

Financing the Pig Sector

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Teagasc Pig Conference

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Economic Importance

- ➔ **Gross Agricultural Output (2010) €5.6bn**
- ➔ **Gross Value Added (2010) €3.5bn**
- ➔ **Annual Output of FDI* (2009) €22bn**
- ➔ **Gross Value Added (2009) €5.8bn**
- ➔ **Agri-food Contribution to GDP 6.5%**
- ➔ **8.5% total employment**
- ➔ **270,000 jobs dependent on sector**
- ➔ **Exports €8bn**
- ➔ **30% of net foreign earnings from exports**

* FDI – Food & Drinks Industry



Agri Sector

- Current situation good in almost all sectors – **exception pigs**

	Expected annual price 2011	(2010 Price)
Cattle prices	€3.35	(€2.91)
Lamb prices	€4.85	(€4.39)
Pig prices	€1.50	(€1.31)
Grain prices	€160/t	(€155/t)
Milk prices	33c/litre	(30c/litre)

- 2010 & 2011 stronger years for Irish Agriculture
- Volatility now a feature of most agri sectors

Profile of Irish Pig Sector

- Output value of the Irish Pig Sector €330m in 2010
- 5% of GAO - Ranked 3rd behind milk & beef
- 70% of output is exported - UK the most important outlet
- 425 pig units in Ireland
- 7,500 in primary production, processing & services
- 50% increase in value of sector – Harvest 2020 Report
 - ✓ Driven by combination of global demand & supply projections

Volatility

- Current margins below target margin over feed returns
- Past experience shows that sector returns to average levels of profitability
- Traditionally a very cyclical business, characterised by an output price that varied over average cycles of c. 5 years
- Compounded by additional volatility in feed prices
- Average margin over feed returns to producers has averaged 50 cent per kg in various 5 year cycles over past 20 years

