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Treasury Priorities 2015: Two Steps Forward, Half Step Back
Speakers

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Based in London, Michael has global responsibility for Citi’s Treasury and Trade Solutions (TTS) Corporate and Public Sector Sales & Global Marketing teams. His principal activity is to lead and direct TTS’ global sales strategies for the bank’s Corporate & Public Sector clients including: new sales origination, cross-sell, and ensuring client satisfaction. The Team’s mission is to develop long-term treasury and working capital management relationships with its clients across their financial and commercial ecosystems leading to a deeper and broader strategic banking partnership. In addition, he is responsible for leading the development of marketing strategy for TTS across all regions, products, and segments.

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Based in New York, Ron leads a global team responsible for delivering treasury advisory and designing best practice liquidity solutions for Citi’s Treasury and Trade Solutions corporate and institutional clients. His prior experience includes positions in treasury consultancy, transaction banking product management, and corporate banking based in Asia, Europe, and the US.

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Based in Dublin, Declan is responsible for the delivery of treasury advisory to Citi’s Treasury and Trade Solutions corporate clients, specifically on treasury operations and technology integration. During his seven years with Citi, he has also been responsible for product management of Citi’s Treasury Services Group. His prior experience includes positions in treasury consultancy and as Head of Offshore Risk Management and Group Financial Controller in a major European bank.
Backdrop

Global GDP Outlook Improving.....

While Currencies and Interest Rates Diverging

Projected Appreciation of USD (Year End)

Short Term Interest Rate Outlook (Year End)

Source: Global Economic Outlook and Strategy, Citi Research, January 2015
Drivers
Drivers

Key Drivers for Treasury in the 2015 Environment

- Returns
- Risks
- Regulations

Source: 1. Citi Treasury Diagnostics, 2014
Priorities
Top Priorities in 2015

1. Supporting Growth
2. Managing Contingencies
3. Maximizing Technology Return on Investment
1. Supporting Growth
Managing Growth

Supporting growing business momentum requires Treasuries to implement sophisticated subsidiary funding techniques, ensuring the right amount of liquidity at the right place at the right time.

2015 corporate top-line growth estimates are robust, often with expansion into new segments and geographic markets

- Legacy treasury processes and financial infrastructure may be inadequate to support growth

Transformational M&A actions are increasingly common, with firms using these to reshape businesses

- Integration into (or separation from) established financial and technology infrastructure present urgent project-orientated challenges

Supporting Growth

- Growth and acquisitions may structurally change currency profiles, sources and uses of funds, and embedded currency risks
- Terms of trade in new geographies, products, or acquisitions may require more investment in working capital and worsen WCM metrics

Impacts
- Liquidity Risk
  - Terms of trade in new geographies, products, or acquisitions may require more investment in working capital and worsen WCM metrics

Changes
- Working Capital Investment
  - Urgent projects added to BAU needs may stretch Treasury capacity. Continuous planning around resourcing and expertise is essential to meeting deliverables

Shifts
- Currency Exposures
  - Growth may impact natural hedges previously inherent in supply chains, or give rise to new FX risks in currency and tenor

Calls on Treasury Resources

- Urgent projects added to BAU needs may stretch Treasury capacity. Continuous planning around resourcing and expertise is essential to meeting deliverables
Optimizing Liquidity Management

Evolving commercial and market realities can quickly make legacy liquidity management practices sub-optimal. Corporates should continually reassess opportunities for extension, as well as rationalization of accounts, structures and processes to reduce carrying costs, liquidity risks, and operating risks.

Alignment of People, Processes and Technology in support of the evolving needs of the corporate growth agenda.
Opportunities: China Deregulation Milestones (2012~2014)

**Background:** To support finance center establishment, China financial reforms were further accelerated after 2012, especially with the officially launch of China (Shanghai) Pilot Free Trade Zone (“SFTZ”). Both PBOC (China Central Bank) and SAFE (core regulator for FCY) have announced a series of new regulations since 2012.

