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RBS
The Royal Bank of Scotland

maximising cash resources

yourLiquidity

Taking the pain out of making cash work

How to ensure your money's in the right place, at the right time P02

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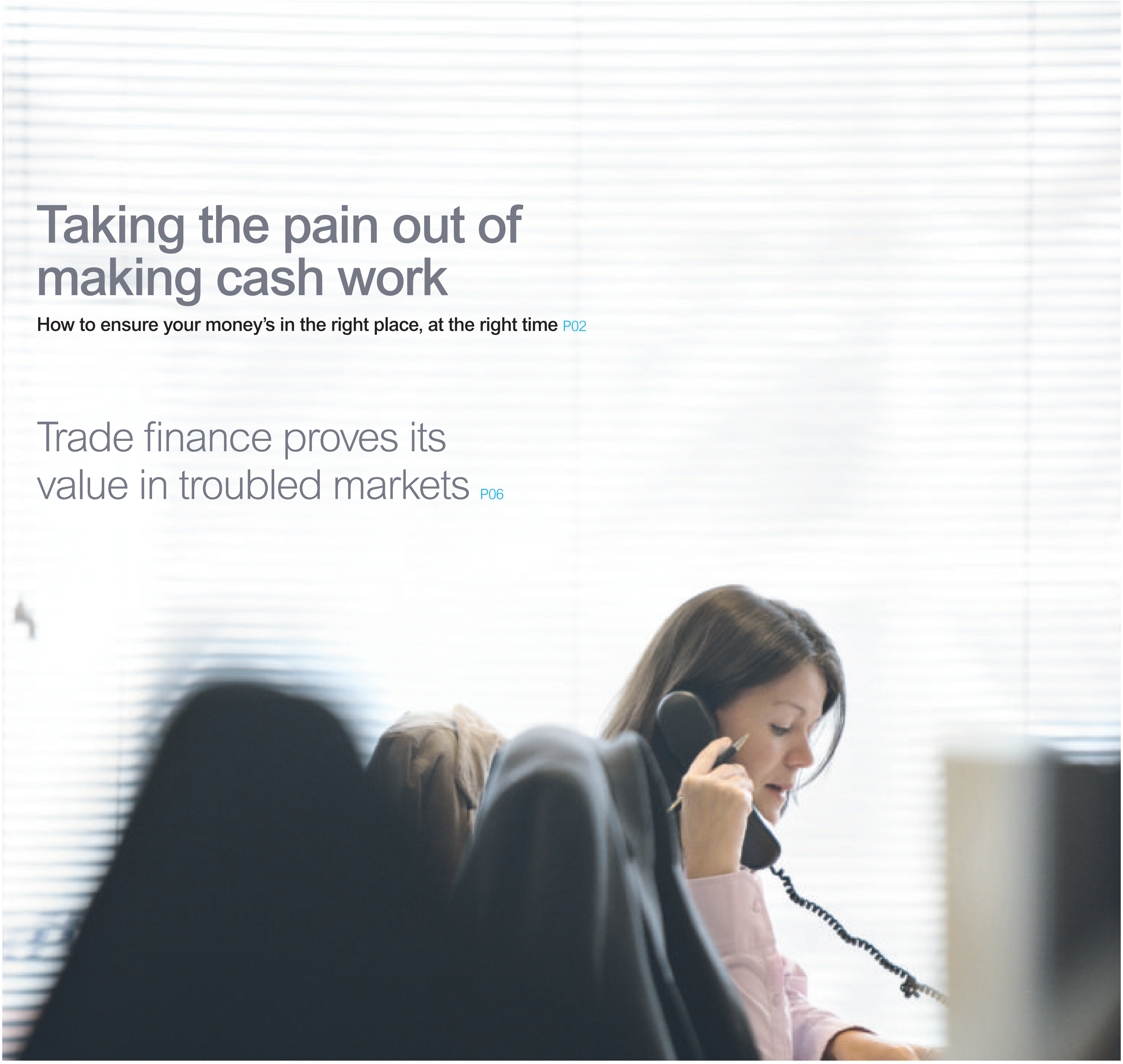

Hello

Welcome to the fifth edition of Your Liquidity, our regular review of the world of liquidity, trade and supply chain issues that can make a real difference to your business.

