

Foreign Exchange Strategy Discussion

**Best practices to manage
cross border currency risk**

October 29, 2015



Today's Agenda:

- **Introduction**

- Vera Shokina, Global Gateway, Managing Director
- Joe O'Leary, Senior Foreign Exchange Trader
- Nate Wyne, Senior Foreign Exchange Advisor

- **Economic overview – US, Russia, China, EU**

- **Managing cross-border relationships (structure of accounts, doing business in local currency, managing foreign currency risks)**

- **Case study examples**

- **Questions & answers**

Economic Overview of Russia



Joe O'Leary
Senior Foreign Exchange Trader



Economic Overview

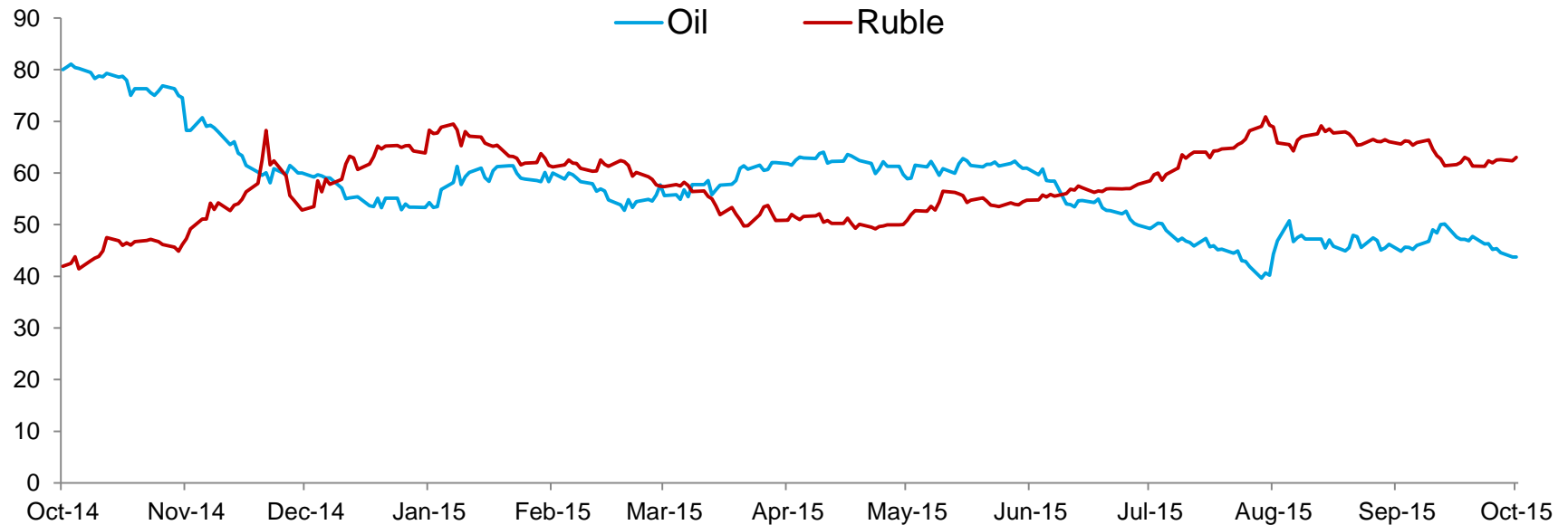
	USA	Russian Federation	European Union	China
GDP YoY	+2.7%	-4.6%	+1.5%	6.9%
GDP	\$17.9 T	\$2.08 T	\$16.8 T	\$9.24 T
Unemployment	5.10%	5.20%	11.00%	4.04%
Inflation	0.00%	15.70%	-0.10%	1.60%
Benchmark Rate	0.25%	11.00%	0.05%	4.35%
Current FX Rate	--	63.01	1.1053	6.3520
Forecast Trend	↑	TBD	↓	↗



Russia Specific Risks

- **Key Russian Risks**

- Economic sanctions
- Domestic Growth
- Further weakness in the oil markets



On The Horizon

- **Expectations for US Fed Reserve Tightening & China Weakening**
 - New voting members in 2016 are expected to be more “hawkish”
 - Gradual pace
 - Normalized rates years away
- **Pressure on Russia & Other Commodity-based Currencies**
 - Focus on currency rates
 - Forecasters are predicting a slow Russian turn-around
 - Until then...more volatility



