Standard Bank

THE TREASURER'S **TOOLKIT**

…Enabling Smart Corporate Treasuries

October 2024



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TREASURY OBJECTIVES

TREASURY MANAGEMENT OBJECTIVES

- *The treasury function typically has the responsibility of managing the day-to-day liquidity management requirements of a company.*
- *This practically involves the management of cash flows in and out of the company, understanding the companies' consolidated cash position, forecasting future cash flows, as well as efficiency and optimization programs for the investment of surplus cash and sourcing short term funding for anticipated cash flow gaps.*
- *Over time, these responsibilities have stretched to include risk management (especially in respect of exchange rate risk), capital structure optimization, long term financing and capital raising, treasury operations management and the implementation of treasury management systems to enhance the speed, accuracy and efficiency of the treasury function.*
- *The 6 broad objectives of the treasury function are summarized on the right-hand side of this slide and unpacked in more detail throughout the treasurer's toolkit. It's important that treasury teams have specific and measurable objectives and key performance indictors to measure the effectiveness of the treasury function.*



Managing Cash Flows

- Utilizing appropriate payment methods to facilitate cash outflows to pay creditors, salaries, taxes and statutory payments etc.
- Utilizing appropriate cash collection methods to facilitate the collection of funds from customers.
- Determining the consolidated cash position of the company.
- Forecasting the future cash position of the company, along with the implementation of strategies for working capital funding and the investment of surplus cash.



Working Capital Optimization

- Measuring the company's working capital cycle and implementing key performance indicators to monitor performance on working capital management.
- Understanding the levers to reduce working capital tied up in the elements of working capital – accounts receivable, inventories and accounts payable.
- Implementation of bank financing arrangements for working capital funding.



Yield Enhancement

- Optimization of cash resources by maximizing interest income on surplus cash balances and the reduction of interest expense on deficit cash positions.
- The implementation of cash management treasury management structures to optimize cash resources through the pooling of cash across the company.
- Devising cash investment strategies via call deposits, term deposits, structured deposits and alternative investment structures after considering cash flow forecasts of the business and allowing for contingencies.



Risk Management

- Formulating the hedging policy of the company in collaboration with Finance function and Executive management.
- Identifying and mitigating market risks, such as exchange rate risk, interest rate risk and commodity price risk through appropriate hedging solutions.
- Identifying and mitigating payment risk and performance risk through trade finance solutions.
- Identifying supply chain risks and mitigating the same in collaboration with procurement function and executive management.



Long term Financing & Capital Raising

- Understanding the company's capital structure (i.e. the combinations of debt and equity used to fund the company's operations).
- Implementation of long term bank financing arrangements to fund capital expenditure and optimize the company's capital structure.
- Understanding the sources of funding available from capital markets – for example, via the Debt capital markets (e.g. Bonds) or the equity capital markets (e.g. Initial public offerings, rights offers and accelerated book builds).



Treasury Systems & Operations

- Resourcing of the treasury function.
- Decisions on the location of the treasury function – single country vs regional treasury centre (centralized vs decentralized treasury).
- Establishment and implementation of treasury policies and processes.
- implementation of treasury management systems.
- Legal, tax, ESG and regulatory considerations (e.g. exchange control, regional treasury centers, Domestic Treasury Management Companies).

TREASURER'S TOOLKIT SUMMARY

Client needs

Management of Treasury Operations

Managing Cash Flows	Yield Enhancement	Working Capital optimisation	Risk Management	Long Term Financing
Creditor payments, salaries and statutory payments	Interest yield enhancement	Cashflow enhancement	Payment risk & Performance risk mitigation	Capital Structure Optimization
Customer collections	Interest Cost Reduction	Balance sheet Optimisation	Mitigation of Exchange Rate risk, Interest Rate risk & Commodity Price risk & Equity risk	Capital expenditure
Visibility of balances & transactions and cash flow forecasting		Managing accounts receivable, inventories & accounts payable	Mitigation of ESG risks, supply chain disruption & Economic/Geopolitical risk	Acquisition Finance
Payment and Receipt Reconciliation			FX liquidity risk mitigation in Africa	Debt Refinancing & Capital Raising

Management of Treasury Systems & Banking Platforms

Standard Bank Solutions

Payments & Collections	Account Management	Liquidity Management	Working Capital Finance	Hedging Solutions	Term Debt, Capital Raising & Advisory
▪ Electronic funds transfers ▪ Inward & Outward Telegraphic transfers (cross border payments and collections) ▪ Card Payments & Acquiring ▪ Physical Cash Collections ▪ Letters of Credit	▪ Transactional Accounts (LCY and FCY) ▪ Electronic banking ▪ Balances & statements ▪ Account verification ▪ Pay Alerts	▪ Pooling ▪ Sweeping ▪ Interest yield Enhancement Structures **Investment Accounts** ▪ Call accounts ▪ Notice deposits & Fixed deposits, Structured Deposits & Notes ▪ Money Market Accounts	▪ Working capital facilities ▪ Call loans / Short Term Loans ▪ Borrowing Base Facilities ▪ Receivables discounting ▪ Invoice financing ▪ Supplier financing ▪ Pre-export financing ▪ Import LC financing ▪ Export LC discounting	▪ FX, Interest Rates and Commodities Hedging forwards, swaps, options ▪ Exchange Control Advisory **Trade Finance** ▪ Letters of Credit (LCs) issuance and confirmations ▪ Guarantees – issuance and reissuances ▪ Escrow accounts	▪ Term loans ▪ Revolving credit facilities ▪ Asset Finance & property finance ▪ Debt Capital Markets – bond issuances ▪ Securitization ▪ Equity capital markets – IPO's and rights offers ▪ Project Finance & Export Credit agency finance ▪ Investment Banking Advisory

Aroko | **Business Online** | TreasuryOnline | **SCF 3rd party platforms** | TradeOnline | **eMarket Trader** | **CIB Online**

Sustainable Finance



2

MANAGING CASH FLOWS

MANAGING CASH FLOWS

The most fundamental responsibility of the treasury function is to manage the cash flows of the company to ensure that the company has sufficient liquidity in the present and future to continue operating optimally.

In managing cash flows, the treasury function will seek to optimize the following key cash flow elements:

1. ***Collections** – ensuring that the company collects sales proceeds from customers and debtors across a variety of payment methods.*
2. ***Payments** – ensuring the continuity of the operations of the company and broader supply chain through payment of salaries, statutory payments and creditors (domestic and cross border).*
3. ***Determining the consolidated cash balance of the company** - the use of cash management structures and treasury management systems such a Standard Bank's Treasury**Online** system or tracked and calculated manually.*
4. ***Forecasting the future cash position of the company** through manual methods or a treasury management system by considering anticipated future collections and payments and the need for contingency reserves.*

Once the cash flow forecast of the company has been determined, the company may consider investment and financing decisions - covered in the sections on yield enhancement and working capital enhancement.

PAYMENTS, COLLECTIONS & CASH FLOW FORECASTING

Collections

- Physical Cash collections
- Card Acquiring
- Electronic Collections - EFT collections, debit orders, early debit orders (DebiCheck)
- Cross Border Collections – Inward Telegraphic Transfers, Aroko Smart Standing Settlement instructions and Export Letters of Credit
- Electronic Bill Presentment and Reconciliation
- Account verification and Information Management Products

Payments

- Domestic Payments (e.g. salaries and creditor payments)
- Inter-account transfers
- Card Payments
- Cross Border Payments – Outward Telegraphic Transfer and Import Letters of Credit
- Information Management Products
- Real Time gross Settlement, Real Time Clearing and Rapid Payments Platform

Consolidated Cash Balance

Cash Flow Forecast over time horizon

MANAGING CASH FLOWS - ACCOUNT MANAGEMENT, PAYMENTS & COLLECTIONS

Account Management

ZAR Transactional Accounts

- Accounts to facilitate payments to staff, creditors and statutory bodies and collections from debtors.
- Consists of ZAR current accounts and ZAR transactional accounts which form part of a cash management structure.
- Interest paid on credit balances based on the account type.
- Overdraft facility may be linked to these account types for working capital funding purposes.
- Payments and collections executed on these accounts via online payment platform such a Business Online.

Customer Foreign Currency Accounts

- Accounts denominated in Foreign currency (e.g. USD)
- Used for trade purposes and typically used to receive export proceeds or make import payments.
- These accounts allow for a “natural hedge” in cases where export proceeds and import payments are facilitated in foreign currency.
- Overdraft facility may be linked to these account for working capital funding purposes.
- Foreign currency deposit balances may be moved into ZAR current accounts through conversion at spot or using a forward exchange contract.
- Interest (received & paid) is based on margin relative to foreign currency benchmark rates.
- Yield enhancement of CFC account using a dual currency deposit structure.

Investment Accounts

- Consists of call accounts, notice deposits, fixed deposits, money market accounts, structured deposits and notes.
- These accounts yield interest on credit balances, which varies according to the nature and tenor/duration of the deposit.
- Utilized for investment purposes in cases where companies have a surplus cash position and wish to optimize credit interest for a particular period of time.
- Various options in terms of access to deposits and duration of deposit arrangements.

