

DEBT FINANCE

A response to the convergence of
capital and credit banking markets



Jean-Pierre Mustier

Overview

- **Introduction: what is DEFI ?**
- **Why create DEFI ?**
- **DEFI business model**
- **DEFI ambitions**
- **Expected leverage from merger**
- **Conclusion**



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“DEFI” represents the merger of:

■ Structured Finance activities

- Tax and Debt Advisory
- Project Finance
- Acquisition Finance
- Export Finance
- Securitisation
- Asset Finance
- Leveraged Finance
- High Yield

■ Debt and Currencies activities

- Bonds
- Credit Derivatives
- Treasury
- Interest Rate Derivatives
- Forex and Forex Options



DEFI headcount

3,150 staff world-wide, including 1,900 front office



DEFI track record

Project Finance	#2	arranger world-wide in 2000 (P. F. I.) Bank of the Year for the Americas in 2000 (P. F. I.)
Export Finance	#2	arranger world-wide in 2000 (Trade Finance 06/00)
Securitisation	#5	ABCP administrator Q2 2000 (Moody's Market Rev. 01/01) Asian Securitisation House of the year 2000 (IFR Asia)
Derivatives	#7	interest rate deriv. world-wide - 1999 (swapmonitor.com)
	#1	inflation swaps, binary/digital options, autocaps and flexicaps (Risk Magazine, 09/00)
Forex	#8	foreign exchange bank overall in 1999
	#7	Forex multi-options products (Corporate Finance, 09/00)
Bond issues	#11	bookrunner € Corporate Bonds 2000 (Capital Bondware)
	#4	bookrunner Euro Corporate FRN (Capital Bondware)
Syndicated loans	#6	European arranger by volume (IFR, 01/01) Euroweek Loan Deal of the Year 2000 (France Telecom)



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Why create DEFI

- **Financing needs of issuers have changed.**
They require more integrated and far reaching solutions (Telecom, Automobile, ...).
- **Investors have developed more appetite for credit.**
- **There is a growing convergence between capital markets and structured finance activities** on structuring techniques and risk management.



Why create DEFI

■ Evolution of competition:

- **Wholesale Banks** with balance sheet constraints, strong positions in the debt and structured debt markets, varying positions in the bond activities, varying distribution capacities:

⇒ **Logical evolution is to regroup debt, loans and treasury activities to optimise balance sheet use, distribution and solution oriented client approach**