Polling Question #1

- **Where are you on the road of becoming a global business?**

Pick one:

- A: I am already active across borders
- B: I will start within 12 months
- C: I have not decided when to start

Foreign Exchange Implications



Nate Wyne
Foreign Exchange Advisor



Managing Foreign Exchange Risk

- **Focus on Capital Preservation**

- Following a successful capital raise, what should a company do ?
- What factors, specific to the Russian economy, should I consider when planning my strategy ?

- **Effective Management of FX Risks is Crucial to a Solid Business Model:**

- Businesses large and small dedicate extensive resources towards FX management because they understand the risks involved.
- Building and implementing a sound FX policy is usually the first step in properly securing your cross-border risks.



Why are these Currencies so Volatile ?

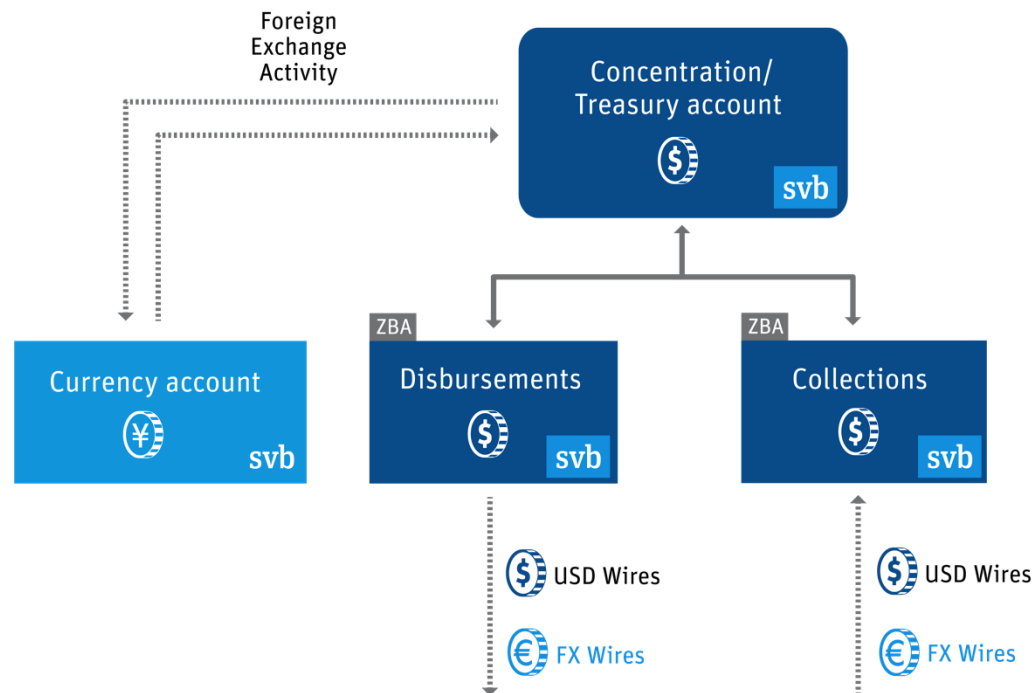
It's a moving market and the politics are wildly different from the G10.

USD/RUB 1-year



What would an international account structure look like ?

Digital banking platform for visibility and control



Activities and flows:

1. International payments are typically for purchasing parts overseas or to pay for outsourced work.
2. Receipts consist of investor funds and distributor payments.
3. U.S. dollar wires for payments in and out.
4. Add FX wires as demand warrants.
5. Add currency account as volume in a specific currency grows.

When are the Numbers Big Enough to Matter ?