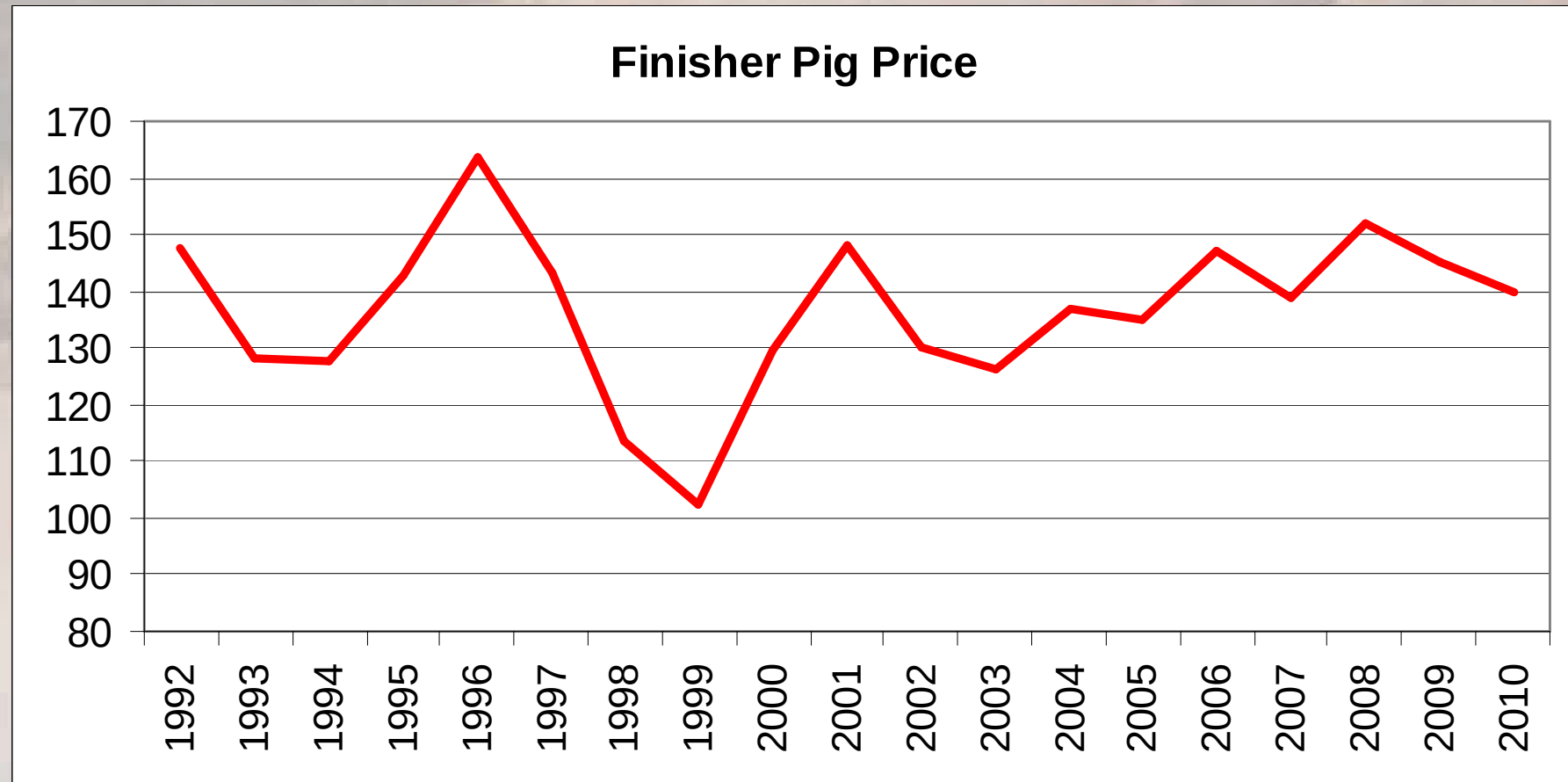
Margin over Feed 1996 - 2010

	1996-2000	2001-2005	2006-2010
FEED PRICES			
Composite Meal (€ per tonne)	219	218	252
Feed Cost (c per kg dead)	83	83	96
PIG PRICES			
Finisher (c per kg dead)	130	135	145
MARGIN OVER FEED (c per kg dead)			
	47	53	48