Why create DEFI

- **Barclays**
- **ABN AMRO**
- **SSSB's**
- **JP Morgan Chase**
- **Dresdner**

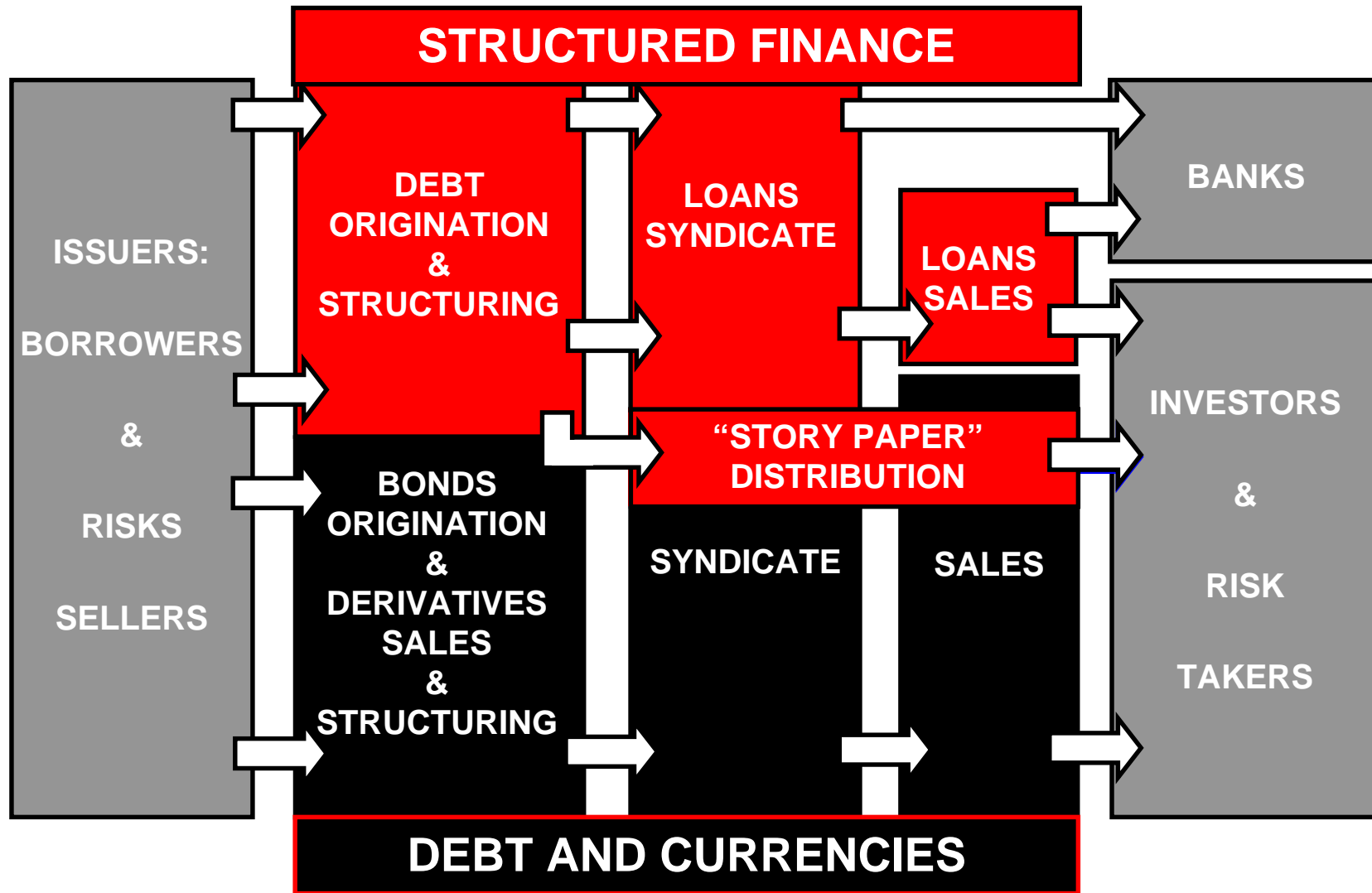


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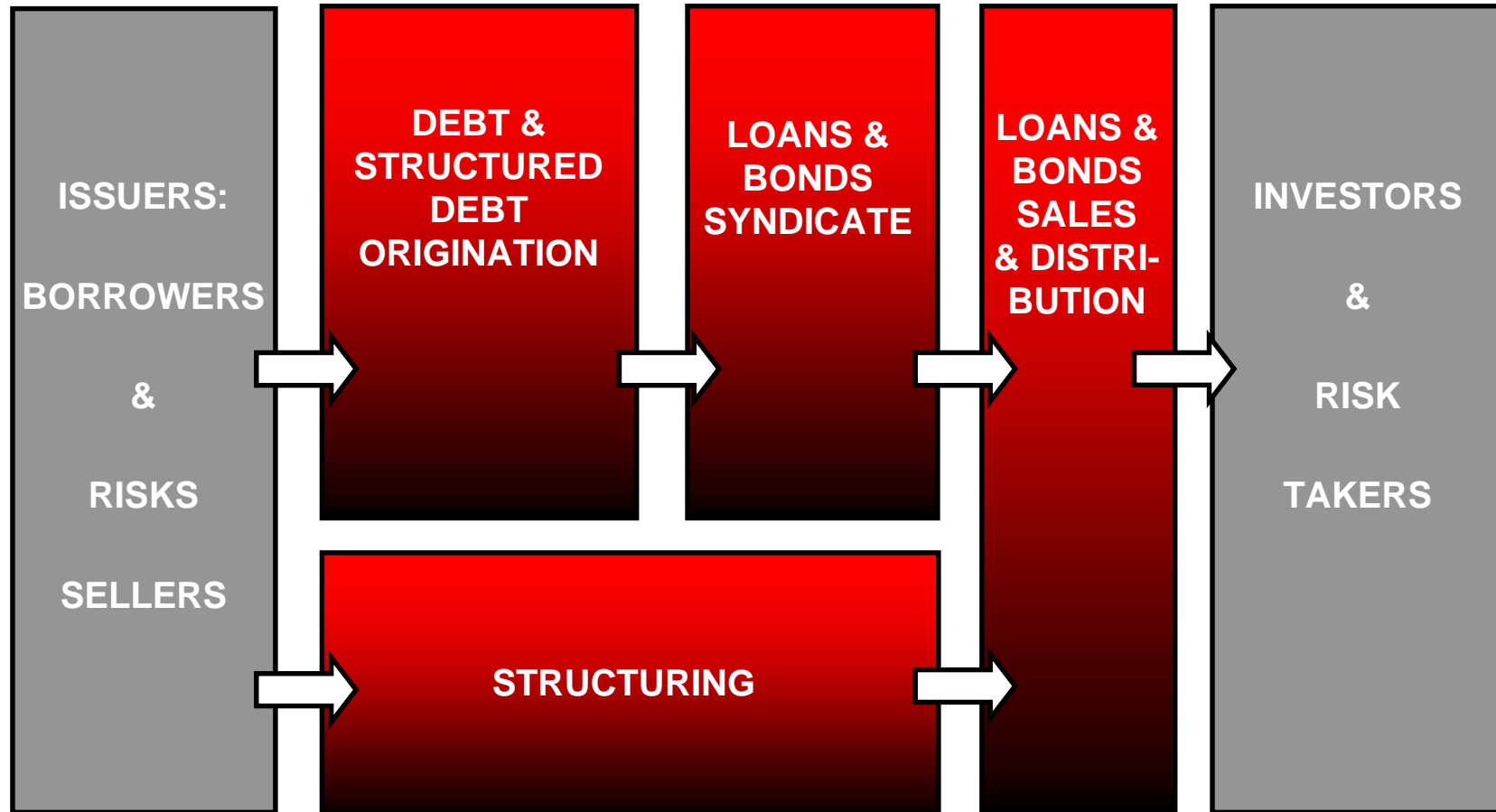