- **Tying in Realistic numbers into your Policy is a Solid Best Practice**
 - Determining an amount that is material to your cash-position is an easy way to set limits on what level of risk you are willing to accept as you operate/grow.
- **The implications of a large USD raise should be assessed before the greenbacks begin to flow.**
- **Forecasting**
 - Most established banks provide a forecast for all major currencies.
 - These can be used for reference points and help guide business strategies.
- **Companies big and small, private and public can benefit from FX hedging in Russia.**



Forward Price vs. Spot Price

- **Forward:**
 - Locks today's spot price combined with a slight adjustment to equalize the interest rate differentials between the two central banks.
 - **I.E.**
 - XYZ company locks in a forward where it purchases RUB (sells USD) for value 31 DEC 2015.
 - Spot is 63.00
 - Forward points are 1.19
 - For RUB purchases, the forward points are a benefit to the buyer. The inverse is also true.
 - All-in price is 64.19
 - No money trades hands until 29 DEC 2015
- **Spot:**
 - Lock's today's spot price for exchanging the two currencies involved within two business days.
 - **Example**
 - XYZ company locks in a spot contract where it purchases RUB (sells USD) for value 2 NOV 2015.
 - Spot is 63.00
 - XYZ's bank debits the USD from XYZ's account, and credits the RUB to XYZ's beneficiary (or its own ruble account.)



Products Available

Country	Spot Availability	Forwards	Options	Multi-currency Account
Europe	Yes	Yes	Yes	Yes
UK	Yes	Yes	Yes	Yes
China	Yes	Yes (CNH)	Yes (CNH)	Yes (CNH)
Russia	Yes	Yes	Yes	TBD

Purchasing Currency via SVB.com

The screenshot displays the SVB.com website interface for purchasing currency. The top navigation bar includes links for Home, Accounts, Transfers, Deposits & Receivables, and Services. A secondary bar shows 'FX' and 'FX Purchase'. A dropdown menu is open, listing various currencies: CNY - YUAN RENMINBI, COP - COLOMBIAN PESO, CYP - CYPRUS POUND, CZK - CZECH KORUNA, DKK - DANISH KRONE, EUR - EURO, FJD - FIJI DOLLAR, GBP - POUND STERLING, HKD - HONG KONG DOLLAR, HUF - FORINT, IDR - RUPIAH, ILS - NEW ISRAELI SHEKEL, INR - INDIAN RUPEE, JPY - YEN, KES - KENYAN SHILLING, KRW - WON, MXN - MEXICAN PESO, MYR - MALAYSIAN RINGGIT, NOK - NORWEGIAN KRONE, NZD - NEW ZEALAND DOLLAR, PHP - PHILIPPINE PESO, and PLN - ZLOTY. A green button labeled 'Help Guides & Quick T...' is visible. Below the dropdown, the text 'Spot Contract Purchase' is shown, followed by a progress indicator 'Step 1 >> Step 2 >> Step 3'. A blue link 'Pick Your Currency ?' is present. The main form area has a dark blue header with 'FX Forward' and 'FX Payment Instructions'. The body contains a form with the text 'Today, I am purchasing' followed by a dropdown menu labeled 'Select your currency'. A hand cursor icon points to this dropdown. To the right of the dropdown is the text 'and making' followed by another dropdown menu labeled 'Select payment preference'. A blue question mark icon is next to the second dropdown. At the bottom right, there is a blue 'Continue' button.

Link to full walk-through on SVB.com: http://www.svb.com/learning_center/default.aspx?id=8589936338

Polling Question #2

- **Do you have a board-approved foreign exchange policy?**
 - A: Yes
 - B: It has been discussed at the board, but not approved.
 - C: Not yet

Policy Discussion: Steps to Follow

ANALYSIS

- 1) Data Collection
 - Define key questions
 - Develop collection system
- 2) Exposure Analysis
 - Quantify the exposure
 - Compare quantified risk to cost of hedging

DEVELOP FX POLICY

- 1) Identify key features
 - Objectives
 - Guidelines
 - Hedging Tools
 - Internal responsibility
- 2) Communicate Policy
- 3) Regularly evaluate Policy

CHOOSE METHOD

- 1) Adhere to Policy
- 2) Think Internal Hedge 1st
- 3) Be flexible
- 4) Use a combination of tools

MONITOR EVENTS

- 1) Be alert to events that may affect FX markets
- 2) Identify new risk management tools

Discussion and Recommendations



Vera Shokina
Managing Director



Case Study

– Russian software company books a large ruble contract for payment three months in the future.