Payments & Collections

Payments

- **EFT’s – Electronic Funds Transfers** – domestic payments made via electronic payments platform for the purposes of paying salaries, creditors and statutory payments.
- **Outward Telegraphic Transfers** - Cross-Border payments, typically denominated in foreign currency for the purposes of the importation of goods, service payments, royalties, shareholder funding and investments. These payments are subject to exchange control regulations in South Africa.
- **Import Letters of credit** – a payment instrument used to facilitate the importation of goods where the exporter (supplier) has asked for payment security and where the importer seeks to mitigate performance risk by ensuring that payment is only effected against documentation which evidences performance by the exporter.
- **Card Payments** – payments via a debit card or credit card online or at a point of sale device, typically for travel, procurement or general business expenses.
- **Real Time Gross Settlement / Real Time Clearing** – Domestic interbank payments which clear within 60 seconds (instant payments)

Collections

- **Physical Cash Collection** – processing of physical cash (notes and coins). Manual in nature with risk and cost to store and transport. No clearing period but value is dependent on verification of physical funds deposited.
- **Electronic Collection** - Preauthorised debits on a payer's bank account that are initiated by the collecting party (company), often used for recurring payments (e.g. insurance premiums, medical aid, cell phone contract payments etc).
- **Card Collection** - A company aligns with a Card Acquirer that enables consumers to use their debit or credit cards to pay for goods and services in store via a point of sale (POS) device and value is deposited into the Company's nominated bank account (includes online channels ~ online shopping, application or pay by link).
- **Inward Telegraphic Transfer** - Cross-border collections typically utilised for receipt of export proceeds, receipt of parent/shareholder loans, royalties, funding or service payments. Subject to exchange control regulations in South Africa.
- **Export letter of credit** - Letters of credit provide exporters with the ability to derisk their payment risk exposure to the buyer/importer and provide a streamlined way for the exporter to collect their export sales proceeds.

TREASURY SYSTEMS & OPERATIONS - TREASURYONLINE

The Aim

Are you battling to have sight of real-time bank balances across divisions, banks, and multiple geographies? How do you ensure that you have the right liquidity at the right place and time to manage your working capital needs?

What is it?

Standard Bank's Treasury**Online** platform simplifies cash management structures and allows you to identify optimal solutions for your business through a single interface. The system enables you to automate critical treasury functions to enable better investment and cash flow decisions.

Why Choose TreasuryOnline from Standard Bank?

- Secure platform that leverages off API technology to consolidate information between Standard Bank and the client.
- Transactability – Invest excess cash on Call or Fixed deposit as well as perform inter-account transfers and low value treasury payments from your Standard Bank accounts.
- A range of Treasury and Cash Management reports available to simplify your treasury reporting.
- Digitally enabled self-service (e.g. Onboarding, Hierarchy Set-up and Segregation of Duties).
- Monitor and track all asset and liabilities from a single platform no matter the counterparty. Simplify reporting to meet your Asset and Liability requirements.
- Monitor hedges and manage currency risk against treasury policy.
- Perform "what if" analysis and stress testing on currency exposures.
- Analysis of working capital metrics

The Benefits of TreasuryOnline

Cash visibility

*The cash visibility module allows for real-time visibility of all cash positions across multiple banks and multiple geographies on a single platform. Typically, this sort of task is done manually, is time-consuming and often is out of date by the time it is complete. The Treasury**Online** system automates the process, giving you an instant picture of your cash position with a single click.*

Cash flow forecasting

*The Treasury**Online** forecast system integrates bank balances, FX exposure and the working capital cycle captured in your ERP system. This allows your Treasurer/Finance Head to view future cash flows in a system that is not reliant on Excel, and which stores the data for comparison against actual performance. The system is designed in such a way the Treasurer can drill down to the lowest level of information.*

Transactability & Cash management

Cash Management functionality allows the treasurer to have sight of all bank balances, transact and manage cashflows and perform daily cash management function (pooling, automated intra-account payments and reporting).

Interest Rate Products

The Interest Rate Products module provides functionality to view live market rates for Money Markets products and digitally submit transactions to Standard Bank, perform post trade market operations like interest rate adjustments, access management reporting on company assets and liabilities, view and manage interest accruals

Foreign exchange

The FX module allows for hedging against foreign exchange rate risk. The system caters for many foreign exposures and can be consolidated in a single currency.

Performance management

*The Treasury**Online** system's intelligence tool assesses the level of accuracy on cash-flow forecasting (actual vs. target), as well as short term working capital demands.*



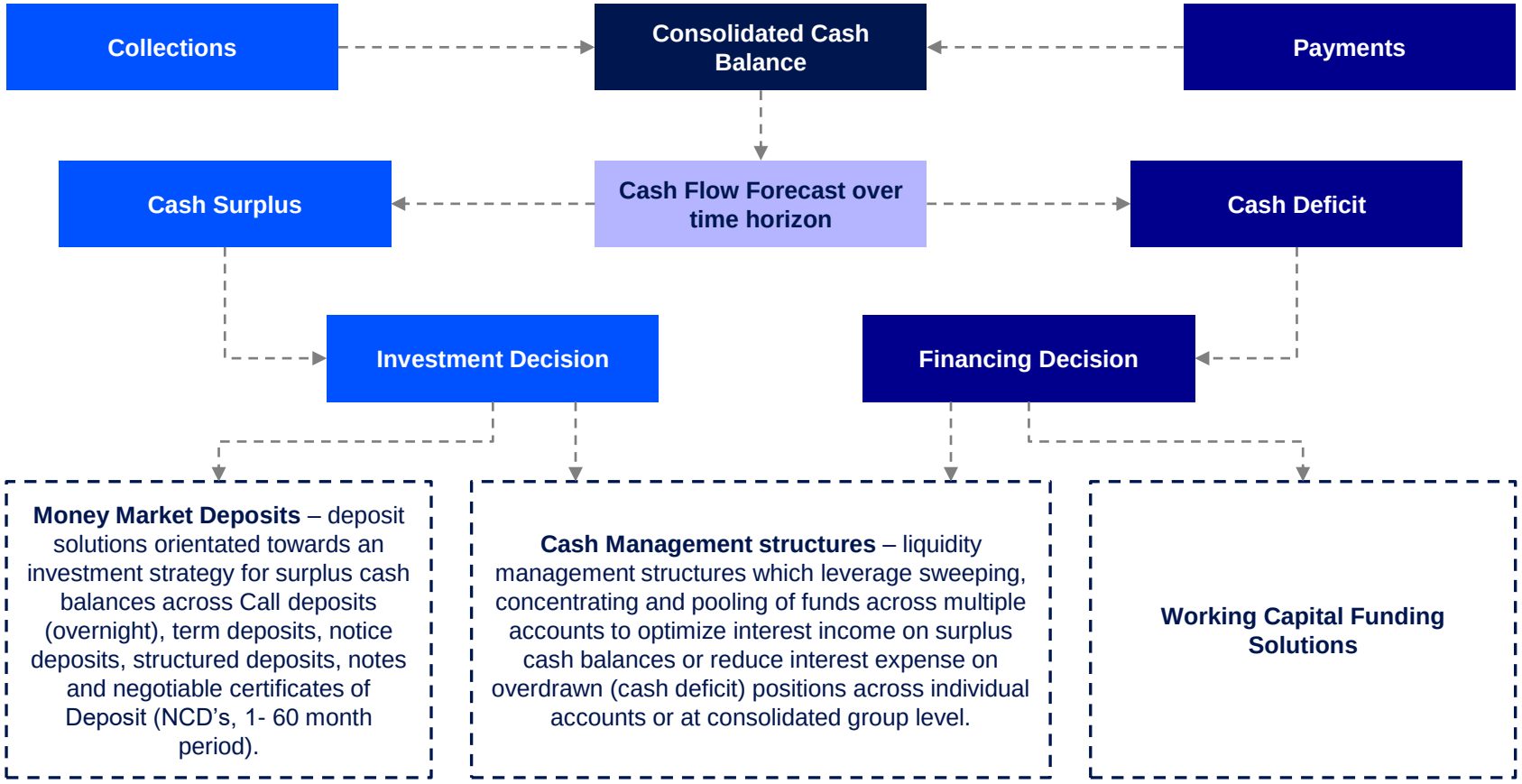
3

YIELD ENHANCEMENT

YIELD ENHANCEMENT

- *A key objective of the treasury function is to optimize the financial resources under its control. To achieve this, it is important to first establish the current cash position of the company and then to determine the forward-looking cash flow position by considering anticipated cash inflows from debtors, routine payments to creditors, staff and statutory payments, upcoming debt repayment obligations to financial institutions and accounting for contingencies.*
- *Once the company's cash flow forecast has been determined over a particular horizon, the forecast will either imply that the company is likely to have surplus cash over the forecast horizon or the company may have a projected cash flow shortfall and a need for working capital funding. Each of these scenarios imply that the treasurer must make an investment decision or a financing decision. The financing decision is covered in the next section and the focus of this section will be on the investment decision.*
- *The investment decision implies that the treasurer must identify suitable mechanisms to optimize the yield (interest rate) on surplus cash after weighing up risk, flexibility, the need for operational cash flow, contingencies and the tenor or duration that cash can be tied up for. Separately, yield enhancement requires interest expense to be minimized where applicable.*
- ***Money market deposits and Cash Management structures** are two mechanisms which can be used by treasurers to meet their yield enhancement objectives.*

INVESTMENT & FINANCING DECISIONS



Yield Enhancement through ESG linked solutions –Sustainable finance solutions provide treasurers with an additional avenue to enhance yields (increasing interest rates on deposits or reducing interest rates on borrowings) on sustainability-linked or use of proceeds structures for loans and deposits.

YIELD ENHANCEMENT – CASH MANAGEMENT STRUCTURES

Yield Enhancement Structure

- Cash Management Services calculates and pays interest according to the gross total of all credit balances in the credit interest group to optimize the yield on what would have been idle cash balances.

Cash Sweeping

- Cash Sweeping uses excess cash that would otherwise be sitting idle in customer accounts. By conducting physical cash sweeps, the client can efficiently apply their excess cash.

Cash Pooling

- Cash Pooling uses the net balance of all participating accounts. By conducting a notional pool, the customer can benefit from the overall group cash position and reduce interest expense from overdrawn accounts or earn interest from accounts with positive balances enhancing returns on any idle cash balances.

Features

- Credit interest is calculated on the gross credit balance and there is no movement of funds.
- Credit interest is paid to a nominated account (Interest accrues daily on all credit balances and is calculated based on the rate structure for the group).
- Multiple entities may participate, including pension funds and trust accounts belonging to the holding company.