Former Business Models



DEFI's new Business Model

Integrate origination to distribution value chain



Focus on value-added transactions and distribution



Benefits of DEFI business model

- **Benefit from an integrated origination/distribution “value chain”**
 - Leverage from operational synergies (client, product offer, critical size)
 - Maximise capital market distribution in order to optimise use of allocated equity
- **Control cost by avoiding duplication of teams**



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DEFI Mission Statement

■ To develop a debt finance and treasury business franchise:

- Provide our clients, both issuers and investors, with innovative solutions and products through an integrated origination, structuring and distribution process, geared to optimise fee generation
- Develop diversified trading activities, both proprietary and in support of our client business

In order to:

- Achieve a consistent annual revenue growth and a sustainable ROE over 20 %
- Be a reference bank for chosen clients in our selected markets achieving market recognition for product excellence and quality of execution

■ Building on highly skilled professionals with a strong team spirit and an international culture



DEFI 3-year qualitative objectives

Overall objective

- **Achieve critical mass to be among the reference debt finance institutions in our chosen fields for our selected clients**
 - in Europe with a large product offer for selected clients
 - in America, Asia and Australia with a focused approach on selected businesses and clients
- **Develop a strong team of professionals**
 - recruit and train 50 new graduates in 2001
 - build strong team spirit and limit turnover around 15%



DEFI 3-year qualitative objectives

DEFI PRODUCTS	EUROPE	AMERICA	ASIA ex JPN	JAPAN	AUSTR.
Corporate bonds, MTNs, CP	●●●				
Syndicated loans	●●●	●●	●●		●●
Swaps and int. rate derivatives	●●●	●●	●●	●●●	●●
Forex and Forex options	●●●	●●	●●	●●	●
Hybrid debt	●●●				
ABCP	●●●	●●	●	●	●●●
ABS, CLO, CBO	●●●	●●	●●	●●	●●
Tax and Debt Advisory	●●●	●●	●	●	
Export Finance	●●●	●●	●●●	●●	●●
Project Finance	●●●	●●●	●●●	●●	●●●
Asset Finance	●●●	●●	●		●
Acquisition Finance	●●●	●			
Leveraged Finance	●●●				
High Yield	●●				

Position: ● Small ●● Average ●●● Strong

Ambitions: ● Small ●● Average



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Expected leverage from merger

vis-à-vis	Merger of businesses means ...	DEFI can ...
our clients	Ability to deliver a comprehensive offer to our clients	Be a strategic financial partner for our core clients
SG	Critical size and excellence based on our combined strengths	Achieve a leadership position in debt finance which is strategic for SG
our staff	A vision for our business A strategic move A new challenge	Retain all our talents and attract new ones
our shareholders	Optimisation of equity use through enhanced distribution	Improve sustainable ROE
the markets	A clear perception of our strengths	Be a highly visible and profitable business in SGIB



Expected leverage from merger

■ Enhanced ROE will come from:

- an integrated process from origination to distribution through:
 - ⇒ enhanced distribution platform
 - ⇒ capital markets distribution of structured transactions
- build on SG's strength in derivatives
- optimisation of DEFI's asset base with SG Portfolio Management
- a rigorous risks policy
- a strict cost control policy (focused activities, no duplication, alignment with support functions)



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Conclusion

- **The organisation process of DEFI has been rapidly completed:**
 - DEFI became effective in early February 2001
 - Mission statement and objectives are defined for DEFI and its managers
 - Proactive Business line reviews are conducted to firmly implement DEFI business model
 - Incentives are being put in place to encourage co-operation, as well as clear revenue objectives and strict monitoring of performance and costs
 - Product training initiatives are underway



Conclusion

- **DEFI is bearing its first fruits: several significant transactions have been made possible by its creation. It shows that DEFI is more than the sum of Debt & Currencies with Structured Finance**
- **We are confident that DEFI will contribute to enhancing the Risk/Return profile of SG Corporate and Investment Bank**



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