- Ruble-functional company.
- Company wants to convert RUB to USD upon receipt and move offshore.
- Company wants to retain upside potential while limiting downside risk.

Solution:

- Company books an option strategy for the RUB purchase, and monitors the deal closely for follow-up as the payment date approaches.

Summary & Takeaways

1. Ruble volatility presents risks and opportunities for businesses transacting in Russia and beyond.
2. Keep USD Offshore until needed.
3. Manage all foreign exchange risk directly, per your policy.
4. Consider managing short-term risks – funding and exit.
5. Protect downside risk and pick up yield through effective, intelligent hedging.
6. SVB can send wires in rubles and most other currencies through FX online.
7. SVB has multi-currency accounts in most major currencies
8. Involve SVB for all cross-border payments whether in USD or other currencies.
9. Have a FX Policy in place before it become applicable.



Questions?



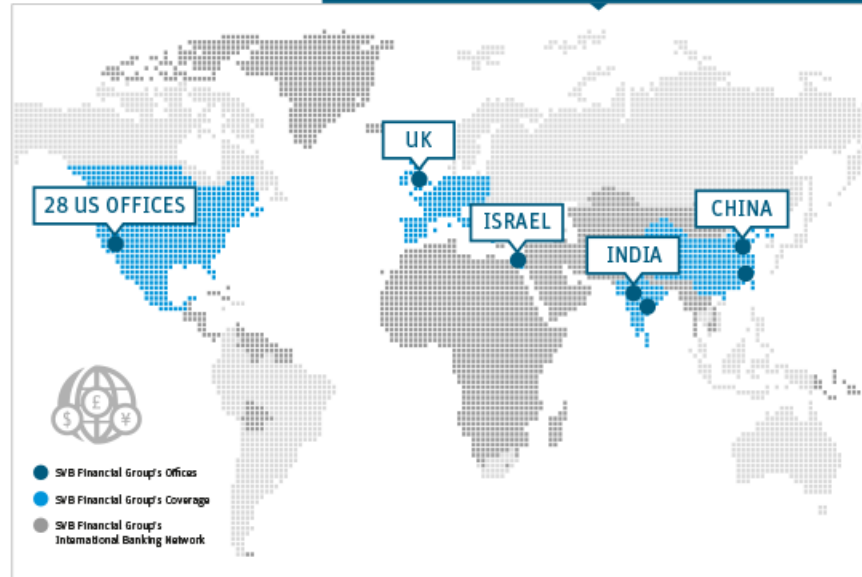
It's our mission to increase innovative companies' probability of success worldwide

TARGET INDUSTRIES



LOCATIONS

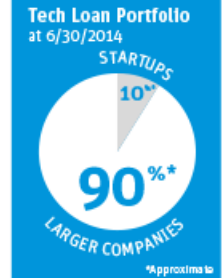
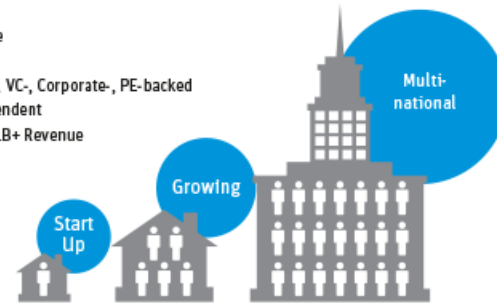
1ST US BANK APPROVED TO OPEN A JOINT VENTURE BANK IN CHINA



CLIENTS

LEADING LENDER TO TECH AND LIFE SCI FIRMS OF ALL SIZES

- ▶ Private
- ▶ Public
- ▶ Angel, VC-, Corporate-, PE-backed
- ▶ Independent
- ▶ 0 to \$1B+ Revenue



