

1st International IFA Czech Branch
Transfer Pricing Conference
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TP of Financial Transactions

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Content

- OECD BEPS discussion draft
- Credit Rating
- Implicit vs. Explicit support
- Benchmarking
- And what about us?
- Closing remarks

Credit Rating (stand-alone)

- Financial data (historical)
- Soft facts
 - Financial risks such as equity/debt raising ability, FX risks, market and commodity risk, ownership risk etc.;
 - Management risk such as risk tolerance, experience and quality of top management;
 - Market risk such as market position, market development, dependency on customers or suppliers etc.;
 - Negative information such as reputation risk, compliance with regulations, overdue public debt etc.; or
 - Group support.

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Credit Rating (stand-alone)

- Ceilings
 - Group ceiling
 - Country ceiling (transfer risk)
- Group rating: group consolidated accounts
- Impact of implicit vs explicit support
 - Implicit: based on assumptions
 - Explicit: written commitment

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Benchmarking

- Are bank loans comparable?
- Internal vs external CUP
- What has influence:
 - Maturity
 - Rating
 - Currency
 - Issue date
 - Guarantee / Collateral
 - Country Risk
 - Purpose of the loan
 - Fixed / Floating interest
 - Other

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Country risk vs. sovereign risk

- Country risk – the risk of doing business in a country
 - It covers the downside of a country's business environment including:
 - Legal environment;
 - Levels of corruption;
 - Socioeconomic variables such as income disparity, etc.
- Sovereign risk – the risk that the government of a country will default on its commercial debt obligations

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Spread Matrix

- Spread matrix (illustrative example)

in EUR bp

Spread YTM / IRS in function of rating, intrapolation & extrapolation, ratings & maturities

| Maturity | AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | BBB | BBB- | BB+ | BB | BB- | B+ | B | B- |
|----------|-----|-----|----|-----|----|----|----|------|-----|------|-----|-----|-----|-----|-----|-----|
| 1Y | -5 | -3 | -1 | 1 | 3 | 4 | 7 | 10 | 13 | 19 | 25 | 31 | 42 | 53 | 64 | 75 |
| 2Y | -4 | -1 | 2 | 4 | 6 | 9 | 13 | 17 | 22 | 32 | 42 | 51 | 68 | 85 | 102 | 119 |
| 3Y | -4 | 0 | 3 | 7 | 10 | 14 | 20 | 25 | 31 | 47 | 63 | 79 | 104 | 128 | 152 | 176 |
| 4Y | -2 | 1 | 4 | 8 | 13 | 17 | 24 | 31 | 39 | 57 | 76 | 95 | 123 | 150 | 178 | 206 |
| 5Y | 1 | 3 | 5 | 11 | 16 | 21 | 30 | 39 | 47 | 70 | 92 | 115 | 147 | 179 | 210 | 242 |
| 6Y | 1 | 4 | 7 | 13 | 18 | 24 | 34 | 44 | 54 | 78 | 102 | 127 | 160 | 193 | 226 | 259 |
| 7Y | 1 | 5 | 9 | 15 | 21 | 27 | 38 | 49 | 60 | 86 | 112 | 138 | 172 | 207 | 241 | 276 |
| 8Y | 1 | 6 | 10 | 16 | 23 | 29 | 41 | 53 | 65 | 93 | 121 | 149 | 184 | 219 | 255 | 290 |
| 9Y | 2 | 7 | 12 | 18 | 24 | 31 | 45 | 58 | 72 | 103 | 134 | 165 | 201 | 238 | 274 | 311 |
| 10Y | 2 | 8 | 13 | 20 | 27 | 34 | 48 | 63 | 78 | 110 | 142 | 174 | 209 | 244 | 279 | 314 |

Financial transactions

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Closing Remarks

- Are banks so special?
- Complexity of financial transactions and what options do we have?
- Ex-ante vs ex-post world

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Thank you!

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