- Funds are moved into or out of a Participating Account(s), with the contra entry of the transaction being posted to the Nominated Account.
- Sweeping can take place within a customer legal entity or across multiple customer legal entities.
- Sweeping can be executed intraday or only at the end of the day (EOD).
- EOD sweeps use the final balance on the account which includes all transactions posted to the account by the time of the sweep, including cleared interbank transactions for the day.
- There are three basic sweeping actions that can be applied to a Participating Account:
  1. Surplus Only Sweeping
  2. Funding Only Sweeping
  3. Target Balancing / Zero Balancing

- Notional cash pooling is a bank account aggregation service that can assist Clients in viewing and managing their transactional bank accounts on a consolidated basis.
- Client accounts, across single or multiple client legal entities, are grouped into a Cash Pool structure, allowing balances to be viewed at a group level with interest calculated on the consolidated balance without the physical movement of funds.
- Bank interest is calculated daily on overnight balances with interest paid monthly into a Cash Pool nominated account.
- Interest Distribution functionality allows the client's participating sub-groups and accounts to receive interest charges/rewards based on their daily balances for the month using the client's own determined rates.
- Local currency and foreign currency cash pooling is permissible, but not multi-currency cash pooling. Pooling schemes cannot be offered across banks, nor can they be operated on a cross-border basis.

YIELD ENHANCEMENT - MONEY MARKET DEPOSIT CAPABILITIES

Product	Term	Features and rates
Call Deposits	Overnight	▪ Funds can be deposited and withdrawn on demand ▪ Rates set daily with interest paid monthly in arrears ▪ No unwind or transaction costs
Term Deposits	Flexible to meet client needs	▪ Variable rates linked to tenor ▪ Fixed and floating rates linked to various indices ▪ Unwind costs (crossing the spread) and penalties may be incurred for early withdrawal
Negotiable Certificate of Deposits (NCD's)	1 – 60 Months	▪ Variable rates linked to tenor, both fixed and floating ▪ Tradable in secondary market, therefore, may be sold prior to maturity ▪ Standard Bank guarantees buy-back of its paper at prevailing market prices in normal market conditions ▪ Issued in denominations of R1 million ▪ Client requires a settlement agent to trade NCD's as they settle via Strate
Notice Deposits	Flexible to meet client needs	▪ Variable rates linked to tenor ▪ Flexible notice periods to meet client needs
Structured Deposits & Notes	Flexible to meet client needs	▪ Customisable to meet clients need in terms of duration, variable or fixed rate and risk appetite. ▪ Unwind costs based on mark to market

4

WORKING CAPITAL MANAGEMENT

WORKING CAPITAL MANAGEMENT – THE CASH CONVERSION CYCLE

- *A key pillar of treasury management is the optimisation of working capital. Sufficient availability of working capital enhances a company's liquidity position, improves cash flows, allows the company to fund its operations and meet its short-term obligations. In turn, this drives improved profitability and sustainable long-term growth.*
- *A company's working capital should be adequate to keep the business running efficiently, whilst continuing to serve its customers and to maintain strong relationships with suppliers. Too much or "Lazy" working capital puts a strain on cash flows and affects the company's profitability, efficiency and performance; whilst, on the other hand, insufficient working capital can quickly result in poor performance and ultimately lead to financial distress and therefore it is critical that a treasurer maintains a fine balance and constantly monitors the level of working capital in the business.*
- *To manage and assess the appropriate level and efficiency of working capital, a company needs to understand the* ***drivers of working capital – accounts receivable, inventory, accounts payable and cash,*** *and how working capital is measured. Measures such as the* ***Cash Conversion Cycle****, Net Working Capital, net working capital intensity (NWC as % of sales) and Liquidity Ratios are all examples of measures which may be used to benchmark working capital performance against past performance, peers and competitors.*

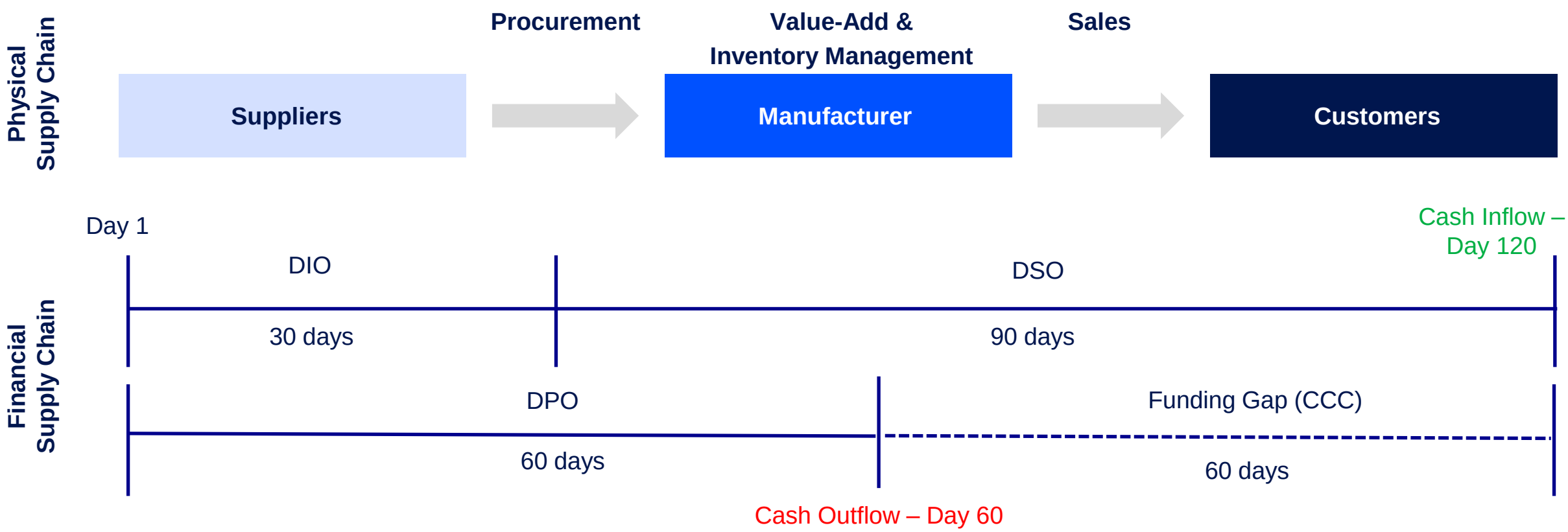
Cash Conversion Cycle (CCC) – a key measure of working capital efficiency which refers to the period of time that a company takes to convert sales into cash after the settlement of creditors. In other words, the CCC measures a company's funding gap based on the management of their accounts receivable, inventories and accounts payable. If the CCC < 0, cash collection from debtors takes place before cash disbursement to suppliers and the company should be generating surplus cash which may be invested. If the CCC > 0, cash disbursement to suppliers precedes collection of funds from debtors – the company has a funding gap which needs to be solved through working capital efficiency strategies or bank funding solutions.

The formula for calculating a company's cash-conversion cycle is:

Cash-conversion cycle (CCC) = DSO + DIO - DPO

DSO	DIO	DPO
▪ **Days Sales Outstanding** – the average period of time taken (in days) to collect funds from debtors (also known as debtor payment terms).	▪ **Days Inventory Outstanding** – the average period of time (in days) between the procurement of stock and the conversion of that stock into a sale (i.e.the average period of time goods are held in stock as raw materials, work in progress and finished goods prior to sale).	▪ **Days Payable Outstanding** – the average period of time taken (in days) to pay creditors (also known as creditor payment terms).
▪ Companies should attempt to reduce the amount of working capital tied up in accounts receivable by speeding up the collection of funds from debtors.	▪ Companies should try to reduce the amount of working capital tied up in inventories to enable inventories to generate cash (through sales) - and to reduce inventory holding costs.	▪ Companies should attempt to stretch out supplier repayment terms (within reason) as this is a way for the company to effectively obtain funding from their suppliers. This should be done responsibly, so as to not compromise the viability of suppliers or the broader supply chain.
Accounts Receivable (Sales/365)	**Inventories (Cost of Sales/365)**	**Accounts Payable (Cost of Sales/365)**

WORKING CAPITAL MANAGEMENT – ILLUSTRATIVE WORKING CAPITAL CYCLE & CCC



In this example, a manufacturing company has 60 day payment arrangements in place with suppliers, 90 day payment terms in place with their customers and on average, stock is held in inventory for a period of 30 days before being converted into sales. This means that working capital is tied up in inventories and accounts receivable for a period of 120 days (which is the period taken to convert inventory into cash from customers), but the manufacturer needs to pay their suppliers after 60 days – as such, the manufacturer has a funding gap / CCC of 60 days which needs to be funded through bank financing or through renegotiation of terms with suppliers and customers.

WORKING CAPITAL MANAGEMENT – WORKING CAPITAL STRATEGIES

Reducing DSO	Reducing DIO	Increasing DPO
Periodic review of actual customer payment terms versus contractual payment terms.	Investment in demand forecasting models to better align the investment in inventories to anticipated sales (after accounting for contingency stock).	Negotiating extended terms with suppliers.
Offering customers early settlement discounts to encourage early settlement - the effective annual cost of early settlement discounts should be compared to the cost of bank financing (e.g. on overdraft or receivables discounting).	Consider adopting a procurement model based on stock purchases on the back of confirmed customer purchase orders, rather than speculative purchasing and stock building.	Consider requesting payment terms (or extended payment terms) against provision of a payment guarantee as security.
Run a strict debtor management process - send payment reminders, collect overdue amounts and consider charging interest on these overdue amounts.	Periodic review and rationalization of old and obsolete stock.	Consider implementation of a supplier financing program.
Improving invoicing accuracy to reduce the incidence of late payments due to customer queries and disputes.	Obtaining consignment inventory from suppliers.	If cash flow and working capital optimization is not a concern, but if the focus is instead on the reduction of procurement financing costs, a company may consider providing an upfront deposit to secure credit facilities with suppliers – the foregone interest income on the deposit would typically be lower than the cost of financing. Similarly, the effective rate of any early settlement discounts offered by suppliers should be compared to the cost of bank financing options.
Improving customer due diligence and credit assessment criteria to reduce the incidence of late payments and non-payment.	Enhancement of manufacturing process for more efficient throughput.	
Consider asking customers for a payment guarantee in return for the credit terms offered. This will provide a remedy for timely compensation if customer payments are delayed.	Investment in staff inventory management training as well as inventory management systems.	