In this edition we look at how RBS can help businesses make their cash work, whilst having money in the right place at the right time.

We also highlight the opportunities that developing new export markets or ramping up existing overseas trading can offer for continued growth. Furthermore, we bring you up to date with a new EU legal framework, the Payments Services Directive, which will ensure that payments in the EU become as easy, efficient and secure as domestic payments.

If you would like to discuss your liquidity requirements or have any questions about the issues discussed in the edition, please contact your relationship manager or email **ukcb.newsletters@rbs.co.uk**

Making payments easier in the European Union

From November 2009, a new EU legal framework, the Payment Services Directive (PSD), will ensure that payments within the EU become as easy, efficient and secure as domestic payments.

PSD aims to improve the clarity of information provided to you, enhance competition and standardise the rights and obligations of banks and their customers. Therefore, all banks in the EU will need to adhere to a standard set of regulations relating to account information and payment transactions, such as direct debits and cash deposits, in euro, sterling and other EU currencies. Cheques will not be covered by PSD.

We will give you more detail over the coming months of how PSD may affect the service we provide to your business. Further information on PSD is available from the Financial Services Authority's website **www.fsa.gov.uk**

We recommend that you check with your legal advisers how PSD will affect your business.

If you have any questions, please speak with your relationship manager.

Taking the pain out of **making cash work**

In challenging market conditions, with liquidity a major issue worldwide, businesses of all sizes are acutely aware of the importance of ready access to cash. Having money in the right place at the right time, and being able to ensure you can meet your organisation's requirements for finance, both planned and unplanned, is critical to both success and survival.

At RBS we specialise in helping customers identify and manage their short, medium and long term cash requirements. Every business knows that unexpected demands on resources can occur whatever the economic cycle. So having immediate or short term access to funds is critical.

However, keeping excessive amounts of capital on short term call "just in case" is not good financial management, as it costs you money in terms of lost interest that the surplus cash could have been earning.

So how can you ensure that your money is working harder, whilst maintaining a level of flexibility in order to respond to unforeseen change?

Organising your cashflow

First, you should examine in detail your organisation's operating or trading money, dividing the total sum available into three "pots", targeted at short term, medium term and longer term needs. This exercise will help to identify money that can be tied up for specific periods and so can be put to work potentially earning higher rates of interest.

Key to this analysis is the fact that interest rates tend to improve when money can be left for three to six months or longer. There are some exceptions to this rule, since the 'yield curve', which is basically a graph of interest rates against time, can sometimes flatten or even go down as we push further out in time. Long term rates for US Treasury bills, for example, recently surprised the market by dipping into negative rates. Again, consideration should be given to finding the best balance between access to your money and achieving the best available interest.

In this context short term funds can mean really short term, such as overnight. RBS can offer products which enable you to gain access to the overnight money market rate.

Another solution for instant access to cash is a banded account which means that you get incremental increases in the interest rate as you step up the banded balance levels. One of the major benefits this offers is that you do not have to monitor the account constantly in case you are building up too much cash in a low interest bearing account. Because the banded approach increases the interest rate as your cash increases, the system automatically manages your money's ability to work for you.

For clients who know that they can set aside a pool of cash for a longer period, a fixed term bond can be an attractive option. The bond can be for three, six or 12 months and offers a fixed rate of interest. So irrespective of what happens to the Bank of England base rate, you know that you are going to get the agreed rate of return at the close of the period.

If you find at the end of the fixed period that the money is still surplus to your requirements, a bonus reward is available if you immediately reinvest those funds.

...Managing clients' func

One of our specialist offerings is Clients' Monies Service (CMS).

This is an ideal solution for solicitors and others who manage clients' funds. CMS is a secure PC-based system which helps manage your third party funds held in sterling and other major currencies.

It allows monies belonging to each client to be segregated without the need to open and maintain separate traditional bank accounts. CMS is simple to install, easy to use, and helps reduce administration, giving you and your staff more time to concentrate on other aspects of your business. It can also enable you to enjoy the higher rates of interest that pooled funds can attract.

