



TREASURY RESOURCES

@ *PhoenixHecht.com*

This presentation was originally given by:

Jeff Ferguson, CTP/Vice President
Global Treasury Management
LaSalle Bank/Standard Federal Bank

At the 2005 Windy City Summit

For questions about this material contact Jeff at:

JeffFerguson@abnamro.com

Harnessing Credit & Liquidity to Optimize Working Capital

Windy City Summit

Tuesday, May 25, 2005

Jeff Ferguson, CTP/Vice President
Global Treasury Management
LaSalle Bank/Standard Federal Bank





TABLE OF CONTENTS

Global Treasury Symptoms

Diagnosis

Cure

Working Capital/Liquidity Management

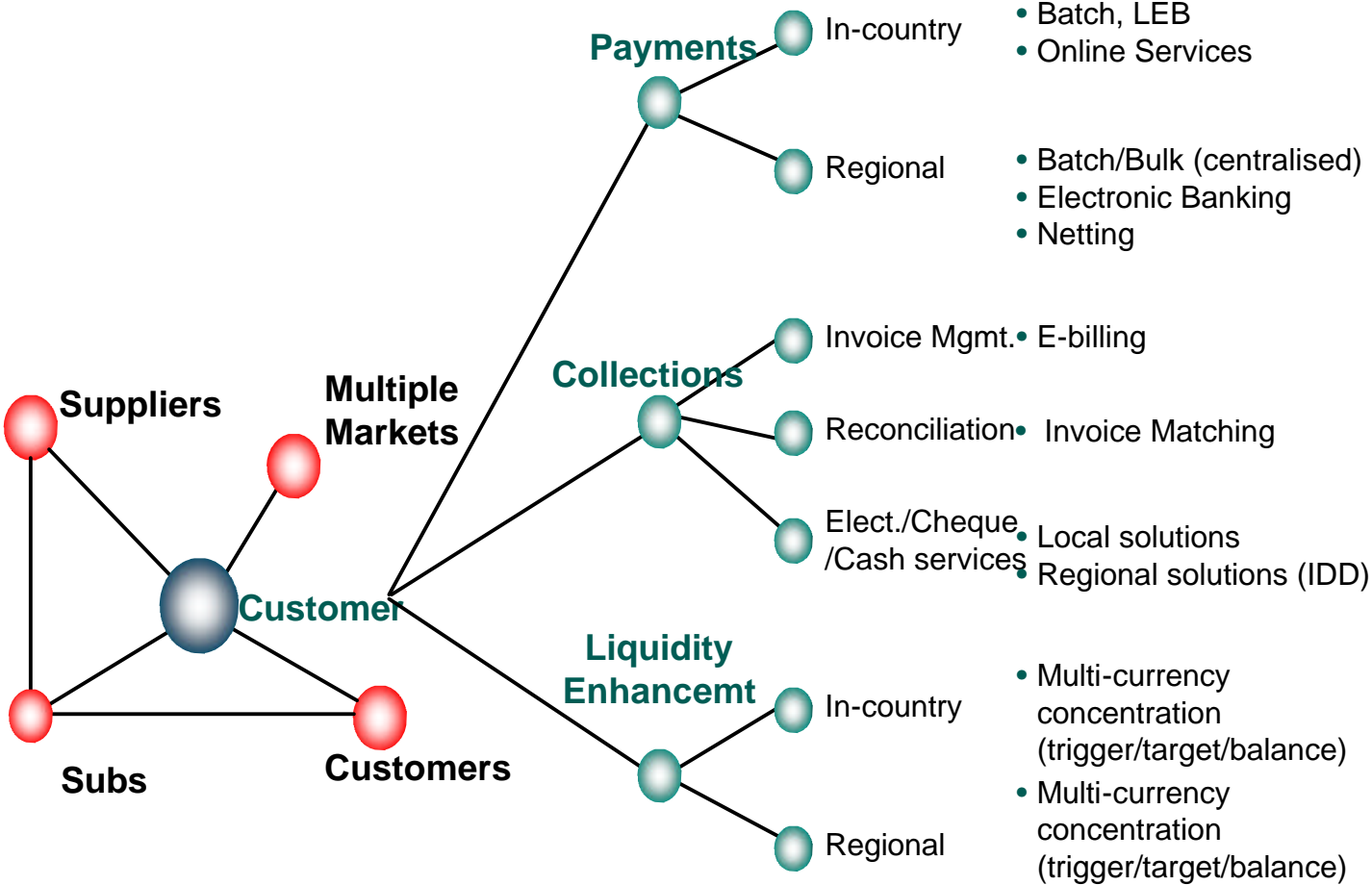
In Country Credit Support

Liquidity Management Credit Support

Symptoms of a Corporation in need of a Global Treasury

- **Simultaneous borrowing and investing**
- **Pockets of idle cash**
- **Inadequate knowledge of global cash position**
- **Difficulty managing FX exposures**
- **Inter-company payments in multiple currencies**
- **Many banking relationships**
- **Possible future acquisitions**