50% of all venture capital-backed tech and life science companies in the US

64% of US venture capital-backed companies with an IPO in Q2 2014

FINANCIAL INFO Q2 2014

AMONG AMERICA'S FASTEST-GROWING COMPANIES: FORTUNE

\$ 33B

TOTAL ASSETS

\$ 11B

TOTAL LOANS

\$ 57B

TOTAL AVERAGE CLIENT FUNDS

SERVICES

1ST US BUSINESS BANK TO OFFER CHIP-ENABLED CREDIT CARDS

- ▶ Credit
- ▶ Treasury Management
- ▶ International Banking
- ▶ Valuations
- ▶ Funds Management
- ▶ Private Banking
- ▶ Connections and Research

\$ 30B

TOTAL CLIENT INVESTMENT FUNDS*

9B

F/X TRADES FOR Q2 2014

209B

PAYMENTS PROCESSED Q2 2014

* Total Client Investment Funds (OF balance sheet). As reported on a consolidated basis for the period end June 30, 2014.

B-16-1337-2 Revision 05-20-16

BAY AREA BUSINESS JOURNALS
TOP
CORPORATE PHILANTHROPIST



30 Years / 30 Causes
6000 hours of community service 2013

ONE OF FORTUNE MAGAZINE'S
100 Best Companies to Work for in 2012

Forward Mechanics

FORWARD CONTRACT

Example, Inc SELLS USD 1,000,000 / BUYS RUB



Forward Contracts and Forward Window contracts enable Example, Inc to hedge against volatile market conditions by locking in foreign exchange rates for a date in the future with 100% certainty.

The Forward Contract allows Example, Inc to establish an exchange rate for a specific future date, or range of dates, with no upfront costs. As a result, Example, Inc is 100% protected against adverse currency movements; however, the Forward Contract does not allow Example, Inc to participate in favorable currency movements.

In this scenario, Example, Inc agrees to sell USD 1,000,000 in exchange for RUB 66,655,000 at the maturity of the contract.

Pricing Parameters

Currency Pair: USD/RUB
Reference Spot: 65.0350
Maturity: 1/29/2016
Notional Amount: USD 1,000,000

Forward Contract Structure

Protection Rate: 66.6550

Rate Protection: 100% protection at pre-determined exchange rate.

Upside: Can not participate in favorable exchange rate moves.

Timing Flexibility: A drawdown time window can be incorporated into this contract.

No Upfront Premium: There is no upfront premium required.

Known Unwind Cost: Cost of unwind is dependent upon market rates.

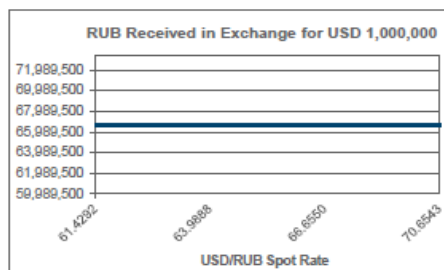
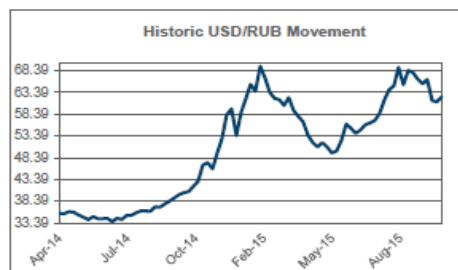
Possible Outcomes at Maturity:

USD/RUB spot rate below 66.6550 at maturity:

Example, Inc will sell USD 1,000,000 in exchange for RUB 66,655,000 using the pre-determined forward rate of 66.6550 on the settlement date. In this scenario, Example, Inc is protected at all times against unfavorable market movement at the forward contract rate.

USD/RUB spot rate above 66.6550 at maturity:

Example, Inc has agreed to sell USD 1,000,000 in exchange for RUB 66,655,000 at the pre-determined forward rate of 66.6550 on the settlement date. In this scenario, while the Forward Contract provides protection at all times against adverse market movements, it does not allow Example, Inc to participate in favorable market movements.



50% Participating Forward Mechanics

50/50 PARTICIPATING FORWARD Example, Inc SELLS USD 1,000,000 / BUYS RUB



A Participating Forward Contract enables Example, Inc to hedge against volatile market conditions with complete certainty by locking in future exchange rates while also providing the ability to participate in favorable market movements.