These practical solutions provide companies with various options to optimize their working capital cycles. However, in certain cases it may not always be feasible to implement these strategies due to the existence of industry norms on payment terms, market factors and power dynamics factors which may make it difficult to negotiate payment arrangements with industry leaders (or key input suppliers) and these discussions may compromise the relationships between the company and it's suppliers and/or customers. The adoption of these strategies will also depend on whether the goal of the company is to enhance cash flows, optimize working capital metrics or reduce costs. These dynamics create a place for bank financing solutions to assist with working capital optimization based on the specific objectives of the treasurer.

WORKING CAPITAL MANAGEMENT – FINANCING SOLUTIONS

Solution	Solution Description	Key Characteristics
Working Capital (Overdraft)	▪ Credit facility loaded against client account which is accessed when payments are processed in excess of funds held in the account. The facility is used for short term working capital purposes, predominantly to bridge debtor proceeds and to fund operational expenditure. The facility needs to fluctuate and periodically clear to zero routinely based on the company's working capital cycle. ▪ Available for funding in local currency (ZAR) and in foreign currency when the credit limit is loaded to a Customer Foreign Currency Account.	▪ Facility is repayable On-demand or may be committed for a period of time. ▪ Unutilized facility fees are applicable on the unutilized portion of the facility. ▪ Facility is linked to customer current account and funds are available immediately. ▪ The facility can also be accessed via cash management structures to fund deficit cash positions across multiple accounts and legal entities. ▪ To be utilized for working capital purposes only. ▪ Settlement occurs automatically as debtor proceeds and any other inflows are paid into the account against which the overdraft limit is loaded.
Call Loans	▪ A call loan is a short term loan funding mechanism used to bridge short-term working capital needs and is made available to a corporate at the discretion of the bank, based on the bank's liquidity position at any particular point in time.	▪ Facility is Committed & repayable On-demand. ▪ The rates and availability of the funding is dependent on bank and market liquidity. ▪ The solution provides flexibility for corporates to drawdown overnight and settle based on their liquidity position.
Borrowing Base Facility (BBF)	▪ A Borrowing Base Facility is a revolving credit facility afforded to corporates against the value of their current assets (eligible inventory and approved debtors).	▪ Provides flexible working capital liquidity that otherwise may be tied up in these current assets. ▪ Provides the flexibility to settle and redraw when required based on seasonality and to manage liquidity demand across the business, as well as minimise interest costs. ▪ The BBF is 'self-liquidating' in nature, i.e. is repaid through the assets which are the subject of the financing. ▪ Offers potential cost benefit (where Borrower is willing to provide collateral over commodity held in storage; or are able to provide security over debtor receivables).
Pre-Export Financing Facility	▪ Advance funding to an exporter to enable the production of goods to be exported. The lender makes a direct loan to the exporter in order for them to purchase materials and refine products that are not yet ready for export. The lender gets paid from the buyer on delivery of goods from the exporter under an offtake contract.	▪ This facility allows exporters of goods/commodities to raise funding against the exporter's performance risk, as well as the off-takers credit risk. ▪ It uses self-liquidating cash flows, generated offshore from the export of goods/commodities to settle the financing obligation. ▪ The producer/exporter is able to give the off-taker potential buyer credit terms.

WORKING CAPITAL MANAGEMENT – FINANCING SOLUTIONS

Solution	Solution Description	Key Characteristics
Receivables Discounting	▪ Receivables Discounting is a seller centric trade finance solution which is premised on the acceleration of liquidity through the discounting of eligible current trade receivables. ▪ Potential receivables considered for discounting may include invoices, confirmed letters of credit, bills of exchange and promissory notes. ▪ Available in local currency and foreign currency.	▪ Uncommitted facility & no commitment fees are applicable. ▪ Tenor based funding is applied and settlement is aligned to the maturity dates of the receivables. ▪ Funding is made available on the back of associated eligible trade receivables. ▪ The solution allows corporates to accelerate their receivables and improve their DSO thereby improving their overall CCC. ▪ The solution also can be used as a sales promotional tool by providing customers longer/more competitive payment terms. ▪ Structuring options in respect of recourse – financing may either be provided based on the financial standing of the seller or the financial standing of the buyer (debtor) – a potential source of non-recourse financing where the bank has credit appetite for the debtor.
Supplier Financing	▪ Supplier financing is a buyer led trade finance solution which is premised on a bank providing early settlement to suppliers on their trade receivables based on the buyer's undertaking to settle these amounts on the maturity date of each receivable. Available in local currency and foreign currency. ▪ Alternate structure - Usance letter of credit which is structured to be payable at sight can also be used to fulfil a similar requirement when the underlying trade has to be facilitated via letter of credit.	▪ Uncommitted facility & no commitment fees are applicable. ▪ Tenor based funding is applied. ▪ The solution provides buyers with the ability to negotiate longer terms with suppliers whilst still providing their suppliers with the ability to discount their receivables and accelerate liquidity, thereby promoting supplier continuity. ▪ The funding afforded under the solution is non-interest bearing to the buyer as the interest cost is borne by the supplier. Preferential funding costs for suppliers as financing rates are based on the financial standing of the buyer. ▪ Optimization of working capital metrics by enabling buyers to extend their DPO and suppliers to reduce their DPO.
Invoice Financing	▪ Invoice financing is a Trade finance funding solution which provides the buyer with the ability to fund their trade payables when due for payment, with the buyer settling their repayment obligation to the bank for the full value of the loan plus interest at a predetermined future date. ▪ Available in local currency and foreign currency.	▪ Uncommitted facility & no commitment fees are applicable. ▪ Tenor based funding is applied. ▪ Potential improved Gross profit margin based on potential early settlement discounts that can be negotiated with suppliers in return for upfront payment which is subsequently financed through invoice financing. ▪ The solution can be used to finance payables such as invoices, import letters of credit and import documentary collections.

5

RISK MANAGEMENT

HEDGING FINANCIAL RISKS – ESTABLISHING A HEDGING POLICY

- *Risk management is increasingly becoming a key objective and critical success factor of treasury management.*
- *Risk management typically involves the identification of potential events which may have an adverse impact on the financial performance of the company, along with the implementation of solutions to mitigate the impact of these risks if they had to occur.*
- *These financial risks typically include exchange rate risk, interest rate risk and commodity price risk, but may also include liquidity risk, equity risk, refinancing risk, transit risk, acts of god and insurable risks, payment and performance risk.*
- *These risks (and others) may be mitigated with financial products and solutions, but it may not always be feasible, economical or practical to eliminate all risks. As such, the treasury needs to establish a policy to formalize the company's appetite for financial risk and by implication, the extent to which risk mitigation is required. Key considerations include, the costs of risk mitigation, the probability of the risk events transpiring and the company's exposure different risk types.*
- *In this context, it is important for the treasury team to establish a hedging and risk management policy in conjunction with the finance function and executive management.*

Establishing a Hedging Policy

1. Identify the market risks facing the company and the probability of that risk arising.
2. Establish acceptable levels of risk per category.
   - ✓ Evaluate the costs of hedging in light of the costs of not hedging.
   - ✓ Distinguish between hedging and speculating.
3. Formulation of a Hedging Strategy to be adopted to mitigate/manage identified risks.
   - ✓ Understand hedging tools available for the risk
4. Establish benchmarks for evaluating hedge performance.
   - ✓ Review hedge effectiveness in light of market movements.
5. Establish system of controls.
6. Accounting and Reporting.
7. Periodic Review of hedging policy.

Building Blocks of a Hedging Strategy

Market Overview	Use Research to outline current financial market conditions, major themes and risks. Include Macroeconomic views as well as local political and international risks.
Building a Budget Rate	Use a combination of forward rates, forecasted rates and average spot rates from several market participants to build a rate (continuously update).
Choosing a Risk Management Approach	Business to assess and adopt an acceptable risk management framework – "Passive", "Active", "Neutral". This should vary for changes in the market and the underlying reference asset, such as the exchange rate.
Approve Hedging Instruments	Choose the Hedging instruments you will be able to use – Spot, Forward, options and combination of options.
Implementation & Mark-to-Market	Executing Strategy while being aware of broader treasury policy and integration into treasury systems (ERP system, Treasury Management system etc).

Considerations

- Nothing will beat spot when you are unhedged and the market moves in your favour, however you remain exposed to full risk if the market moves against your position.
- Forward is a 100% hedge but provides no flexibility when market moves in your favour i.e. timing risk.
- Structured solutions can protect your downside with possibility in upside participation.
- Important to consider market view and employ a hedging strategy within that context.

HEDGING FINANCIAL RISKS – OVERVIEW OF HEDGING SOLUTIONS

HEDGING SOLUTIONS

Spot

An unhedged position – in this case, the transaction is executed at the prevailing market price. In the context of the FX market, this is the current prevailing market price for delivery on a t+2 basis. While Spot trades are unhedged positions, they have a role to play in that a company's' hedging policy may not require 100% of the risk exposure to be hedged (and as such, the unhedged balance would be executed at Spot).

Forward Exchange Contract (FEC)

A derivative instrument that enables a customer to buy or sell an asset at a specified price on a future date. FEC's are customizable based on the needs of the buyer of the contract, while futures contracts operate principally in the same manner, but are standardized exchange traded contracts.