Managing your funds

We all recognise that in turbulent times, forecasting demand on a company's cash flow is extremely difficult, particularly for owner managers who have so many other matters demanding their attention. And in today's market conditions, analysing and forecasting cash flow requirements is not a one-off activity. Organisations need to be constantly revisiting and reviewing their predicted needs to maximise the return that could be realised on their funds.

One of the great advantages of dealing with RBS is that it is extremely easy to move money securely from one account to another, ensuring that funds are in the right place. Our internet banking solution Bankline is a very efficient and easy to use service and is ideal for moving money between accounts.

The current low interest rate environment in the UK means that you have to look very closely at where you place your money. However, much the same reasoning applies for euro and dollar denominated accounts as well, so it really pays to take advice in this area.

The 'yield curve', which we touched on earlier, dictates much of what is possible here as far as medium to long term rates are concerned. It plots the relationship between the interest rate, or the cost of borrowing, and the time to maturity of the debt for a particular borrower in a particular currency. One of the key points here is that each currency has its own yield curve and different currencies are often on different interest rates, as set by their central bank. As a global bank, we trade in multiple currencies, which means we can improve the interest rate available to you by taking advantage of differing rates in the currency markets.

Next steps

To find out more about our deposit solutions, and how we can help you make your cash work harder, talk to your relationship manager or visit **www.rbs.co.uk/deposits**

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CMS was recently enhanced with the addition of a feature called 'File Mapper', which creates a data map linking fields from your back office systems to CMS. This allows client account and transaction data to be imported directly into corresponding fields within the service.

Thousands of deposits or withdrawals to client accounts can be allocated in seconds, with no need to re-key data, saving time and reducing operator error.

For more information on CMS or our other money management solutions, contact your relationship manager or visit www.rbs.co.uk/cms

Cash
becomes king

There is plenty of evidence that consumers are responding to the economic downturn by increasingly using cash rather than plastic to pay for their purchases. This switch is prompted by growing concerns about debt and a desire to keep a careful track of the money being spent.

A survey carried out by the British Retail Consortium (BRC) revealed that UK shoppers are paying with cash in 60% of all transactions, up from 54% in the previous year.

In a statement, BRC Director General Stephen Robertson said:

> "Hard up customers are increasingly reluctant to spend money they haven't actually got in their hands"

So as your business handles increasingly large cash volumes, we have a number of services to support you.

We are the only major UK bank to have in-house cash processing centres and this enables us to deliver both economies of scale and excellent standards of service to our customers.

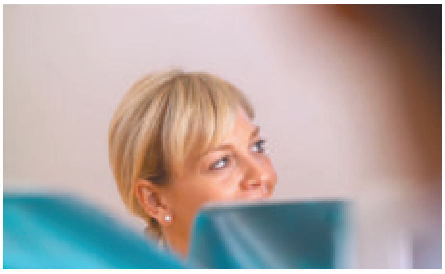
Alternatively, customers can also take advantage of our drop-and-go services for depositing cash in-branch.

Whatever your requirements, our cash solutions are designed to ensure that cash is handled in the most efficient and cost-effective way.

For further details please contact your relationship manager or visit **www.rbs.co.uk/cashflow**

Source: British Retail Consortium Survey, April 2008. The survey used a sample of 17,000 shops across all formats, with collective sales of £131bn a year.

Add value to your business with centralised liquidity management



With external sources of liquidity tightening and the cost of credit rising, the importance of 'recycling' cash within a company has never been greater. As a result, businesses are increasingly centralising the management of cash positions in order to self-fund and reduce reliance on external sources of finance.

Accelerating centralisation

In addition to the current market conditions, a number of trends are encouraging the drive towards centralisation. First, treasury operations are moving from in-country to regional and even global models to reflect the expanding nature of business and the resulting need for full visibility over an increasingly complex web of transactions.

Second, advances in banking technology are facilitating the automation, outsourcing and centralisation of cash and liquidity management. Today's automated liquidity management tools – including sweeping and multi-bank cash concentration – improve visibility of a company's net cash position and enable Treasurers to invest surplus cash centrally, reducing their dependence on local finance.

As the regulatory environment evolves, it is likely that more businesses will use automated tools to create a centralised liquidity and investment structure.

Models for centralisation

The size and nature of a business, together with factors such as the level of control they desire, will determine which model is the most suitable to adopt.