Developing Solutions: A Diagnostic Approach



Cure

- **Network Banking**
- **In country accounts**
- **In country credit**
- **Global Relationship Management**
- **Cash Flow Management**
- **Liquidity Management**

Wholesale Network for Transaction Processing

North America

- United States
- Canada

Latin America

- Argentina
- Brazil
- Chile
- Mexico
- Uruguay
- Venezuela

Middle East and Africa

- Egypt
- Lebanon
- United Arab Emirates
- South Africa

Europe

- Austria
- Belgium
- Bulgaria
- Czech Rep.
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Luxembourg
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russia
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom

Asia Pacific

- Australia
- China
- Hong Kong (China)
- India
- Indonesia
- Japan
- Kazakhstan
- Korea (South)
- Malaysia
- New Zealand
- Pakistan
- Philippines
- Singapore
- Taiwan
- Thailand
- Uzbekistan
- Vietnam

The Cure – Network Banking Defined

Indigenous Presence

- Accounts available In Country In A Variety of Currencies
- Direct Member of Local Clearing Systems
- Minimal Usage of Correspondent Banks
- Able to Provide Local Operational Banking Services

The Cure – Network Banking Defined

Global Relationship Management

- Local In Country Relationship Manager
- Ability to Meet Local Credit Needs
- Additional Relationship Product Options

The Cure – Network Banking Defined

Cash Flow Management

- Global Electronic Banking Tool – Internet Based
- Collection/Disbursement Accounts
- Local Payment/Collection Types
- Bulk Payment Engine Capabilities
- Services to Support Shared Service Center Concept
- Netting Solutions
- Outsource Capabilities Available

The Cure – Network Banking Defined

Liquidity Management Solutions

- In Country Pooling
- Overlay Structures
- Pure Zero Balancing
- Multiple Legal Entity Pooling
- Cross Border Notional Pooling
- Cross Currency Notional Pooling (Interest Compensation)
- Solutions for LATAM and Asia