Options

An options contract is a derivative instrument which provides a customer with the right, but not the obligation to buy or sell an asset at a specific price on a future date. The customer pays an option premium to have the right but not the obligation to enter into the purchase or sale of the underlying asset. Different option types may be combined for structured solutions to meet specific needs of the treasurer.

Swaps

A swap contract is a derivative instrument in which two parties exchange assets and associated cash flows for a period of time, with the assets returning to their original respective owners on the maturity date of the agreement.

HEDGING PRODUCT CAPABILITIES

Foreign Exchange

- Vanilla Forwards and Swaps
- Zero cost collars
- Geared collars
- Vanilla Calls and Puts
- Participation Forwards
- Flat Forwards
- Geared Forwards
- Target Redemption Forwards
- Exotic Products
- Tailored Solutions

Interest Rate Hedging

- Vanilla Swaps
- Caps
- Cap Spreads
- Capped Swaps
- Swaptions
- Collars
- Cross-Currency Swaps

Commodity Price Hedging

- Average rate swaps
- Call/put options
- Collars
- Tailored solutions
- **Commodities Covered**

  Copper, Aluminium, Lead, Nickel, Tin, Zinc, Gold, Platinum, Rhodium, Silver, Palladium, West Texas Intermediate (crude Oil), Gasoil, Diesel, Brent Crude, Coal, API2/API4, Jet Fuel

Equity

- Long term incentive scheme hedging
- Share plan administration
- Yield enhancement
- Exit and acquisition strategies
- Equity Financing

HEDGING FINANCIAL RISKS – ILLUSTRATIVE HEDGING POLICIES*

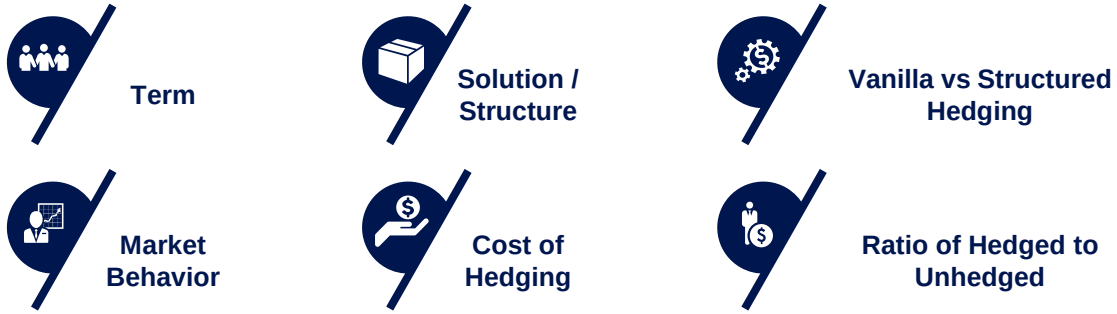
Choosing a Risk Management Approach

	Passive		Neutral		Active	
Considerations	Weighting Passive to Neutral		Weighting Neutral		Weighting Neutral to Active	
Your Business Environment	Little competition		Moderate competition		Highly Competitive	
Products Used	Forwards (Mainly)		Options and combination of options which may allow for participation in positive price movements		Options and combination of options which may allow for participation in positive price movements	
Spot	Being 100% hedged against budget rate (Set at forward)	10%	Portfolio approach to hedging	33%	Seeking flexibility to actively manage exposure	20%
Forward		65%		33%		20%
Options		25%		33%		60%
Outcome	Achieve budget rate		Possible gains and losses against budget rate-Smooth Earnings		Possible gains and losses against budget rate-Excess return	

** The hedging policies presented are illustrative for demonstration purposes only and do not constitute advice.*

HEDGING FINANCIAL RISKS – FOREIGN EXCHANGE

CONSIDERATIONS FOR ESTABLISHING A HEDGING POLICY



VANILLA VS STRUCTURED HEDGING PRODUCTS

Vanilla Hedging Strategies:

- Typically used where protection and certainty are a priority.
- Fully protected at the agreed to levels, however, forego the ability to participate in any favourable price movement in the FX market e.g. Forward Exchange Contract (“FEC”)

Structured Hedging Strategies:

- Provides flexibility for products used.
- Provides protection and allows for participation in favourable price at a cost
- Examples: Participation Forward, Collars; Target Return Forward (“TARF”)

BROAD CATEGORIES FOR HEDGING STRATEGIES

Forward Exchange Contract (“FEC”)

- A Forward Exchange Contract (“FEC”) locks in the rate at which client sells ZAR and buys Foreign Currency (e.g. USD) or vice versa on a specified future date.
- Fully protected from ZAR depreciation , if the client is selling ZAR or appreciation, if the client is buying ZAR
- No upfront cost to the client
- Client has certainty
- However, if the client is selling ZAR at the future date, they forego any participation in the appreciation of the ZAR during the period of the FEC and if the client is buying ZAR at the future date, they forego any participation in the depreciation of the ZAR during the period of the FEC

Outright Call and Put Options

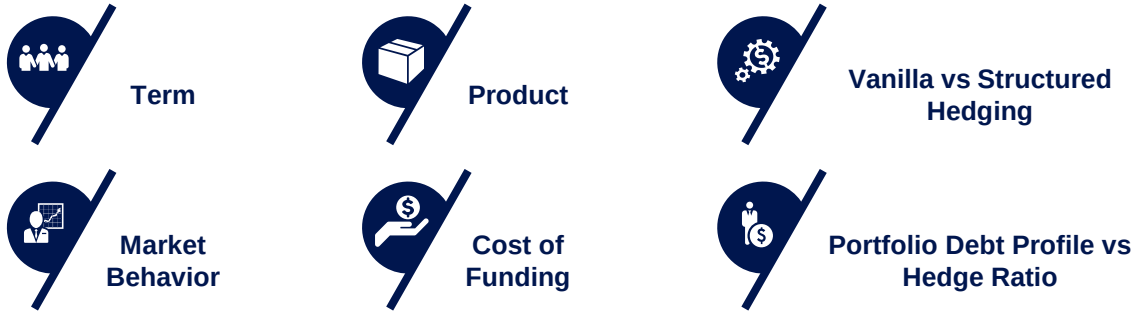
- These structures are tailored to the hedging party’s particular needs.
- Buying a call provides the client protection against ZAR depreciation from the strike rate and allows participation to ZAR appreciation. They are traditionally tailored to reduce the effective cost of funds or to match the underlying revenue stream.
- Buying a put option provides the client protection against foreign currency (e.g. USD) depreciation from the strike rate and allows participation in USD appreciation. They are traditionally tailored to reduce the effective cost of funds or to match the underlying revenue stream.
- Upfront premium payable by the client, however, this can be deferred to the maturity date of the option contracts.

Structured Solutions

- These types of structures make use of combinations of options and/or forwards, allowing the client to customize their protection levels, the participation in favourable moves in the applicable reference currency and the costs of the structures.
- Bespoke solutions tailored to the clients needs and risk appetite
- Examples include:
  - **Collar** – client buys protection against foreign currency (e.g. USD) depreciation and can participate in USD appreciation up to a cap level.
  - **Participation Forward** – client buys protection against ZAR depreciation and can participate in ZAR appreciation; however, the protection is a t higher rate than a vanilla FEC
  - **Target Return Forward** - provides the client with targeted order levels over the life of the contract, however, there is a risk that the TARF is knocked-out prior to expiry and the Client is exposed to the market.

HEDGING FINANCIAL RISKS – INTEREST RATES & FIXED INCOME

CONSIDERATIONS FOR ESTABLISHING A HEDGING POLICY



VANILLA VS STRUCTURED HEDGING PRODUCTS

Vanilla Hedging Strategies:	Structured Hedging Strategies:
▪ Utilized where protection and certainty is a priority. ▪ Fully protected from rate increases, however no upside realized in lower rates environment e.g., interest rate swaps.	▪ Provides flexibility for products used. ▪ Can consider participation/limited protection products (introduce volatility), e.g., caps, cap spreads.

BROAD CATEGORIES FOR HEDGING STRATEGIES

Vanilla fixed for float Interest Rate Swaps	▪ Vanilla interest rate swaps allow the hedging party to fix the interest rate exposure on their funding portfolio. ▪ A direct interest rate swap is a separate instrument/contract to the underlying funding. As a result, it can be utilized to hedge a specific loan exposure or be overlaid onto a portfolio of loans. This swap can be tailored by tenor, profile and notional to achieve the required portfolio hedge ratio. ▪ A swap can also be embedded in a loan to create a fixed rate loan which comes with various benefits over a direct swap. ▪ This is a prudent risk management strategy which provides absolute certainty on the underlying cost of funds.
Worst case protection structures	▪ These are insurance type structures, which afford the hedging party protection against a worst case scenario (i.e. increase in short term rates) whilst participating in potential decreases in short term interest rates. ▪ Typically, these include: – **Interest rate caps** – hedging party pays an upfront premium to ensure a maximum ceiling on their exposure. – **Zero premium collars** – hedging party places a ceiling on their exposure at no cost. This is achieved by buying a Cap and selling a Floor to fund the cost. By selling the floor, the hedging party foregoes participation in decreases in short term rates below a specified floor level.
Structured Solutions	▪ These structures are tailored to the hedging party's particular needs. ▪ They are traditionally tailored to reduce the effective cost of funds or to match the underlying revenue stream. ▪ These could include Cross-Currency Interest Rate Swaps, Participation Swaps.

MITIGATION OF PAYMENT RISK AND PERFORMANCE RISK

- *In any transaction of purchase and sale, the trading counterparties are exposed to risk – suppliers are exposed to payment risk and buyers are exposed to performance risk. This is true for domestic transactions (local trade) and cross-border transactions.*
- *The nature of these risks typically depend on the length of the historical trading relationship between the parties and the nature of the underlying relationships between the parties. However, given that these risks expose the company to the risk of potential financial losses, most companies actively seek to mitigate these risks.*
- *The first step in mitigating these risks is to have a contract of purchase and sale in place which provides the details of the underlying transaction, the rights and obligations of the parties, governing laws and dispute resolution mechanisms. For international trade transactions, it's important to decide on the International Commercial Term (or incoterm) for the trade – this standardized term defines the responsibility of the buyer and seller and specifies the point at which risk and reward transfers.*
- *Trading counterparties would also typically utilize financial instruments to mitigate these risks – this is the focus of this section.*

Payment Risk – the risk that the buyer does not make payment to the supplier according to contractual payment terms. This is a risk faced by suppliers.

