Special Issue
July 2013

SPECIAL ISSUE TREASURY JULY 2013

INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

IAFEI Quarterly

Special Issue Treasury

The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)

July 31, 2013, www.iafei.org

IAFEI Quarterly, Special Issue Treasury July 2013 **July 31, 2013**

Table of Contents

Please turn over

BG Group, Presentation: **Strategic Funding for Future Growth.** By **Pedro Zinner**, Group Treasurer, May 2, 2013

EBS Group, presentation: **Bank Relationship Management - ESB Case Study.** By **Paul Stapleton,** Group Treasurer ESB, May 3, 2013

Dubai Aluminum,
Presentation: **Bank Relationship Management - A Science or an Art?** By **Toby Shore,** Corporate Treasurer & Chief Risk Officer, Dubai Aluminum (DUBAL), May 3, 2013

Letter of the Editor **July 31, 2013**

Dear Financial Executive,

You receive the **IAFEI Quarterly**, **Special Issue Treasury July 2013**.

This is another issue of the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes.

This journal, other than the IAFEI Website, is the internal ongoing information tool of our association,

destined to reach the desk of each financial executive,
or reach him, her otherwise,
at the discretion of the national IAFEI member institutes.

The corporate treasury function has been, and is being, directly and immediately impacted by the many diverse facets and consequences of the recent and ongoing financial crises in several world regions.

This present **Special Issue Treasury July 2013** provides you with a set of articles:

Survey Results: " ***The impact of the financial crisis on bank relationships and financing conditions*** ", by EACT, European Association of Corporate Treasurers. Several member institutes of IAFEI are as well associated to this European Association.

White Paper, ***SEPA: the countdown begins***. By Deutsche Bank, Global Transaction Banking.

Six presentations, given on a set of treasury subjects, at the ACT Annual Conference, May 1 - 3, 2013, in Liverpool, United Kingdom, organised by **ACT, the Association of Corporate Treasurers, United Kingdom**. To this association, several **IAFEI** member institutes maintain good relationships, and through these IAFEI has got access to these presentations.

Please turn over

IAFEI is thankful for having received permission from the Association of Corporate Treasurers, ACT, as well as from all individual presenting corporations and professionals to include their presentations in the original form in this

Special Issue Treasury July 2013.

Once again, I repeat our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

With best personal regards

Helmut Schnabel

Helmut Schnabel

31 May 2013

Press Release

Embargoed for publication until 00.01 on 31 May 2013

The impact of the financial crisis on bank relationships and financing conditions

The *European Association of Corporate Treasurers* (EACT) is a grouping of 20 national associations representing treasury and finance professionals from 19 countries of Europe.

Between November 2012 and February 2013 the EACT conducted its fourth survey to provide a pan-European view of the impact of the financial crisis on the bank relationships of companies and on financing conditions for corporates. The survey received 516 answers from 18 countries. The distribution of the responses – which came from all major countries in the Europe – is shown below[1].

The key messages coming from the survey are:

- ***Whilst financing conditions remain difficult there are signs of improvement – or at least of less sustained deterioration***
- ***One company out of five is still experiencing a reduction in credit availability. However this compares with the situation in mid-2009 when roughly 50% of companies reported reductions***
- ***Whereas in mid-2009 29% of companies reported that banks were cancelling credit lines this has now reduced to 11%***
- ***Banks are still putting pressure on pricing, but less so than at the beginning of the crisis: 43% of companies report upward pressure on pricing of uncommitted short term funding compared with 80% mid-2009***
- ***The response of banks to requests for increased lines of credit has remained broadly constant over the four surveys, with roughly two-thirds offering such support to companies***
- ***The majority of companies reported that additional efforts are being made to centralise cash within their groups***

[1] Responses by country: Austria: 5; Belgium : 1; Czech Republic : 16; Finland: 20; France : 86; Germany : 23; Hungary: 16; Ireland : 32; Italy : 46; Luxembourg: 1; Netherlands : 54; Poland : 34; Slovakia: 13; Slovenia: 34; Spain : 45; Sweden : 12; Switzerland: 33; United Kingdom : 45

Head office: 20, rue d'Athènes – F-75442 Paris Cedex 09 – France
Phone: +33 1 42 81 53 98 – Fax: +33 1 42 80 18 90 – E-mail: secretary@eact.eu – Website: www.eact.eu

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

- ***The survey identified disappointing efforts by banks to communicate with their customers on the impact of new regulations, with only 22% of companies reporting banks' briefing them on EMIR (derivatives regulation)***

Commenting on the survey results, EACT Chairman Richard Raeburn said:

"Our survey underlines that funding conditions remain challenging for companies across Europe. Whilst there is evidence of improvement it is disappointing to see confirmation that whilst businesses seek to grow economic activity and build employment financing that growth remains difficult".

Detailed analysis of the survey results is attached.

Press enquiries on the survey can be addressed to:

Richard Raeburn
Chairman
European Association of Corporate Treasurers
+44 78 02 96 66 65
richard.j.raeburn@gmail.com

Richard Cordero
European Association of Corporate Treasurers
+33 1 42 81 98 36
richard.cordero@afte.com

EUROPEAN ASSOCIATION
OF CORPORATE TREASURERS

Analysis of Survey Results

1. Company turnover of respondents:

Less than 100 million Euros: 16%
Between 100 and 500 million Euros: 23%
Between 500 million and 1 billion Euros: 14%
Between 1 and 2 billion Euros: 17%
More than 2 billion Euros: 30%

Participation in the survey was well spread across the very largest companies and small and medium sized enterprises (SMEs).

For questions under the headings "Existing credit lines", "Changes in conditions" and "New lines", the respondents were asked to provide an answer based on their experience since the third survey in autumn 2011.

2. Existing credit lines

Has your company had any credit lines reduced by the lenders?
Yes: 18%
No: 82%

If yes, were the lines committed, uncommitted or a mixture?
Committed: 24%
Uncommitted: 26%
Mixture: 50%

In the similar survey run in autumn 2011, 22% of the companies had experienced a reduction in existing credit lines. These percentages were 27% in summer 2010 and 47% in mid-2009.

Has your company had any credit lines cancelled?
Yes: 11%
No: 89%

If yes, were the lines committed, uncommitted or a mixture?
Committed: 23%
Uncommitted: 37%
Mixture: 40%

In respect of the cancellation of credit lines, the percentage fell from 29% (mid-2009) to 19% (summer 2010) to 13% (autumn 2011) and to 11% (winter 2012-2013).

3. Changes in conditions

Has any of your banks increased the margin applied to your uncommitted short term credits?
Yes: 43%
No: 57%

If yes, the increase of the margin is:
Less than 0.50%: 44%
From 0.50% to 1%: 39%
From 1% to 3%: 15%
More than 3%: 2%

Banks are still putting pressure on pricing, but less than at the beginning of the crisis, where 80% of companies had seen increased spreads applied to short term credits.

Has any of your banks changed the margin and / or other charges applied to your committed lines of credit?
Yes: 33%
No: 67%

If yes, the increase of the margin (or equivalent in other charges) is:
Less than 0.50%: 44%
From 0.50% to 1%: 36%
From 1% to 3%: 19%
More than 3%: 1%

On committed lines, the spreads charged to companies have increased for 1 company out of 3. The level of these increases has exceeded 0.50% for 56% of the respondents to this question.

For these questions, what are the reasons given by the banks:
Bad company financial statements: 9%
Credit standing of the lending bank: 16%
Parent company bank rating problems: 3%
Impact of new regulations (Basel III, CRD 4 …): 36%
Other: 36%

The changes in conditions are caused by the financial situation of the borrower in only 10%.

4. New lines

Have you asked your banks to increase uncommitted short term lines of credit?
Yes: 31%
No: 69%

If yes, your banks:
Accepted: 69%
Refused: 31%

Have you asked your banks to increase committed lines of credit?
Yes: 33%
No: 67%

If yes, your banks:
Accepted: 80%
Refused: 20%

As in the three first surveys, when there is a request for an increase of credit lines (committed or not), banks accepted in more than 2 cases out of 3.

5. Attitude of the banks

Has any of your banks seeking additional securities (pledges, guarantees, raising the level of covenants ...) in return for lending or other credit commitments?
Yes: 31%
No: 69%

Are banks actively seeking to tie ancillary operational business to lending commitments?
Yes, more than pre crisis: 60%
No more than pre crisis: 40%

Has any of your banks stopped financing in some currencies?
Yes: 18%
No: 82%

Are you financing your company more on the financial/capital markets (commercial paper, bonds …) and less with your banks?
Yes: 28%
No: 72%

EUROPEAN ASSOCIATION
OF CORPORATE TREASURERS

What is the percentage of your financial loans covered by your banks?
Less than 33%: 37%
Between 34 and 66%: 19%
More than 67%: 44%

The respondents are still relying on their banks (only 28% of the respondents are financing more on the financial markets), although banks are actively seeking to tie ancillary operational business to lending commitments.

Comments from respondents

There was one recurring theme in comments: when relevant, the financing through the parent company has increased.

6. New regulations
Have your banks informed your company on the likely impact on pricing of implementing Basel III and CRD IV?
Yes: 48%
No: 52%

Are your banks concentrating on trying to attract your surplus cash directly in their balance sheets, as opposed to encouraging other types of investments such as UCITS?
Yes: 47%
No: 53%

Have your banks informed your company on the likely impact of implementing EMIR?
Yes: 22%
No: 78%

Banks seem to be reluctant to inform their customers on the impacts of new regulations: only 1 client out of 2 regarding Basel III and 1 out of 5 regarding EMIR.

7. New sources of financing
Has your company launched financing programs like Schuldschein, US commercial paper …?
Yes: 11%
No: 89%

Has your company increased the recourse to factoring?
Yes: 20%

No: 80%

Has your parent company accelerated the cash centralization inside your group of companies?
Yes: 62%
No: 38%

Since the beginning of the financial crisis, have you asked a credit rating agency to rate your company?
Yes: 23%
No: 77%

Cash centralization is the preferred way to find new sources of financing. New financing programs had been launched only by 1 company out of 10.

If you can choose to margin on your mark to marketed transactions, do you prefer margining to lower the credit risk premium?
Yes: 49%
No: 51%

Deutsche Bank
Global Transaction Banking

White Paper

SEPA: the countdown begins

Overcoming the challenge of compliance with the support of a capable and knowledgeable banking partner

Passion to Perform

Deutsche Bank's White Paper series provides in-depth analyses of the broad spectrum of issues affecting the global corporate treasury management industry today. By identifying and evaluating the reasons for, impact of, and potential solutions to the latest game-changing developments in this space, White Paper charts the course to maintaining a competitive edge despite challenging market conditions. In this White Paper Karsten Becker, Senior Product Manager for Corporate Payables & Receivables, discusses how time is up for corporations taking a "wait-and-see" approach to SEPA.

There has been much debate on the subject of SEPA (Single Euro Payments Area). The initiative's benefits and feasibility have all been called into question and, as a result, for some sceptics the project's success has been in doubt. Any such uncertainties have now been quashed by the announcement of an official end-date for SEPA migration by European law makers.

February 1, 2014 is the date by which all corporates operating in the European Union (EU) and European Economic Area (EEA) must be using the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) instead of existing non-urgent mass credit transfers and direct debits. It is hoped that this move will eventually reduce the cost of operating dual systems and mark a further significant step in the creation of a true European borderless-payments landscape.

The deadline-decision, therefore, provides not only much-needed legal clarity and certainty on an intricate and far-reaching initiative; but acts as something of a game-changer. SEPA is no longer an optional initiative. It is regulatory, which makes it a top priority. As a result corporates, particularly larger companies that tend to have more complex payments requirements, must begin migration preparations immediately if they are to meet the deadline. Many will find this a complex task that can only be made possible with the support of a capable and knowledgeable banking partner.

SEPA: the story so far

While the end-date may be responsible for the renewed focus on SEPA, the initiative is hardly new. The electronic euro-payments harmonization initiative has been a reality since 2008.

January 28, 2008 saw the launch of the SEPA Credit Transfer, which was followed the subsequent year by the introduction of the SDD. These services paved the way for the project, which when fully developed, should fuel technology innovation and lead to an increasingly competitive future payments market.

While this ultimate goal may be some time away, SEPA can bring more immediate benefits for corporates, particularly those conducting business in many European countries.

The first of these benefits are the possibilities the project provides for payments processing standardization and optimization. Not only can this increase operational efficiency, which in turn decreases costs, but it can also reduce complexity and improve transparency.

Faster settlement times and the principle of credit without deduction also offer major advantages for users of the SEPA credit transfer in terms of company cash flow. The initiative dictates that the maximum execution time for SEPA credit transfers is one business day, and the beneficiary's account must be credited in full without the deduction of fees from the principal amount. As companies can be certain of when funds will arrive and how much they can expect to receive, working capital management can be significantly improved. In credit-straitened times, optimal company cash flow management is a vital tool for success and business sustainability.

The SDD offers, for the first time, a direct debit instrument for cross-border direct debits (domestic ones are of course covered as well). Besides the core scheme the SDD also offers a business-to-business (B2B) scheme.

The most important differences between the two are:

- Usage
  - Core SDD: can be used with consumers and companies
  - B2B SDD: must be used with companies only
- Return right by debtor
  - Core SDD: eight weeks after debit
  - B2B SDD: no return right after debit
- Mandate check by debtor bank
  - Core SDD: optional
  - B2B SDD: mandatory

Despite such advantages, corporate take-up of SEPA has been painfully slow. Yet rather than supporting the SEPA-sceptics' argument, this reluctance is perhaps unsurprising.

As a voluntary project, SEPA implementation by any corporate necessitated a solid business case and, for many, the pro-migration argument simply was not strong enough – despite the potential benefits. Migrating payments and direct debits to SEPA format can be a costly undertaking, and many companies have been (understandably) averse to invest in this while faced with a series of more immediate pressures.

The end-date announcement, however, has removed the need for a business case and return on investment requirement. As a result, the debate as to whether or not to make the move to SEPA is dead; the question now is how to best manage the transition. Though the required level of corporate preparation effort will rise in accordance with the complexity of existing payments processes, even those with more basic needs should put the migration wheels in motion immediately if they are to meet the deadline and reap the rewards SEPA can bring.

The compulsory steps to SEPA migration

Though some companies will find addressing the various tactical and strategic steps to SEPA compliance more challenging than others, a successful transition – for all organizations – must begin with two crucial elements: a designated SEPA project team and a firm decision on whether to take a phased or so-called 'big bang' approach to implementation. Whatever the chosen path, the first port of call for corporate SEPA teams should be their bank partner(s), who should be able to offer the necessary expertise and technical support to steer companies through the compulsory – and optional, if desired – challenges and changes associated with the SEPA credit transfer and direct debit scheme.

One of the initial strategic points companies must consider is the centralization and/or consolidation of the payments function, both of which can lead to cost savings, efficiency gains and ramp-up the benefits of the SEPA initiative. By reducing the number of accounts – and indeed bank relationships – corporates can significantly reduce complexity and increase transparency throughout the treasury value chain. This can be of great potential benefit to working capital management, as well as aid reporting and reconciliation. When discussing this issue, larger companies may wish to explore the prospective advantages of establishing payment/collection factories (centralized payables/receivables processing centers). These centralized processing centers can further increase visibility into funding needs and liquidity management as well as tighten control over payment timing. However, corporates should not allow any such centralization initiative to endanger meeting the SEPA-migration deadline of February 1, 2014 – after all SEPA compliance is a regulatory project, while centralization efforts are optional.

Such treasury management decisions must be considered hand-in-hand with format strategy. XML is the designated format for SEPA transactions, and corporates must migrate to it, if they don't want to rely on (potentially costly) conversion services offered by a number of global banks and vendors. As many banks now recommend XML as the format for all future transactions (both SEPA and non-SEPA), migration is the obvious choice. Nevertheless, a move to XML may have a significant impact on corporates' enterprise resource planning (ERP) systems and connectivity because not only must XML be a supported output format, but these files also tend to be much larger than their domestic or global equivalents. Any transition should, therefore, follow a detailed consultation process, as well as be well-timed and managed both internally and with external systems providers.