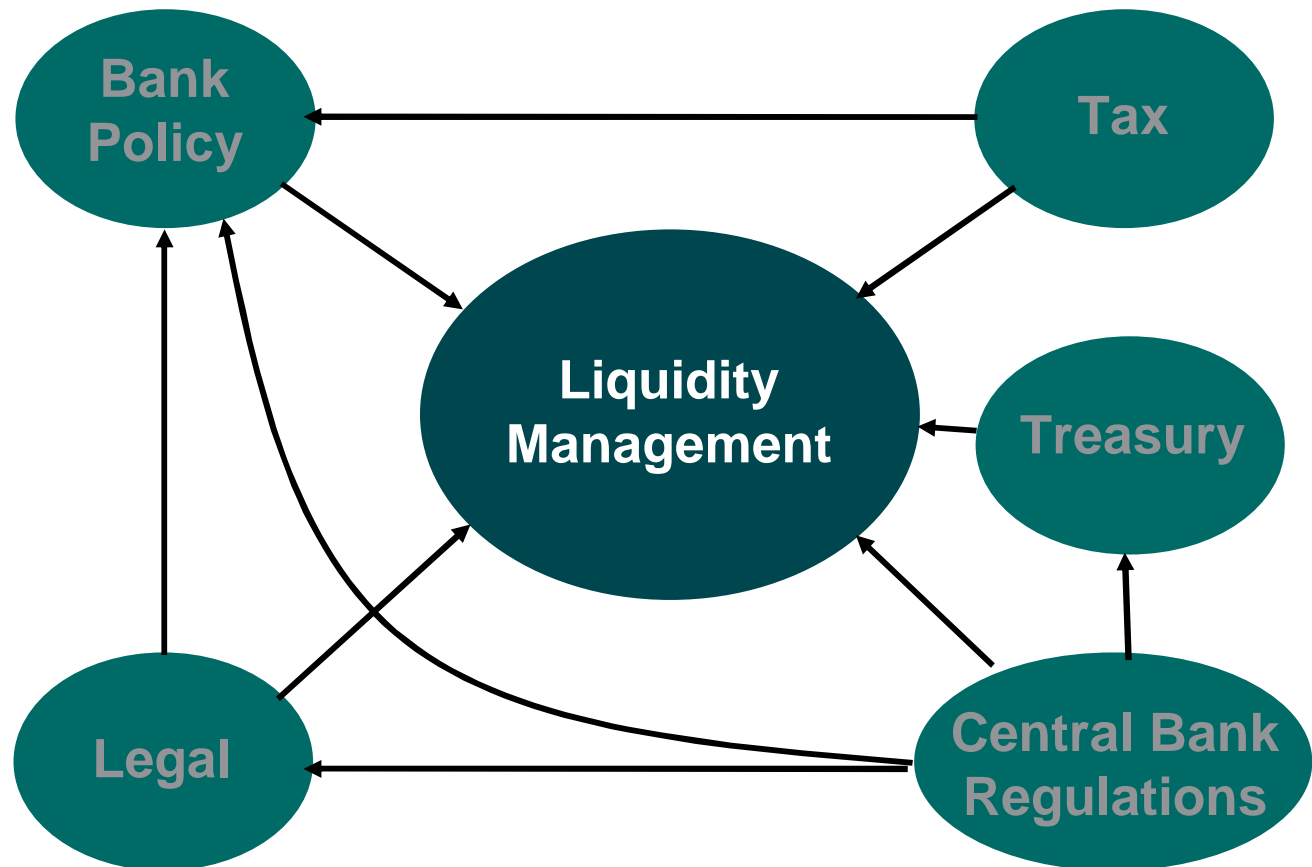
Working Capital/Liquidity Management

Desired Benefits of Liquidity Management

- Minimize idle balances
- Centralize investment/borrowing execution
- Maximizing the overall return earned on cash
- Maximizing the potential to offset negative balances