The first step taken by many companies is what might be called an 'arm's-length approach'. Although largely decentralised, this model involves some internal transactions – for example, a subsidiary might choose to place excess cash with the central treasury, using it as an internal bank – but on a purely ad-hoc basis.

At the other end of the spectrum is a multi-currency centre, where daily cash balances are swept via a fully automated process into one global liquidity structure, without any action by individual operating companies.

Finding the right solution

The trend towards centralised liquidity and investment management is accelerating, as companies see the potential to use excess liquidity for internal funding and to increase visibility and control of cash.

Our extensive range of liquidity management solutions enables the full automation of the process and frees up Treasurers to concentrate on more strategic tasks, such as risk management. With the technology now available to integrate liquidity positions across countries and regions, companies have a compelling opportunity to increase the efficiency and performance of their operations.

Compelling benefits

The potential benefits of a more centralised approach to liquidity and investment management are compelling:

- netting cash balances against debts reduces interest paid as well as improving a company's balance sheet
- deficits across the organisation can be self-funded in a timely way through access to surplus working capital
- yield on short-term excess cash can be maximised and the core funding positions for longer-term investments increased.

Trade finance proves its value in troubled markets

As companies across the UK face up to the challenge of operating in a severe downturn, shifting part of the organisation's resource to the task of developing new export markets or ramping up existing overseas trading, offers great prospects for continued growth.

Developing an exporting capability when confronted with diminishing local demand both lessens the impact of the local downturn and puts the business in a position to benefit from weaknesses in sterling relative to both the euro and US dollar.

However, at the same time a weak pound makes it easier for UK exporters to penetrate foreign markets – thanks to the fact that our goods now look much cheaper to foreign buyers – it is undoubtedly also the case that companies tend to become much more risk averse in a downturn. Since exporting inevitably carries risk, it becomes harder to do, even as the economic conditions favour exporting as a solution to counter local pressure on margins and profit.

We can help in a number of ways, working to mitigate the risk of exporting while providing the trade finance solutions that make it possible. We are enthusiastic about understanding our customers' cross border aspirations and helping them target export opportunities.

Exporting is for organisations of all sizes, and it is a tremendous way of spreading rather than concentrating risk. Businesses that are focused solely on the UK can do little about their fixed costs as their revenues decline. Finding markets overseas for products turns this state around and uses the weak pound to generate business.

Simplifying trade

Our regionally based trade teams know that in many instances, a simple matter such as the ability to quote prices in the local currency and providing local settlement instructions can make a huge difference. This can be very challenging for a new exporter to do, but with our help it becomes simple.

Another real differentiator is the ability to provide the buyer with extended credit terms. Our global network makes it easy for us to offer credit solutions at either end of the supply chain. We can put in a structure that allows the overseas buyer to take extended credit whilst simultaneously accelerating cashflow for the seller – the kind of support that helps our customers win business.

For larger organisations with offices in multiple countries we can provide a balance netting and "sweeping" service. This type of liquidity management solution ensures that they are able to make best use of working capital and minimise unnecessary interest costs.

Financing the supply chain

UK exporters are often also importers so a key strength is our ability to help our customers finance the supply chain end-to-end. The financing need often starts several months before goods are imported and continues through a stock-holding period until they are exported and payment eventually received from the end-buyer.

This kind of transactional financing, though less flexible than an overdraft, is inherently more visible and more secure. So in this difficult credit climate, the benefits of a transactional trade finance solution are even more significant.

Our online trade channels are designed to increase the speed, visibility and control of letters of credit, bonds, guarantees and collections and provide an end-to-end monitoring capability for both buyers and sellers. Whilst our award-winning global trade finance capability is supported by teams who understand local processes and markets, and who are likely already known in your chosen export marketplace. That gives your potential clients confidence and considerably simplifies the process of buying and selling across international borders.

Whether you are taking your first steps as an exporter or are already experienced at trading internationally, we can help you connect to overseas trading partners, set up new buyer and supplier relationships and find the trade finance solution that works for your business.

Talk to your relationship manager today about our trade finance solutions or contact your local International Banking Centre. For a full contact list, see www.rbs.co.uk/international

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