And preparation complexities do not end here. International Bank Account Number (IBAN) and Bank Identifier (BIC) codes are the sole permissible account identifiers for SEPA transactions, and the issue of how to obtain and manage them is more complex than may be expected. This is especially the case for companies that operate in a number of European countries, as the procedure for obtaining these codes will vary between countries. While there are also vendor solutions available, these tend to be more expensive. In either case, some manual effort may be unavoidable. Once obtained, it must also be ensured that the relevant systems (such as ERP or HR systems) are able to accept/process IBAN and BIC. In some cases, this may require a new release/an upgrade of the system.

It should also be considered that under SEPA, the payment detail field is only 140 characters long, and many corporates will not be accustomed to such brevity. The majority tend to favour more detailed payment instructions because they pay numerous invoices simultaneously, and greater detail helps to avoid any potential confusion. If corporates are to break such well-established payments patterns, they must either be adjusted – by being broken down into more than one payment, for example – or corporates must find ways to make the information they provide more concise or available outside of the payment message.

And finally, for corporates using direct debits today, there are even more required steps when preparing for the migration to the SEPA direct debit.

Meeting these requirements

As the examples above show, migrating to SEPA is a significant undertaking, and the scope of the project should not be underestimated. If corporate SEPA teams are to see that their organizations meet the compulsory compliance requirements in time, their best course of action is to work with a partner bank with the necessary expertise to ensure that corporates take the best route to migration, and the capabilities to ease the burden of compliance. The partner bank should also have a solid SEPA strategy and be in a position to offer a range of value-add services designed to optimize payments processes before and after SEPA migration.

SEPA is no longer an optional initiative. It is now mandatory, which makes it a top priority. With the compliance deadline in sight, corporates must begin preparations immediately if they are to be in ready in time. In most instances, their first port of call should be a partner bank with the necessary expertise, capability and SEPA-strategy to pave the way for a smooth and optimal migration.

As a leading global transaction banking service provider and proponent of the payments innovation opportunities the euro presents, Deutsche Bank has been a prominent player in promoting corporate interests across the banking industry in the run up to SEPA. We have been actively involved in the development of the initiative at all levels, from participation in regulatory debates to driving technology innovation. In order to help corporates fully migrate in time for the deadline we advocate – and have so done since 2007 – what we call a "4-Pillar" implementation strategy that aims to provide immediate, tangible financial benefits, data format flexibility, account flexibility, and access to value-added services designed to maximize the benefits of SEPA. The high level of flexibility inherent to our approach (there is no need to open dedicated SEPA accounts – instead all SEPA transactions can be initiated from existing accounts kept at Deutsche Bank branches in the eurozone – and a single format can be used for transactions worldwide) is so convincing that our four pillars have since been endorsed and adopted by the market in general. In addition, as another sign of Deutsche Bank's SEPA leadership, the Bank has made noteworthy, ongoing investment in an automated and scalable SEPA engine to deal with increasing payment flows. This reflects our belief in the long-term value of turning a fragmented market into a borderless payments zone, and is evidence of our long-standing commitment to the success of the single currency and development of the SEPA project.

The countdown begins

SEPA may have got off to a slow start, but the end-date announcement means that the project is now running at full speed. All corporates operating throughout the 32 SEPA countries will be affected by the coming changes and many – especially mid-tier and pan-regional companies operating in the eurozone countries – will find that a successful SEPA migration project requires a considerable amount of preparation. As the deadline is in sight, companies must act now and should immediately enlist the support and guidance of a suitable banking partner in order to begin preparations. As a trusted partner to many European corporates – both large and small – Deutsche Bank has developed a unique approach to SEPA migration that minimizes effort while maximizing benefits before and after the transition takes place. Not only does this lighten the load for corporates and provides a number of immediate and longer-term efficiency gains, it also contributes to future payment technology innovation and development for the countless users and beneficiaries of payment services throughout Europe. With the help of your trusted banking partner, you can achieve a lot more than mere SEPA compliance.

Executive summary: The SEPA journey so far

SEPA is a politically driven European payments harmonization initiative designed to turn fragmented national markets into a borderless-payments zone in which there are no differences between national and intra-European euro payments.

SEPA consists of 32 countries – all 27 EU member states (including 10 non-euro countries), the remaining countries of the European Economic Area (EEA), and Switzerland and Monaco.

Key dates

- 1999: Introduction of the euro
- 2000: EU's Financial Services Action Plan to create a single market for financial services (included the demand for a single payments market)
- 2002: Launch of the SEPA initiative by the European banking sector
- 2008: launch of the SEPA credit transfer
- 2009: launch of SEPA direct debit
- 2014: February 1, deadline for mandatory migration to SEPA credit transfer and SEPA direct debit

Executive summary: SEPA credit transfer and SEPA direct debit

Corporates must be using the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD), instead of existing non-urgent mass credit transfers and direct debits, by February 1, 2014.

SCT enables payment service providers to offer a basic credit transfer service in euro throughout the eurozone whether for single or bulk payments. Users benefit in terms of functionality, cost effectiveness, ease of use and processing efficiency.

www.db.com/gtb
gtb.marketing@db.com

This brochure is for information purposes only and is designed to serve as a general overview regarding the services of Global Transaction Banking. The general description in this brochure relates to the Global Transaction Banking services offered to customers as of July 2012, which may be subject to change in the future. This brochure and the general description of the services of Global Transaction Banking are in their nature only illustrative and do not therefore contain or cannot result in any contractual or non-contractual obligation or liability of Deutsche Bank AG or any of its affiliates.

Funding Growth In Europe:

What's The Missing Link For The Mid-Market?

Trevor Pritchard
Managing Director and Analytical Manager
Corporate & IFR Ratings EMEA

May 1, 2013

Funding Growth In Europe

What's The Missing Link For The Mid-Market?

- Mid-size companies are increasingly seeking alternative sources of funding as banks rein in lending

Possible Alternatives

- Private lending market
- Private placements
- Bond platforms on exchanges
- Securitizations

Hurdles

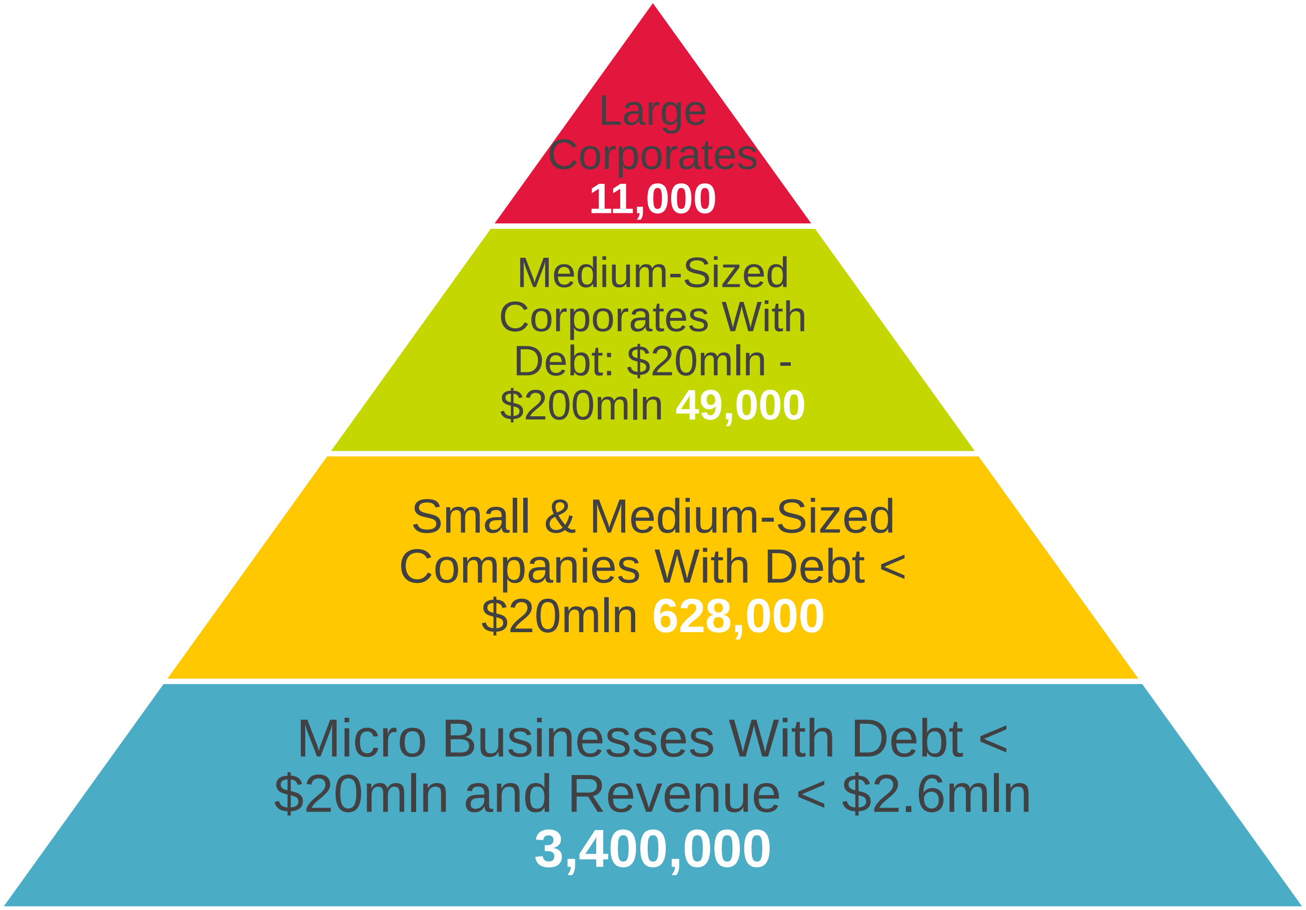
- Most of these markets in Europe are still in infancy
- Operate in different regulatory and accounting environments

STANDARD & POOR'S RATINGS SERVICES

Why The Mid-Market Needs Growth Funding

Number Of Companies In Key Segments Globally

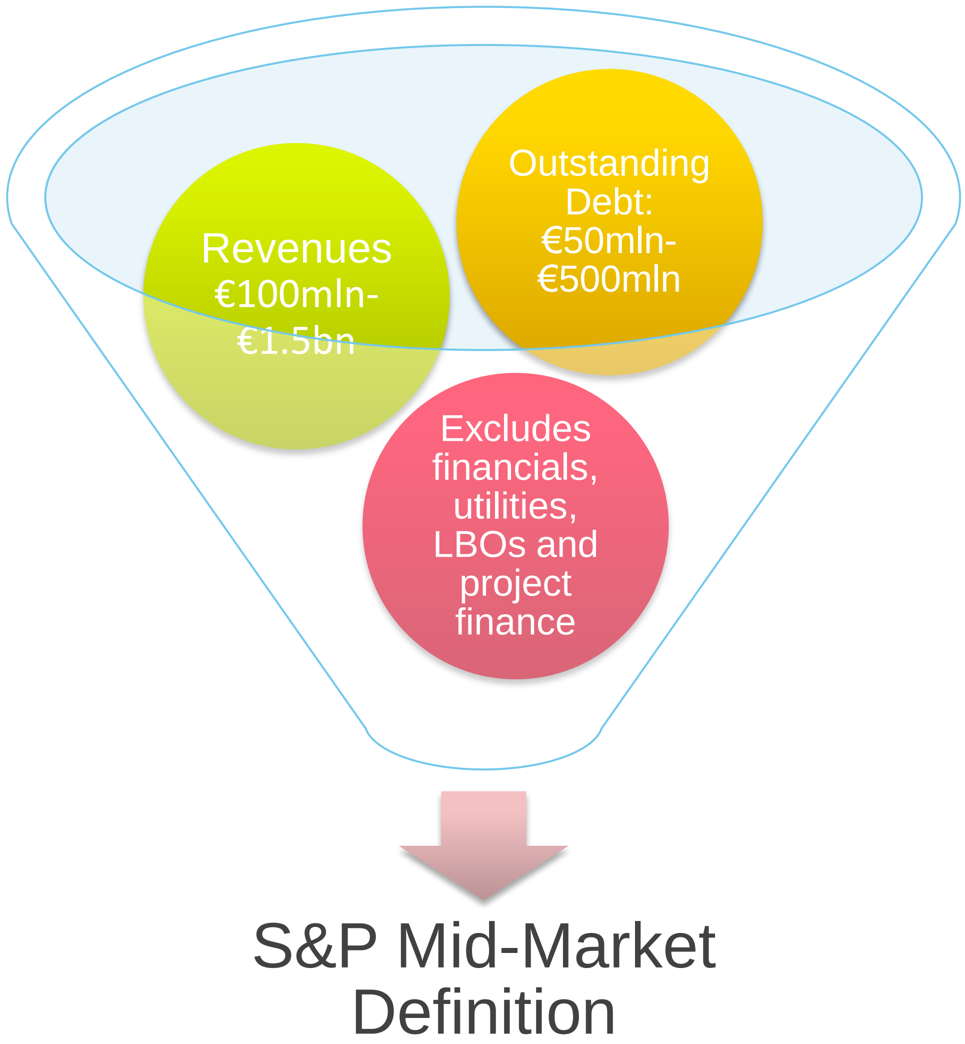
- **In the U.S. and select developed European and Asian markets, S&P identified almost 50,000 mid-sized corporates**