Working Capital/Liquidity Management

Complex environment

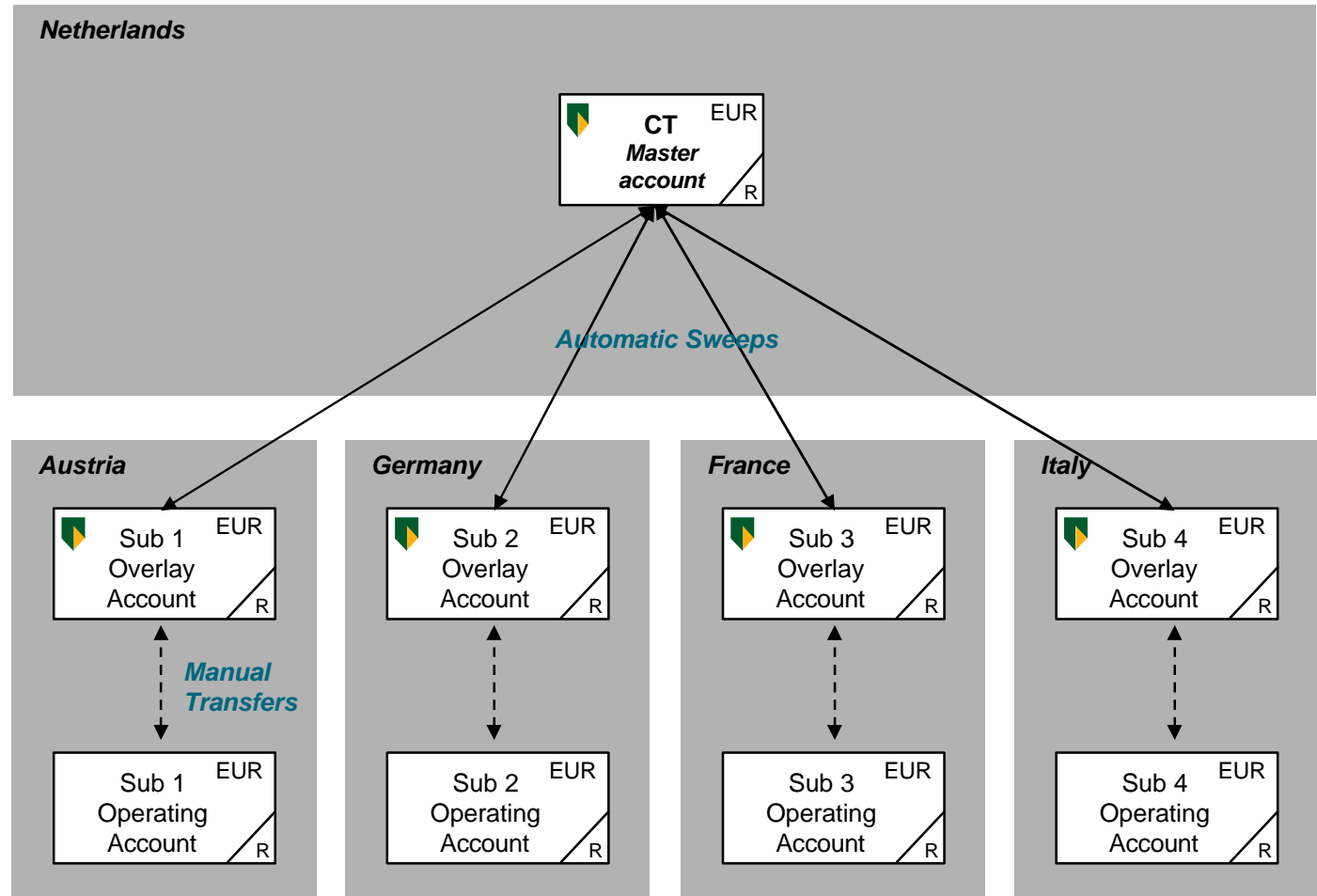


Working Capital/Liquidity Management

Concept of Cash Pooling

- Physical Concentration of Cash – Zero Balancing
- Notional Concentration of Cash – Interest Compensation

Working Capital/Liquidity Management Pure Zero Balancing Pooling



Working Capital/Liquidity Management

Pure Zero Balancing: Benefits

- **All funds are concentrated to one account**
- **Funds in the pooling structure belong to Central Treasury or Subsidiaries**
- **100% compensation of balances and interest on funds**

Working Capital/Liquidity Management

Pure Zero Balancing: Considerations

- **Change of ownership of funds from subsidiary to parent**

- Inter-company loans exist (in the pooling structure) between the operating companies who owns the Overlay Accounts and the Central Treasury
- Creates withholding tax issues
- Beware of Thin capitalisation rules

- **Use of local banks**

- Manually transfer funds into local AAB overlay account before local cut-off times
- Gather information via intra-day information and internal cash flow forecast (difference between collections and payments)
- Not a 100% concentration of cash (some cash remains with local banks)

