2016 Annual Review

The purpose of this document is to provide a high-level review of what we have seen and experienced in the banking and financial markets over the past six months. We hope that it provides you with some meaningful insight. The document also briefly reviews the type of work undertaken in the period in Section 1.

PLEASE NOTE THAT NONE OF THE CONTENTS OF THIS REVIEW CONSTITUTES ADVICE. READERS SHOULD TAKE PROFESSIONAL ADVICE BEFORE UNDERTAKING ANY RISK MANAGEMENT ACTIONS.

www.treasurysolutions.ie

021 4919794

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2016 ANNUAL REVIEW

1. Business Activity Review and Outlook

The main driver of business activity in 2016 was <u>debt financing and refinancing work with the treasury policy/governance work also being to the fore.</u>

In total, we advised on the raising of over €500m of debt facilities in 2017 with another €400m+of risk management advice (fixed versus floating, checklist, documentation review) over the year. Deal sizes ranged from €1.4m to €150.0m.

Brexit had a certain impact on projects although it drove as much treasury policy work as specific FX-related projects. Foreign currency management remains the poor relation in risk management even though I specifically highlighted it in the 2016 forecast issued in January of last year. Bord Bia recently announced that they estimate that it had cost Irish food companies in the region of €570m to date. Difficult to see what might change peoples' minds about this if Brexit didn't…and we saw the re-emergence of complacency with the rate moving back towards EUR/GBP0.84 before Christmas. **The answer to a possible shake-up in attitude will the annual banking reviews of those that have bank debt as they can expect a very tough time if they had not hedged and increased requirements in that space may become the norm as a result of the imposition of same by their bankers. Take note.**

On the funding front, the proactive approach undertaken to deal negotiation has yielded much improved terms and conditions as well as tight pricing and materially lower legal fees regardless of deal size. There is a method in our approach that just works…. and pays for itself.

Finally, undertook some GBP debt fixing work during the year. Little done in that space for EUR debt but I expect that to change in 2017. Be careful on how this is undertaken as there is scope for both unnecessary complexity and material "overcharging".

Strategic Developments

We announced a strategic alliance with Treasury Delta (www.treasurydelta.com) and will also be announcing other initiatives in Q1 2017. The development of non-bank providers of a range of services has serious momentum and we aim to be at the forefront of these in the interests of our clients.

Treasury Solutions in the media

Regular contribution to Morning Ireland business section. I also spoke to the Chartered Accountants in both Cork and Dublin and the Irish Association of Corporate Treasures ("IACT") pre and post Brexit. In July I conducted the Brexit financial consequences webinar on behalf of Enterprise Ireland. Finally, I was the IACT representative at a joint meeting with the European Associations of Corporate Treasurers and the International Group of Treasury Associations on the Global Outlook for Treasury Risk Management.

The website makeover is ongoing and will be completed in the next 5 weeks.

Courses

Ran both Treasury Masterclass (full day) and FX and Brexit class (1/2 day) in Cork during the year. Both were well attended. Also, continued to run in-house courses including to some legal practices in the area of risk management. In December I ran the Banking and Financial Markets Update in both Dublin and Cork again. In fact, I ran two sessions in Cork on December 6th with a separate session for SMEs in the afternoon. Attendance of the medium to large companies remains strong but SMEs still don't engage in the same numbers which is a pity for them.

2017 will see the continuation of the CPD courses with the Chartered Accountants, provision of CPD to the Certified Accountants and I will also run the Banking and Financial Markets update for the Chartered Accountants in February.

2017 Outlook

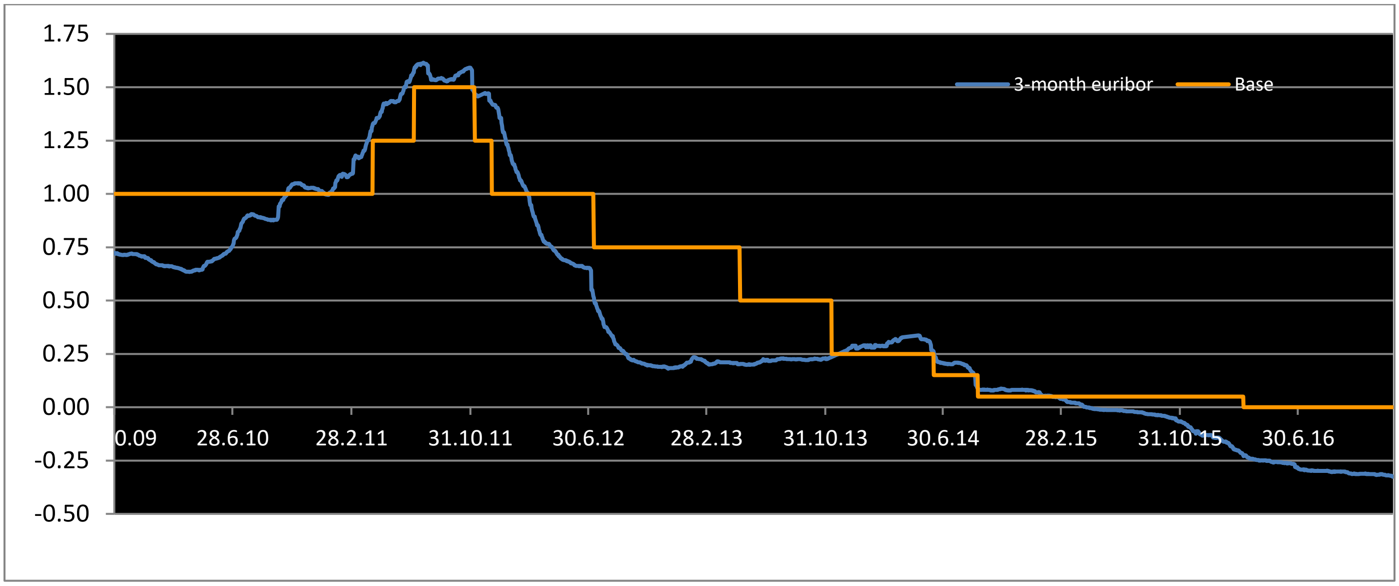
First term sheet of the year has already been produced on an €80m deal and there are more in the pipeline. The call to action this year is to get refinancing done before the full impact of Brexit and banking market volatility takes effect. Hopefully more of you will take me up on this year's suggestion than the 5% who took the Brexit advice on board! Those that did are laughing all the way to the bank!