Sources: OECD, Eurostat, World Bank, BIS

STANDARD & POOR'S RATINGS SERVICES

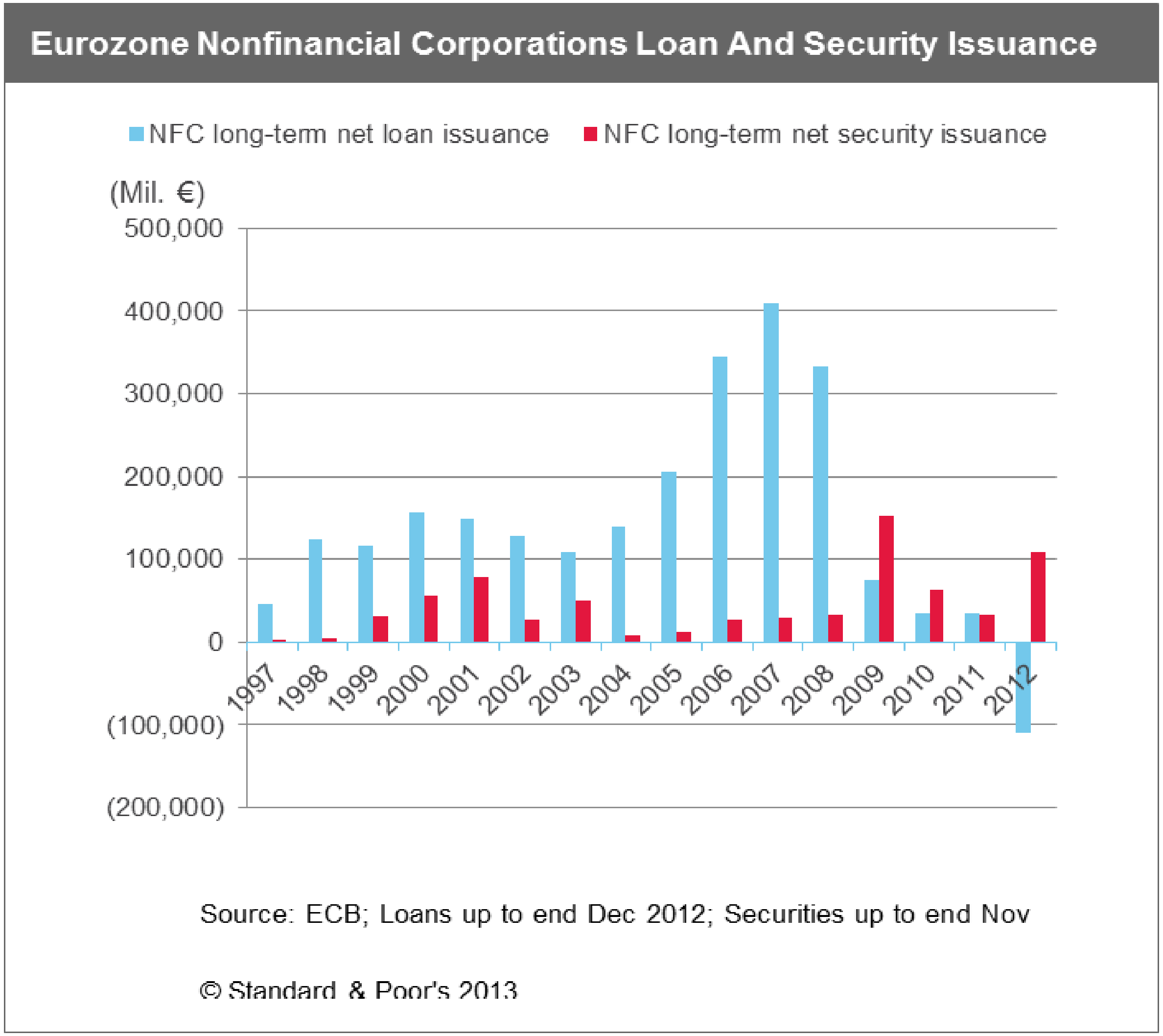
A Hard-To-Define Asset Class



STANDARD & POOR'S RATINGS SERVICES

Disintermediation In Europe Is Beginning

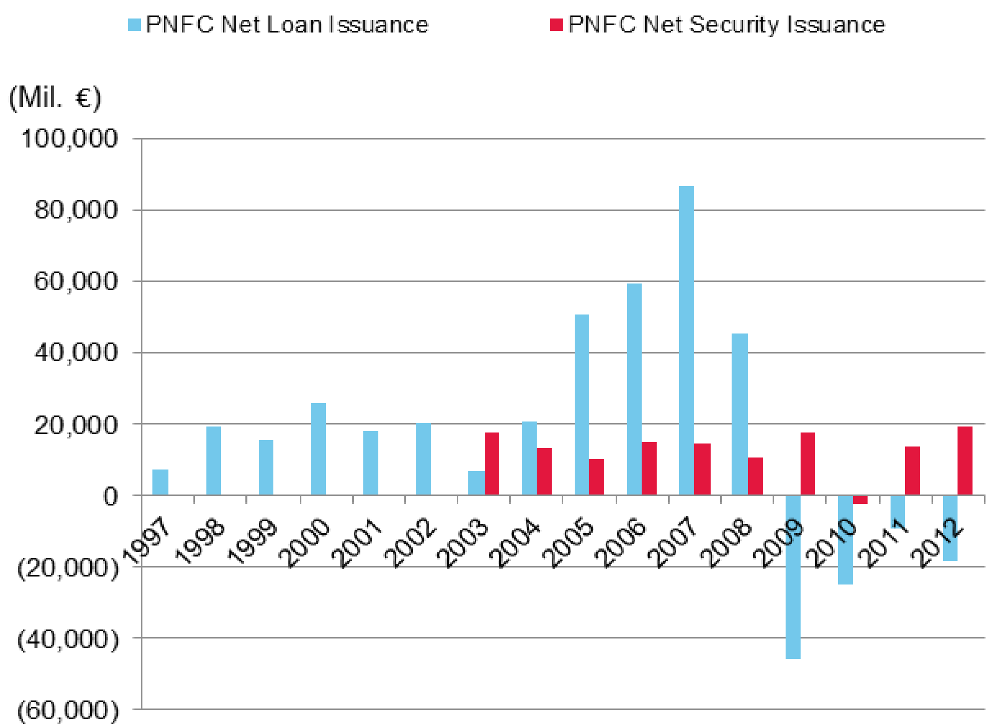
- Net loan issuance to corporates in the eurozone turned negative in 2012



Disintermediation In Europe Is Beginning

- Yet, Bank of England data shows a much more long-term contraction beginning in 2009 through to 2012

U.K. Private Nonfinancial Corporations Loan And Security Issuance



Source: BOE; Loans and bonds up to end Dec 2012; Total net issues of all currency stand-alone and program bond issues by PNFCs.

Alternative Funding Is Nascent

Non-Bank Sources Of Lending

Pre-2008: Overall non-bank lending dominated by:

- CLO funds
- Mezzanine funds
- Some non-leveraged loan managers (such as M&G Investments)

Financial crisis derailed new entrants to this market

There has been a resurgence in interest recently from private equity and hedge funds, particularly for mid-market funding:

- Axa Private Equity
- Ares Capital
- Amundi

New CLO transactions under way

- Not traditionally mid-market lenders, but they do lend to some and have indicated they may increase this activity

STANDARD & POOR'S RATINGS SERVICES

Private Placement Markets Have Limited Capacity For Mid-Market

U.S. private placement market is open to U.S. and non-U.S. companies. Main investors are insurance companies.

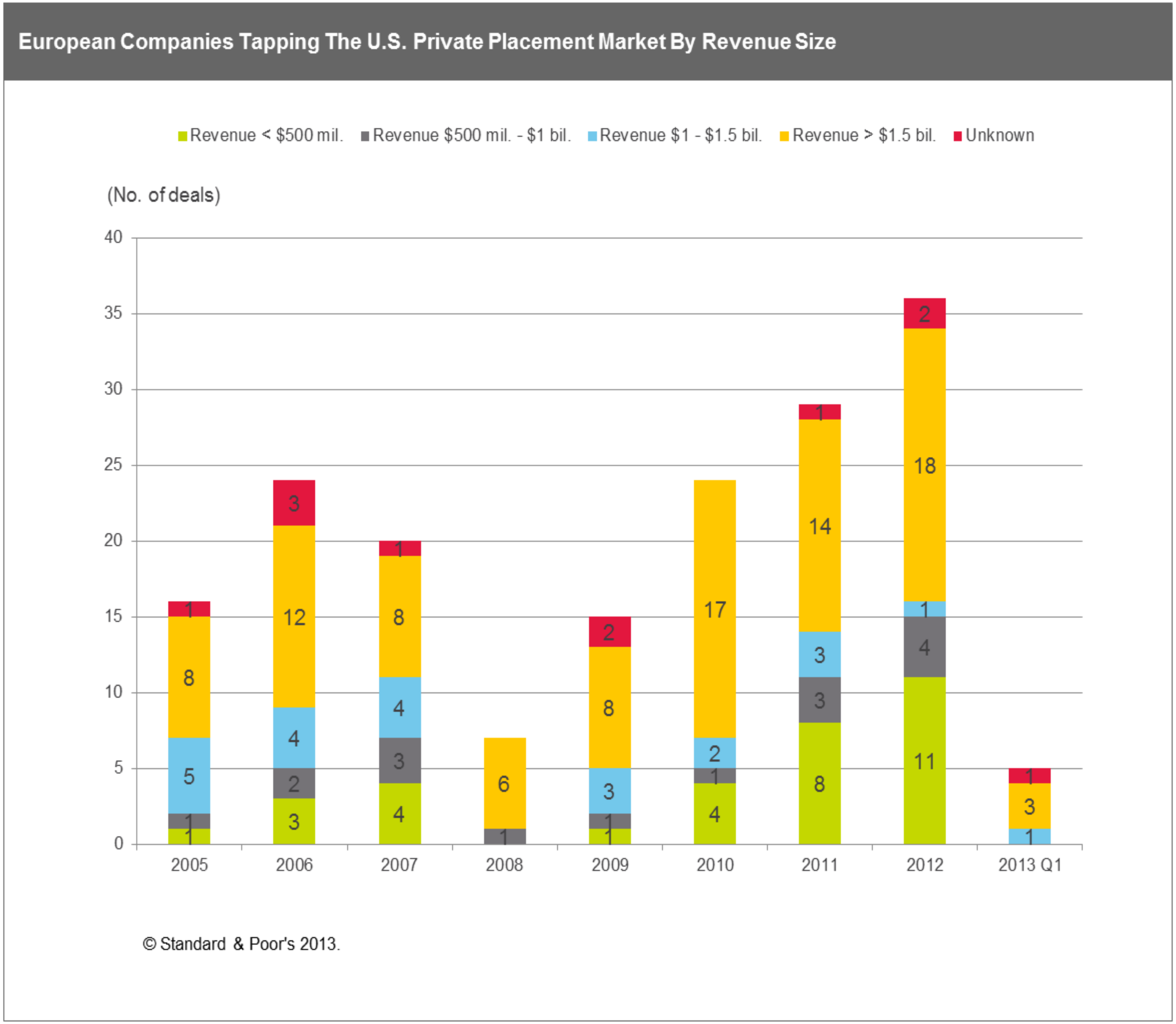
- Issuers can raise up to $1bn, typically fixed rate with 3-15 year maturities
- Long term “buy-and-hold” investors do their own rigorous due diligence and take comfort from strong covenants
- Market is seen as stable and no SEC registration required

Schuldschein is the most developed of the European PP markets with non-German corporates increasingly using it; investors are mainly German banks and insurers.

- Companies typically borrow €10-500mln, floating- or fixed-rate with 2-10 year maturities
- Open to retail investors

STANDARD & POOR'S
RATINGS SERVICES

U.S. Private Placement Market



Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.

Developing Private Placement Markets

France

- Most deals completed are too big to fall within our MM definition
- However, the number is growing: 6 in 2H 2012-2013
- Société Générale and AXA established a joint venture to do private placements in France – signed two transactions in 2012
  - Néopost - €150mln fundraising

U.K.

- Association of Corporate Treasurers (ACT) leading a working group
- December report identified various barriers:
  - Clarification of regulatory treatment for insurance company investors
  - Standard documentation
  - Readily available market activity information
  - Track record of performance and defaults from investors
  - Investors prepared to use internal resources to participate

Bond Platforms On Exchanges: Open To Retail Investors

Germany

- > 55 companies across 3 exchanges
- 92% have revenues < €500mln
- At the low end of our definition

France

- NYSE-Euronext
- Launched in 2012
- 3 deals so far: AggroGeneration S.A., Capelli and Homair Vacances

Italy

- Borsa Italiana’s MOT platform
- Heavily dominated by bank funding
- Monti government’s law change may help develop market

U.K.

- LSE’s ORB
- Dominated by larger corporates (RBS, Tesco Bank, National Grid)
- Some mid-market, however, like International Personal Finance PLC

STANDARD & POOR'S RATINGS SERVICES

Overcoming Obstacles

What’s The Missing Link For The Mid-Market?

Alternative Sources Are Nascent

- Mostly dominated by companies larger than our mid-market definition
- Bond platforms on exchanges are growing

Better Access To Information

- Different regulatory and accounting environments make establishing a cohesive funding market in Europe difficult
- Small investors may not have internal research and risk capabilities

Lessons from the Banking Crisis

John Cummins, RBS Group Treasurer

Introduction

John Cummins

- RBS Group Treasurer, joined just after the ABN AMRO acquisition (2007- today)
- Previously:
  - Treasurer, Standard Life plc (1997 – 2007)
  - Senior roles in MBNA International Bank and Yorkshire Building Society
  - Director of IFFIM (2005 – 2012), raised $4bn for vaccinations

Glad to be back in Liverpool, left in 1981 when the reds were European and league champions, still hoping for a Premier League title!

Agenda

1. Balance sheet improving the recovery of RBS and the wider UK sector
2. Current market dynamics and outlook
3. Adjusting to 'the new world' of Basel 3 and other regulations
4. How will this impact corporate treasurers?

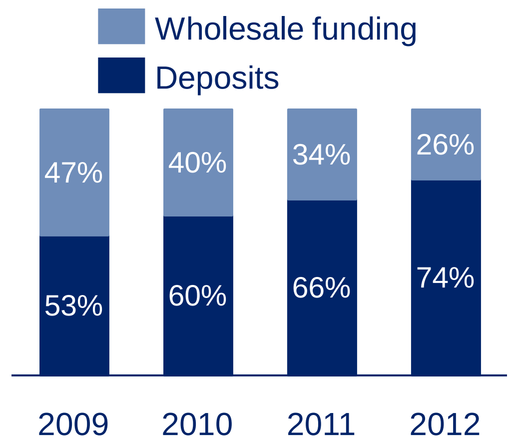
RBS on the road to recovery

Balance sheet reduction

Funded Assets, £bn

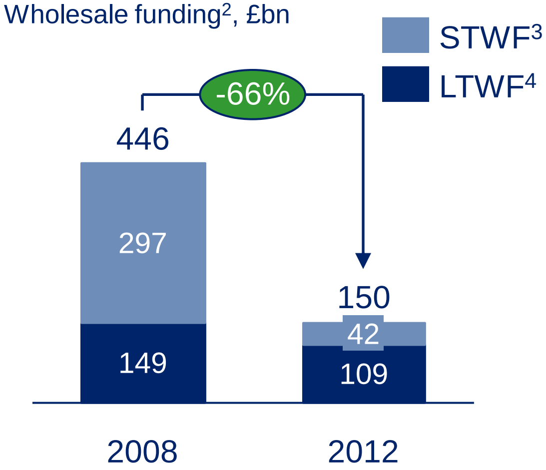
Better funding structure

Primary funding sources[5], %



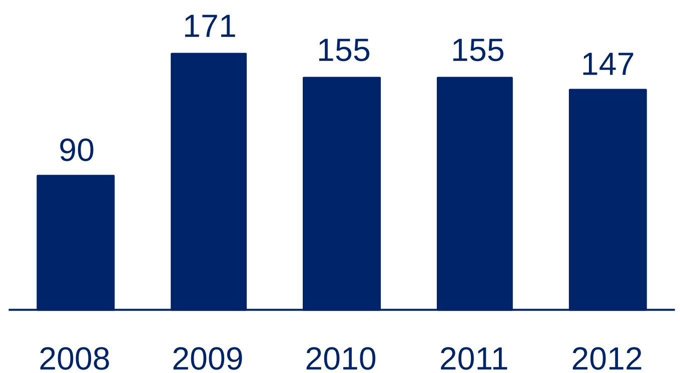
Sensible funding mix

Wholesale funding[2], £bn



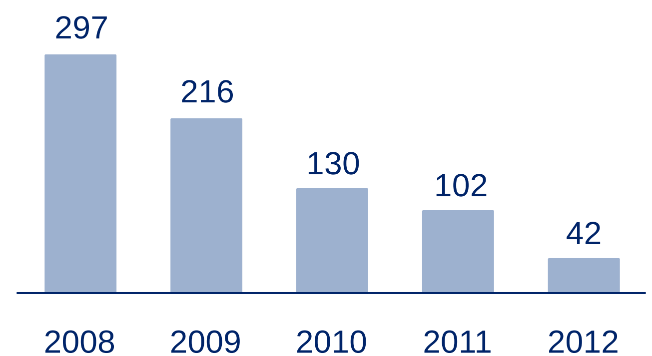
Liquidity pool much improved…

Liquidity pool, liquidity value, £bn



…whilst short-term reliance reduced

Short-term wholesale funding, £bn

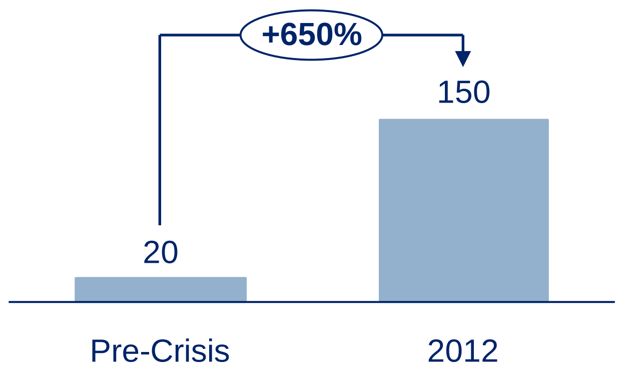


[1] FY07 funded assets, fully consolidated balance sheet. [2] Excludes derivative collateral. [3] Short-term wholesale funding. [4] Long-term wholesale funding. [5] Primary funding sources exclude equity, repo and derivative collateral