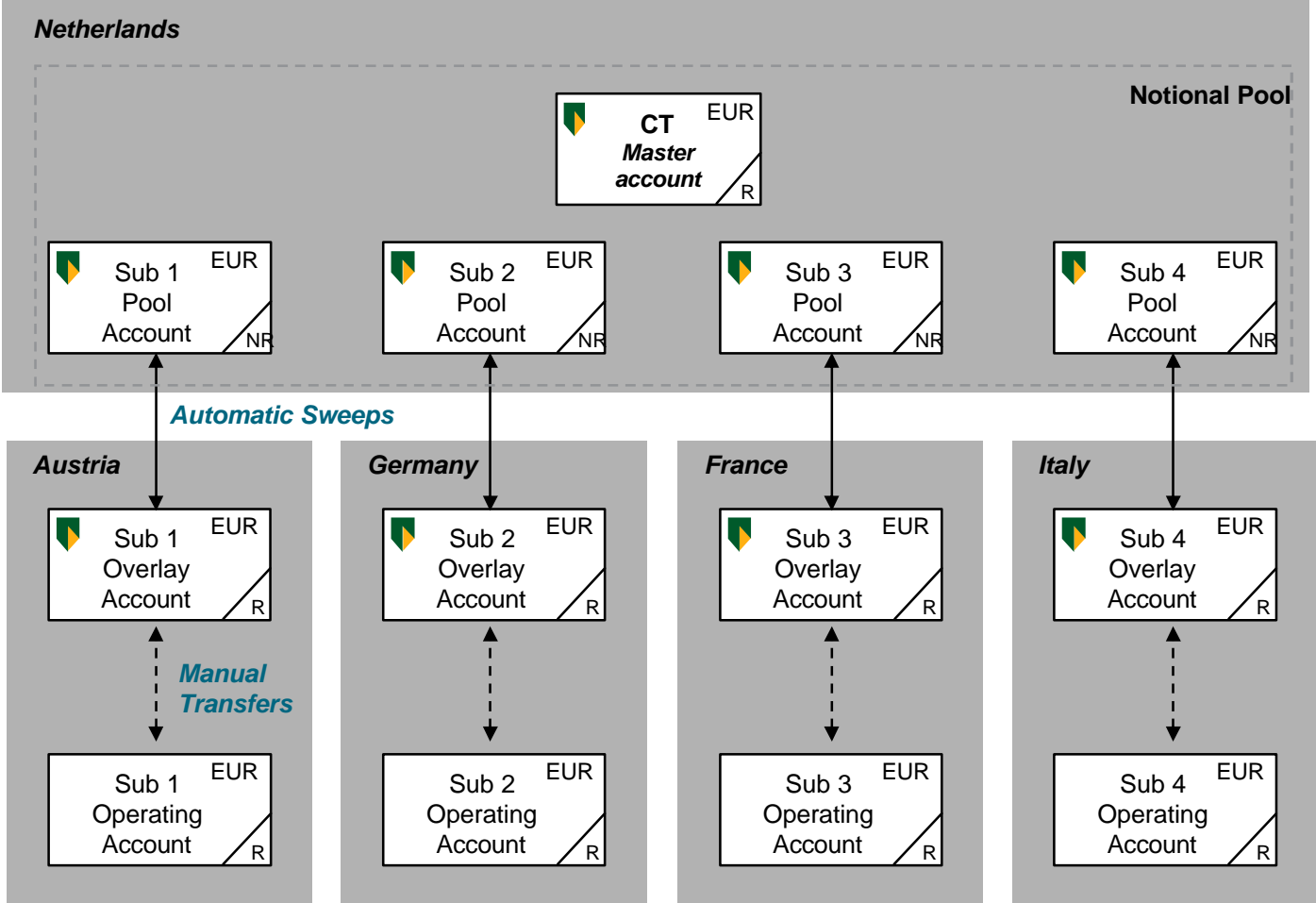
Working Capital/Liquidity Management

Pure Zero Balancing: Credit Facilities

Bank extends credit facilities with the cash pool:

- Overnight limit – Master account
- Intraday limit – Sub-accounts

Working Capital/Liquidity Management Multiple Legal Entity Pooling



Working Capital/Liquidity Management

Multiple Legal Entity Pooling: Benefits

- **Every entity opens one account in the Netherlands**
 - All these accounts are included in the notional pool
- **No inter-company loans between the operating company and the Central Treasury**
 - no commingling of funds
 - no tax issues
- **Local entities owns the funds**
 - Easy to manage and reconcile

Working Capita/Liquidity Management

Multiple Legal Entity Pooling: Considerations

Use of local banks

- Manually transfer funds into local overlay account before local cut-off times
- Gather information via intra-day information and internal cash flow forecast (difference between collections and payments)

More accounts needed than with pure ZBA (ie. More expensive)

Legal restrictions – notional pooling forbidden in some countries

Thin Capitalization Rules

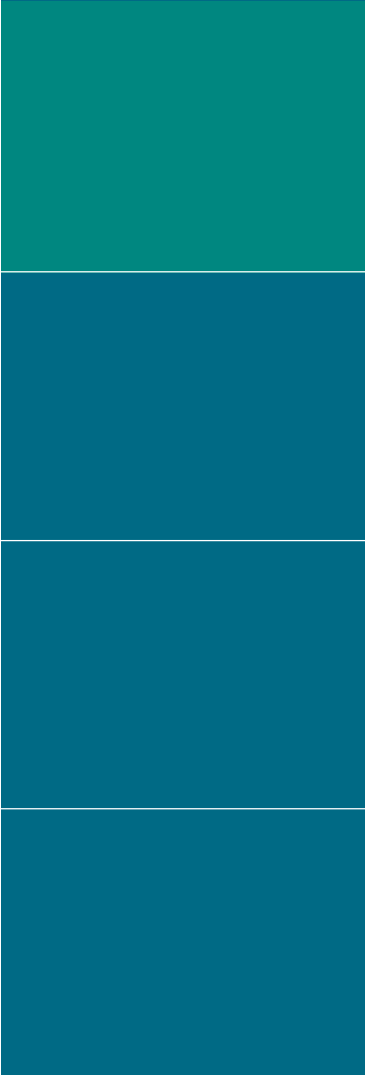
Local Laws regarding Local Sub Equity Positions

Working Capita/Liquidity Management

Notional Pooling: Credit

Bank extends credit facilities with the cash pool:

- Intraday limit – Sub-accounts
- Overnight limit – Master account & Sub-accounts
 - Individual accounts can show overnight debit positions
- Cross-guarantees and pledges needed
- Potential multi-bank credit agreement implications
- SBLCs