### PBOC New Regulation in 2014
1. RMB cross-border business in SFTZ
   - Simplification of RMB cross-border settlement
   - RMB cross-border borrowing
   - RMB cross-border pooling
   - RMB cross-border POBO/ROBO and netting
   - RMB cross-border settlement for E-commerce
2. Release deposit interest rate cap of small FCY in SFTZ (<=USD 3MM)

### SAFE New Regulation in 2014
1. FCY pilot program in SFTZ
   - Simplification of FCY cross-border settlement
   - FCY cross-border pooling
   - FCY cross-border POBO/ROBO and netting
2. FCY pilot program will be promoted nationwide
   - FCY cross-border pooling, POBO/ROBO and netting

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- **Jan 2012**:执行首次人民币跨境贷款交易
- **Jul 2012**: 全国性跨境人民币贷款业务
- **Jan 2013**: 允许人民币跨境存款
- **Jul 2013**: 解放跨境人民币公司保证

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Citi is asked by SAFE to nominate 2nd batch of pilot clients.

**Establishment of SFTZ**

### Jan 2012
- SAFE released the regulation to simplify FCY XB goods settlement
- SAFE approved 1st batch of pilot clients.

### Jul 2012
- 1st bank to launch multi-currency notional pooling with RMB capabilities in China in Mar 2013
- 1st global bank approved to set up branch in the SFTZ in Sep 2013
- Executed the 1st RMB cross-border auto-lending transaction in Nov 2013
- The only foreign bank to be elected as the Vice Chair of Shanghai Banking Associate SFTZ Committee in Dec 2013

### Sep 2013
- Executed the 1st SFTZ RMB auto cross-border pooling structure in Jan 2014
- Launched 1st SFTZ RMB cross-border POBOROBO and netting deal in Feb 2014
- 1st batch approved by SAFE on SFTZ – FCY cross-border pooling, POBOROBO and netting Structure in May 2014

### Nov 2014
- PBOC released regulation to expand RMB Cross Border business from SFTZ to nationwide including Pooling, POBO/ROBO, & Netting.
Working Capital Investment

Given investor focus on returns, maintaining an efficient balance sheet is imperative. Effective working capital management initiatives reduce invested capital required to fund growth.

Good Working Capital management reduces cash needed to run the company.

Source: 1. Citi Treasury Diagnostics, 2014
Reducing Working Capital Investment

Distributing corporate-wide working capital metrics to individual business units and managing these on an ongoing basis is essential for success.

**Treasury Deployment of Supplier Financing**

- **DPO**
  - Centralize and automate processes to facilitate closer terms management.
  - Just-in-time Supplier Financing improves take-up rates and value capture.

- **DSO**
  - Centralize and electronify invoices to shorten presentment.
  - Utilize options to support sales growth - from de-risking receivables portfolio to distribution financing.
  - Consider Export LCs in higher risk markets.

**Source:** 1. Citi Treasury Diagnostics, 2014

*Treasury is increasingly leveraging working capital flows/products to drive efficiencies, with treasurers reporting a 12% surge in supplier financing programs between 2009 and 2014.*
Supporting Strategic Transactions

Treasury operations involvement is critical to the successful execution of a merger - to help ensure economic value is extracted from the transaction and as a catalyst for meaningful enhancement of Treasury.

While strategic transaction structures vary, these interconnected and interdependent workstreams are common elements that need to be given consideration, regardless of the form.
Strategic Transactions: Prioritizing Delivery of Desired Outcomes

A truly effective integration requires rationalization and optimization of business processes and supply chain management, which are important medium to long-term considerations. Consider what are near-term “Must Haves” vs medium-term “Fix Forwards”

### Urgent Short-Term Priorities

- Settlement & Execution
- Organizational Structure & Project Management
- Visibility, Cash Optimization & Investments
- Systems Integration, Connectivity & Technology
- Workflow Efficiency Tools
- Risk Management, Control & Compliance

### Factors to Consider in the Medium to Long-Term

- Re-engineering Business Processes
- Evolution to Shared Services
- Review of Receivables Management
- Opportunities to Outsource
- Addressing Supply Chain Inefficiencies

Supporting Growth
2. Managing Contingencies
Managing Contingencies

Treasurers need to reassess organizational structures and capabilities to ensure capacity to manage commercial and financial risks on a more integrated basis.