The UK banking sector is much stronger…

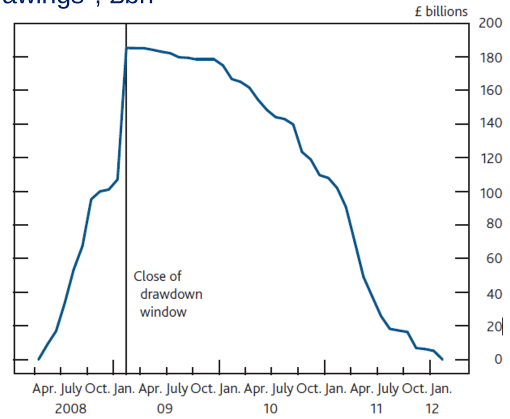
Capital is up

UK Bank Pillar 2 Capital surplus over regulatory minima[1], £bn



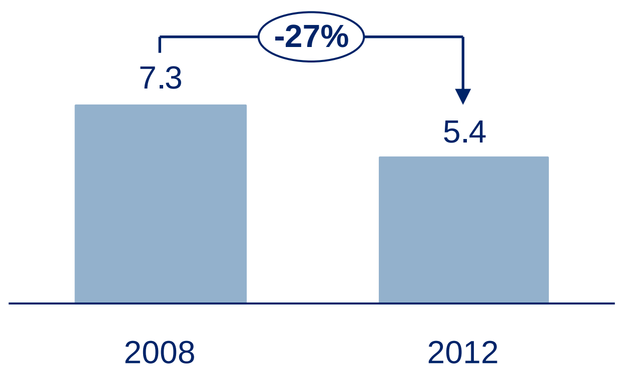
With reduced support

BoE SLS drawings[2], £bn



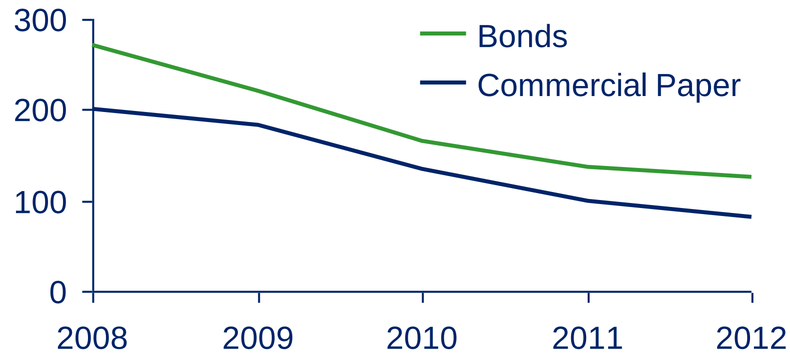
Smaller, more focused balance sheets

Total assets of top 4 UK banks[3], £trn



With a better wholesale funding profile

Security Issuance by UK Monetary Financial Institutions[4], £bn



[1] Source: Andrew Bailey FT Interview, 21/10/12. [2] Source: Bank of England. [3] Source: RBS Analysis, includes RBS, Lloyds (inc. HBOS), Barclays and HSBC. [4] Source: Bank of England

...but strength comes at a cost

Cost of Liquidity	■ Liquidity buffers are up markedly at UK banks ■ PRA regime is restrictive – buy Gilts, Bunds, Treasuries or hold cash. ■ Each £ of additional liquidity has a carry cost ■ Liquidity cost now factored into product pricing
Cost of Funding	■ Costs have increased as UK banks have moved away from short-term debt ■ Deposit competition has been fierce but subsiding given liquidity positions ■ Term debt issued at high spreads relative to today's prices, now running off ■ Real funding costs are factored into product pricing
Cost of Capital	■ Continual push for more capital from regulators and markets ■ More capital requires more returns to keep the same RoE ■ Capital ratios have nearly tripled at UK banks, the cost of equity capital has not followed this

Although support is forthcoming

1 Whilst crisis-time funding and liquidity support has been withdrawn…

Special Liquidity Scheme

Bank of England scheme to swap illiquid assets for T-Bills, subject to haircuts.

Closed to all banks in January 2012

Credit Guarantee Scheme

HM Treasury scheme to guarantee bank's term debt issuance, subject to a fee.

All UK bank issuance matured by end-2012

Asset Protection Scheme

HM Treasury scheme to insure a certain pool of bank assets against losses.

One user: RBS; exited October 2012

2 …new schemes have appeared in their place

BoE Funding for Lending

Low cost funding, incentivises increasing UK lending balances. RBS is supportive.

Scope recently widened and extended to include asset finance

ECB: LTRO / OMT

Has vastly reduced stresses in bank and sovereign debt markets.

UK banks have drawn down modest LTRO funds, generally for their EU operations

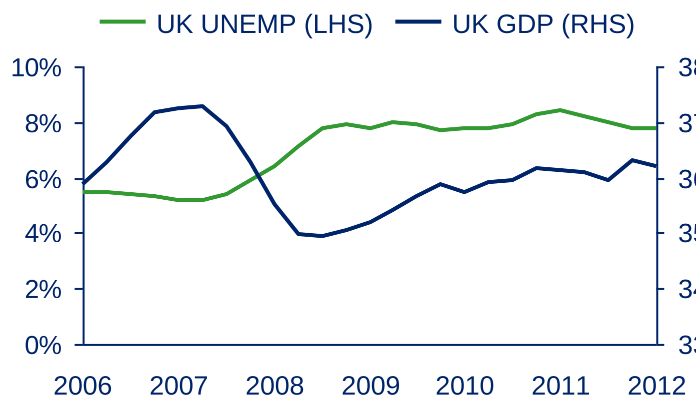
Liquidity rule relaxation

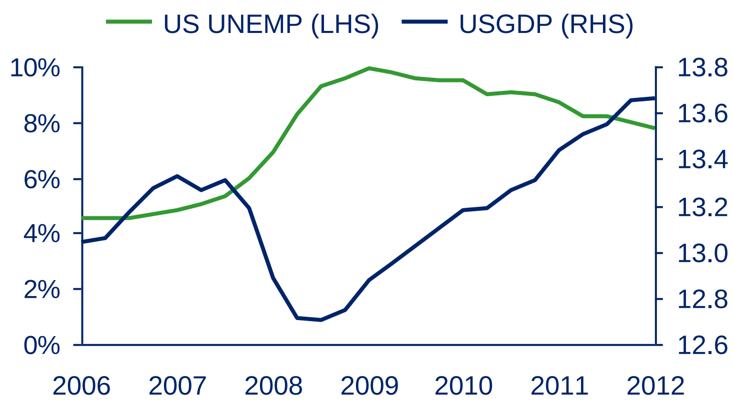
Discount window repo can now count toward liquidity under the UK regime, subject to a cap.

Basel III Liquidity Coverage Ratio (LCR) has been adjusted to relax criteria somewhat

Adjusting to the new world

This isn't a normal recovery… is productivity declining?

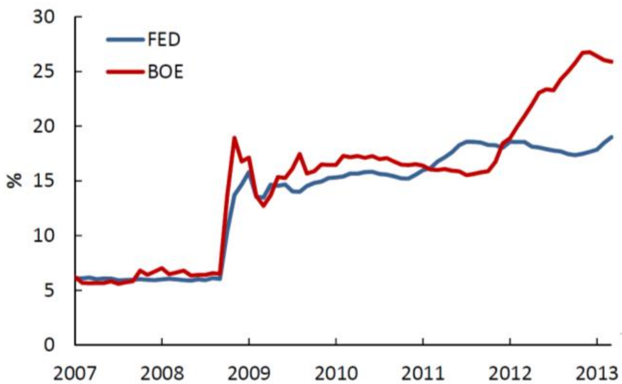




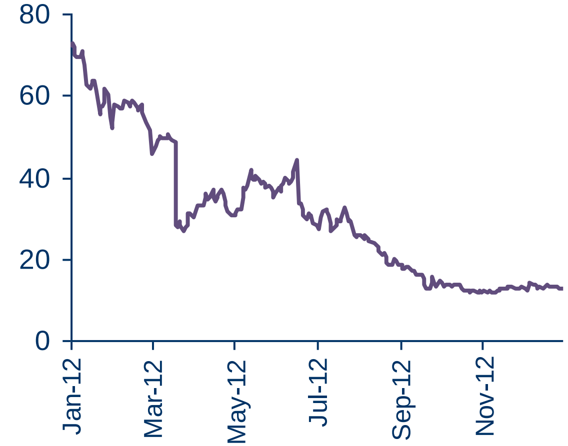
…and there are still stresses, albeit they have receded

iTraxx European Financials CDS, bps

Central bank balance sheets as a % of GDP[1], %



FRA-OIS Spread (3m EUR), bps

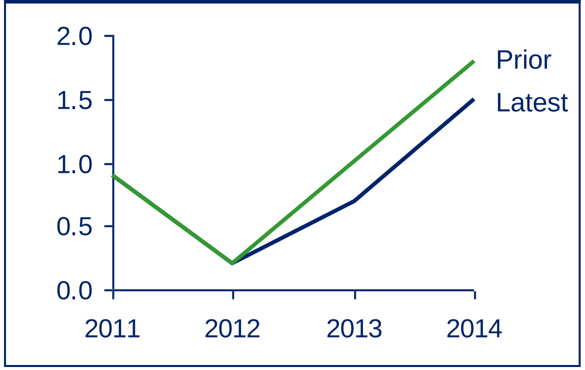


[1] Source: Bank of England

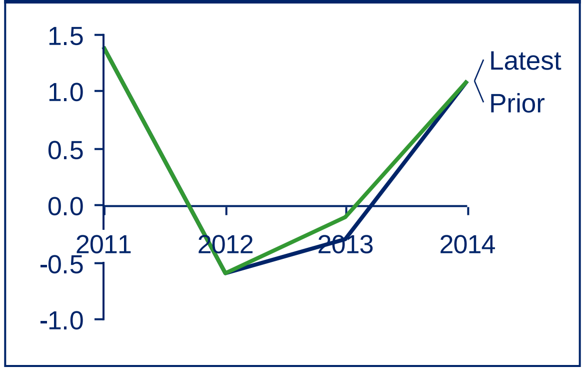
It’s likely continue to be hard for a while yet

Economic forecasts continue to get pulled down (the IMF as an example)…

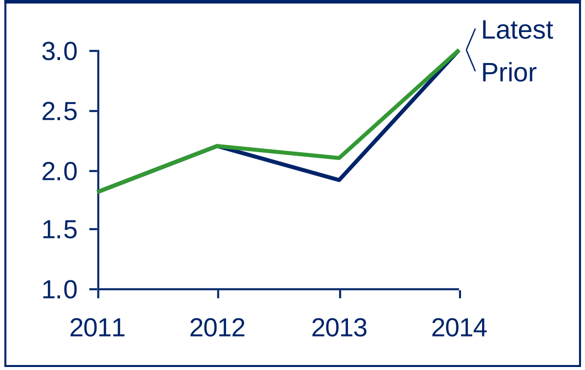
UK GDP



Eurozone GDP



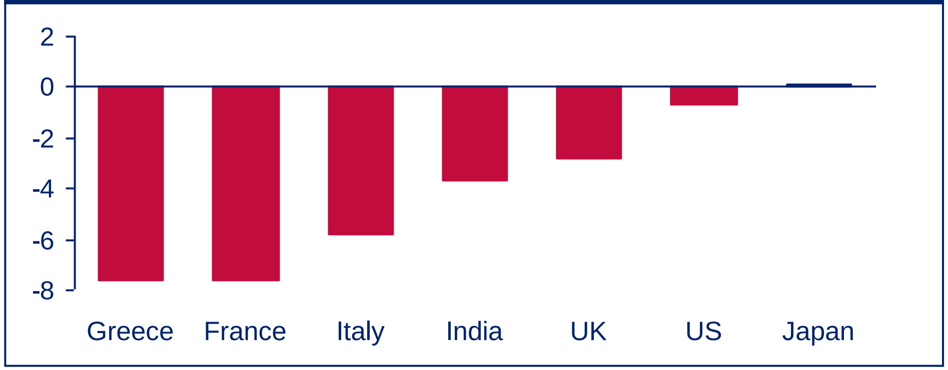
US GDP



and the rest of the world is missing western consumer’s dollars…

Global GDP and trade growth[1]

Manufacturing PMI[2] – deviation from long-run trend[1]



[1] Source: Datastream, RBS Group Economics. [2] Purchasing Managers Survey

It's not just the macro that's changing…

This isn't 1930's-style trade protectionism, now 2010's regulatory protectionism

1930's – Trade Protectionism	■ Exchange controls ■ Trade wars and tariffs ■ Rapid reductions in foreign lending ■ Glass-Steagall
2010's – Regulatory Protectionism	■ Repatriation of capital, liquidity and funding more difficult ■ Regulators all want trapped resources within their local jurisdictions and desire for 'subsidiarisation' ■ Less scope available to banks to move resources between subsidiaries ■ Vickers' Independent Commission on Banking reforms and ring-fencing
Impacts	■ Products must reflect true economic cost ■ Banks will pick their battles more carefully, markets will become more concentrated with national champions the likely winners ■ The age of the 'global mega-bank' is under severe pressure, at the regulator's behest

Everything points to easier recovery and resolution

Basel III: an increased cost of doing business

Capital	■ Capital charges for products will alter dramatically ■ Fixed income, commodities, long-dated derivatives and structured finance become much more heavily penalised ■ Banks will need to generate a similar return on a higher level of capital
Funding	■ Heavy bias towards long-dated funding (RBS learned this the hard way) ■ Net-stable funding requirement used to enforce this ■ Short-dated (less than 90 days) or breakable wholesale deposits are more costly for banks (from a cost of liquidity perspective)
Liquidity	■ Most regulators have already increased their scrutiny of liquidity (particularly the UK) around or beyond Basel III ■ Banks are now holding much higher quality (and lower yielding) liquid assets which incur carry costs given the sector's more elevated funding costs

The changing hierarchy of creditors?

Preference for insured depositors is coming,

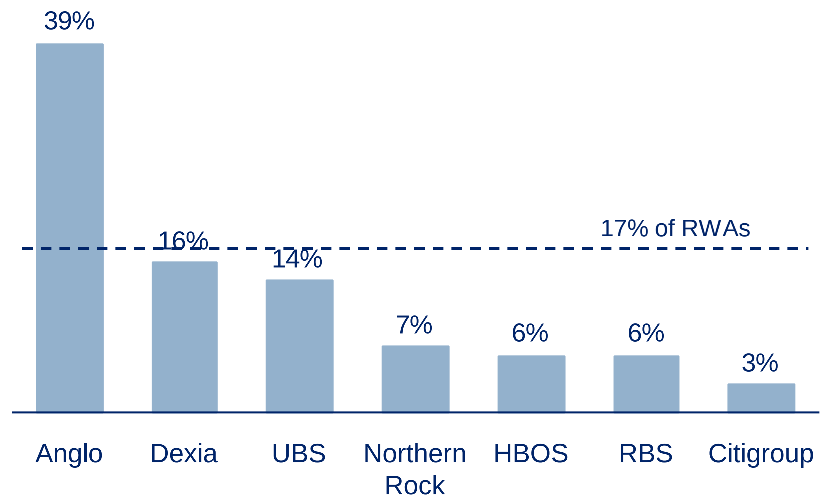
The Vickers commission recommendations and the European Union's Resolution and Recovery Directive are both pushing towards depositor preference

- Seems to be in-line with what has been present in the US for years
- Insured depositors will come ahead of all unsecured claims
- Legislators still keen to maintain traditional hierarchy of creditors after this

Bail-in debt

- Debt is at risk under the new regime
- However regulators want more capital and subordinated debt in order to preserve senior debt, where possible
- Regulators expect that total capital at c.17% should be able to recapitalise banks in most stressed scenarios
- Average total capital ratio of UK banks 16.3% up 450bps from 11.8% in 2007

Losses as % of RWAs, according to Vickers

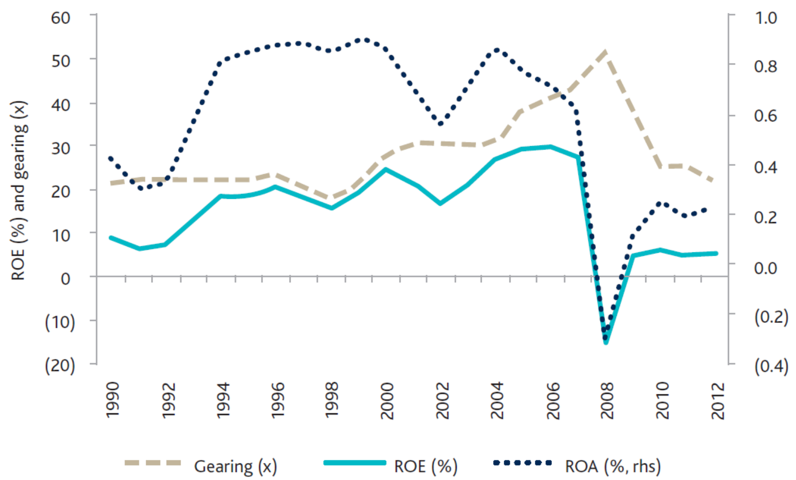


Whilst deposits face a bail-in regime in most of the west, banks are much safer than they were

Aside from the regulator, what does the market want?