Performance Risk – the risk that the supplier does not provide the correct goods to the buyer as per contractual terms (for example, differences in quantities, quality or absolute non delivery). This is a risk faced by buyers.

The role of financial instruments in mitigating payment risk and performance risk is best understood when looking at two extremes in the terms of trade between a buyer and a supplier:

Open Account

The supplier (exporter) will ship the goods to the buyer (importer) and wait for payment according to the terms and conditions of the underlying contract.

- ✓ Performance risk mitigation for the buyer as payment is only made after receipt of goods.
- X The supplier is exposed to payment risk as the buyer has the goods but may decide to not pay for them.
- X The supplier would typically provide the buyer with payment terms and this places a constraint on the supplier's working capital position.

Cash in Advance

The supplier will only ship the goods once payment has been received in full from the buyer (importer).

- ✓ Payment risk is mitigated for the supplier as payment is received prior to goods being shipped..
- X The buyer is exposed to performance risk as payment is made before the goods have been received.
- X The buyer would have to utilize their cash resources to make payment in full (or part) upfront – this places a constraint on their working capital position.

These two extremes provide an opportunity for trade finance solutions such as letters of credit, guarantees, LC confirmations, escrow accounts and receivables discounting to help in mitigating payment risk and/or performance risk for trading counterparties. In certain cases, these solutions may be structured to provide working capital support and cash flow enhancement as well.

MITIGATION OF PAYMENT RISK AND PERFORMANCE RISK – LETTERS OF CREDIT

What is a Letter of Credit?

- a letter of credit (LC) is an irrevocable undertaking, issued by a bank, at the request of the applicant (importer/buyer), in favour of a beneficiary (exporter/supplier), whereby the bank agrees to make payment against bills of exchange, transportation and/or commercial documents that comply with the terms and conditions of the letter of credit.
- It is important to note that banks only deal in documents and not with the goods underlying the credit.
- LC's are governed globally by a standard known as the Uniform Customs and Practice for Documentary Credits (UCP 600).
- Banks offers LC solutions for importers/buyers (LC issuance) and exporters/suppliers (LC negotiation, confirmation and discounting).
- Payment terms may be at sight (i.e. upon presentation of compliant documentation) or usance (i.e. by deferred payment).
- Letters of credit are mostly used in international trade, but can be used in domestic trade in specific circumstances.
- The Issuance of letters of credit is facilitated by Standard Bank's Trade**Online** platform.

Payment risk Mitigation for Suppliers

- Substitution of the credit risk associated with the importer to the issuing bank of the LC. If the terms and conditions of the LC have been met, but the importer is unable to make payment, the LC issuing bank must honour the payment.
- Confirmed LC's provide suppliers/exporters with the ability to mitigate the payment risk (and country risk) associated with the issuing bank of the LC.
- A Letter of credit confirmation is an additional undertaking by the confirming bank to make payment to the beneficiary, provided that the terms and conditions of the LC have been met – providing mitigation against bank and country risk.

Performance risk Mitigation for Buyers

- The Buyer/importer can negotiate the documentation that has to be submitted before payment is triggered. In this way the importer has documentary evidence that the exporter's performance obligations have been met (e.g. by calling for a bill of lading, inspection certificate etc). If additional performance risk mitigation is required, the buyer may ask the supplier for a performance guarantee or Standby letter of credit.

Special Variations

Working Capital Support

- **Buyers/Importers** may obtain short term trade finance to make payment under the LC, with the buyer subsequently concluding their repayment obligation to the bank after an agreed financing tenor (e.g. 90 days), for the full value of the LC drawing plus interest. The solution provides the buyer with cash flow support. Financing can be availed in local currency and a selection of foreign currencies.
- **Suppliers / Exporters** may discount the drawings under a confirmed letter of credit to accelerate the proceeds due under the LC, provided that the terms and conditions of the LC have been met. This provides suppliers will the ability to enhance their cash flows and working capital (accounts receivable) cycle. This is a source of non-recourse financing for the supplier as the bank assumes credit risk on the issuing bank of the LC and utilizes the credit facilities of the issuing bank of the LC rather than the exporter's credit facilities.

MITIGATION OF PAYMENT RISK AND PERFORMANCE RISK – GUARANTEES

What is a Guarantee?

- An irrevocable, unconditional instrument issued by a bank, at the request of the applicant (e.g. a contractor), in favour of a beneficiary (employer), whereby the bank is obligated to pay the beneficiary upon presentation of a demand/claim, following a default/breach of obligations by the applicant (performance or payment obligation).
- Guarantees are governed globally by a standard known as the Uniform Rules for Demand Guarantees (URDG 758). Standby letters of credit (SBLC's) have similar features to guarantees but may be issued subject to URDG or a different set of rules called International Standby Practices (ISP 98).
- Guarantees are usually classified as **"Performance"** in nature whereby the guarantee is issued to provide a remedy against performance related defaults, or **"Financial"** in nature to provide a remedy against a financial related default.
- **Local guarantees** are typically issued on Bank letterheads in local currency and in favour of a local beneficiary. **Foreign guarantees** are typically issued between financial institutions via SWIFT, with the guarantee being denominated in foreign currency and/or in favour of a foreign beneficiary. Foreign guarantees require exchange control approval in South Africa.
- **Key Principles:** The guarantee is independent of the underlying contract between the applicant and beneficiary. Guarantees are restricted to the payment of money only. Any amendments to the guarantee have to be agreed between the applicant, beneficiary and the bank (as guarantor).
- **Difference between LC's and Guarantees** - LC's are conditional and are used to facilitate payment against specific terms and conditions. Guarantees are unconditional and only paid out in the instance of a default by the applicant (i.e. default instrument).
- Issuance of guarantees is facilitated by Standard Bank's Trade**Online** platform.

Guarantee use cases

- **Fulfilling contractual obligations** - The issuance of a bank guarantee in favor of a third party, such as a customer (e.g. performance guarantee) or supplier (e.g. payment guarantee) may be a contractual requirement. In this case, the company would be the applicant on the guarantee and their bank would be the guarantor. Other examples include bid/tender bonds, advance payment guarantees, warranty and retention bonds, property payment guarantees and lease guarantees.
- **Mitigating payment and Performance risk** - A company which is exposed to performance risk or payment risk may request for their counterparty to arrange for their bank to issue a guarantee in their favor.
- **Regulatory Compliance** - in certain cases, a bank guarantee may be required to comply with local laws. For example, mining companies must provide a land rehabilitation guarantee to the mineral resources regulator as a precondition to obtain a mining license. Another example is the issuance of a financial guarantee in favour of the Takeover regulation panel in South African when making an offer to acquire the share capital in a company.
- **Extending payment terms** - a company may provide their suppliers with a payment guarantee in return for credit repayment terms with the supplier. In this case, the cash flow benefit should be weighed up against the cost of issuing the guarantee. Other examples include utility guarantees issued in favour of municipalities, utility companies and customs bonds.
- **Supporting banking facilities in foreign markets** - a parent company may arrange for their bank to issue a facility guarantee to a bank in another country in support of banking facilities extended to a subsidiary company. Similarly, guarantees required for projects in a different market may be facilitated by the issuance of a counter guarantee to a foreign bank for re-issuance by the foreign bank in the local market. These re-issuances are facilitated by the Standard Bank/Stanbic footprint in Africa and the Standard Bank Group's vast network of correspondent banking partners across the world.

6

LONG TERM FINANCING & CAPITAL RAISING

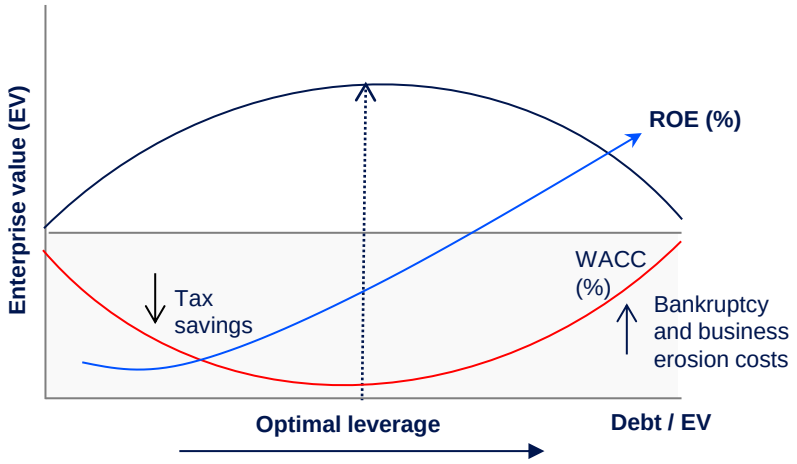
LONG TERM FINANCING & CAPITAL RAISING

- *Treasury Management extends beyond short term working capital funding and must include considerations around long term financing decisions, in order to facilitate strategy execution and to promote profitability and sustainable value creation for shareholders.*
- *Long term financing typically consists of the following categories of financing:*
  - ***Bank Financing** – long term debt financing*
  - ***Capital Raising via debt capital markets** – e.g. bond issuances*
  - ***Capital Raising via Equity Capital Markets** – initial public offerings and rights offers for listed companies.*
  - ***Shareholder equity** – shareholder loans and equity injections.*
- *Typical use cases for long term financing is capital expenditure, acquisitions, refinancing of existing debt and general corporate purposes.*
- *Before deciding on the optimal solution for long term financing, The treasury function (in conjunction with the finance function or corporate finance team) needs to weigh up the relative advantages and disadvantages of debt financing versus equity financing. The treasurer must understand the current capital structure of the company and determine the combinations of debt and equity financing which will optimize the capital structure of the company going forward.*