I also expect to undertake a lot more work in the systems space in 2017 as companies focus on better use of technology and streamlining of processes to improve the quality and speed of information and to reduce costs through higher levels of efficiency.

Email me at johnfinn@treasurysolutions.ie with any queries on the services that we can provide.

2. Interest Rates

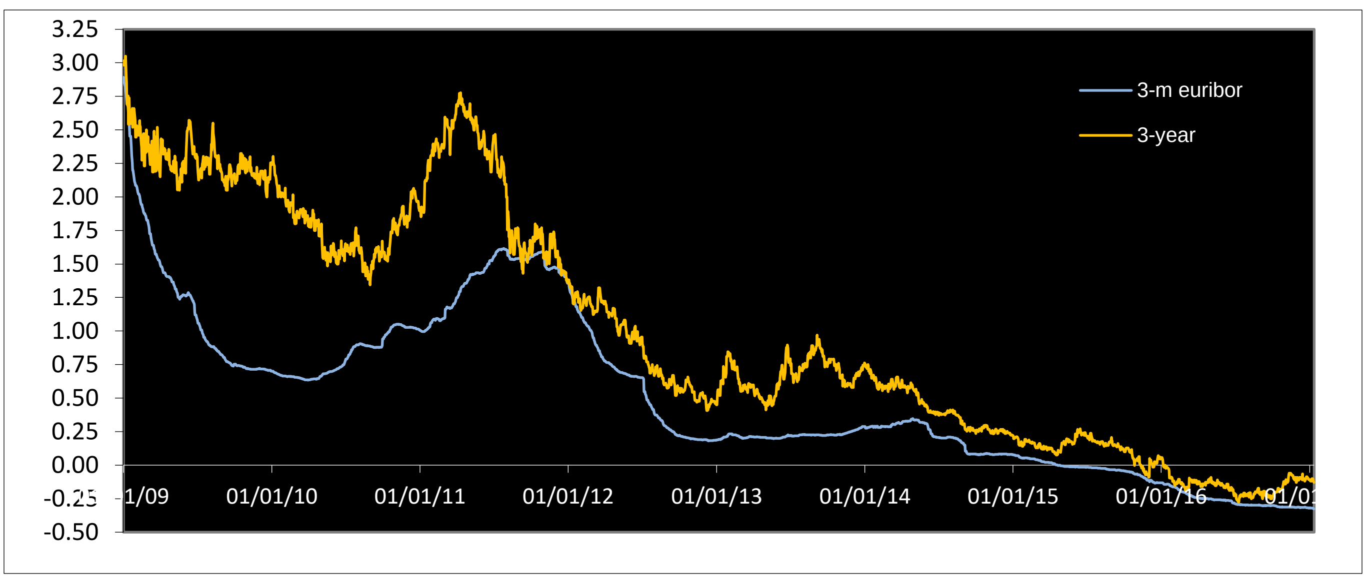
Graph 1. EUR 3-month euribor versus ECB Base Rate



The above graph shows how far euribor rates have fallen since the financial crisis started. 3-month euribor turned negative in April 2015 and year-end levels were new historic lows. Therefore, it remains vital that any new loans are based off euribor and not bank own cost of funds.

Note: the rates quoted are as per Reuters and do not include either credit spreads or bank margins.

Graph 2. EUR 3-year fixed rate versus 3-m euribor



The swap rate has actually been negative since January 6th 2016. A record low of (0.274%) was reached in early July.

Graph 3. GBP 3-year fixed rates

In the UK, the Base Rate was reduced to 0.25% after the Brexit referendum result having been unchanged at 0.50% since March 2009. Not surprisingly, the swap rate eased off after the predicted Base Rate drop but this was suddenly reversed at the end of Q3. Concerns about inflationary pressures drove up UK gilt yields and this has had a knock-on effect on swap rates. Watch UK inflation in 2017 and its possible upward impact on UK interest rates.

3. Credit Ratings

Table 1. Selected Current S&P Credit Ratings as at 31/12/16

Bank	Long Term
AIB	BB+
BOI	BBB-
Barclays Bank Ireland PLC	A-
Ulster Bank Ireland Ltd	BBB
Rabobank Nederland	A+
Danske Bank A/S	A

Not a lot of change in ratings in 2017.

4. Foreign Exchange ("FX") and Oil

The weakening of GBP post referendum was exacerbated at the start of Q4 with a flash crash on October 7th that saw it rise to EUR/GBP0.9365. The high/low range in 2016 was 28%.

Graph 4. EUR/GBP five-year trend

EUR/USD actually strengthened after the result of the US presidential election, helped in early December by the first increase in official US interest rates in many years.

Graph 5. EUR/USD five-year trend

2017 will bring further volatility especially in EUR/USD (which traded in too tight a range in 2016 – not expected to be repeated in 2017).

Oil

The downward trend in the oil price only continued to the end of January where it dipped below $30 per barrel after which it recovered with the price breaking $45 by the end of Q1 and $50 by the end of Q2.

$50/barrel looks like a floor level in the short-term

Graph 6. **Brent Crude two-year trend**