Pre-crisis, the market pushed banks to strive for ever increasing RoE without thinking about leverage

UK bank RoE, RoA and gearing[1]



The markets desire

- Return on equity to be greater than cost of equity (currently 10-13% for UK banks)
- Well capitalised banks
- Stable earnings
- Liquid balance sheets
- Stable funding profiles
- Sound credit risk policies

- Management of banks must balance a number of tight constraints when trying to deliver acceptable returns
- The cost of equity has not decreased materially, even though the level of equity in the system has nearly tripled

[1] Source: Barclays Research. RoE: return on equity. RoA: return on assets.

Rebuilding trust

Customers	Investors	The Public, Politicians & The Media
■ Fair and transparent ■ Customer charter ■ Customer centric ■ Invest in the front-line	■ Disclosure ■ Accountability ■ Involvement ■ Management time	■ Putting legacy 'sins' behind us ■ Need to be 'socially useful' ■ Customers before profit

Top risks for a bank treasurer in 2013

Market access

Will the market still be there?

Keep the confidence of your investors

Continue to engage proactively

What's next from the regulator?

When does regulation take a breather?

Keeping people motivated

Attracting and retaining when morale is low

The weak recovery

Is it built on solid foundations? Can it hold?

Competition

Revenues, capital and funding are scarce and everyone wants them

How does all this affect corporate treasurers?

Alteration to banks' product-sets

- Basel III and other regulations will curb banks' willingness to offer certain products, or at least make them more expensive, collateral requirements will increase over time
- Long-dated swaps, structured finance and other fixed income products will be revalued
- Fewer banks will be present in all product areas. RBS is a key example of this – no ECM / M&A, commodities etc.

Specific products will change

- Short-term deposits (less than 90 days) will be difficult for banks, given liquidity costs
- Banks will innovate, expect changes in T&C's
- Capital-heavy products will change but won't disappear

Greater competition and improved service

- Reduced trading revenues forces banks into more traditional client business and longer-term focus
- All banks are in the same boat, will look to differentiate on customer service (i.e. NatWest's 'Helpful Banking' or 'Ahead for Business' campaigns), product innovation and technology

Conclusion

1. The environment is challenging but we’re working through; banks and corporates alike
2. Governments, banks and corporates are all continuing to delever, this must end at some point
3. Banks will be there for good customers and will compete heavily for their business
4. Banks are becoming less self serving and refocusing on customers
5. Product sets may change but this will be evolution, not revolution

Group Treasury
Investing in a world of change

May 2 2013
Gavin Jones, VP Treasury

Introduction

We are an international retailing group, with strong local consumer brands in Europe and the United States.

Key figures & growth

3,074 stores

225,000 employees

Net sales **€32.8** billion

Underlying operating income **€1.4** billion

Underlying operating margin **4.3%**

Reshaping Retail at Ahold

Our ambition

Driving performance
Going for growth

Our promises

Our vision

Better choice
Better value
Better life
Every day

Our business model

Our values

Putting the customer first
Doing what's right
Loving what we do
Making ideas happen
Getting better every day

Our strategic pillars

Creating growth
1. Increasing customer loyalty
2. Broadening our offering
3. Expanding geographic reach

Enabling growth
4. Simplicity
5. Responsible retailing
6. People performance

Treasury Pillars of Responsibility – support the business

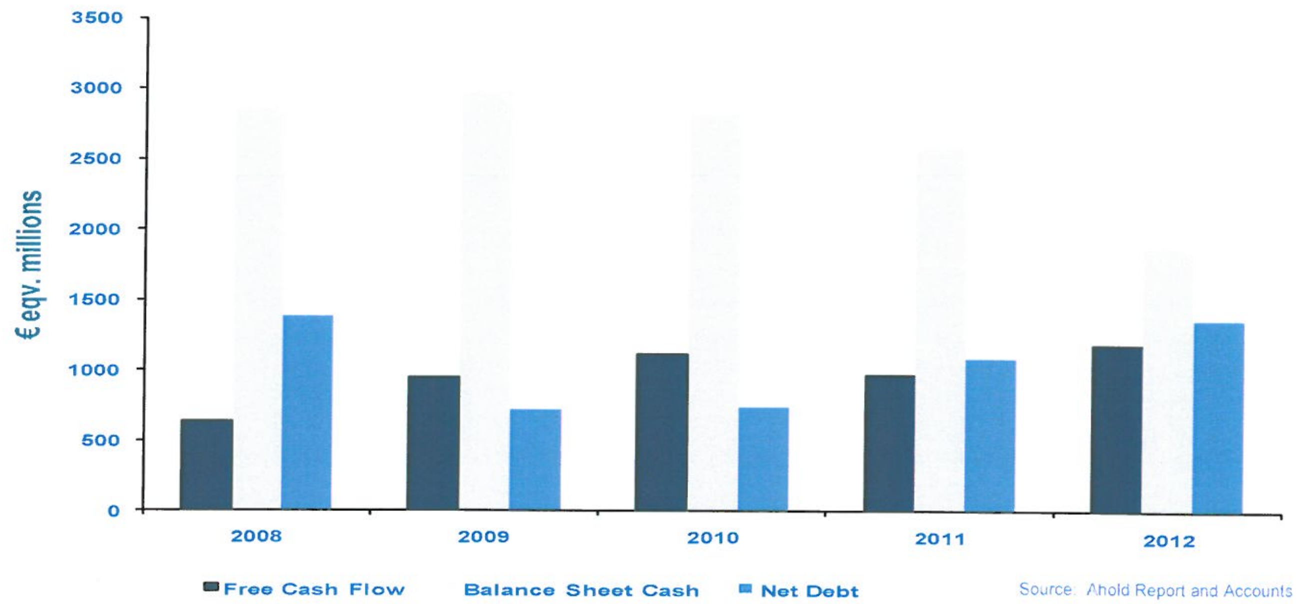
Capital Markets & Corporate Finance (CMCF)	Liquidity & Financial Risk Management (LFRM)	Treasury Operations - Cash Management (TOCM)	Treasury Operations – Business Support (TOBS)	Treasury Process, System and Controls (TPSC)

• Bank & Debt Capital Markets
• Syndi & SAC
• Preference Shares
• Equity Capital Markets
• Dividend /SBB
• Corporate Finance Analysis
  ◦ Optimal Capital structure
  ◦ Asset Liability
  ◦ Rating Model & Relationship
	• Review Cash Flow Forecasting
	• Business Plan
	• Cash Vital
	• Interco Funding
	• FX & IRS Risk
	  ◦ Exposure Analysis (- Middle Office)
	  ◦ Hedging
	• Commodity Risk (advisory)
		• Daily Cash Positioning
		• Cash Vital Preparation & Opco Liaison
		• Cash Concentration Structures
		• Customer Payments & Card Acquirers
		• Stores
		• Ecommerce
		• Liaison with SSC's
			• Six Pillar Initiatives
			• New Country/M&A Integration
			• Global Payment
			• Bank Funding
			• Uncommitted
			• Letters of Credit
			• Real Estate & Equipment Finance
			• Vendor Financing
				• Project Management
				• Counterparty Risk
				• Deal Settlement & verification
				• Accounting & reporting
				• Exposure analysis
				• Business Process Improvement
				• Treasury IT Strategy – simplification & automation

Bank Relationship Management

Ahold

Liquidity Highlights



- Cash generative from our US and European business.
- Significant cash on the balances sheet

The changing environment…….

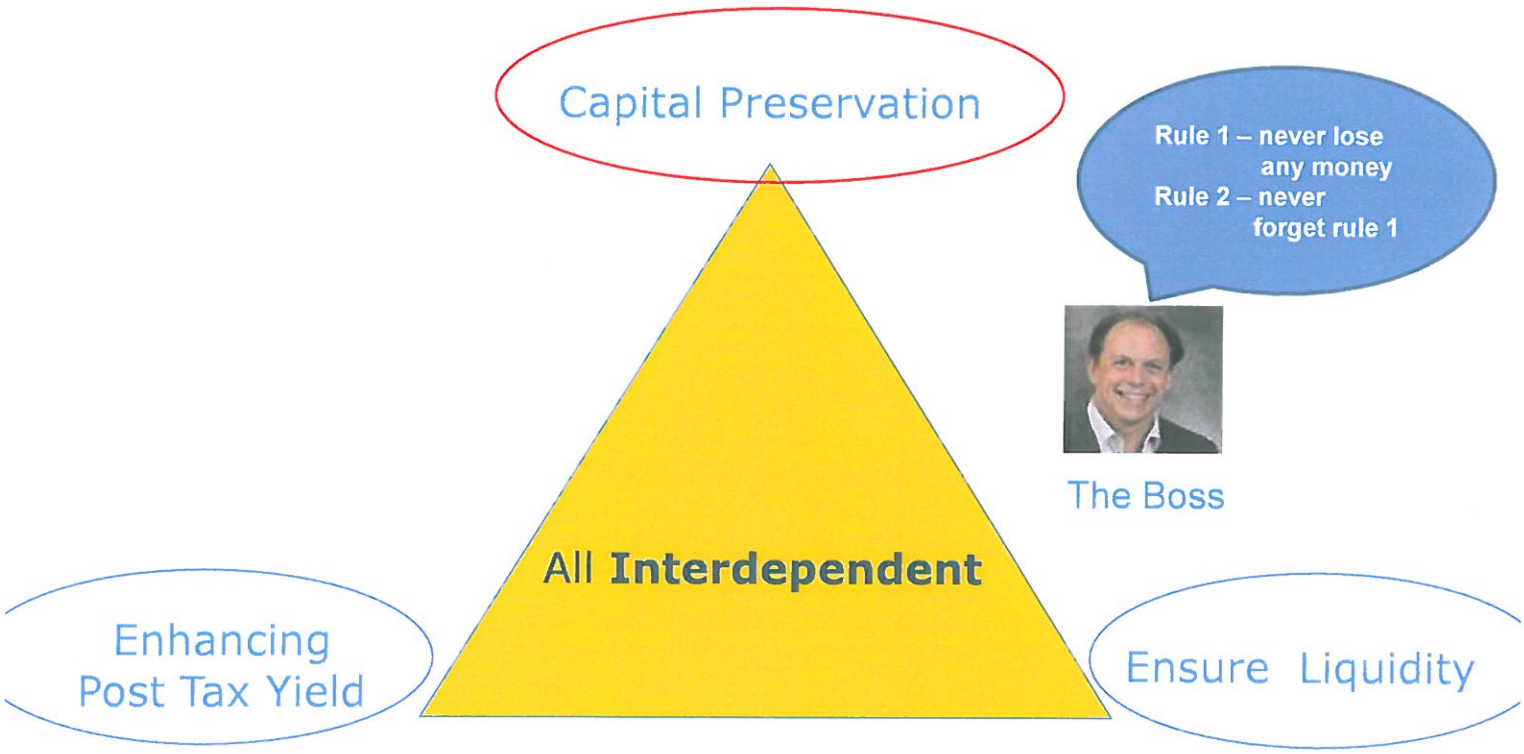
- **Material deterioration in credit quality of financial counterparties**
  - In 2012 we reduced limits by €1.0 bln as ratings were cut
  - The average AAA rated MMF has 80%+ exposure to banks and FI's
  - Are you aware of your direct and indirect counterparty risk?
- **Greater regulatory oversight**
  - Government/Central Bank intervention, too much cash in the system
  - MMF - Stable NAV here yesterday, going today, gone tomorrow?
  - Basel III - Liquidity coverage ratio implications on 'sticky' money appetite
    - Corporates holding more cash - accessibility to loan/bond markets,
  - IFRS and Rating – need to ensure accounting classification aligns with rating
- **Prolonged period of low or negative interest environment**
  - Euro and USD Dollar environment depressing for depositors
  - Positive yield on € MMF largely driven by fee waivers. Is this sustainable ?
  - When does zero yield become attractive?

NEVER !!

(according to my boss)

Ahold

In a changing turbulent environment…….its nice of have a safe harbour



!!! CASH FLOW FORECAST !!!

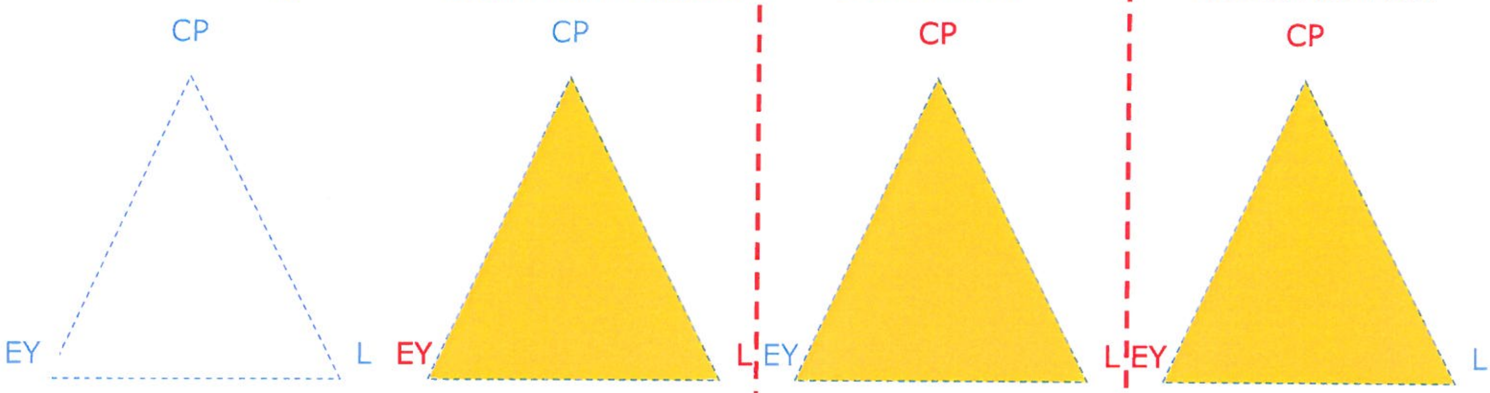
Evolution of our Investment Approach

Pre 2003 – Bermuda Triangle

2003 – early 2007 – Cash Flow Focused

2007 - 2009 – Safe Haven

2009- – Search for Yield



Pre 2003 Bermuda Triangle
- Focus on profit no cash

2003 – early 2007 Cash Flow Focused
- Forecasting introduced
- Emphasis on Yield and Liquidity
- Cap Preservation assumed

2007 - 2009 Safe Haven
- Root and Branch review
- Transparency and diversification
- Emphasis on CP and Liquidity
- Increasing negative cost of carry

2009- Search for Yield
- Looking for yield
- Formalized review of product
- New policy – portfolio & asset allocation

Banks don't go bust and AAA rated is all the same

Credit Crunch

Prolonged Low or Negative Yields

The future proofing inbuilt into our investment approach during this phase fundamentally shaped our policy and strategy. A few tweaks but no major changes since.