DESIGNING AN OPTIMAL CAPITAL STRUCTURE

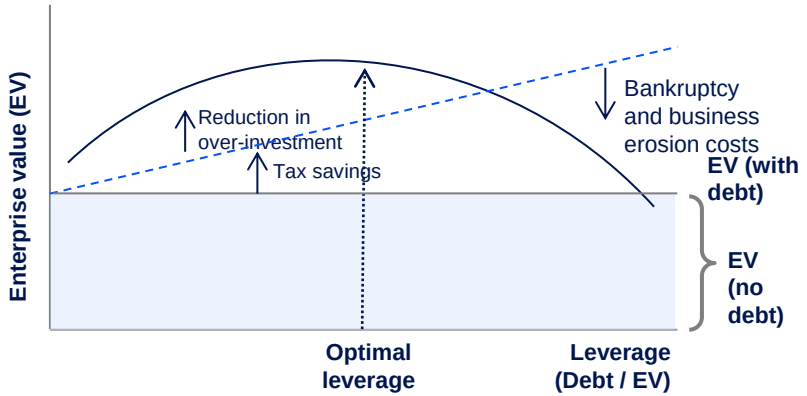
RELATIONSHIP BETWEEN LEVERAGE, WACC AND ROE

- Theoretically, a company's optimal capital structure is the mix of debt and equity that maximizes a company's enterprise value (EV).
- There is no clear model for a company's optimal debt: equity ratio, i.e. the ratio that would create the most value for shareholders.
- Debt is cheaper than equity on the assumption that interest charges on debt are normally tax deductible.
- EV is the present value of future free cash flows, discounted by the company's weighted average cost of capital (WACC).
- As free cash flow is independent of capital structure decisions, EV is maximized when WACC is minimized.



OPTIMAL CAPITAL STRUCTURE

- Replacing equity with debt delivers certain key benefits
  - Tax savings: Interest charges are tax deductible whereas payments to shareholders, i.e. dividends / share repurchases are not.
  - Reduction in over-investment: Debt imposes investment discipline on management; and
  - Reduction in WACC: At low levels of gearing, increased levels of debt increases the weighting of debt thus reducing WACC and increasing return on equity (ROE)
- But gives rise to certain costs
  - Bankruptcy and business costs: Increasing levels of debt give rise to bankruptcy and business erosion costs, i.e. forgoing value accretive investment opportunities; and
  - Rising WACC: At higher levels of gearing, the risk of default pushes up both the cost of debt and equity



LONG TERM FINANCING & CAPITAL RAISING – LONG TERM FINANCING OPTIONS

	Product	Key Features	Pros	Cons
DFI's	**Debt / Equity**	▪ Debt and equity funding deployed in less economically developed countries to bring about positive economic, social and environmental change ▪ Focuses on the development of key sectors as per individual DFI mandates	✓ Long term finance (7 years plus) ✓ Long term pricing at competitive rates ✓ Willing to take greater commercial risk	× Long turnaround time to obtain funding due to extraneous due diligence processes × Significant monitoring, covenants and ongoing conditions × Lack of common terms between development financing institutions × Significant restrictions / lack of flexibility on use of funds
Commercial Banks	**Term Loan**	▪ Debt funding offered by a lender to a borrower over a specified period, with instalment repayments ("amortising") or repayment at the end of the facility ("bullet") ▪ Used for general corporate purposes, capital expenditure, acquisitions and other long term funding requirements	✓ Fast turnaround times to execute facilities ✓ Medium term finance (generally up to 5 years) ✓ Flexible use of proceeds ✓ Flexible funding terms with less onerous ongoing conditions ✓ Ability to react to capex needs at short notice ✓ Confidentiality maintained	× Recourse to existing business × Financial covenants may be required × Security may be required × Commitment fees incurred on unutilised portion of facilities
	Revolving Credit Facility	▪ Similar to a Term Loan, however, the availability period usually extends for almost the entire life of the loan, allowing the borrower to drawdown, repay and re-draw all or part of the loan (subject to complying with pre-agreed conditions) ▪ Used for general corporate purposes and to fund working capital		
	Project Finance	▪ Debt funding for infrastructure and industrial projects	✓ Long term finance (7 years plus) ✓ Non-recourse / self-liquidating structure with funding based on the project's projected cash flows ✓ Confidentiality maintained	× Long turnaround time to obtain funding due to extraneous due diligence processes × Debt to Equity split is normally 70:30
	Preference Shares	▪ Appropriate for acquisition of equity instruments ▪ Tenor at least 3 years and 1 day	✓ Tax efficient ✓ Confidentiality maintained	× Limited market depth × Complexity × Maintenance covenants × Target needs to be identified
Debt Capital Markets	**Bonds**	▪ Bonds are debt instruments issued to investors by a company looking to raise debt funding ▪ Generally 3 to 7-year tenor (possible for regular issuers)	✓ No maintenance covenants ✓ Placement options include private placements and public auctions to cover multiple market environments ✓ Domestic medium-term note (DMTN) programme allows for quick repeat issues	× Market standard terms × Limited ability to renegotiate terms × Public rating and listing × More limited ability to pre-pay and early repayment penalties
Export Credit Agency	**Export Credit-backed Finance**	▪ Export Credit Agencies (ECAs) facilitate international trade by providing direct funding, credit insurance or financial guarantees in support of capital goods or services from the ECA country	✓ Long term finance (7 years plus) ✓ Long term pricing at competitive rates	× Long turnaround time to obtain funding due to extraneous due diligence processes × Funding is very specific to the asset being purchased and country of origin × Specific monitoring and security covenant to asset being financed

LONG TERM FINANCING & CAPITAL RAISING – ADVISORY & CAPITAL RAISING CAPABILITIES

Advisory

- Mergers and acquisitions
- Power and infrastructure

Capital markets

- Debt capital markets
- Securitization
- Equity capital markets

Structured debt

- Structured finance
- Structured trade and commodity finance
- Corporate financing solutions
- Real estate finance
- Mining, energy and infrastructure financing
- Sustainable finance

Strategic investments and special situations

- Strategic equity investments
- Infrastructure finance
- Special situations

Solutions

- Mergers and acquisitions
- Corporate restructurings
- Power and infrastructure advisory
- Initial public offerings
- Capital raisings
- Leveraged buyouts
- Valuations

- Book building
- Hybrid instruments
- Investment-grade and high-yield instruments
- Equity- and equity-linked instruments
- Structured equity

- Debt arranging
- Financial structuring, underwriting and lending
- Tailored lending instruments
- Capital structure optimisation

- B-BBEE strategic investments
- Infrastructure equity
- Special situations

Sustainable Finance



7

TREASURY SYSTEMS & OPERATIONS

TREASURY SYSTEMS & OPERATIONS

KEY CONSIDERATIONS REGARDING THE ESTABLISHMENT AND OPERATION OF THE TREASURY FUNCTION

Treasury Operating Model

- Ensuring that the treasury function is resourced sufficiently with skilled human capital to fulfill the functions of the treasury.
- Deciding on the goals, key performance indicators and benchmarks for treasury performance.
- Deciding on a decentralized vs centralized treasury model - for divisions and subsidiaries, and equally deciding on whether to establish a centralized regional treasury function or a decentralized model with a treasury function in each jurisdiction.
- Outsourced treasury management function vs in-house run treasury function.
- Understanding the legal, tax and regulatory conditions applicable to the jurisdiction of the treasury.
- Considerations on exchange control and the establishment of a Domestic Treasury Management Company (DTMC) in South Africa.
- Selecting banking partners, implementing banking arrangements and financial institution relationship management.

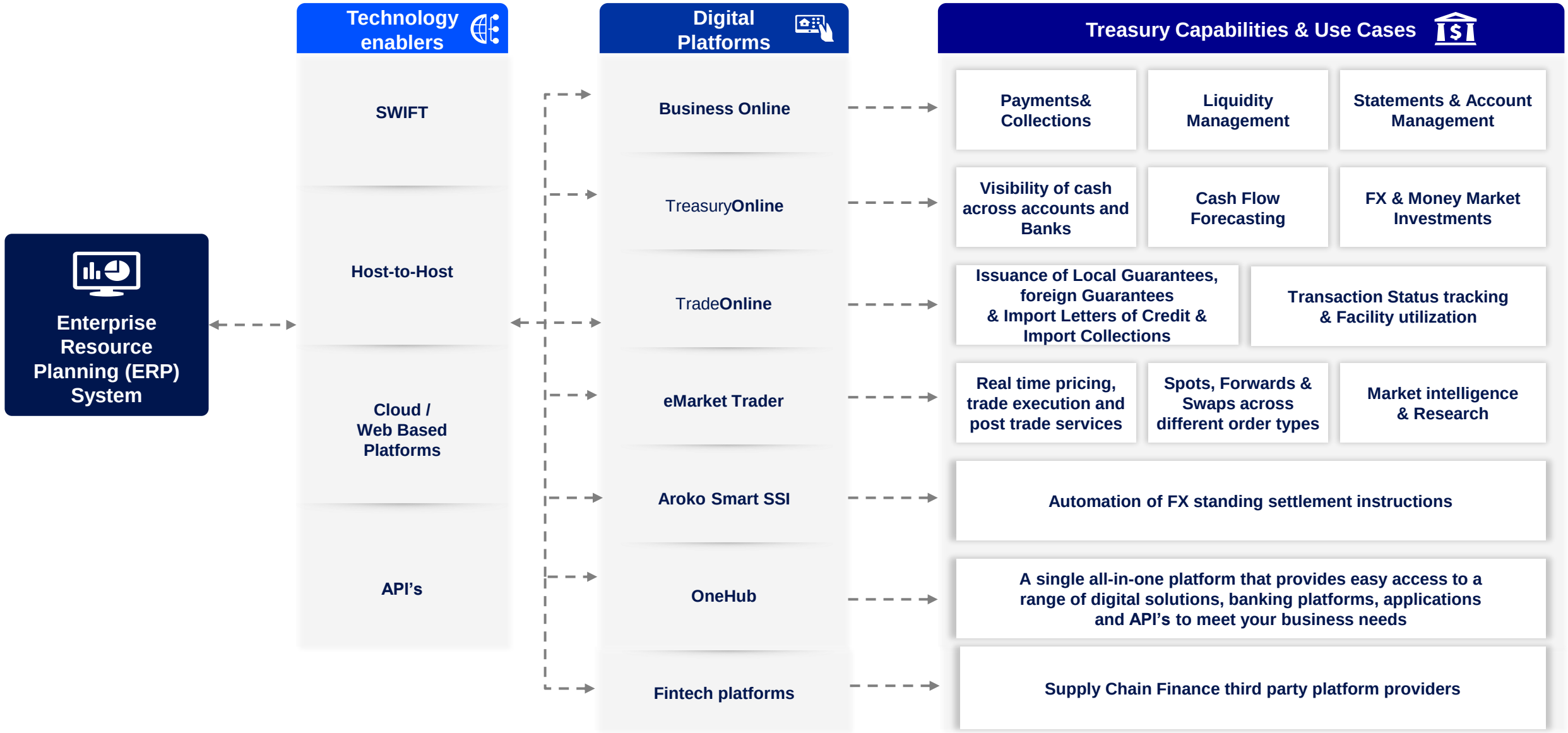
Establishment of Treasury Policies and Processes