Similar to a traditional Forward Contract, the Participating Forward provides Example, Inc with 100% protection against adverse market moves. However, unlike a traditional Forward Contract, a Participating Forward also provides the additional benefit of 50% participation in any favorable market movements. The maximum gain for Example, Inc on this contract is unlimited.

In this scenario, should the USD weaken (RUB strengthen) Example, Inc is completely hedged at the pre-determined forward rate. However, should the USD strengthen at expiration of the contract Example, Inc benefits from 50% of this favorable market move.

Pricing Parameters

Currency Pair:	USD/RUB
Reference Spot:	65.0350
Maturity:	1/29/2016
Notional Amount:	USD 1,000,000

Forward Contract Structure

Protection Rate:	68.8936
Participation Level:	50%

Rate Protection: 100% protection at pre-determined exchange rate.

Upside: Participation in 50% of favorable exchange rate moves. The maximum gain is unlimited.

Timing Flexibility: A drawdown time window can not be incorporated into this contract.

No Upfront Premium: There is no upfront premium required.

Known Unwind Cost: Cost of unwind is dependent upon market rates.

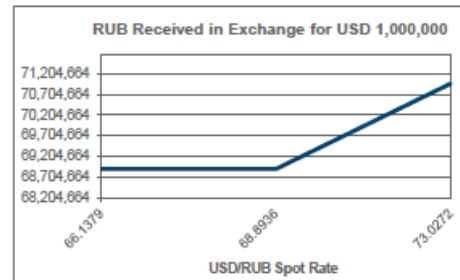
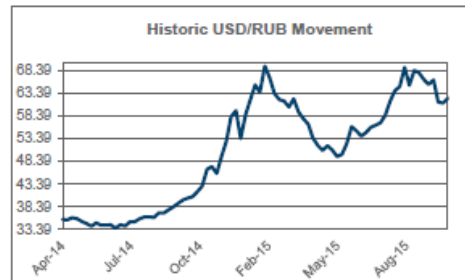
Possible Outcomes at Maturity:

USD/RUB spot rate below 68.8936 at maturity:

Example, Inc will sell USD 1,000,000 in exchange for RUB 68,893,600 using the pre-determined rate of 68.8936 on the settlement date. In this scenario, Example, Inc is protected at all times against unfavorable market movement at the pre-determined Protection Rate.

USD/RUB spot rate above 68.8936 at maturity:

Example, Inc benefits by participating in 50% of the favorable market move. In this scenario, 50% of the notional amount will be transacted at the current Spot Rate and 50% will be transacted at the pre-determined Protection Rate.



Zero-cost Collar Mechanics

ZERO-COST COLLAR

Example, Inc SELLS USD 1,000,000 / BUYS RUB



The Zero-Cost Collar strategy allows Example, Inc to fully hedge the exposure that arises in foreign currency transactions, while also retaining the possibility to participate in favorable rate moves up to a pre-determined level.

Similar to a forward contract, the Zero-Cost Collar provides Example, Inc with 100% protection against unfavorable market moves. However, unlike a traditional forward contract, if the exchange rate moves in your favor, the Zero-Cost Collar allows Example, Inc to transact 100% of the notional amount at the prevailing spot rate up to a pre-agreed Maximum Rate.

Rate Protection: 100% protection at pre-determined exchange rate.

Upside: Participation in favorable exchange rate moves up to a pre-determined rate.

Timing Flexibility: A drawdown time window can not be incorporated into this contract.

No Upfront Premium: There is no upfront premium required.

Known Unwind Cost: Cost of unwind is dependent upon market rates.

In this scenario, should the USD weaken (RUB strengthen) Example, Inc is completely hedged at the pre-determined Protection Rate. However, should the USD strengthen at expiration of the contract, Example, Inc benefits from the favorable market move up to the pre-determined Maximum Rate.

Pricing Parameters

Currency Pair:	USD/RUB
Reference Spot:	65.0350
Maturity:	1/29/2016
Notional Amount:	USD 1,000,000

Structure of Zero-Cost Collar

Protection Rate:	62.6392
Maximum Rate:	77.7767

Possible Outcomes at Maturity

USD/RUB spot rate below 62.6392 at maturity:

Example, Inc will sell USD 1,000,000 in exchange for RUB 62,639,200 using the pre-determined Protection Rate of 62.6392 on the settlement date. In this scenario, Example, Inc is protected at all times against unfavorable market movements up to the pre-determined rate.