Investing - Governance

- Counterparty Risk and Investment policy approved by Group CFO
- Annual review of Treasury operations by Audit committee
- 'Gatekeeper' approach on assessing and recommending new products
  - All new products filtered to one person for 'nuts and bolts' due diligence.

'No JOE, No GO'

  - Each product as specific approval memo signed by SVP and VP Treasury
  - Revisions to investment strategy agreed with Group CFO
- Comprehensive Weekly Management Reporting
- Entering the Matrix - every six months
  - The investment matrix holds all approved products.
  - Each one reassessed against weighted scorecard linked to investment and share of wallet policies

Investment Product Matrix

Financial Institution	Currency	Recommended For Use By These Opcos	Investment Product Key Features	Currently Using?	Capital Preservation	Comments
Weighting					50%	
ABC Bank Earning Credit Rate (applied against card acquiring fees)	Euro & USD	KA, AFC & AUSA	ABC Bank is offering and Earnings Credit rate applied to balances maintained in a standard DDA account. The account will not receive interest income but rather a credit against card acquiring fee. Offsettable fees are not just limited to the fees paid	No	4.0	The counterparty is ABC Bank with a credit rating of A/A2.

Yield Enhancement	Comments	Alignment to Investment Strategy	Relationship Value	Ahold Fit (1 = complete fit, 0 = no fit)	Comments	Total Score Weighted	Maximum Investment (Soft Limit)
20%			10%				
3.0	Subject to USD and Euro mix and volumes and negotiable but expected to be 0.12% after FDIC assessment fee for USD and 0.05% for Euros (FDIC fees are not applicable). Rates are subject to changes monthly but only after pre-notification to Ahold.	- Limited to the ABC Bank counterparty policy limit and a sufficient amount of bank fees to be offset-virtually unlimited. - The benefit is a reduction of interest, thi	5.0	1.0	Limited Euro value as geared towards USD. A credit against US expenses is the least tax advantageous. This is same day/non-MMF capacity.	4.1	€ 500

What we like

- **Trusted Partners** - Banks & Asset Managers who listen and who understand our needs
- **Transparency** - on how products and the investment process works
- **Due Diligence** - Deconstructing and rebuilding products or strategies to genuinely understand them.

If you don't understand it, don't invest in it.

- **Stable NAV** - don't like to fair value cash if we don't have too
- **Diversification** - portfolio of instruments and issuers
- **Prudence** - good quality collateral to underpin an investment
- **To see** - higher yields without comprising credit quality
- **To answer** - **would you invest if it was your own cash?**

Questions and potentially some answers….

Strategic Funding for Future Growth

ACT Conference

2nd May 2013

Legal notice

The following presentation contains forward-looking statements concerning BG Group plc's strategy, operations, financial performance or condition, outlook, growth opportunities or circumstances in the countries, sectors or markets in which BG Group plc operates. By their nature, forward-looking statements involve uncertainty because they depend on future circumstances, and relate to events, not all of which can be controlled or predicted. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from the guidance given in this presentation for a number of reasons. For a detailed analysis of the factors that may affect our business, financial performance or results of operations, we urge you to look at the "Principal risks and uncertainties" included in the BG Group plc Annual Report & Accounts 2012 and at the Principal Risks section later in this presentation. Nothing in this presentation should be construed as a profit forecast and no part of this presentation constitutes, or shall be taken to constitute, an invitation or inducement to invest in BG Group plc or any other entity, and must not be relied upon in any way in connection with any investment decision. BG Group plc undertakes no obligation to update any forward-looking statements.

No representation or warranty, express or implied, is or will be made in relation to the accuracy or completeness of the information in this presentation and no responsibility or liability is or will be accepted by BG Group plc or any of its respective subsidiaries, affiliates and associated companies (or by any of their respective officers, employees or agents) in relation to it.

BG Group Snapshot

- A world leader in natural gas
- UK FTSE 15 company
- Circa $60 billion market cap
- Operates in over 20 countries
- Leading LNG position
- Cash capex of USD10.4bn in 2012
- 2012 operating profits of USD8bn
- USD4.4bn in Earnings (FY2012)
- 2012 Cash generated from operations totalling USD10.8bn




BG Group treasury strategy: consolidating the positioning as a business partner

BG GROUP

Strategy based on BG Group's Strengths

1. World class exploration
2. Unique LNG model
3. Commercial agility

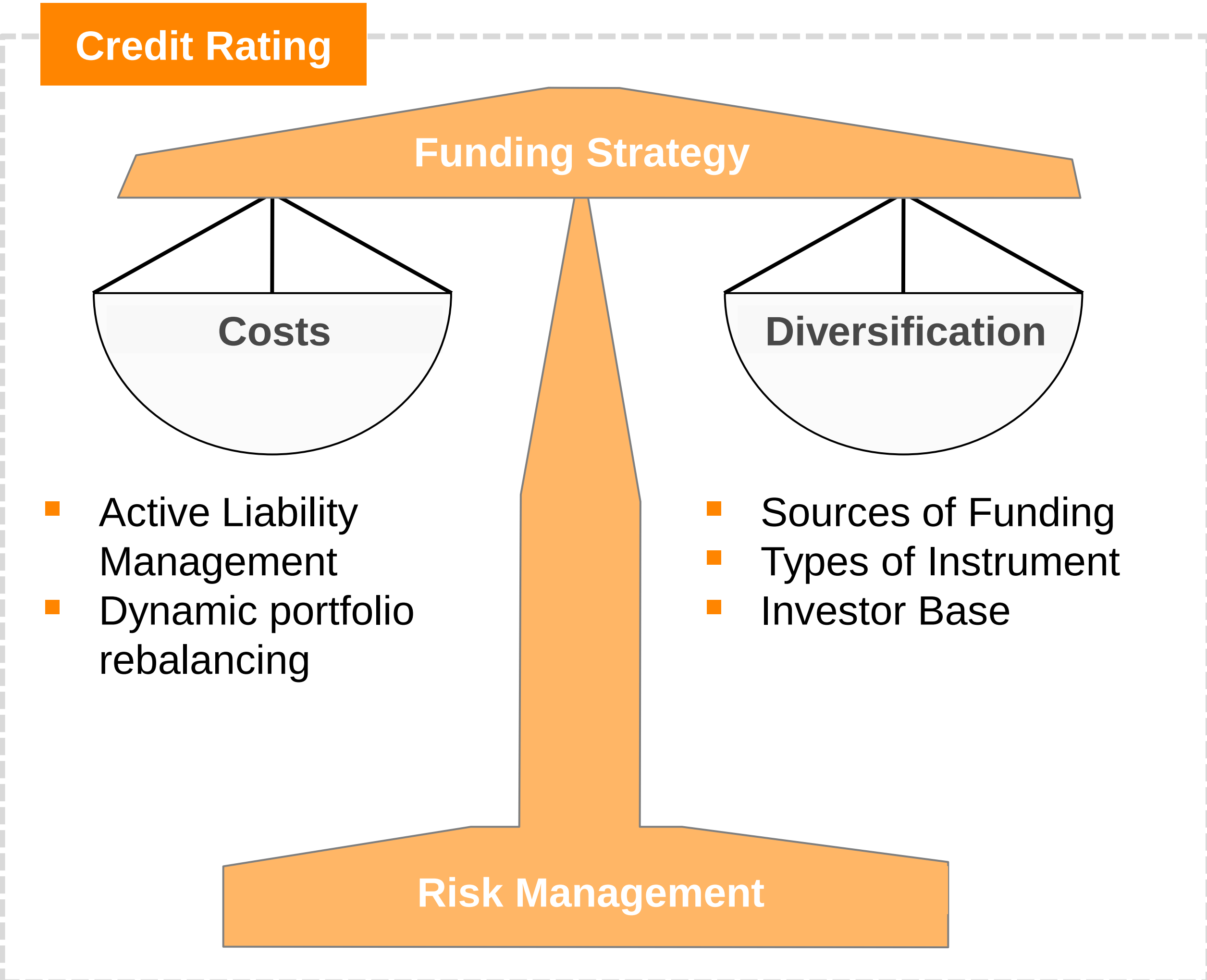
Treasury Core Targets

1. **Optimal Debt Structure**
   - Monitoring capital structure and optimising cost of funds
2. **Competitive Funding to Support Strategy**
   - Adapting current funding strategy to BG's business landscape over the next 5 years
3. **Group Cash Optimisation**
   - Additional cash management techniques to optimise cash
4. **Compliance/ Data Consistency**
   - Continuous enhancement of policy and procedure management and control processes

*Source: BG Group 2012 Strategy Update

Optimizing the trade-off between diversification and cost: how to reach the 'sweet-spot'

BG GROUP



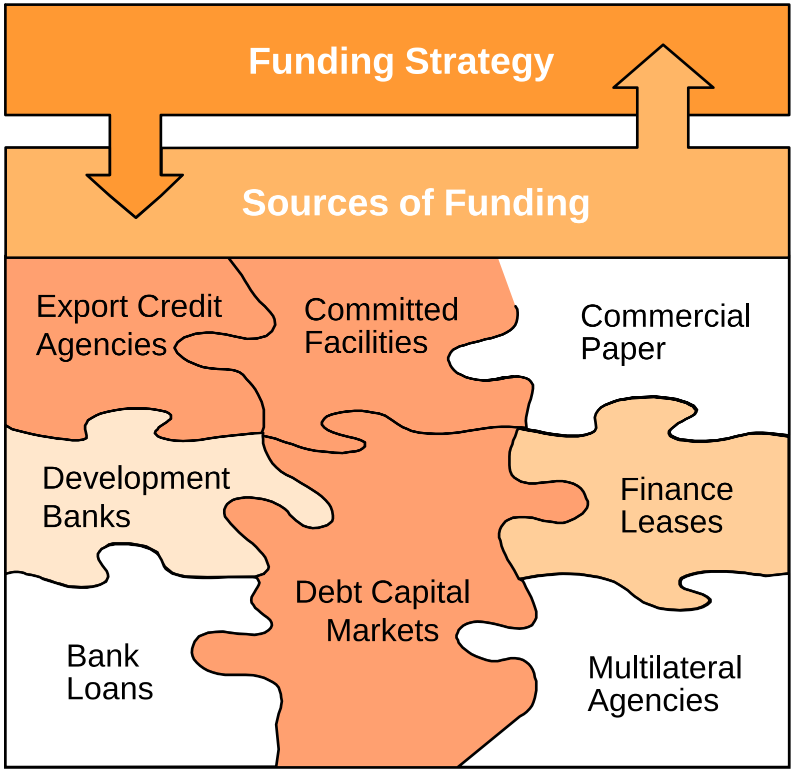
- Active Liability Management
- Dynamic portfolio rebalancing

- Sources of Funding
- Types of Instrument
- Investor Base

- Alignment with investment cycle
- Liquidity trap in periods of uncertainty
- Banks capital adequacy with new regulations
- Geo-economic and geo-political risk diversification
- Counterparty risk diversification

Diversification of sources of funding: building a sustainable long term strategy to support growth

BG GROUP

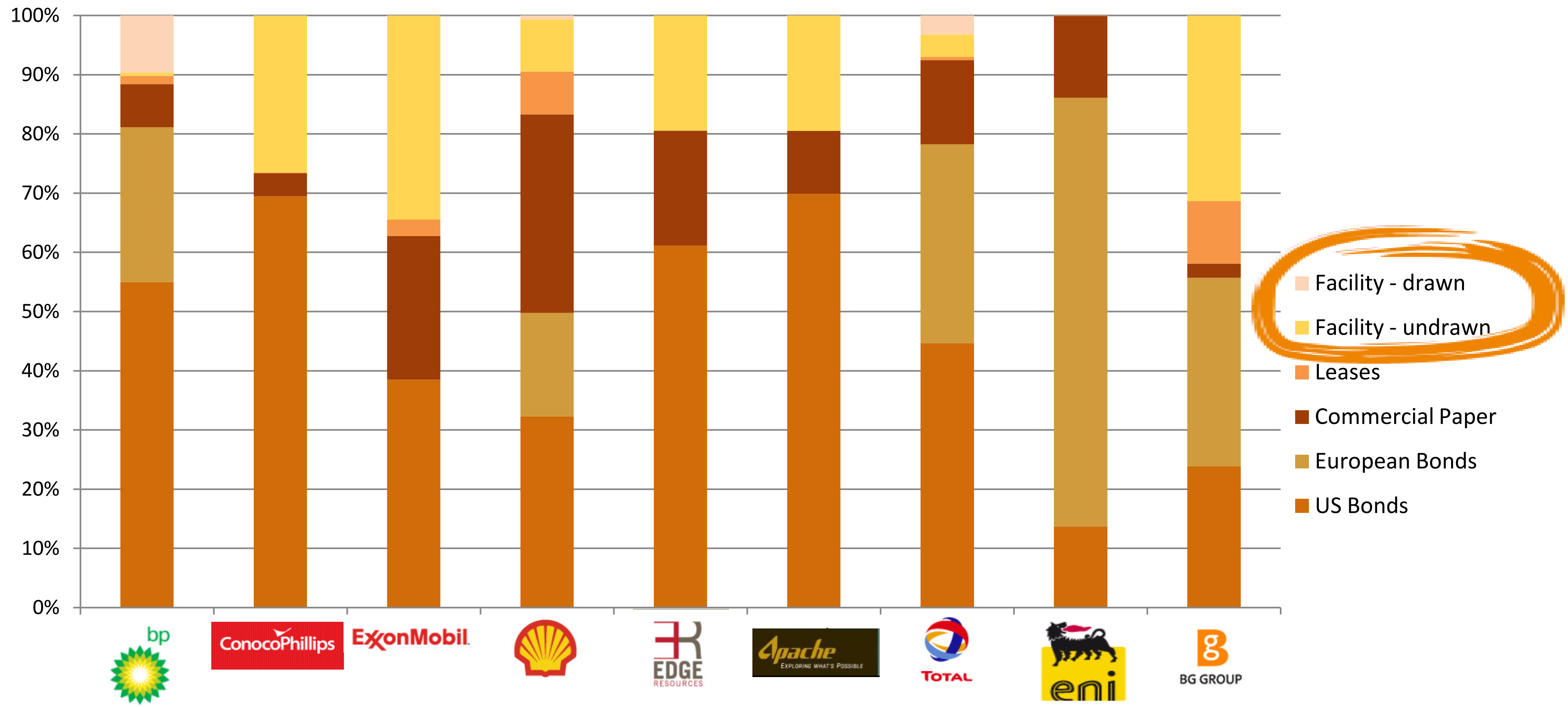


KEY MILESTONES ACHIEVED

- Export Development Canada (EDC) US$500mm 5 year facility closed in April 2012
- Issue of three tranches hybrid bonds totaling USD2.1bn equivalent in June 2012
- Cooperation agreement between BG Group and the Japan Bank for International Cooperation (JBIC) signed in October 2012
- In November 2012, BG closed a new US$3bn committed multicurrency syndicated bank facility
- In December 2012, the Group secured a $1.8bn loan facility from US EX-IM (subject to documentation)

Adequate long term funding (on a risk-adjusted basis) for the company to support its growth plan

