It is common knowledge that, in recent times, banks have raised their margins. The general feeling is that banks are trying to recoup their losses by doing that. The banks try to assure people that that is not the case, but it is very difficult. Some of the margins that are being asked for are sending shockwaves through the agriculture community. Even some very strong farmers are being asked for some very steep margins. Can you give a logical answer to that?

Mr Jordan: As you say, sir, it is completely understandable that people think that. As my colleagues in Danske Bank said, the input costs for the banks have increased. The other part of it is that the risk within the price has also changed in certain cases. Those two factors have impacted on the price.

There is no doubt that, going back a number of years, margins of 1% or 1·5 % were the norm. Whether they were too low is probably a good question. Therefore, you can understand why people are concerned: they were looking at 1% and they are now looking at 4%. At the same time, the base cost of lending is quite considerably lower than it was some time ago, so the overall cost of borrowing may not have changed as much as that headline margin rate.

I do not think that it is going to be possible for the banks to convince the man in the street that they are not, in some way, paying for the banking crisis, because —

Mr Irwin: They are.

Mr Jordan: The overall cost of input, in some way, has been a result of the banking crisis, and the uneven economic conditions that impact on the risk have also caused it. We can kind of distance ourselves from it up to a point, but obviously not entirely. Clearly, there are factors that the banks have contributed to that have impacted on the pricing.

Mr Irwin: That being the case, it seems strange that representatives from both banks have said that there is little or no risk involved with agriculture. Indeed, they have had no repossessions in recent times, so you would have thought that the risk was quite low. Indeed, when compared with other businesses, some of the shops on the main street do not own the buildings that they are in and have practically no security. Farmers have land.

Mr Jordan: I would hesitate to say that there is no risk in anything, and I do not think that any farmer would say that. Relative to certain industries, there is certainly less risk. From a pricing perspective, on average, the pricing will be lower in that sector, which reflects the risk. Cormac, do you want to add anything about the pricing?

Mr McKervey: No, but there is a thought going through my mind. When you mentioned farming in comparison to other sectors, William, I wondered what other sectors have got the support that we have put in as a result of the bad weather, in terms of actual funding, whatever the margin. That, I suppose, is an indication that we are assisting, doing our best and taking a long-term view. There may be short-term cash flow issues, but we are there for the long haul. Farms are not businesses that are going to open and close in six months or a year or two years.

Mr Irwin: Ian, you said that you have to borrow money in your business. That is your business. On the other hand, Cormac said that there are farmers who are maybe sitting with a hard core overdraft of £50,000 and not getting it down; you want it down. If that farmer paid off his £50,000, you would be wanting to let it out to him the next day anyway. Do you understand where I am coming from? At the end of the day, if he is safe, is paying his interest and has plenty of stuff to cover that money, it should not be a major issue.

Mr McKervey: You are talking about margins going up. The farmer has a very solid overdraft which he cannot use anyway. He might say that he has an overdraft of £100,000, but, in fact, his working capital, if it is £50,000 rock solid, is only £50,000. He does not actually have £100,000 to play with. That £50,000 sits there rock solid — it does not go into credit — and the farmer maybe uses it to buy capital items that should be paid for with a loan, but he is using his working capital overdraft to fund it. So, the mechanism is wrong.

We have a job to educate him. We have to tell that farmer that it is not a question of him not getting £100,000. However, if he is spending £50,000 on a new beef house that should be paid for with a loan rather than put on his overdraft. If it is on his overdraft he is not going to repay it. We have a job to educate the farmers but, equally, the farmers should understand that it makes good business sense for them.

Farmers feel that we are interfering in what were longstanding £100,000 overdrafts, but we have not reduced their facilities by a single penny. We are only trying to make them more fit for purpose. We have a job to do that. Maybe we did not pay enough attention to that in the past with some farmers. We do now.

Mr Swann: Gentlemen, thanks for your presentation. I want to keep on the same track with regard to cash flow and bank borrowing. Do you have a feeling of the debt that your customers have with other industries, such as feed suppliers and fuel providers?

Mr McKervey: On an individual basis, I cannot give you that. My figures could be six or nine months out of date, but there is somewhere around £100 million of merchant credit, as I understand it, at any one time.

Mr Swann: Is that across the sector?

Mr McKervey: Across farming. There is somewhere between £150 million and £180 million on asset finance. That is on top of the £800 million —

Mr Swann: Is that banks?

Mr McKervey: Yes. Do not hold me exactly to those figures; it is there or thereabouts.

Mr Swann: I suppose that the privilege of coming second is that you get a chance to think of those figures.

Mr McKervey: No, I have it, but it is a while since I did it. Maybe it was for this Committee previously; I am not sure. That is my memory of those figures.

Mr Swann: You talked about lending and where you are compared with your customers out there. Do you find that there is a big deal of refinancing on machinery and houses rather than new borrowings?