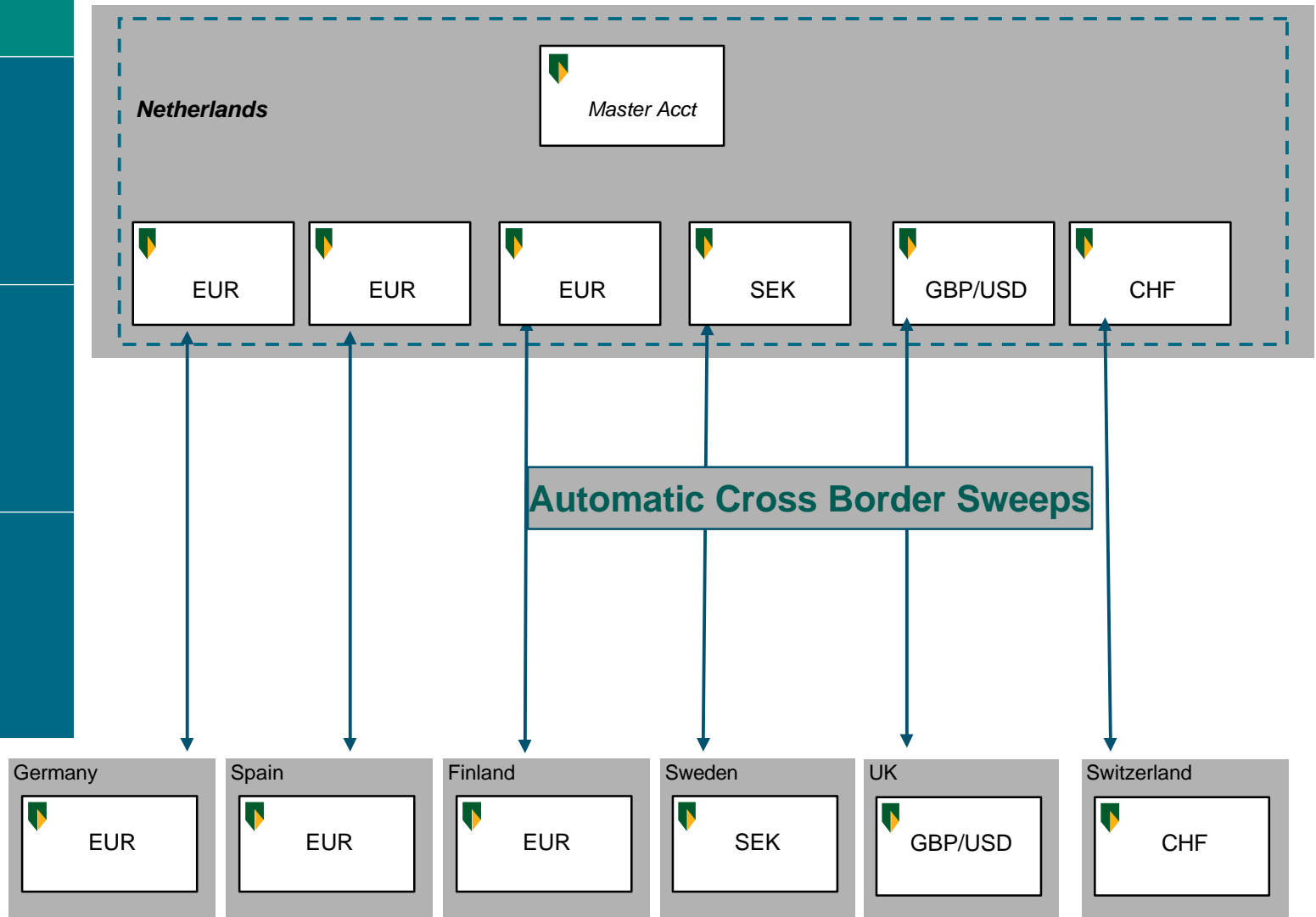


Working Capital/Liquidity Management Cross Currency Notional Pooling Defined

An effective liquidity management solution that optimises the interest return depending on the offset between debit and credit balances denominated in different currencies

Working Capital/Liquidity Management

Cross Border Zero Balancing with Cross Currency Interest Compensation



Working Capital/Liquidity Management

Cross Currency Notional Pooling: Benefits

- Improving overall cross-currency interest results
- No inter-company loans between the operating companies and central treasury
- Full off-set between debit and credit balances
- Invest excess liquidity by one investment in one currency
- Fixed Credit and Debit Spread for all Currencies
- Fewer FX/SWAP transactions