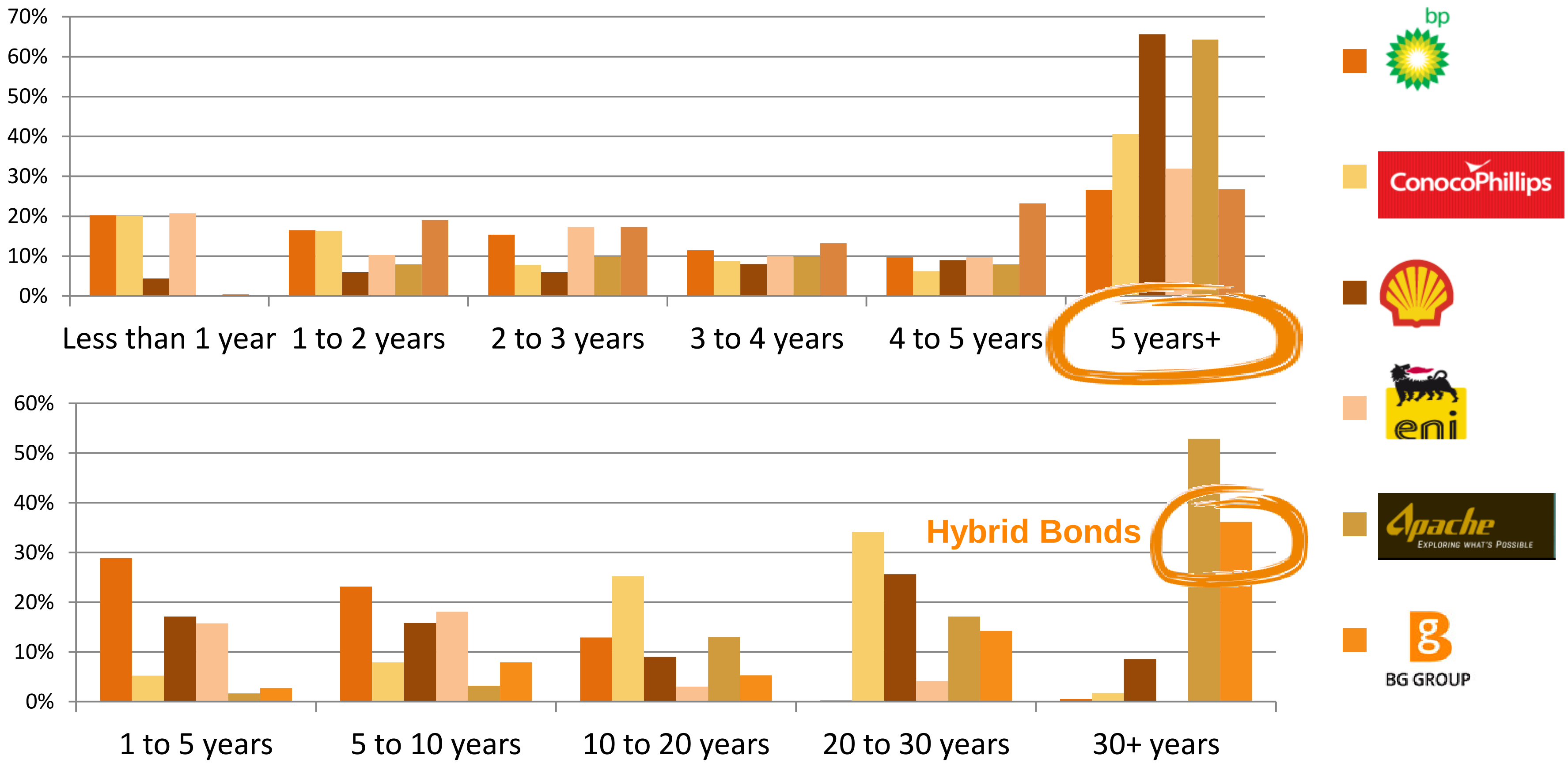
Overview of funding profile in the oil & gas sector: the significance of credit facilities and debt capital markets …



Source: Bloomberg at January 2013

… and the reduced reliance on short term borrowings

BG GROUP



- A large proportion of outstanding debt has greater than 5 years to maturity reflecting long term nature of assets
- Companies have different long term debt structures once past 10 year mark

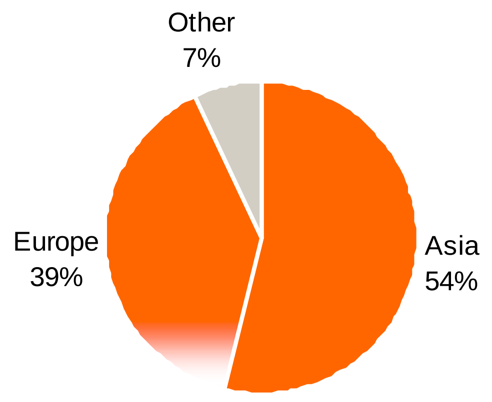
Hybrid bonds as a multi-source of diversification

BG GROUP

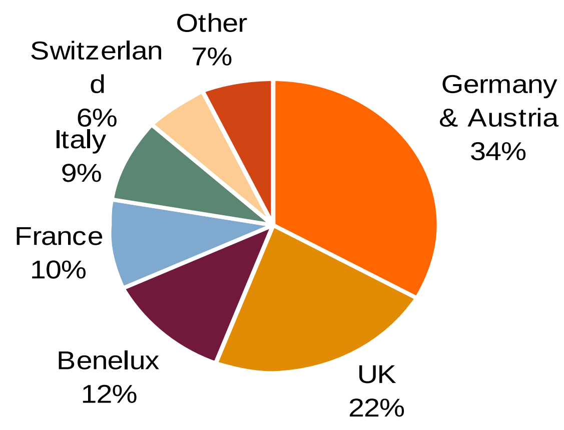
- US$2.1bn equivalent raised across three currency tranches (€500m, £600m and US$500m)
- Further strengthened BG Group's capital structure in addition to the US$8.1bn capital release by the end of 2013
- Supports mid-single "A" credit rating at a time of significant capital expenditure (US$10.4bn in 2012, US$12bn in 2013(e))
- Further diversifies BG Group's funding sources (including opening up the Asian investor base)

Geographical Distribution of Hybrid's Investors

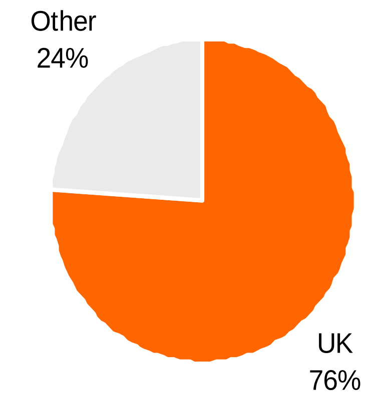
USD Tranche



EURO Tranche



STERLING Tranche



Balance sheet structure to support growth through the investment cycle

BG GROUP

	ExxonMobil	Shell	Total	Statoil	bp	BG GROUP	ConocoPhillips	Apache
Market Cap (A)	402	141	116	75	134	56	71	28
Credit Rating	Aaa / AAA	Aa1 / AA	Aa1 / AA -	Aa2 / AA -	A2 / A	A2 / A	A1 / A	A3 / A -
Market Projected Capex (3-Year) (B)	(104)	(103)	(81)	(56)	(75)	(35)	(45)	(33)
(A) / (B)	26%	77%	70%	75%	56%	63%	28%	118%
Market Projected FCF (3 Year)	75	35	9	8	17	(6)	4	(0.5)
Total Term Debt	6	28	37	20	49	14	20	11
Gearing (%)	1.5%	16.6%	24.2%	21.1%	26.8	20%	22%	28.2%

- Long term commitment to mid-single A credit rating
- Management actions taken to support rating
  - Portfolio rationalisation programme
  - Hybrid bond issuance
  - Increased committed facilities (liquidity)
  - Extended average maturity of debt
  - Diversification of funding types and sources

Prudent Balance Sheet to Finance High Quality Investment Program

Source: USD bn. Data from Bloomberg at April 2013

BG GROUP

Bank Relationship Management – ESB Case Study

Paul Stapleton
Group Treasurer
ESB

3 May 2013

ESB – Ireland's Leading Electricity Utility

Energy for generations

Networks

Regulated Electricity Transmission & Distribution Networks

Generation

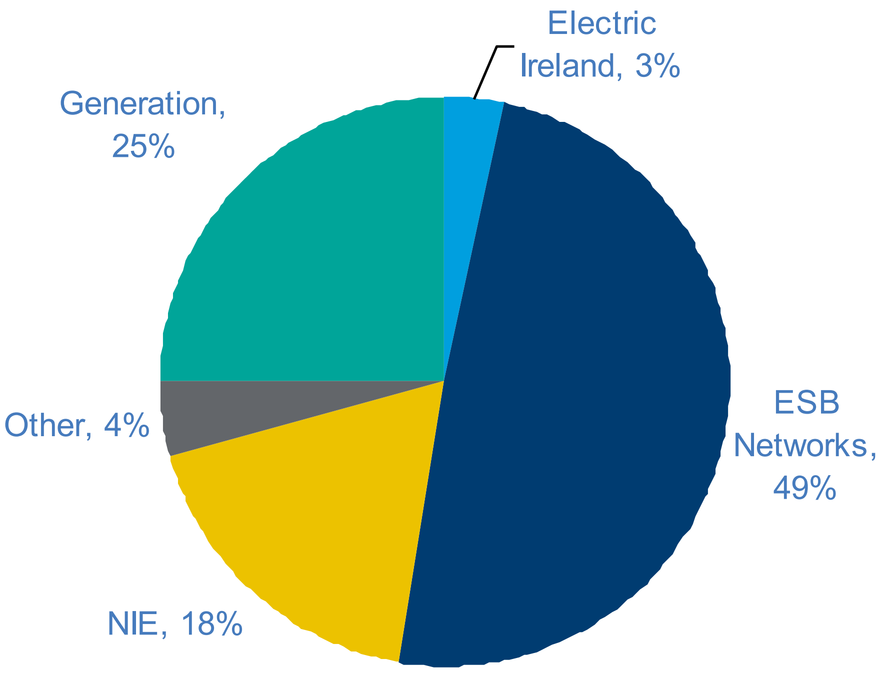
Power Generation in Ireland & UK

Energy Retail

Supply 1.5m customers in Ireland

ESB Asset Profile

Assets by Business



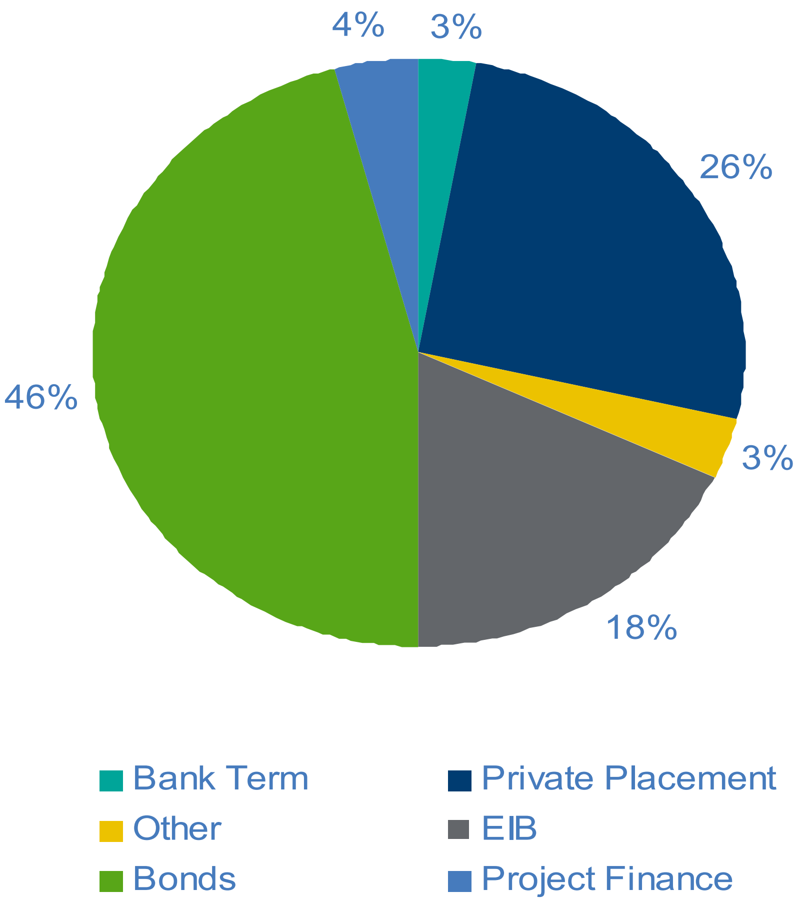
TOTAL ASSETS: €12 Billion

Key Points

- **67% of assets are fully regulated electricity networks.**
- **ESB owns all of the electricity networks on the island of Ireland.**
- **All-Island power generation market share of 46% by capacity and 48% by volume.**
- **All-Island electricity supply market share of 36%**
- **26% of assets outside Republic of Ireland**

ESB Capital Structure

ESB Funding Sources

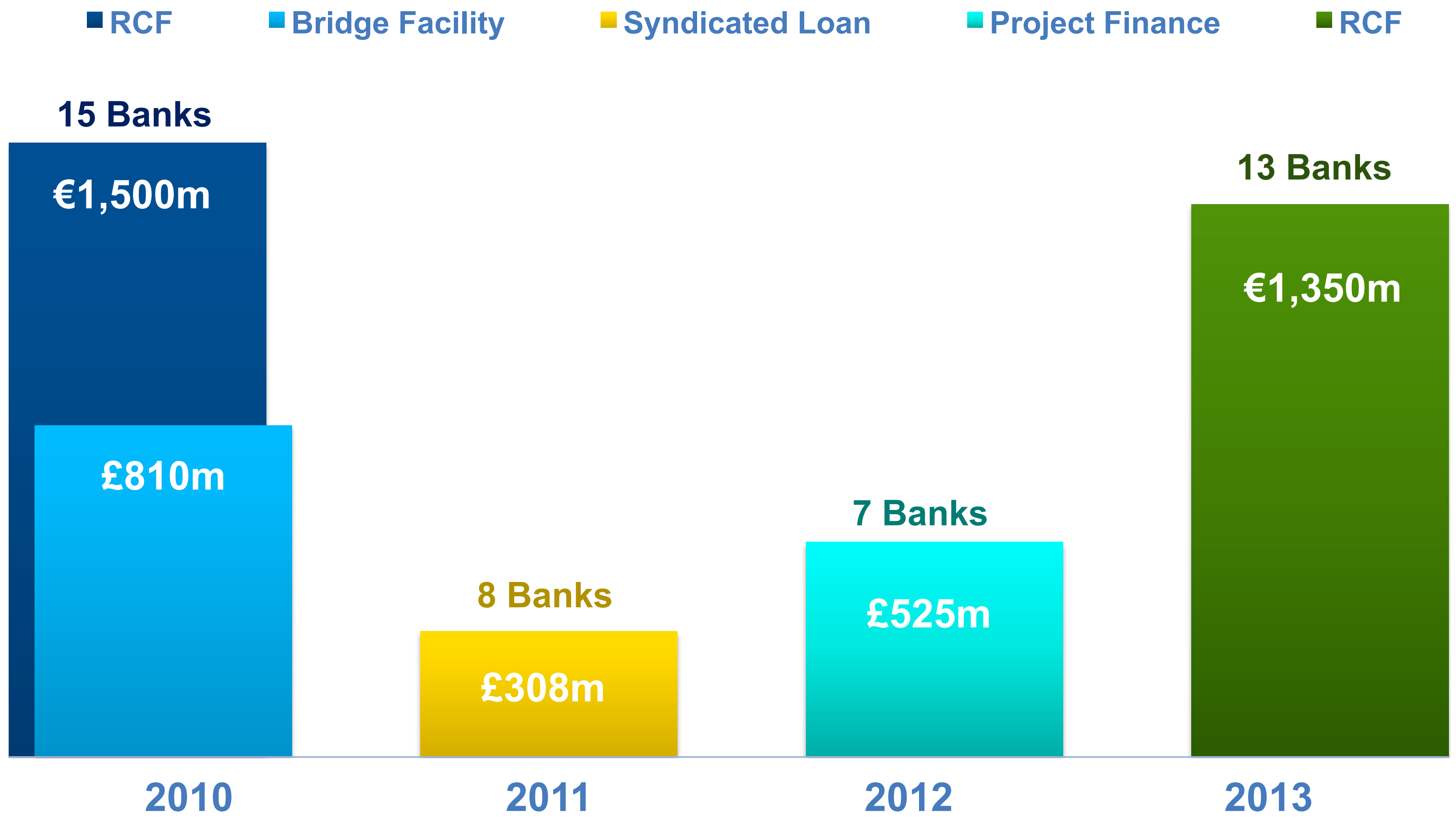


ESB Funding Summary

- 95% owned by Irish Government
- ESB Group Debt €4.5Bn
  - ~ 70% Debt Capital Markets
  - ~ 30% Bank/Other
- Undrawn Standby Liquidity ~ €1.6bn
  - includes €1.35Bn Revolving Credit Facility
- 13 Core Relationship Banks (in RCF)
- Credit Ratings Baa3/BBB+/BBB+