Mr McKervey: Not a lot, but there is certainly some. In the poultry sector, it is all new borrowing. There is no refinancing. The pig sector is coming out of a very difficult time. It is going back into new money to reinvest and get bigger. You may not have seen it yet, but it is happening. That is how the pig sector works; then it will disappear for a while. For the beef sector, it is more or less business as usual. It has not changed terribly much. We have had to intervene in the dairy sector in the past year, particularly for intensive dairy farmers who operate fully confined systems that are reliant on a lot of bought-in feed, paid labour, asset finance, hefty bank borrowing and a milk price that they did not get last year. That has caused the restructuring and refinancing. It is relatively few, but it is particularly that upper end of dairy farmers who operate confined systems and are very dependent on a high milk price. When input costs were very high and milk price was poor last year, they certainly had to refinance.

Mr Swann: Are you seeing that at the higher end with the more intensive, bigger men in the dairy industry?

Mr McKervey: In general, yes — and the people who moved away from a grass-based system and maybe put up a lot of housing under the farm nutrient management scheme and doubled cow numbers. However, the grazing platform never increased, so they are very heavily reliant on inputs, whether it is finance, labour or bought-in feed. Unless you operate on a consistently high milk price, that is very prone to any changes in the system.

Mr Swann: You mentioned customers in distress with not just agriculture but attached property issues. What did you mean by that?

Mr McKervey: Where I see distressed farming cases, farming is not the core business. It is that the farmers got into property and taken a hit there. Those costs cannot be met, and the farm is trying to carry that extra debt. It was never designed to do it. That has caused huge pressure. Very few core farming enterprises are at the level of distress at which we are concerned that they will have to shutter. I do not see that.

Mr Swann: You talked earlier about the need to bring new entrants and young farmers into the industry. I know the role that the bank and the young farmers played when we created the previous new entrant scheme under the common agricultural policy. Basically, that was supported lending, for want of a better phrase. Do you feel that that worked?

Mr McKervey: I do. I was a big advocate of it. I thought that it worked very well. Going back to the poultry example, for that young farmer, it was home and maybe a dairy unit, but it could not initially support two farm incomes. However, he could have built a poultry unit or put up a contracted pig finishing unit or whatever else through the new entrant scheme, so it brought in his own income. The interest subsidy may be long gone, but he still has a very good asset that he is earning money from. I was all in favour of it.

Mr Swann: As a model, perhaps in the common agricultural policy for support to new entrants, is there also an opportunity for the Executive to look at the same sort of support? There are schemes under the Going for Growth strategy, if they are serious about it.

Mr McKervey: If it does not affect state aid or whatever else, I would be a big advocate of it. I thought that it did very, very well. It was a good scheme. They were young. Most of them were college-trained and had a business plan. They were business-focused. The Department put in a good resource to walk the people on the ground through the scheme until the project was up and running. I thought that it was an excellent scheme.

Mr McCarthy: I am following on from your answer to Robin about some of the farmers getting into difficulty at the time of the boom. Would that have been because they got into development? Some of the farmers or landowners cashed in on huge prices for building sites at a particular time. When that stopped, is that the result of that drying up? They had invested in other properties, and the value for building sites was no longer there. Is that a reasonable assessment?

Mr McKervey: I think that would be part of it. Whatever about the property, my core interest is in the farm business. What I am saying is that most of those were fine. It was actually outside pressure that those farm businesses were under.

Mr McCarthy: The agrifood sector has been regarded as one of the major ways of getting the Northern Ireland economy back up and running. I do not know who set it — I think that it was the Executive — but there was a target of some 50,000 new jobs. What can the banks do to help? We all want to see that as soon as possible. What can you people at the banks do to ensure that that comes about, or what advice do you have to get us there?

Mr Jordan: The first thing is that you are absolutely right, and we agree 100%, that the agrifood sector is going to be the driver of bringing Northern Ireland forward. We see that there are huge natural advantages we have on that. From our perspective, it is about having an experienced team, which Cormac leads, and having that agri-team out there talking to our customers. As I said before, we have to be clear in communicating what we can offer, whether it is Government initiatives or any other support that we can give. A lot of it is about actually getting the message out to the people about what is available, both from banks and from Government. We can work well together with Government in making sure that we communicate something simple and easy to use that the farmers can access without red tape. Half the battle is about clarity.

Mr McCarthy: And if some idea comes along that adds value to whatever products, you will be there to help, support and get them over the line and into the marketplace?

Mr Jordan: Absolutely. That is why our local managers throughout the branch network have a role in talking to people to explain exactly how it works and how it might apply to them locally.

The Chairperson: Before I bring in the Deputy Chairperson again, I want to ask you a question — I should maybe have asked it earlier, because Cormac was talking about it — about the 'Going for Growth' report from the Agri-Food Strategy Board. You are the money men; you have done the sums. That strategy includes priorities to grow sales by 60% to £7 billion; to grow employment by 15%; to grow sales outside Northern Ireland by 75% to £4·5 billion; and to grow by 60% to £1 billion the total added value of products. To make that happen, it refers to £400 million from Government and £1·3 billion from industry. A lot of that will have to come through you. Have you worked out a critical mass of how much more lending industry can sustain? Even with the investment that I have just outlined, can we produce the figures to grow sales by 60% to £7 billion? Will that add up to that target?

