International reach

A GLOBAL CRISIS NEEDS A GLOBAL BANK TO HELP DEAL WITH IT. **SIMON PENNEY** OF RBS TALKS ABOUT THE IMPORTANCE OF SUCH BANKS IN THE MIDDLE EAST.

WHAT DO YOU SEE AS THE FUTURE ROLE OF GLOBAL BANKS IN THE MIDDLE EAST? The business models for global banks like RBS have changed and continue to evolve in response to the significant changes brought about by the global financial crisis. That said, their future role in the Middle East is more pivotal than ever.

The global financial crisis has highlighted many issues, but four overriding messages are clear. Financial institutions (FIs) and corporates need better risk management and need to offload risk efficiently without increasing systemic fragility. Liquidity management and tenor matching is heightened and remains a challenge. Additionally, increased transparency in financial reporting and improving corporate governance are key to accessing broad capital market investors.

WHAT WOULD YOU SAY ARE THE MAIN WAYS GLOBAL BANKS CAN ASSIST REGIONAL CLIENTS? Global banks are clearly aligned to help regional clients in the Middle East with all the issues we have outlined. Banks like RBS provide the gateway for corporates and regional FIs to directly or indirectly disintermediate risk.

We can assist corporates and FIs in funding diversification of risk and extending maturities. We can also provide hedging solutions to corporate clients or for local banks to back out of the risk.

By providing the gateway, global banks help reduce systemic fragility by spreading and matching risk through their global network of clients.

They also provide access to investment opportunities that can strengthen a company through economies of scale or provide income and risk diversification through new markets. We can help firms de-risk their balance sheets, through disposals or restructurings of liabilities.

Regulatory liquidity frameworks and measures are being re-defined and term funding and maturity profile matching will become more uniform across financial systems.

FIs will also need to raise higher levels of longer term funding and reach out to new investor bases. The global banks play a pivotal role in arranging access to the major capital markets.

As a result of the crisis, many banks are reluctant to grant term funding and must do so at a higher cost. Credit worthy corporates will also seek access to debt capital markets, again to access the tenor they need and to diversify funding and investor bases.

Global banks can also play an advisory role with international rating agencies to obtain and manage the rating process. Due to the growing uncertainty and fraud witnessed by the global crisis, investors continue to seek improvements in financial reporting, transparency, and corporate governance, as standards for accounting become more universal.

DOES TRADE FINANCING HELP UNLOCK WORKING CAPITAL FOR CLIENTS? Yes, our view is that trade finance solutions help unlock working capital to deliver real value to our clients. One of RBS' end-to-end trade finance propositions is a supply chain financing (SCF) programme that enables our clients to efficiently unlock their working capital. Under SCF, we provide receivables financing to our client's suppliers after

the acceptance of the goods, which enables our client to offer viable and sustainable support to its vendors.

Further, e-invoicing lets RBS's clients create, send, receive and process invoices, purchase orders, statements and more online. It removes those slow and error-prone manual processes associated with paper-based manual invoicing systems. It's cost efficient, secure, can handle large volumes of invoices and also provides more accurate management information. RBS's e-invoicing can be a perfect compliment to SCF as it integrates financing and management of all aspects of initiating, executing and auditing of trade management.

For a bank to succeed, RBS believes it has to be very customer centric, with a clear demonstration of its ability to anticipate and understand clients their needs, to promote and provide value added solutions.

HOW IMPORTANT IS THE CORPORATE TREASURY FUNCTION? The strategic importance of the treasury function has never been as evident as today. After a long period of liquid capital markets and easy access to the bank lending market, the global financial crisis brought us a new reality.

Fortunately, over the last few years great progress has been made in the Middle East, working towards more sophisticated treasury functions. Support by organisations like the ACT has helped to improve the understanding and transfer of knowledge from larger institutions to more mid-market organisations. This has helped these clients develop their treasury function.

Recently, Middle Eastern entities have focused more on funding diversification. Access to capital markets and diversifying away from bank lending requires forward thinking, including the need for a credit rating, increased transparent reporting and better qualification of risk. Risk can be bucketed in different ways and only by clearly identifying and understanding these risks in relation to the equity base of a company can the right decisions be made in relation to the overall risk appetite of a firm.

Risk identification is key; and while some trades may look very attractive in the short term, for example to lower the cost of funding, if the trading strategy does not work out, this can significantly increase both risk and cost in the long term.

It is also important to understand how FIs manage their risks, and how the presence and use of the CDS market can impact a firm's funding level. Again awareness of all the interlinked risks is vital for decision making.

The importance of the treasury management function within the region will, in our view, only increase over time. To diversify funding and achieve better asset and liability management (ALM), more firms will enter and more regularly tap the global capital markets, which will require the assistance of global banks. These developments will also necessitate more disclosure and transparency and increasingly require better management of currency and interest rate risks.

The revelations of the crisis has led global banks and investors to place more scrutiny on disclosures, due diligence, transaction structure and the quality of implicit and explicit guarantees.

As result of these changes, RBS expects a healthy level of bond supply towards the end of 2010 from GCC issuers with potentially US $7bn to US $10bn to be raised through the debt capital markets. While the GCC syndicated loan markets are receptive, continual short term bank lending will contribute to the "walls of maturities" occurring in 2012 and 2013.

In addition, the next two years will be a key period for GCC entities as US$50bn of loans will mature in the region. The most exposed sectors are investment holding companies and real estate developers.

WHAT IS THE VALUE OF TREASURY QUALIFICATIONS IN THE ASSESSMENT PROCESS OF GLOBAL BANK? The global credit crisis has demonstrated the importance of proper expertise and knowledge of treasury and liquidity management. Banks didn't collapse due to a lack of capital, but to a lack of liquidity.

As the lifeblood of any business, debt maturity and liquidity profile of the business require a deep understanding. This knowledge needs to extend beyond the treasurer and his team, to the CFO and the board. This appreciation should come from a mix of experience and formal training together with appropriate qualifications like those provided by the ACT.

At RBS we have been delighted to stand alongside the ACT and support it in its endeavours to instil this expertise in both the treasury community and the banking industry. Bankers should equally understand the challenges faced by treasurers; and qualifications are an appropriate way to help achieve this.

Aside from the qualifications themselves, study groups and training courses have acted as forums for treasurers and staff to learn, share experiences, and find solutions to many of today's challenging topics.

THE IMPORTANCE OF GLOBAL BANKS AND CORPORATE RELATIONSHIPS As we move forward, RBS anticipates a recovery in the global economic environment, which we would expect to improve bank liquidity, and a tightening of spreads as banks compete to win on the balance sheet.

However, a key emerging issue will have an impact on this normal cycle: the increasing level of regulatory constraints on the industry, namely Basel III. As such, the willingness of banks to lend will be affected and more focused than was previously the case, both in terms of credit quality and standalone economic viability.

One positive that may emerge from this is that bank debt becomes a less commoditised product and becomes the pivotal element of a meaningful and committed banking service.

RBS and other global banks have taken stock and are consolidating the lessons of the last two years. We have built platforms that strengthen and enhance the operating model for our clients, optimising the provision of bank debt and decreasing systemic risk.

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