Context – Ireland & Financial Crisis

Key ESB Bank Transactions in recent Years



ESB Relationship Banks (2013 RCF)

ESB Energy for generations

BARCLAYS

Bank of America

BNP PARIBAS

HSBC

RBC

AIB

Ulster Bank

RBS The Royal Bank of Scotland

BBVA

Deutsche Bank

JPMorganChase

Bank of Ireland

SOCIETE GENERALE

Danske Bank

ESB Bank Relationships

Energy for generations

Bank Relationship Policy

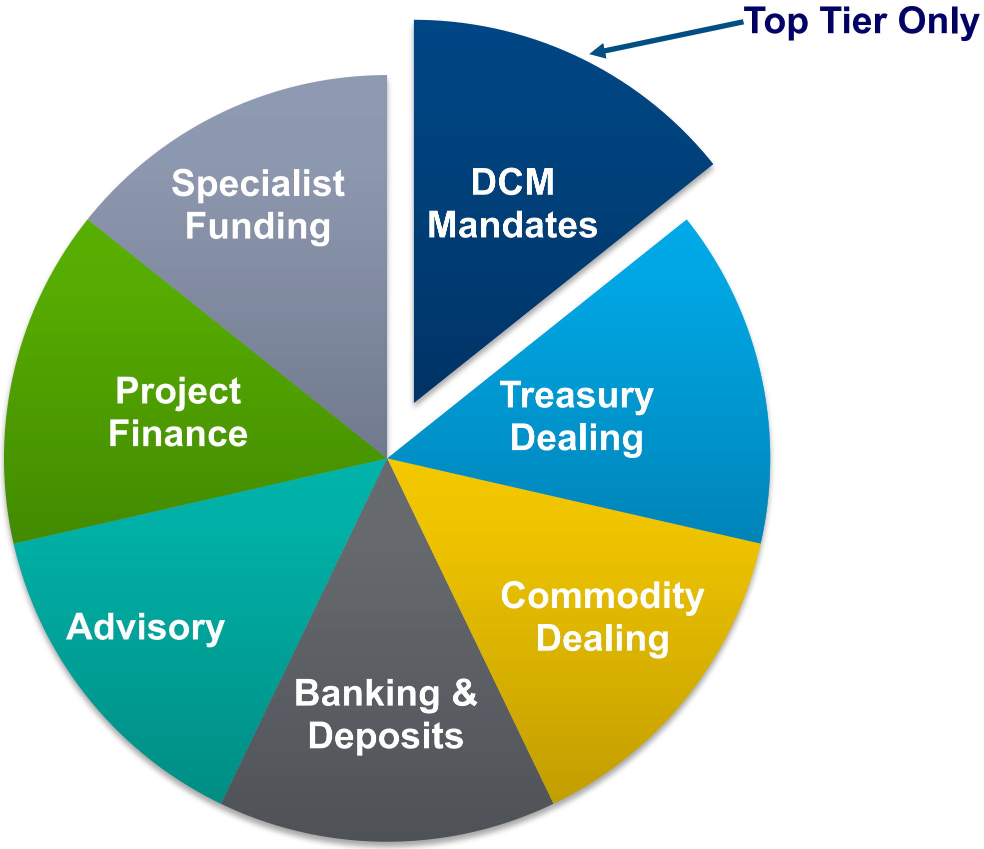
- Oversight of all banking relationships by central Treasury Function
- Preference for long-term business relationships
- Participation in main Group RCF is main driver of banking relationships
- Top tier RCF participants = Top tier Relationship Banks
- Other relevant policies
    - Counter-party Credit Risk policy
    - Code of Business Ethics

Ancillary Business

- Ancillary business undertaken only with Relationship Banks
- Debt Capital Market Mandates - shared between top-tier Banks
- Other business – awarded on a competitive basis
- Equal opportunity, not equal share!
- Ongoing monitoring of spread of business

Ancillary Business

DCM	• €1.1bn EuroBonds
Treasury Dealing	• €1.5bn FX • £350m Interest rate
Commodity Dealing	• €800m Fuel costs
Banking & Deposits	• Deposits €100 - 150m • LCs - €400m
Advisory	• Asset Sales • Ad hoc
Project Finance	• £530m Debt • £700m Swaps
Specialist Funding	• Coal Oil - $50m • CO2 - €60m



- **DCM – Top Tier RCF banks only**
- **Other ancillary business – All RCF banks**

**Figures reflect 2012 volumes*

9

Bank Relationships - Our Approach

Energy for generations

Individual Banking Relationships

- All Banks are different and every Banking relationship is different
- Key "measures" are qualitative:
  - Trusted advisor?
  - Bringing relevant solutions?
  - Supportive in adversity?
  - Long-term view?
  - Responsive to our needs?
  - Understand our business?
- Role of Relationship Manager is very important

Managing a Bank Group

- Diversity in Bank Group is important – geography, product strengths, rating profile, etc.
- Target Banks that can offer relevant solutions to business needs – not just Balance Sheet
- Open and honest communication
- Acknowledge and respect banks capabilities and restrictions
- Focus on building long term relationships – not just on the economics of each transaction.

Thank You

Bank Relationship Management – ESB Case Study

Paul Stapleton
Group Treasurer
ESB

3 May 2013

ACT ANNUAL CONFERENCE 2013

Track K

Bank relationship management:
A science or an art ?

03 May 2013

Toby Shore
Corporate Treasurer & Chief Risk Officer
Dubai Aluminium [DUBAL]

Together we shine
www.dubal.ae

dubal
Dubai Aluminium

Dubai Aluminium [DUBAL]

- Established in 1979 with a vision of "supplying aluminium to the world and water to Dubai";

- Has grown organically from 140k MT / annum in the 1980's to over 1m MT / annum in 2012;

- Employs ~ 3800 people of which approx. 15% are UAE Nationals;

- The largest single site aluminium smelter in the world with its own captive power station [2350 megawats]; *and*

- Recorded Gross Sales in 2012 of ~ US$ 2.6bln and Net Profit of ~ US$ 430m.

Dubai Aluminium [DUBAL]

The DUBAL Smelter Complex at Commissioning in 1979:

3 pot lines with a combine capacity of 136,000 mtpa

Sevenfold capacity increase in 30 years

The DUBAL Smelter Complex in 2010:

8 potlines with a combined capacity of 1 million mtpa

Question....

WHY DO AMERICANS [AND EUROPEANS] DRIVE ON THE WRONG [RIGHT ?] SIDE OF THE ROAD ?

Why do Americans [and Europeans] drive on the wrong (right) side of the road ?

- In the days of old when knights were bold, a majority of people were **RIGHT** handed;
- Accordingly, when riding their horses or driving their carriages they kept to the **LEFT** hand side of the road to allow their sword arm to be closest to any adversary;
- In feudal Europe, the common folk [who mostly didn't have swords or horses or carriages] walked on the **RIGHT** hand side of the road to allow free and easy access for the Knights and nobility on the **LEFT** hand side;
- With the French Revolution of the 1790's the new enlightened middle class, to distinguish themselves from the bourgeoisie (and possibly to avoid being be-headed), took to walking on the **RIGHT** hand side of the road to mingle with the common folk;
- Ever since, there has been two sides of the road – those that drive on the **LEFT** [influenced mainly by the British] and those that drive on the **RIGHT** [influenced mainly by the French].

The BIG Debate … Left Hand Drive, Right Hand Drive … but does it really matter?

- Whether you drive on the right or left is largely irrelevant if you have a clear and well articulated strategy …
- Without such a defined strategy, or a strategy that does not complement your strategic goals, it can be costly and perhaps even fatal …

- The best strategy, if your goal is to arrive alive, surely must be to drive on the same side as everyone else – posing the question then is driving an art or science or both ?

Bank Relationship Management – An Art or Science ?

- Like driving, corporates need to have a clearly articulated strategy for the management of bank relationships and to recognise that this is both an art and a science requiring an equal amount of attention to avoid disaster …

- As an **art**, a corporate's relationship with their bankers must be articulated, managed and nurtured to achieve a mutual level of:
  - Trust;
  - Respect; *and*
  - Mutuality.

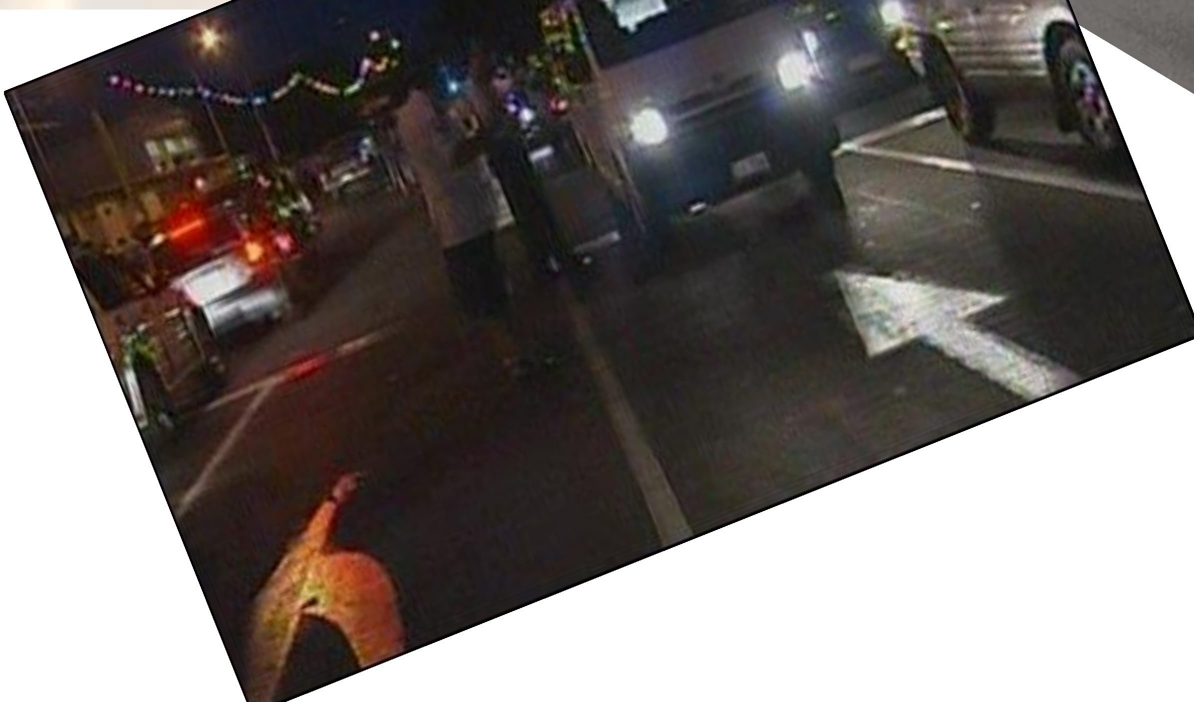
- As a **science**, the relationship cannot solely be based upon the intangibles of philosophy and mutuality. Corporate's need to quantify and measure the relationship and then use this data to have meaningful discussions with their bankers about direction, strategy and partnership.

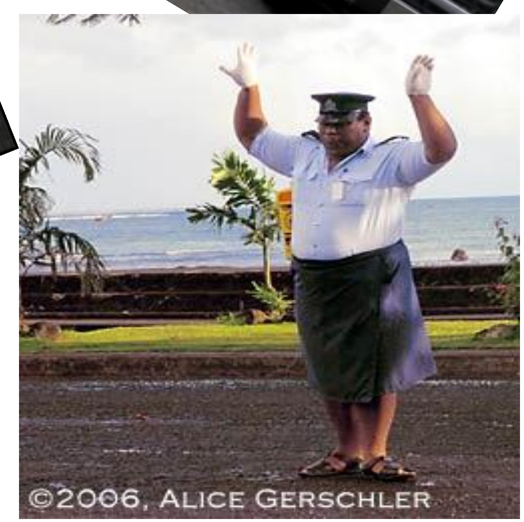
The Essence of Bank Relationship Management…

- The **art** of Managing Bank Relationships:
  1. Mutuality – accept that the bank needs to make a yield from the relationship. The lowest priced facility is not always the best !
  2. Respect – sometimes differences will exist in regards to direction and strategy. Accept these and move on but don't burn bridges.
  3. Nuture – like a marriage, relationships with your bankers need to be nutured and built upon not put in the draw and forgotten until the next anniversary comes around…

- The **science** of Managing Bank Relationships
  1. Measure it and report it – your banks measure and rate you so why don't you them ?
  2. Factual and transparent – explain the rationale, don't debate or berate.
  3. Consistency – enhancements to your reporting tool is OK, a change mid-stream will only cause confusion and devalue the message.

In September 2009 the Samoan's changed from RIGHT Hand Side to the LEFT Hand Side - Change Management – it is achievable…





DUBAL – A Quality Index Approach

- Banking relationship management for DUBAL has grown in significance since the Global Financial Crisis;

- During the GFC, being situated in Dubai, exposed to the automotive and housing industries and mid-way through a multi-billion dollar joint venture, access to liquidity and competitively priced financing was crucial to DUBAL;

- We changed the nature of our relationships with our banks:

  1. view our relationship banks as **valued** business partners rather than as service providers;
  2. believe that managing the relationship is not possible unless and until we can **measure** it; *and*
  3. developed a Quality Index to interact with our relationship banks in a manner that is synonomous with our Corporate Treasury **philosophy** of security, liquidity, flexibility, diversification, yield and partnership.

It's not all about yield !

A Scientific Approach to the Art of Bank Relationship Management…

- DUBAL's Quality Index is an effective measure of evaluating banking relationships by quantifying the quality of products and services offered by various relationship banks.
- The standardized metrics and analysis allows DUBAL Treasury to:
  1. benchmark each relationship bank with their peers;
  2. allocate "ancillary" business such as Trade Finance, cash management services and other banking requirements based upon the rating; *and*
  3. Focus on what's important to DUBAL – security, liquidity, flexibility, diversification and partnership.
- For DUBAL's relationship banks, the DUBAL Quality Index provides:
  1. a qualitative measure of how they are performing in their position as a business partner with DUBAL vis-à-vis their peers;
  2. specific improvement areas for the bank to focus on if they are seeking a greater share of DUBAL's Treasury business; *and*
  3. positive feedback in areas where they outperform their peers.

Hopefully, for our bankers, it is not all about the Yield !

DUBAL Corporate Treasury - Quality Index

ASSESSMENT CRITERIA
CORPORATE FINANCE / TREASURY
▪ Flexibility on loan documentation
▪ Range of facilities offered, limits & competitiveness
▪ Cash management solutions
▪ Competitiveness in FX trades
▪ Enrolment on 360 Platform
▪ Responsiveness to general operational queries
▪ Promptness in crediting incoming receipts
TRADE FINANCE
▪ Export finance functionality parameters
▪ Scope and Geographical coverage areas
▪ Pricing
▪ Responsiveness to operational queries and documentation issues

Together we shine

Professional Passionate Versatile Trustworthy Caring Innovative