- Establishing policies, procedures and governance to guide the operations of the treasury – for example, the establishment of a hedging policy for exchange rate risk.
- Establishing and implementing processes to standardize and guide the day-to-day functions of the treasury, to ensure alignment with treasury policies and treasury objectives – for example, tools, systems and templates used for cash flow forecasting, the inputs used for this process, the frequency of this process and sign-off's required.
- Establishment and implementation of processes for the management of risk within the treasury function – for example, establishing payment authorization segregation to mitigate fraud risk, ensuring compliance with exchange control regulations on cross-border transactions, establishing risk thresholds for financial losses and procedures for reporting and investigation of the same.
- Integrating the company's ESG policy with financial arrangements via sustainable finance solutions.

Implementation of Treasury Systems

- Implementation of Treasury Management Systems (TMS) such as Standard Bank's Treasury**Online** platform to provide the treasury with visibility of liquidity across bank accounts, financial institutions and geography, as well as execute cash flow forecasting..
- Onboarding onto electronic banking platforms to execute on specific treasury use cases (e.g. booking FX, issuing LC's or processing payments).
- Automation of treasury functions to improve the speed, ease and efficiency of treasury functions. For example, Host2Host integration with ERP systems, workflow applications, API's, Robotics and AI.
- Execution of data strategy for treasury to enable extraction and presentation of data (dashboarding) from systems to enable management reporting, analysis and forecasting.
- The Digital treasury Ecosystem in the next slide provides the various treasury use cases for Standard Bank's electronic platforms.

TREASURY SYSTEMS & OPERATIONS - THE DIGITAL TREASURY ECOSYSTEM

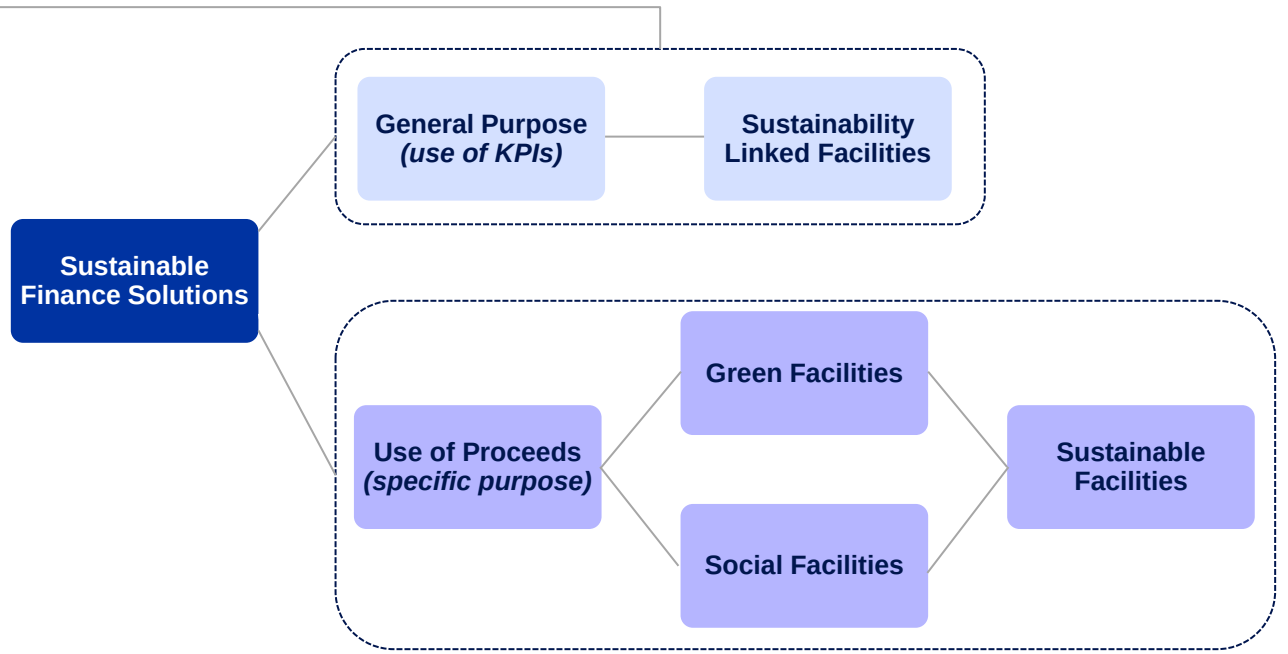


TREASURY SYSTEMS & OPERATIONS - SUSTAINABLE FINANCE SOLUTIONS

Companies are increasingly focused on the sustainability of their operations – not only is it the right thing to do, but it's also becoming a license to operate in certain industries. Treasurers can play a role in the **management of Environmental, Social and Governance (ESG) risks**, as well as promote supply chain continuity through **Sustainable Finance** solutions which offer a pricing benefit for the attainment of ESG KPI's or for purpose based funding which is deemed to be **"Green"** or to promote **"social upliftment".** The pricing benefit afforded in these structures also aligns to the yield enhancement objective of the treasury function.

General Purpose Funding (sustainability linked)

- Can be used to finance general corporate purposes with sustainability KPIs and sustainability performance targets (SPTs) embedded into the loan
- Pricing adjustment mechanism – dependent on whether pre agreed SPTs are met or not.
- Annual reporting / disclosure of the performance against selected KPI(s), including baselines where relevant.
- Reporting against SPTs requires acceptable independent verification – limited assurance



Applicable Facilities include term loans, bonds, working capital facilities, Supply chain finance, letters of credit and guarantees

Transition Finance

Use of proceeds based solutions

- Used to finance Green and/or Social Assets or Projects
- Funding must comply with the ICMA/LMA four core components:
  1. Use of proceeds,
  2. Process for project evaluation & selection,
  3. Management of Proceeds 4) Reporting
- Marginal upfront pricing benefit is possible
- Capital markets would require pre-issuance verification - Green and/ social bond framework or transaction verification
- Impact and allocation reporting required annually

The Sustainability-Linked Bond Principles | The Green Bond Principles | The Social Bond Principles

TREASURY SYSTEMS & OPERATIONS – EXCHANGE CONTROL OVERVIEW

Topics	Key Considerations
Exchange Control Legal Framework	▪ Exchange Control Regulations promulgated in terms of section 9 of the Currency and Exchanges Act 9 of 1933 ▪ Exchange controls are government-imposed limitations on the purchase and/or sale of currencies. ▪ The Government of South Africa has undertaken a journey to modernise the current Exchange Control framework and as a result many reforms have been introduced over the years, with more reforms expected in the near future.
Administration of Exchange Controls	▪ The exchange control rules and regulations are administered by the Financial Surveillance Department of the South African Reserve Bank (“FinSurv”) ▪ The Authorised Dealers are empowered to approve cross border transactions in accordance with the permissions and conditions, as outlined in the Currency and Exchanges Manual for Authorised Dealers in Foreign Exchange (“CEMAD”) ▪ The CEMAD is available on the South African Reserve Bank’s website (www.resbank.co.za).
Excon Advisory Services	▪ Include the submission of suitable Exchange Control Applications to the FinSurv on behalf of clients ▪ Attend and Support Clients at FinSurv and Stakeholder Meetings ▪ Distribute regulatory changes and support clients in adoption of the changes.
FinSurv Application Process	▪ Full details of the transaction must be submitted to Standard Bank on a company letterhead signed by authorized signatories of the entity, supported by relevant supporting documents. ▪ All applications submitted to the FinSurv in respect of new transactions and/or renewal of existing approvals can take anytime from 2-4 weeks before the FinSurv can respond, and this period may be longer, depending on the complexity
FinSurv Reporting	▪ All cross-border transactions facilitated by Standard Bank must be reported to the FinSurv via the FinSurv Reporting System, and in this regard we have the capability to facilitate daily reporting of multiple scenarios of cross border transactions. ▪ These transactions must be reported in line with the agreed format and specifications of the FinSurv.
Exchange Control Training	▪ We also facilitate bespoke Exchange Control workshops and training sessions for clients ▪ Dedicated Exchange Control Managers may be allocated to support clients with high volume exchange control applications as well as varying complex exchange control requirements


JPY
EUR
CHF
GBR
SEK
CAD
SMZ 11.48 - 0.2%
ROY 1.49 - 0.5%
RMY 18.68 - 0.7%

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