

Bank of Ireland

Making an Informed Farm Financial Decision

March 2015

Bank of Ireland Group 

For small steps, for big steps, for life



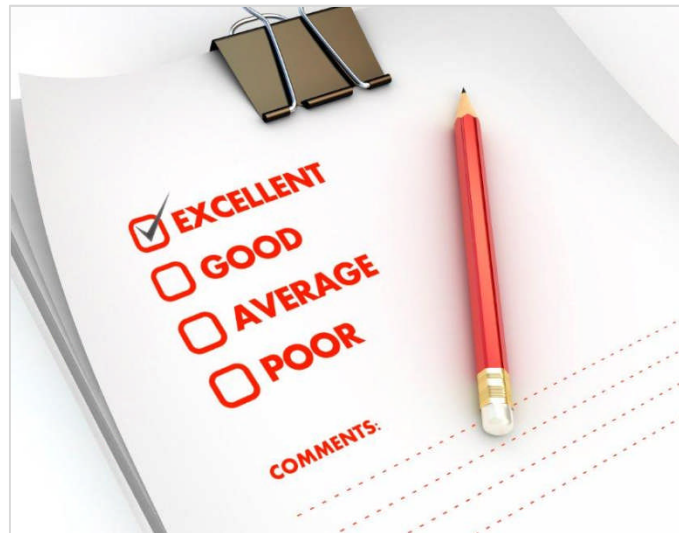
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To invest or
not to invest

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

- Physical-Assets:
 - Land base
 - Facilities
 - Stock
 - Labour
- Financial
 - Liabilities
 - Debtors
 - Creditors / OFI
- Personal
 - Age
 - Profile
 - Family Circumstances
- Key Questions:
 - Where am I now?
 - Where do I want to be in 2/3/5 years time?
 - How will I get there?



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Setting the scene

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

How efficient are you now?

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

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Maximise
efficiency at
current output
levels

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Step by step
approach

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The following are the key considerations for loan assessment:

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



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Loan Assessment
Considerations

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Loan Application Form.

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

Description & history of farm system:

- Dairy Farmer
 - (Co-Op and volumes supplied, efficiency level, EBI, Constituents, etc.)
- Beef farmer
 - (sucklers, store to beef, main point of sales, etc.)
- Tillage
 - (crop mix, yields, contract versus own machinery / labour, merchant partner)



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Farm Profile
Details

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

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Assess your
future
investment
needs

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Bank Track Record

Bank Track Record

- Existing customers
- New to bank applications
 - bank statements



Date	Description	Balance
2000-10-08	Previous Balance	0.00
2000-10-14	Payroll Deposit - HOTEL	400.00
2000-10-14	Web Bill Payment - M	400.00
2000-10-16	ATM Withdrawal	400.00
2000-10-16	Fees - Interac	400.00
2000-10-20	Interac A	400.00
2000-10-21	Web	400.00
2000-10-22	ATM	400.00
2000-10-23	Interac	400.00
2000-10-24	Interac A	400.00
2000-10-27	Telephone	400.00
2000-10-28	Payroll Dep	400.00
2000-10-30	Web Funds	400.00
2000-11-03	Pre-Auth. Pay	400.00
2000-11-03	Cheque No. - 40	400.00
2000-11-06	Mortgage Paymen	400.00
2000-11-07	Fees - Overdraft	400.00
2000-11-08	Fees - Monthly	400.00

Debtors & Creditors

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

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12 month
current account
appraisal

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Source & Use of Funds

Uses	€'000	Sources	€'000
Farm Development		Term Loan	
Land Purchase		Own Equity	
Livestock Purchase		New Seasonal Loan	
Repay other bank loans		New Overdraft	
Working Capital			
Total		Total	

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

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

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

Assets	Policy limits as a % of Total Assets
Loans and leases	70%
Residential mortgage	30%
Commercial loans	
Personal loans	
Finance leases	
Financial investments	
Other investments	
Inventories	
Intangible	
Cash and	
Trade and	
	100%
Liabilities	
Domestic int.	75%
Term de.	42%
Demand de.	25%
Brokered deposits	8%
Short-term borrowings	4%
Long-term debt	12%
Non-interest bearing liabilities	5%
Deferred revenue	2%
Trade and other payable	2%
	100%

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Repayment capacity is the key lending consideration

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Calculating Debt Service Cover (DSC)

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

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Debt Service
Cover

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Cash In / Cash Out
= Debt Service

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➤ 1.2 Times Cover

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Stress Test
Interest Rates

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$$\begin{aligned} &\text{Net Profit} \\ &+ \\ &\text{Depreciation} \\ &+ \\ &\text{Interest} \\ &= \\ &\text{EBITDA} \end{aligned}$$



EBITDA - Earnings before Interest, Tax, Deprecation and Amortisation.

EBITDA is available to service bank debt, farm investment, taxation & living expenses.

Farm Accounts

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We all prepare
Farm Accounts.

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Do we use them
to help run our
businesses?

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



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Ability to repay is
the key
consideration

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Security is
secondary

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Financial Information Required

Up to date farm accounts (multiple years are preferable)

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

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Information
requested to
make the right
decision

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



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

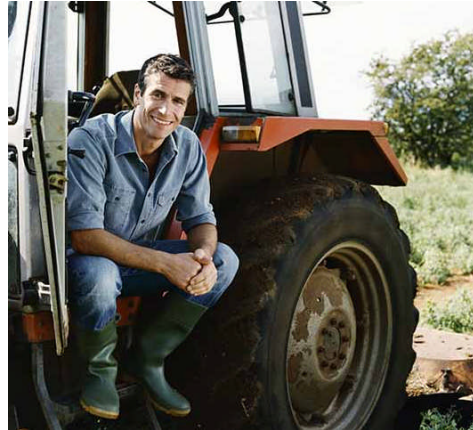
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AgriFlex supports
your farm's cash
flow

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**You are the most important
asset on your farm**



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

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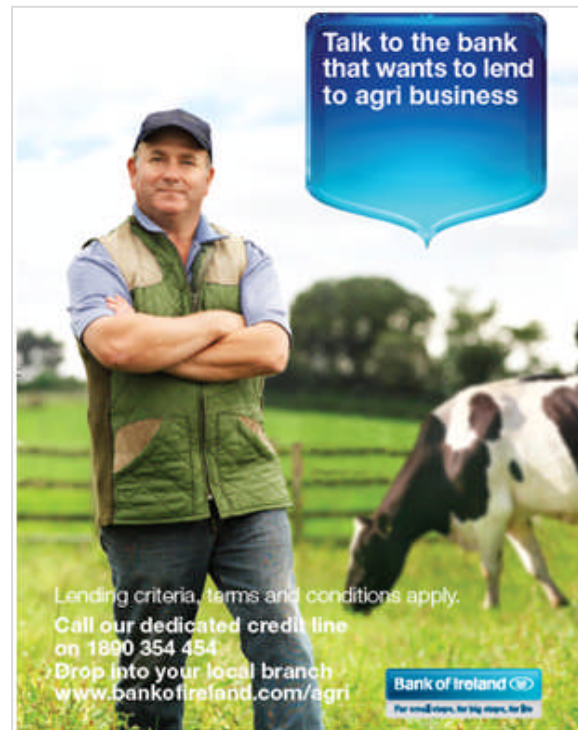
Invest in
planning for
future success

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Conclusion

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



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

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Lending criteria, terms and conditions apply. Security and Insurance may be required. Loans are not available to anyone under 18 years.

Bank of Ireland is regulated by the Central Bank of Ireland.

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

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