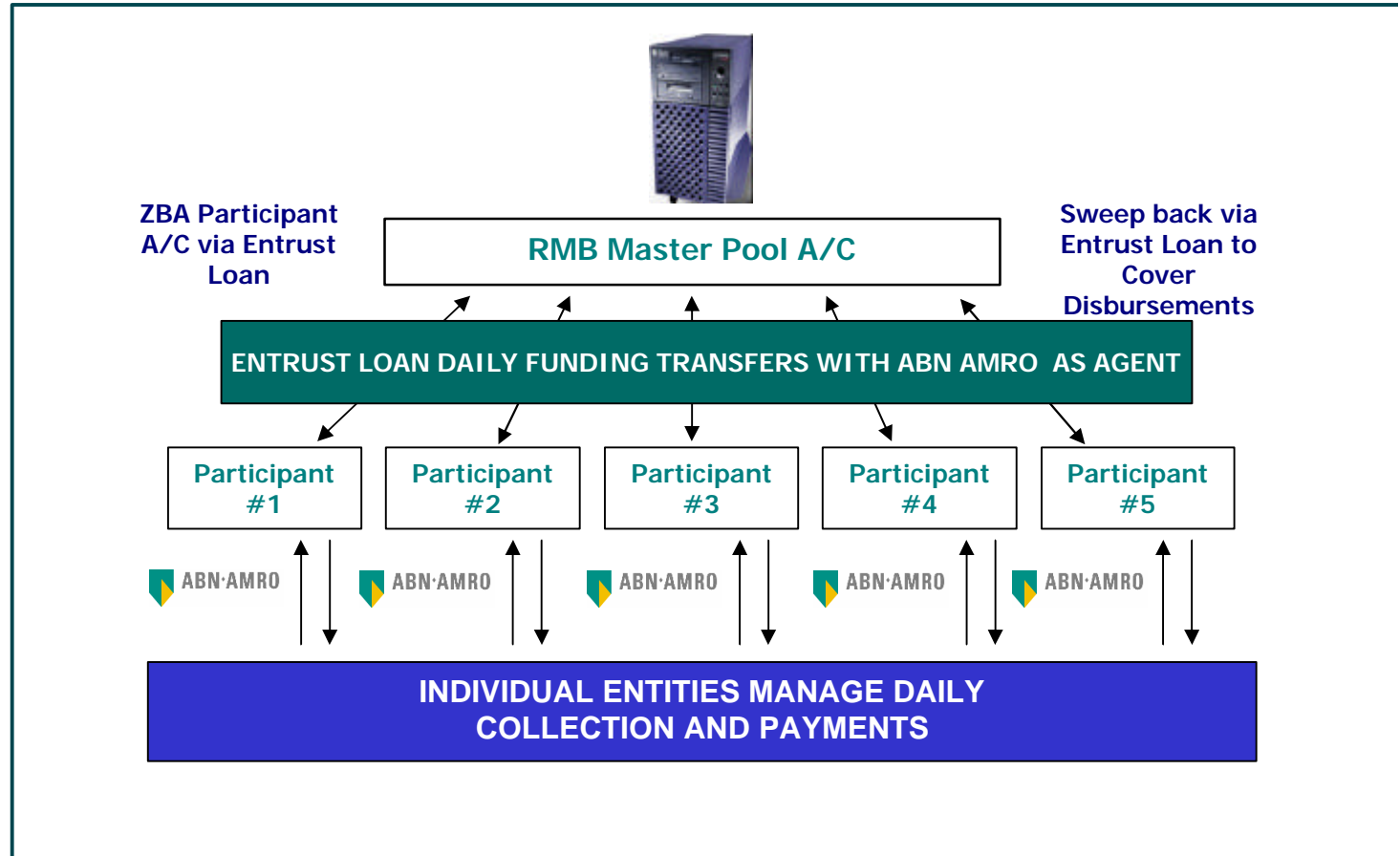
Working Capital/Liquidity Management

Cross Currency Notional Pooling: Considerations

- Set-off agreement required
- Every entity has to open one account in master country
- Multiple cross-border sweeps if all entities separated
- Intraday and Overnight Credit Limits need to be set
- Cross guarantees and pledges required
- Potential multibank credit agreement implications

Working Capital/Liquidity Management

RMB MEL Cash Pooling for Multi-Entities (Multi-Party Entrust Loan ZBA Pooling)



Working Capital/Liquidity Management

RMB MEL Cash Pooling for Multi-Entities (Multi-Party Entrust Loan ZBA Pooling)

Features:

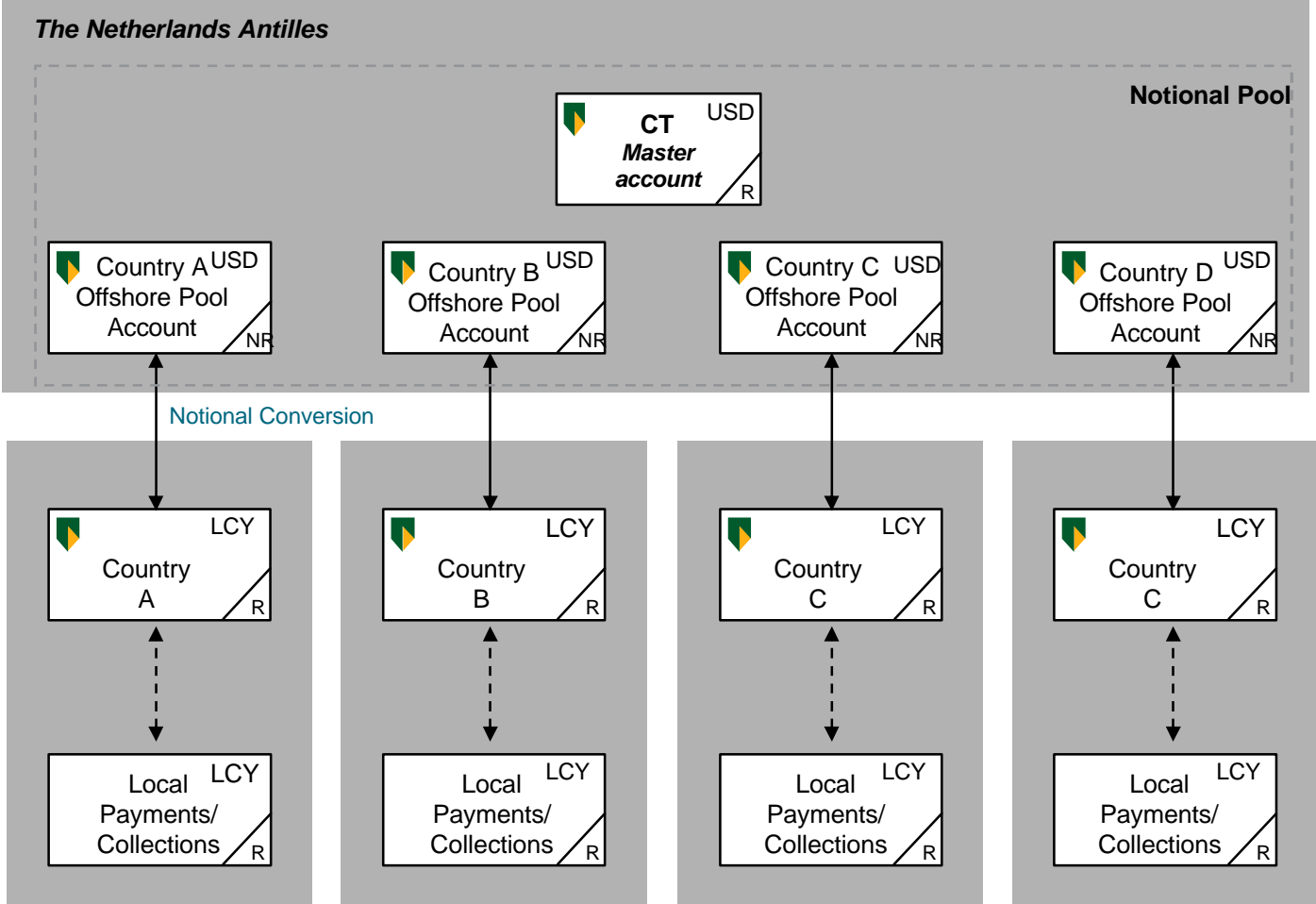
- ◆ Allows for daily Entrust Loans to be created between a group concentration account (funding entity) & other participating legal entities
- ◆ Any end-of-day surplus or deficit participating account balances are entrusted to the concentration account then are swept daily to the concentration account.
- ◆ Corporate can set its own entrust loan rate and automatically allocates net interest to the concentration account monthly.

Key Benefits:

- ◆ Reduced working capital loan and borrowing interest costs
- ◆ Improved yield management of excess liquidity
- ◆ High efficiency of group fund control and administration via fully automated Cash Concentration system

Working Capital/Liquidity Management

LATAM Notional Pooling



Working Capital/Liquidity Management

LATAM Notional Pooling: Benefits

- Cross-Regional Cash Management Solution Centralized in Strong Currency (USD)
- Ideal Solution for managing the regional cash of economically related group of companies
- Enables access to concentrated cash for investment purposes
- Centralizes Borrowing/Funding
- Debit Balances are offset by credit balances
- Structure can be managed locally or regionally

In-Country Credit Support

- Low Value Transfer Credit Exposure (ie ACH/BACS)
- VAT Guarantees
- Rent Guarantees
- Performance Guarantees
- Overdraft Lines of Credit
- Term Debt
- Parent Guaranty

Liquidity Management Credit Support

- Low Value Transfer Credit Exposure (ie ACH/BACS)
- Intraday Credit Limits
- Overdraft Lines of Credit
- Parent Guaranty
- Local Compliance Issues – Financial Statements of Subs
- Thin Capitalization

Questions?



Jeff K. Ferguson, CTP/MBA
Vice President
Global Treasury Management

Standard Federal Bank NA
4815 State Street
Saginaw MI 48603
+1 989.249.4218
Fax +1 989.791.1113
Jeff.Ferguson@abnamro.com