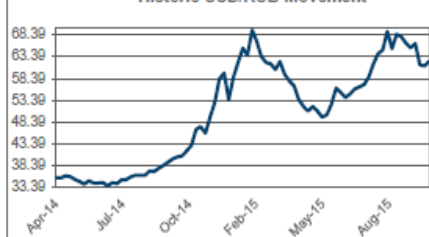
USD/RUB spot rate between 62.6392 and 77.7767 at maturity:

Example, Inc is free to transact at the prevailing Spot Rate.

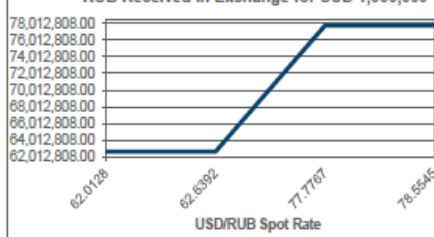
USD/RUB spot rate above 77.7767 at maturity:

Example, Inc will sell USD 1,000,000 in exchange for RUB 77,776,700 using the pre-determined Maximum Rate of 77.7767. In this scenario, Example, Inc forfeits participation beyond the pre-determined Maximum Rate in exchange for the certainty of the Protection Rate.

Historic USD/RUB Movement



RUB Received in Exchange for USD 1,000,000



Vera Shokina



Managing Director
Silicon Valley Bank

vshokina@svb.com

408.654.6240

Vera is a Managing Director with Silicon Valley Bank's Global Gateway group. In this role, she assists international venture capital funds and innovation companies in the emerging markets with their US and international market expansion. Prior to joining SVB, Vera was a Partner, CFO and COO of Runa Capital, a \$200MM venture capital fund, where she was responsible for all finance, legal, operations and investor relations functions. Prior to joining Runa in 2010, Vera spent five years as a VP with Silicon Valley Bank where she was responsible for building relationships with technology start-ups and oversaw a \$50M USD venture debt portfolio for early-stage VC-backed software and services companies. Additional Silicon Valley experience included work at GE Capital and Goldman Sachs & Co.

Joe O'Leary



Senior Foreign Exchange
Trader, CFA
Silicon Valley Bank

JO'Leary@svb.com

408.654.7319

Joe has over 20 years of experience working in the financial services industry. As a seasoned foreign exchange professional his knowledge extends from consultative marketing in foreign exchange principals, extensive knowledge of currency risk management and experience in gathering, evaluating, and hedging foreign exchange exposures for startups as well as multi-national corporations.

Joe prepares custom hedging strategies for clients with complex currency-related issues, advise clients in developing, implementing, executing, and monitoring foreign exchange strategies.

Prior to his current role, Joe was a treasury manager at a large electronics manufacturer in California.

Nate Wyne



Senior Foreign Exchange
Advisor
Silicon Valley Bank

nwyne@svb.com

310.237.3489

Nate Wyne is the Southern California foreign exchange advisor for Silicon Valley Bank. Nate holds a bachelor's degree from the University of Utah in international studies for business.

Nate partners with his clients to create and implement sound risk-management practices around foreign exchange and cash management. After completing his undergraduate degree, Nate pursued a career in retail banking before moving to commercial and eventually corporate banking.

With 13 years of banking experience across the full gamut of advisory roles – Nate enjoys helping growing businesses focus on what they do best.

Disclaimer

Foreign exchange transactions can be highly risky, and losses may occur in short periods of time if there is an adverse movement of exchange rates. Exchange rates can be highly volatile and are impacted by numerous economic, political and social factors, as well as supply and demand and governmental intervention, control and adjustments. Investments in financial instruments carry significant risk, including the possible loss of the principal amount invested. Before entering any foreign exchange transaction, you should obtain advice from your own tax, financial, legal and other advisors, and only make investment decisions on the basis of your own objectives, experience and resources. Opinions expressed are our opinions as of the date of this content only. The material is based upon information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

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