Geopolitical tensions will be a source of unwelcome surprises

- Conflict, Terrorism, and Political Risks on the rise
- Treasury BCP must evolve beyond standard operational recovery to playbooks to handle broader market stresses

Capital controls and tax rules evolving

- Tax authorities challenging transfer pricing, and permanent establishment. OECD BEPS (Base Erosion and Profit Shifting) impact MNC tax planning and supply chain constructs
- Need to assess impact on treasury structures (e.g., In House Banks, Interco Transfer Pricing) and risk management processes (e.g., Cash Pools)
- Capital control deregulation is generally favorable (e.g., China / RMB) but reverses occur. Treasurers need to be activist on how global treasury and funding structures are managed and integrated

FX Volatility creating uncertainty around forward earnings and market valuations

Regulations changing how banks manage balance sheets and value client business

- Specifics vary by jurisdiction, but large banks are generally being required to hold more high quality liquid assets and enhance loss absorbing capital
- Implications for bank lending impact even IG credits, e.g. on revolving credit lines. Corporates should continue to diversify funding sources and enhance liquidity risk management
- Liquidity regulations also impact banks’ appetite for deposits, with operating deposits more attractive from a regulatory perspective. Corporates should ensure short-term cash is appropriately allocated

Sources: 1. Global Political Insights, Citi Research, December 2014; 2. Driving Corporate Growth in Divergent Markets, Citi Financial Strategy & Solutions Group, December 2014. High and low volatility companies are defined based on the top and bottom quartiles of the MSCI in terms of earnings volatility relative to their industry. Excess returns measured relative to MSCI global index and companies are re-bucketed by relative volatility each year. Sales growth is industry adjusted 3-year annualized rate, and represents the median during the time period shown.
Companies should consider banking relationships and arrangements in the context of their longer term business and geographic needs, building in contingency and capability to mitigate new risks.

**Know Your Company (KYC)**
- **Needs:**
  - Funding: need for bank capital
  - Treasury and business: centralization objectives; operating services needed
- **Appetite:**
  - Wallet to allocate: transactional, deposits, etc.
  - Counterparty risk appetite: credit risk, operational risk
  - Buying model: e.g., “procurement-based” vs. relationship based

**Know Your Bank (KYB)**
- **Relationship Strategy**
  - Returns (Revenue, Return on Risk Capital)
  - Wallet share tier objectives
  - Balance sheet appetite (Asset & Deposit)
  - Product / Geography preferences (including annuity vs. episodic)
- **Capabilities**
  - Product depth and reach
  - Advisory
- **Other**
  - Coverage model
  - Performance evaluation

**Bank Relationship Outcomes**
- **Clear Communication**
  - Company’s Needs & Appetite vs. Bank’s Relationship Strategy & Capabilities
- **Dialogue to align KYC with KYB**
  - Understand provider perspectives on value of business and changes
  - Determine adequacy of provider returns vs. company’s banking requirements
- **Leverage bargaining power across all dimensions**
  - Reassessment of “tiering” of banks and wallet allocation

**Evolving Bank Relationship Management Strategies**

FROM: Bank asset appetite vs. counterparty risk considerations as key drivers of wallet allocation decisions

TO: Multiple dimensions - bank balance sheet appetite for assets and deposits; longer-term strategy, etc
FX Volatility – Reviewing Practices Becomes Critical

FX risk is a material driver of corporate earnings volatility and Citi’s analysis suggests that companies achieving lower earnings volatility enjoy valuation premiums.

**FX Risk Drives Earnings Volatility**
R-squared (%) of Index Volatilities with Earnings Volatility

<table>
<thead>
<tr>
<th>Risk Class</th>
<th>R-squared (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FX</td>
<td>63%</td>
</tr>
<tr>
<td>Commodities</td>
<td>40%</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>37%</td>
</tr>
</tbody>
</table>

**Action Points**

- **Business Alignment**
  - Consistency between business forecasts versus risk management policy
  - Reflect senior management risk tolerance for both positive and negative deviation from plan

- **Measurable & Realistic**
  - Availability and quality of business risk exposure data
  - Risk management culture and framework
  - Aligning business plan rate setting and hedging strategy

- **Risk Measurement**
  - Value-at-Risk in cash flow or earnings versus the business plan
  - Period-over-period volatility

- **Risk Objectives**
  - Cash flow at risk
  - Earnings at risk
  - Period-over-period volatility

Treasury and finance centralization – e.g., deploying In House Banks, Intercompany Netting, Shared Service Centers – improves the ability to identify and measure risks, and leverage natural hedge opportunities. This ensures more effective implementation of risk policy.