Mr Jordan: Do we have an industry that is capable, if it pulls together and works together, of delivering those numbers? Potentially, yes, but, as we said before, there is a lot of work to be done to turn that into reality. As regards us supporting them, again, we have an appetite to lend money, as I said before. We want to support the right projects, and we support a number of them already. If some incredible firms that are our customers in Northern Ireland are doing major projects, we want to support those. There is still an awful lot of work to do to deliver those numbers, and I cannot sit here now and say that I am 100% confident that we will hit those numbers. What I am 100% confident of is that we will work with our customers to support them as much as we can in achieving what has been set out there. There is a lot of work to do to break it down into bite-sized chunks and then work through it. We are delighted to see that sort of ambition, because we are ambitious as well. We want to grow, and that sector is going to be critical to doing that.

The Chairperson: You talked about 100% confidence and wanting to grow. My colleague the MP for North Antrim is very adamant that Ulster Bank is leaving town. Do you want to take the opportunity now to categorically deny that and show confidence that you are here for the future and the long haul?

Mr Jordan: I can say categorically that we are here for the future and for the long haul. Last week, the Parliamentary Commission on Banking Standards made recommendations, and the Chancellor of the Exchequer said that he would be exploring how the assets in RBS, including Ulster Bank, might be split into a good or bad bank. Obviously, at this stage, we do not know the outcome of that review, but it is worth me saying that that commission also highlighted how fundamentally important Ulster Bank is to the Northern Ireland economy and acknowledged our role as a leading player in that market. So, we will wait to see what the review says, and, in the meantime, we will continue to support our customers. No doubt, we will be in the news again because lots of people want to talk about it. In the meantime, we will get on with it, and that is what we are doing.

Mr McKervey: Mr Chairman, you made a point about the Agri-Food Strategy Board. Even in the recent past, Linden Foods created 170 jobs, and Fane Valley and United Dairy Farmers did so before there was any food strategy board. Now, in some respects, with the horse meat scandal, we have a huge opportunity in that GB retailers want local food from fully traced short supply chains. We may not get this opportunity again, so we certainly want to be part of it.

Mr Byrne: Chair, following on the theme that you raised, the Ulster Bank is the hind tit of RBS.

Mr McKervey: As long as there is no filming.

Mr Swann: Is that a farming expression, Joe?

Mr Byrne: What percentage of the loan book of Ulster Bank is in jeopardy and is in hock to the National Asset Management Agency (NAMA)? Secondly, if I were a young farmer and wanted £40,000 to buy a new John Deere machine or 40 first-time calving heifers, which would be the easier loan to get?

Mr Jordan: I will take the first question and let Cormac take the second one. We are not in NAMA, because it is only the Republic's banks that have put assets into NAMA. Ulster Bank has a global restructuring group team that looks after distressed debt, both north and south of the border. It continues to work through with a number of customers. Its objective is to turn those businesses around and return them back into what might now be called "good bank". I suppose that the positive news is that, after a number of years where there was a one-way flow from good to bad, we are now seeing a positive flow from bad to good. That is the way that we want to see it.

Mr McKervey: On the question of the new entrant, Joe —

Mr Byrne: A young farmer, I am saying.

Mr McKervey: Yes, a young farmer. The preference would be for the 40 heifers. They have some chance of generating money and may even be an appreciating asset, whereas a tractor, whether it is made by John Deere or not, may well be a depreciating asset. That having been said, if the tractor is going to generate income, we would look at that too, but the heifers would be my preference.

Mr Byrne: I appreciate your objective answer, Cormac, but it begs this question: is too much capital resource being put into brand new farm machinery, which is almost a toy luxury, when a £10,000 tractor could do the job?

Mr McKervey: It is debatable whether it is a toy luxury. Where machinery is needed and fully justified on the farm, I have no problem with it at all. Where new machinery is bought and not fully utilised, maybe bought as a means of maximising allowances on tax and purely for no other reason, or where it will cause cash flow problems further down the line, it should not happen. We talked about the milk crisis of 2012. Unfortunately, we saw farmers, on the back of a very good 2011 milk price, paying very hefty tax bills in January 2013. That was the worst possible time in the cash flow cycle, because they could not afford it. Some of those who tried to minimise the tax bill and bought a tractor in mid-2012 then found that the hire purchase commitments could not be met because of poor milk prices at the start of this year. That comes back to the point that Robert McCullough made earlier about bigger farmers who are more highly geared. There is a big issue there.

Mr Irwin: I want to take up Joe's point.

The Chairperson: Are you looking for free financial advice too, William?

Mr Irwin: No; I make my own decisions. *[Laughter.]* I agree with what you say, Cormac. However, Joe made the point that, in most cases, it is much easier to get finance to buy a new tractor on hire purchase than it is to get finance for livestock.

Mr McKervey: If it is asset finance, it will not be us who will be dealing with it. The bank does loans and overdrafts. We do not actually do asset finance. That could be Lombard or some of our other colleagues.

Mr Irwin: I understand.

The Chairperson: OK; there are no further questions. I can see a new tractor and 20 heifers coming very soon. *[Laughter.]* Thank you very much. This is a very serious issue, and, we, as a Committee, are taking it seriously. We value your time with us today.