Source: Teagasc PigSys



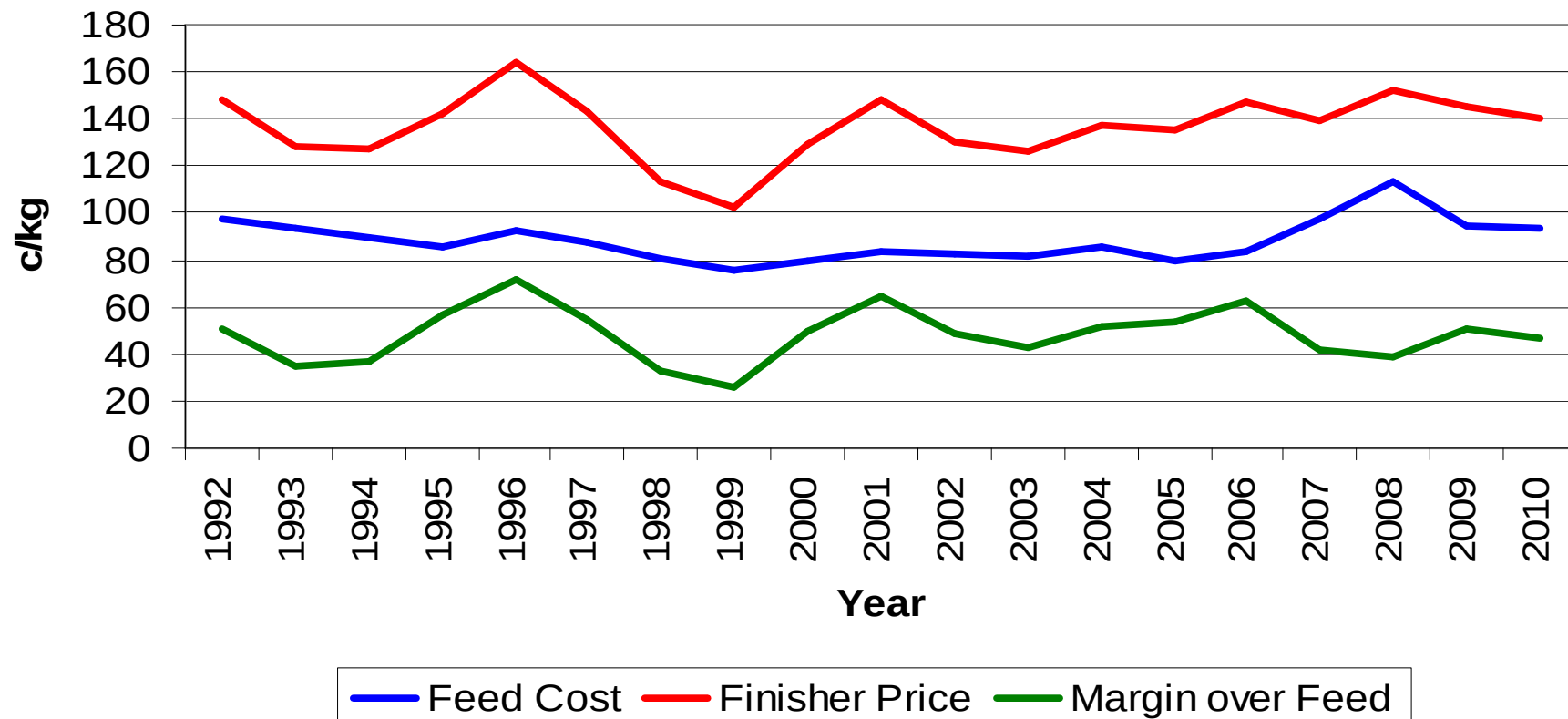
Pig Prices 1995 - 2010



Source: Teagasc PigSys

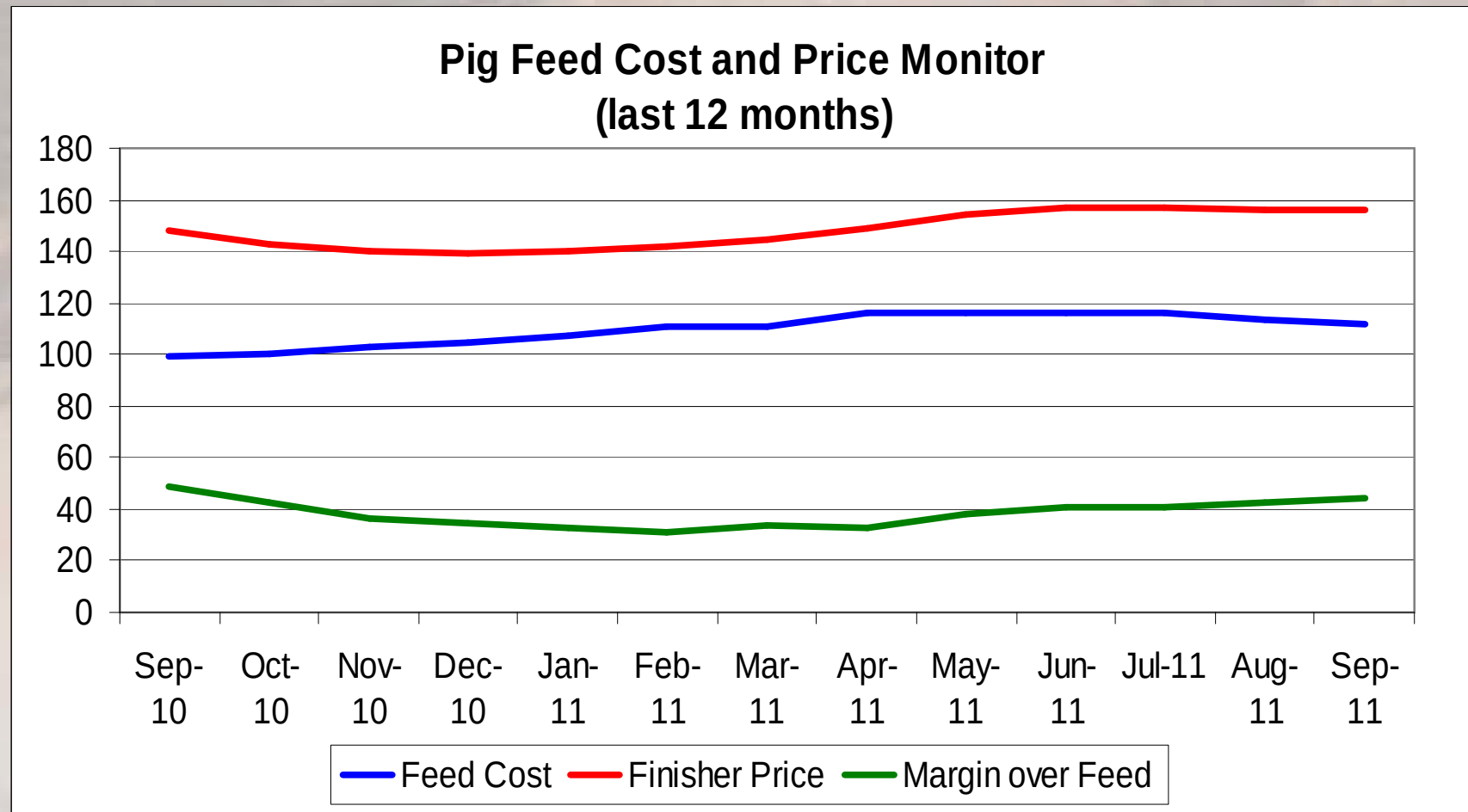
Margin over Feed 1992 - 2010

Pig Feed Cost and Prices Monitor



Source: Teagasc PigSys

Pig Feed Cost and Price Monitor



- 12 month average feed cost 110c/kg dead
- 12 month average finisher price 147c/kg
- 12 month average margin over feed 37c/kg

Source: Teagasc PigSys



Managing Cash Flow Pressure

- AIB continues to support our agri customers
- Any credit request must be viable
- Repayment capacity is No. 1 consideration
- Should be accompanied by a structured farm plan
- Customers will experience a more structured, formal and diligent lending process that requires more MIS than in past
- Case by case basis to determine appropriate approach
- Talk to Bank as early as possible
- Our view is that pig farmers have coped well over past 12 months



Priorities within the sector

- Investment in dry sow housing to comply with EU legislation
- Expansion for some
- Financial Management / reduction in merchant credit
- Build up a buffer in good years

Accessing Bank Credit

- Prepare a farm business plan for funding required
- Be prepared / put forward a strong proposition – provide supporting information
 - Background / Farm development to date
 - Asset / Liability profile
 - Financial Accounts / Bank statements
 - Management Accounts / Profit Monitor
 - reconciled with financial accounts?
 - Monthly Cashflow (Short-term)
 - Income / Expenditure Projections (Long-term)
 - Confirmation from Revenue that tax affairs are in order
 - Other management info – PigSys Reports

Bank considerations

- Repayment Capacity
 - 3 years of trading accounts
 - What is likely trend in farm profitability
 - What is the current competitive position of borrower
- Track record
- Management ability
- Key risks:
 - How the business is capable of managing the key risks
 - e.g. possibility of lower margins, interest rate volatility and the possible need for additional capital expenditure
- Security

Conclusion

- AIB recognises the positive long term outlook for the Agri-Food Sector
- Understands that farming is subject to cycles and market downturns & takes a medium / long-term view of customers
- The bank is committed to supporting and assisting viable farmers develop and expand their farms
- It remains our strategy to support the development of viable farmers



Questions

Lending criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required .

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.



Thank You