Source: 1. Factset, Bloomberg. CitiFX
3. Maximizing Technology Return on Investment
3. Technology: Maximize Return on Investment

Given tight technology budgets and focus on ROI, treasuries need to carefully prioritize technology investments and ensure maximum impact of dollars spent.

**Reality**

- **ERP**
- **Financial Technology**
- **Bank Connectivity**
- **TMS**

**Technology Budgets Constrained**

**Most companies have less than optimal financial technology topographies**

**Challenges**

- **Visibility & Access**
  - Data spread across myriad systems
- **Data for Planning & Forecasting**
  - Cash and risk exposures not fully captured
- **Process Automation**
  - Manual processes creating risks
- **Risk Identification**

**Leverage What You Have**

- Pursue further automation

**Prioritize Spending**

- Explore low-capex/high-impact opportunities

**Continuous Evolution**

- Continuously remediate the sub-optimal

**Maximize ROI**
Prioritize Spending: Big Data In Small Steps

While enterprise level Big Data projects continue to take shape, treasuries should take advantage of low-capex / high impact middleware and systems available from technology vendors and bank partners. Data driven opportunities can quickly generate material efficiency gains.

Opportunities

- FX Exposure Identification
- Cash Flow Forecasting
- Supplier Spend Analysis
- Connectivity Rationalization
- Payment STP
- Cash Application STP

- Stay current with ERP and TMS technology vendors’ big data driven propositions
- Leverage Global Bank partners – those investing in mission-specific data tools to improve client experience

“Big data is a set of techniques and technologies that require new forms of integration to uncover large hidden values from large datasets that are diverse, complex, and of a massive scale”. *Wikipedia*
Case Study: Big Data in Small Steps

This major technology company gained material operational efficiencies, cost savings, and enhanced client experience by leveraging bank big data-driven analysis of flows across 50+ countries.

Reality
- Many years of growth organically and by M&A
- Complexity of multiple internal systems, processes, and external connectivity points
- Resource and technology constraints to sponsor reengineering

Assessment
- Connectivity Setup
  - Multiple connection points increase possibility of errors
- Client Service Model
  - Time zone lags between company SSCs & bank service representatives
- Inquiry Processes
  - Client staff turnover creates gaps in data continuity
- Transaction Processing Formats
  - Majority of service inquiries through unstructured emails
- Automation Rates
  - Low STP rates adds manual processes and bank fees

Insights
- Process-mapped payment flows, system architecture across 50+ countries
- Re-engineered client Global Support Model
- Delivered Technical Training Program

Actions
- Annual intercompany emails eliminated
- Transaction inquiries reduced
- STP improved

Results

Maximizing Technology Return on Investment
Conclusions: Two Steps Forward, Half Step Back

Treasurers must cope with the challenges of supporting the business in an environment of both growth and increasing complexity.

Drivers

- Returns
- Risks
- Regulations

Priorities

1. Supporting Growth
2. Managing Contingencies
3. Maximizing Technology Return on Investment
Citi Treasury Diagnostics

Global benchmarking platform providing treasury insights based on data from hundreds of multinationals.

Built on Six Aspects of Treasury Operations

- Liquidity Management
- Working Capital Management
- Risk Management
- Subsidiary Funding and Repatriation
- Policy and Governance
- Systems and Technology

Identify Where You Stand Relative to Peers—Learn What Counts as Best in Class

**Benchmarks**

**Performance**

- Liquidity
- Working Capital
- Sub Funding & Repatriation
- Risk Management
- Policy & Governance
- Systems & Technology

**Benchmarks**

**Risk Management**

<table>
<thead>
<tr>
<th>My Score</th>
<th>Peer Group</th>
<th>Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6</td>
<td>2.9</td>
<td>3.0</td>
</tr>
</tbody>
</table>

**Relative Performance Detail**

<table>
<thead>
<tr>
<th>Process Area</th>
<th>My Relative Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity/funding risk</td>
<td>Worse</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Worse</td>
</tr>
<tr>
<td>Foreign Exchange (Transactional)</td>
<td>Better</td>
</tr>
</tbody>
</table>

Winner, Celent Model Bank Award

Silver Winner, Solution of the Year, Treasury and Risk Alexander Hamilton Awards

Winner, Innovative Product

Maximizing Technology Return on Investment
Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation