

DIGITALISIERUNG IN TRADE FINANCE

Innovative Lösungen im Forderungs- und Verbindlichkeitenmanagement

11 July 2018



PUBLIC

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Introduction – HSBC Germany & Trade Solutions



HSBC in Germany

An established force in the German market

Overview

- Headquarters in Duesseldorf
- Founded in 1785
- A stock corporation under German law
- Speaker of German management board: Carola Gräfin v. Schmettow (since 02.06.2015)
- Member of the HSBC Group since 1992
- More than 2,800 employees
- 11 Corporate Banking Centres (CBC) across Germany: Local customer relationship managers and product specialists
- Balance Sheet Total EUR 24.3bn*
- CET 1 capital ratio 12.7 %*
- Fitch Rating AA- (Stable)¹



¹ Source: www.fitchratings.com (Long-term Issuer Default Rating)

*Balance sheet Total and CET 1 capital ratio as per: 31/12/2017 - preliminary results

HSBC Group

Commercial Banking Presence



Country Coverage as per 31/12/2017

Global Trade and Receivables Finance business

Connecting clients to global growth opportunities



6,000 ¹
trade professionals
across the world

90% ²
access to
world trade flows

USD500bn ³
trade facilitated
each year

54 ¹
countries

Source:

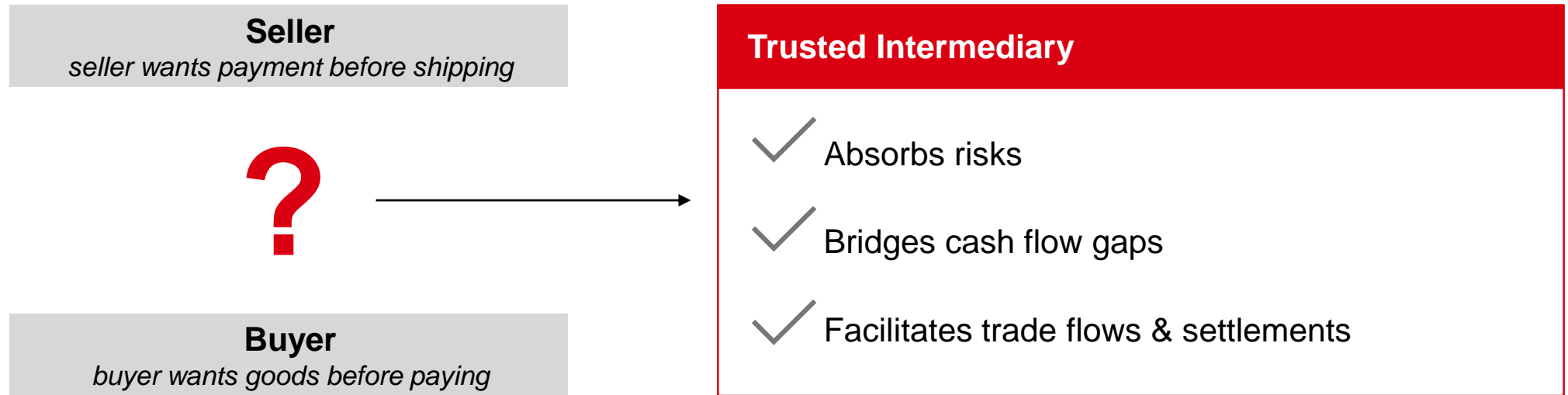
1 HSBC internal management information 2017

2 HSBC network analysis, Global Insight (2016)
and United Nations Conference on Trade and
Development (2015)

3 HSBC internal management information 2016

What is Trade Finance?

Benefits for buyers and suppliers



Traditional Trade

Documentary Trade

Guarantees

Commodity & Structured Trade Finance

Open Account

Receivables Finance

Supply Chain Finance

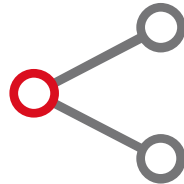
Client Requirements and Trade Solutions

An overview



Client Requirements

- Sales growth
- Support of tenders, performance, payment, rental and customs
- Customers ask for extended payment terms
- Enter into new market
- Attract new commercial relationships
- Reduction of concentration/counterparty risk
- Mitigation of FX/country risk
- Support of key suppliers
- Optimizing cash conversion cycle (DPO/DSO/DIO)
- Debt reduction



HSBC

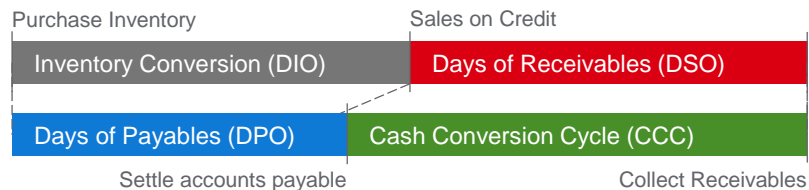
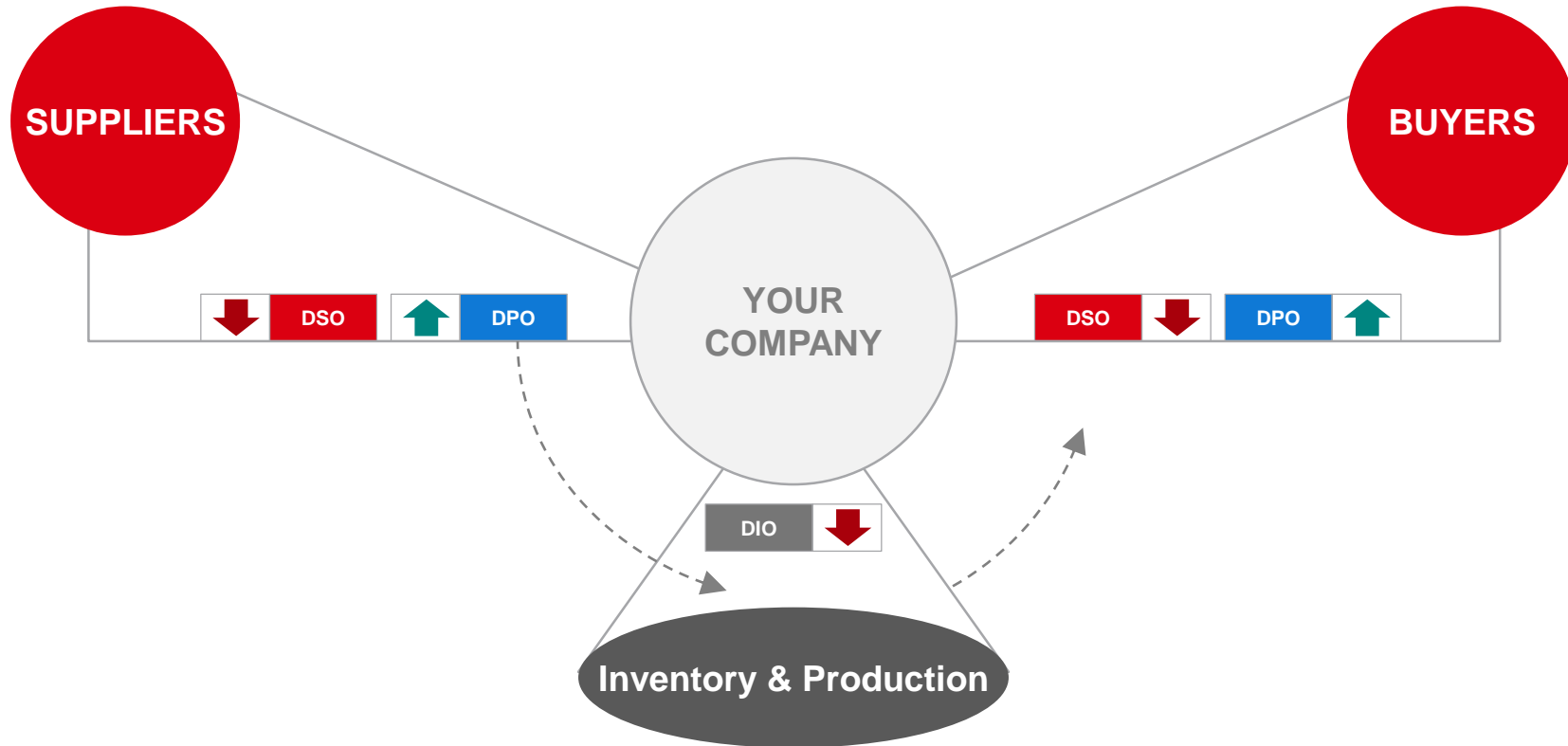
	Documentary Collection	<ul style="list-style-type: none"> - Import and export documentary collections
	Letter of Credit	<ul style="list-style-type: none"> - Import issuance (incl. offshore DC issuance) - Export confirmation (open & silent) - Export negotiation and payment
	Guarantees	<ul style="list-style-type: none"> - Issuance (direct & indirect) - Bid bond, advance payment, performance, warranty etc. - Custom bonds, court bonds, payment bonds
	Structured Trade Finance	<ul style="list-style-type: none"> - Receivables Finance and Supply Chain Finance programs - European Multi-seller structures - Multi-data format processing
	Forfaiting	<ul style="list-style-type: none"> - Purchase of credit insured receivables, BoE etc. - Worldwide Forfaiting desk network with appetite for foreign corporate, government and bank risk
	Commodity Structured Trade Finance	<ul style="list-style-type: none"> - Financing commodity trade flows along the supply chains - Leveraging on HSBC presence on major commodity trade corridors

Focus Today

Working Capital Management

Balancing the conflicting targets of trading partners

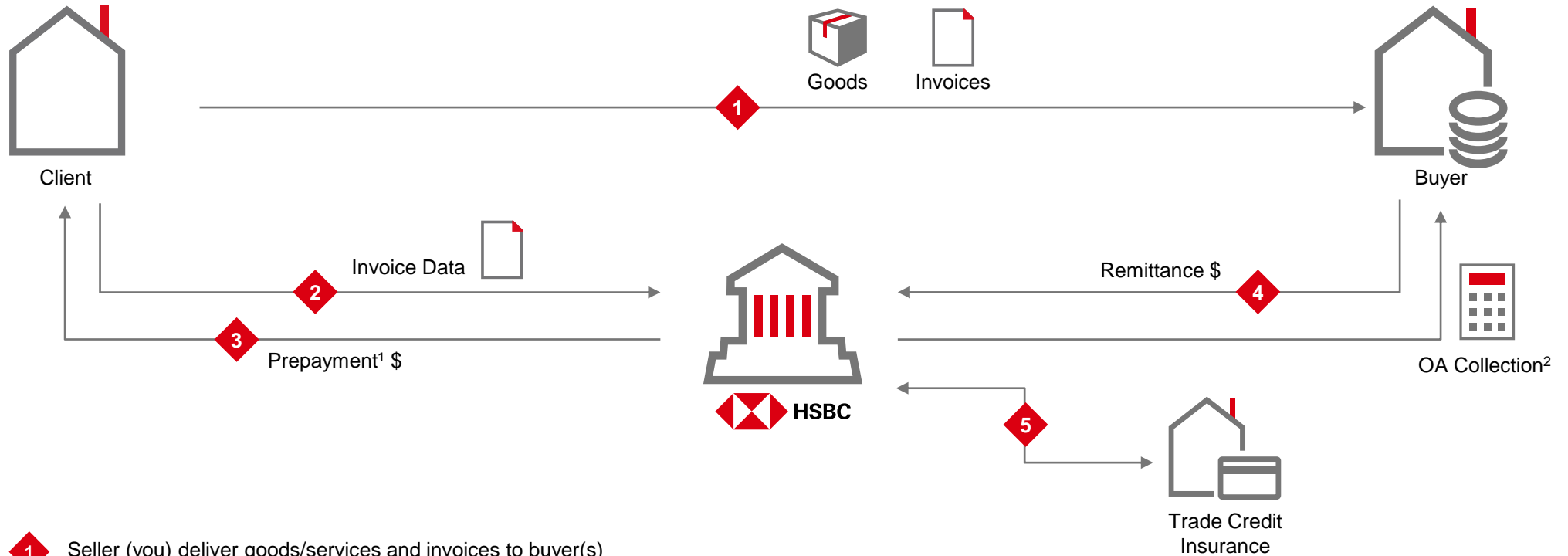
Working Capital Management is not about having excess or inadequate working capital, it is about balancing risk and financial terms.



$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

Receivables Finance

How does it work?



- 1 Seller (you) deliver goods/services and invoices to buyer(s)
- 2 Seller provides invoice data to HSBC via online portal
- 3 Seller draws payment for discounted invoice value from HSBC- typically up to 90% with the balance when the buyer pays
- 4 At maturity, buyer pays invoice
- 5 Optionally, HSBC can provide limited recourse (credit protection) to cover the risk of buyer insolvency or protracted default, either taking that risk for itself or supported by trade credit insurance

Notes:

1. With or without recourse for credit risk
2. if disclosed

All offers of financing, products and services are subject to credit adjudication, qualification and prior approval. Country conditions or restrictions may apply.

Factoring vs. Receivables Finance

A comparison

Factoring

- less regulated than banks
- no relationship driven approach
- granular portfolios with mass debtors and many sellers
- typical scope:
 - many debtors
 - granular portfolios without concentration risk
 - domestic approach
 - less experience / network for Pan-European structures
 - no flexible draw down of funds
 - combined pricing model (margin plus fee)
 - only credit insured debtors
 - usually 75% - 90% funding rate
 - main focus on EUR and German law

Receivables Finance

- small number of debtors
- large single flows / concentration risk
- domestic and international structures
- flexible drawing of funds up to 100%
- all major currencies available
- international sellers in different legal environments, with receivables based on foreign law
- relationship can be leveraged on several banking products, as well as Trade and Receivables solutions



Supply Chain Finance

Need for Supply Chain Finance Solutions



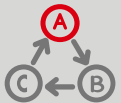
Optimise working capital



Reduce supply chain costs



Enhance supplier relationship and loyalty



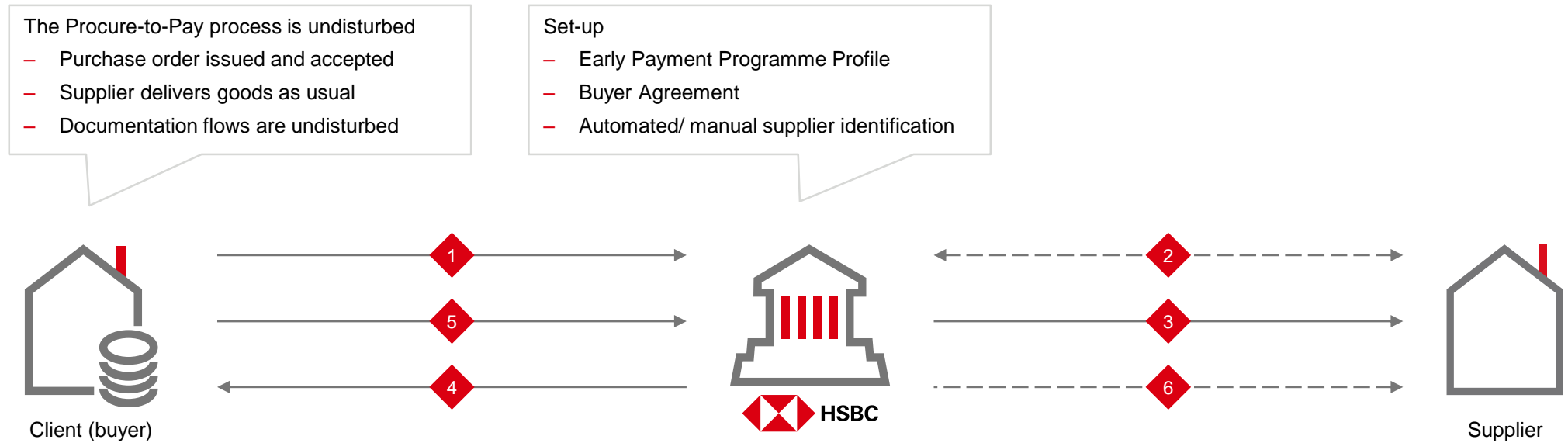
Gain better visibility and control



Easy adoption

Supply Chain Finance

How does it work?



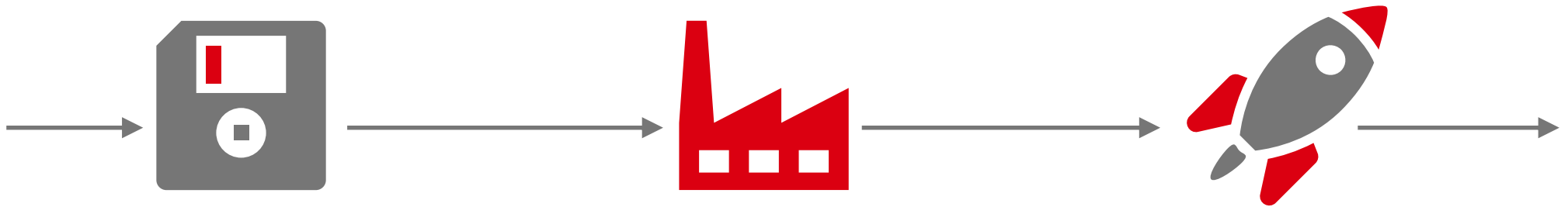
- 1 Buyer uploads the approved invoice file onto HSBCnet or through agreed communication channel
- 2 Supplier manually requests early payment (unless automated early payment is agreed)
- 3 Supplier receives early payment¹
- 4 HSBC provides a report to the buyer (before the settlement day)
- 5 Buyer settles the approved invoice on the due date
- 6 HSBC pays the supplier at maturity (where no early payment), provided HSBC is in funds from the buyer

Notes: All offers of financing, products and services are subject to credit adjudication, qualification and prior approval. Other conditions or restrictions may apply
1. All payments are made at HSBC's sole and absolute discretion

Trade Digitization – Market and Trends

The digital journey

One way to look at it



Need for digitization



- Disconnected Specialist Systems
- Fragmented processing
- Costly and slow



- Decentralized for scale
- Collaborative to mutualise costs
- Private and Permissioned for security

Need for digitization

History

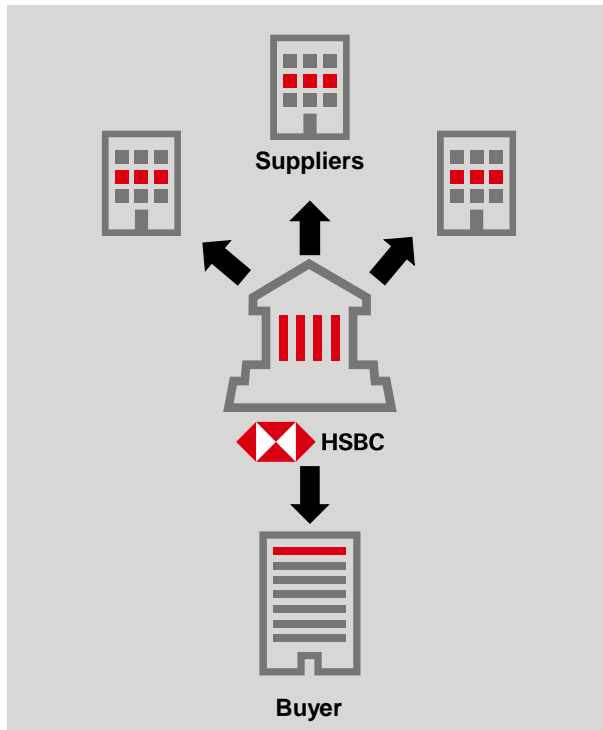
- Client had to establish a direct connection to each of its banks separately
- Sometimes, separate connections for each and every product had to be established
- This led to multi-dimensional connections across banks and even products

Digi

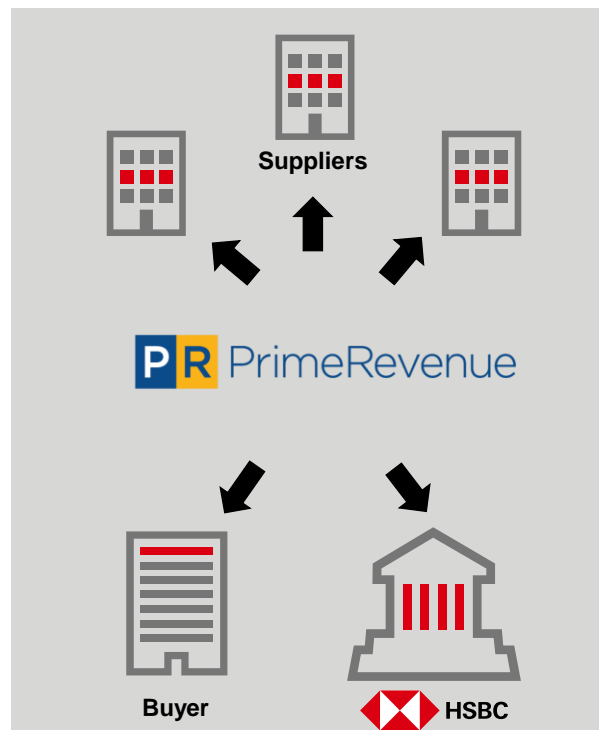
- Client only has to establish one single-entry point in order to be able to reach all of its relevant banks for all relevant products

Future

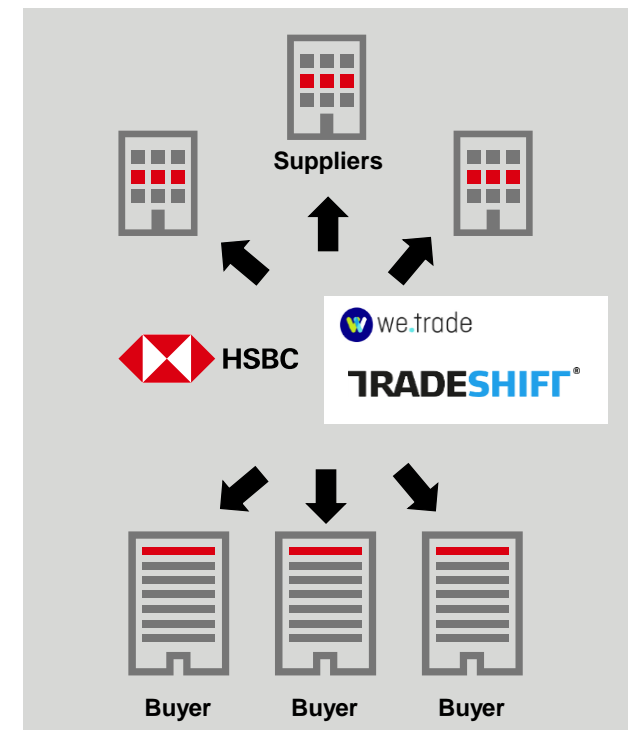
Traditional Proprietary Programs



3rd Party Programs

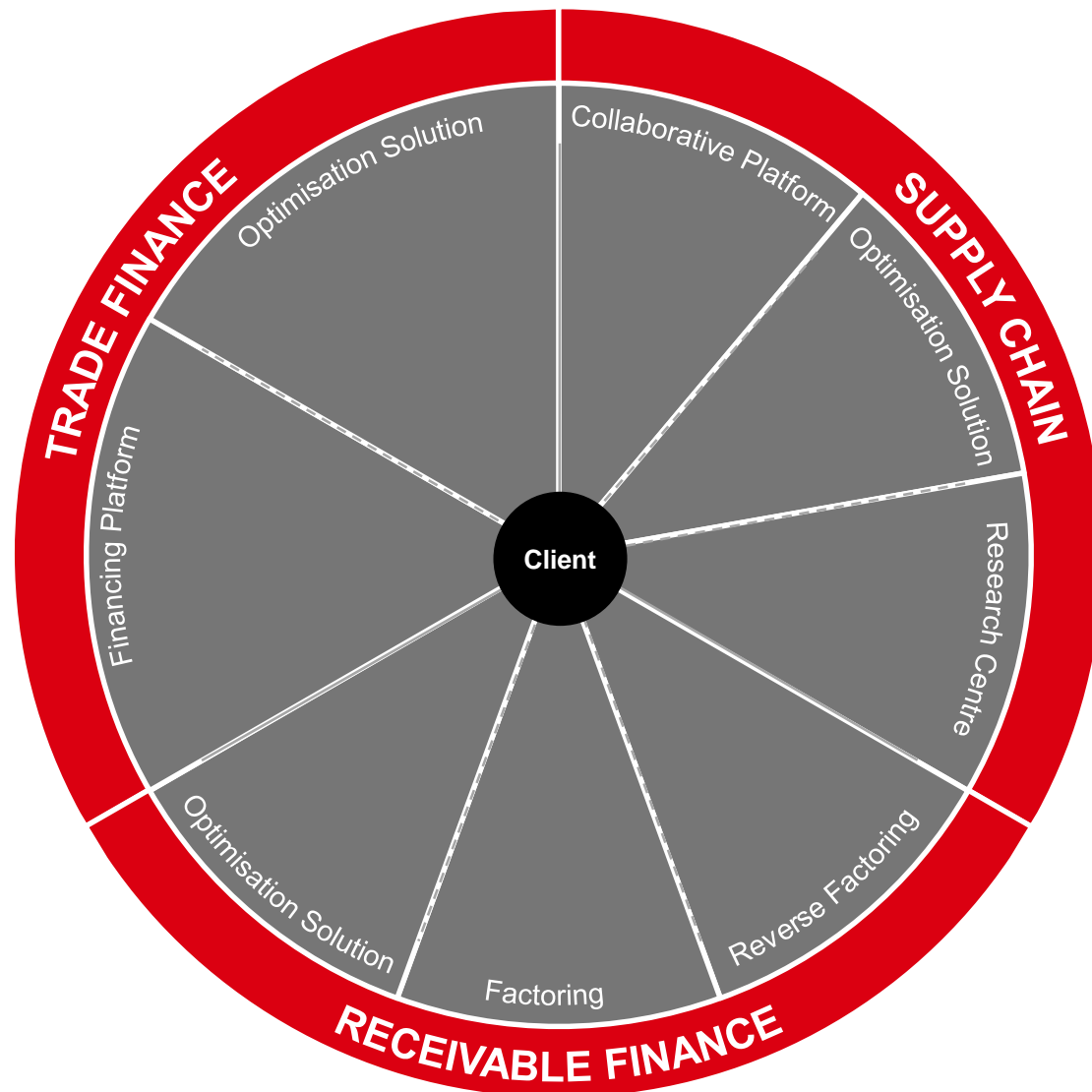


E2E Full Service Platforms



Market Analysis of Innovative Actors

The innovative actors focusing on client satisfaction on the trade finance & factoring activities



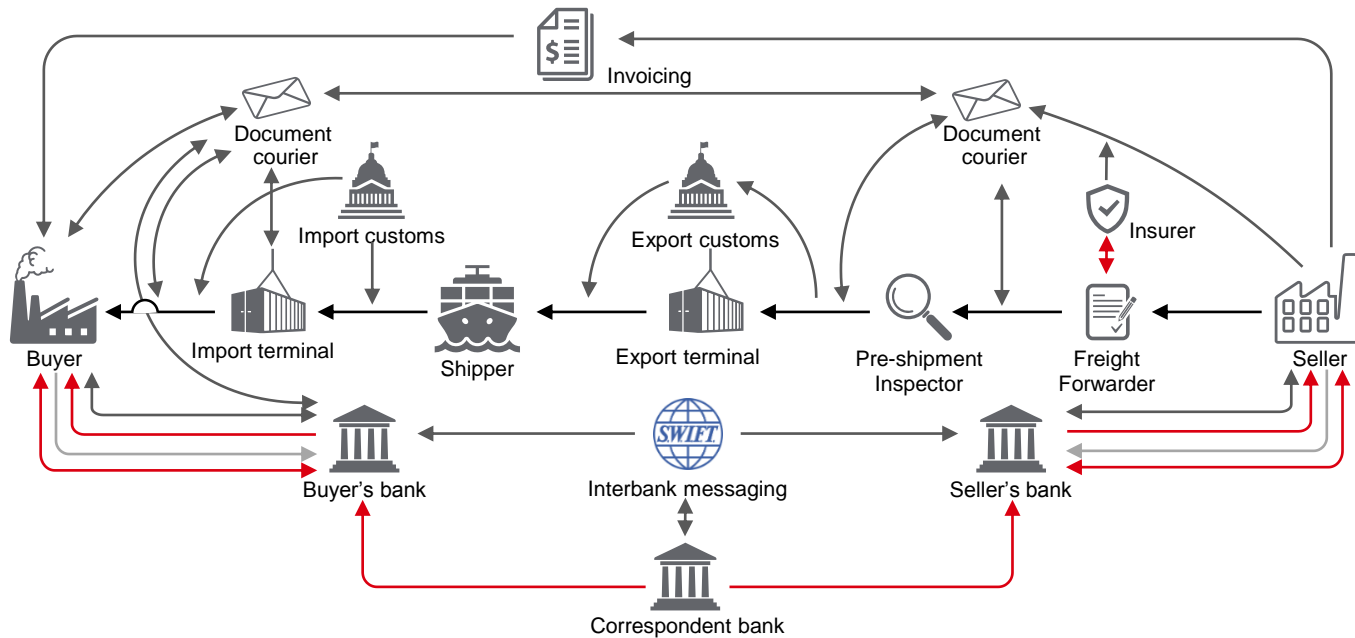
The actors identified brings value-added to clients through **SIMPLE & EFFICIENT** services, notably through:

- Anytime/anywhere access to information
- Digitisation of documentation, interactions, etc
- Flexible conditions
- Reactivity of services
- Transparent fee structure
- Quick account opening
- Real-time updates
- Easy integration to IT systems
- Enhanced securitisation & compliance

Trade Digitization at HSBC

Need for digitization

The Current Landscape



Global Trade and Trade Finance
are connected

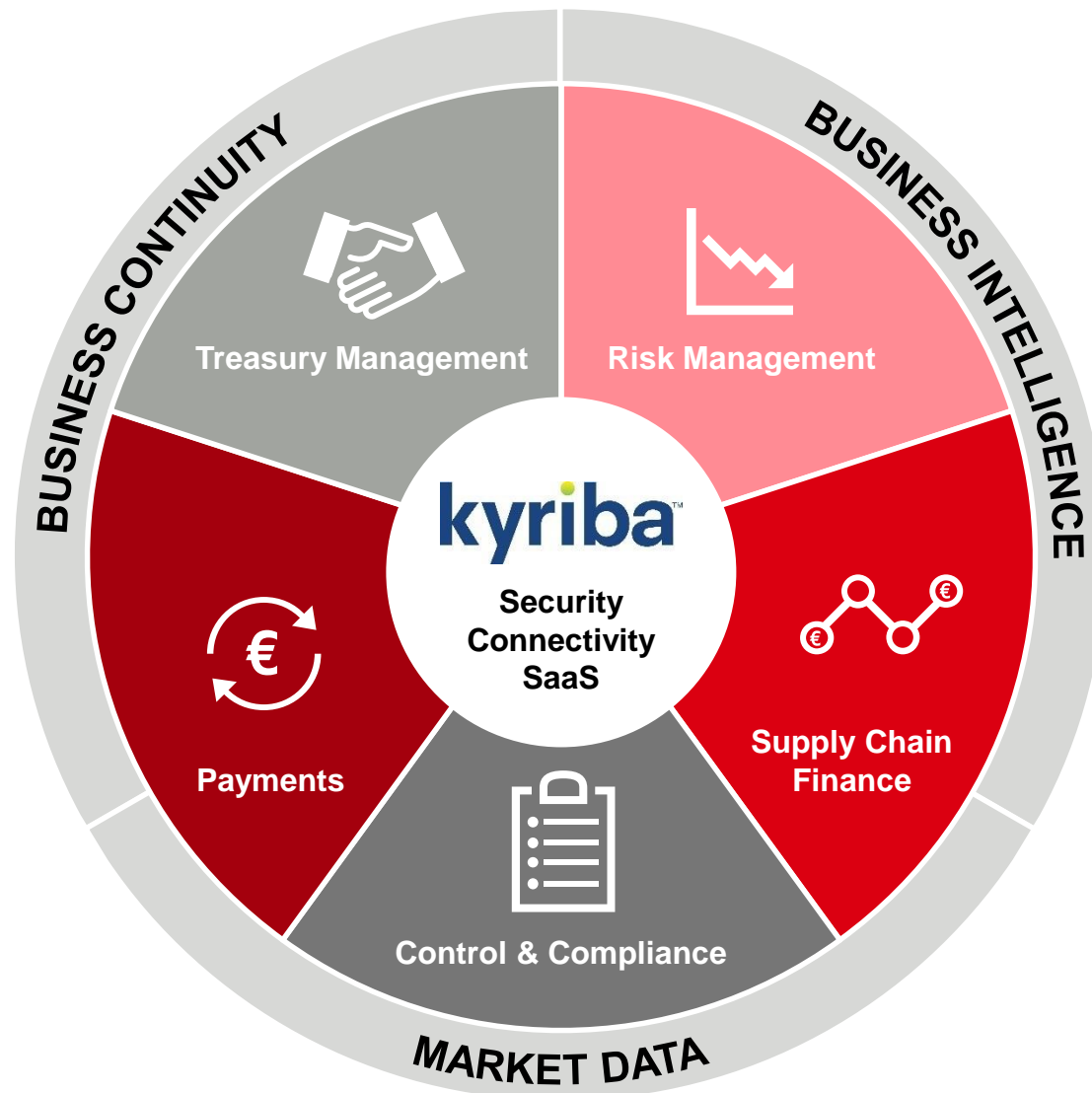



The need to digitise is shared
and can be met with a shared
ledger network


- Paper trail still acts as the golden source of truth for all parties above
- The movement of paper often takes longer than the movement of goods
- Errors that impact our customers are the norm (~70% of transactions)
- According to OECD, over USD 100B in hidden costs and paper documents

HSCF


HSBC's Supply Chain Finance solution based on kyriba


- FX and Interest Rate Hedging
- Mark-to-Market
- Hedge Accounting
- etc.




- Reverse Factoring
- Dynamic Discounting
- Supplier Onboarding



- Fraud Detection
- Sanctions List Screening
- Login Protection
- etc.

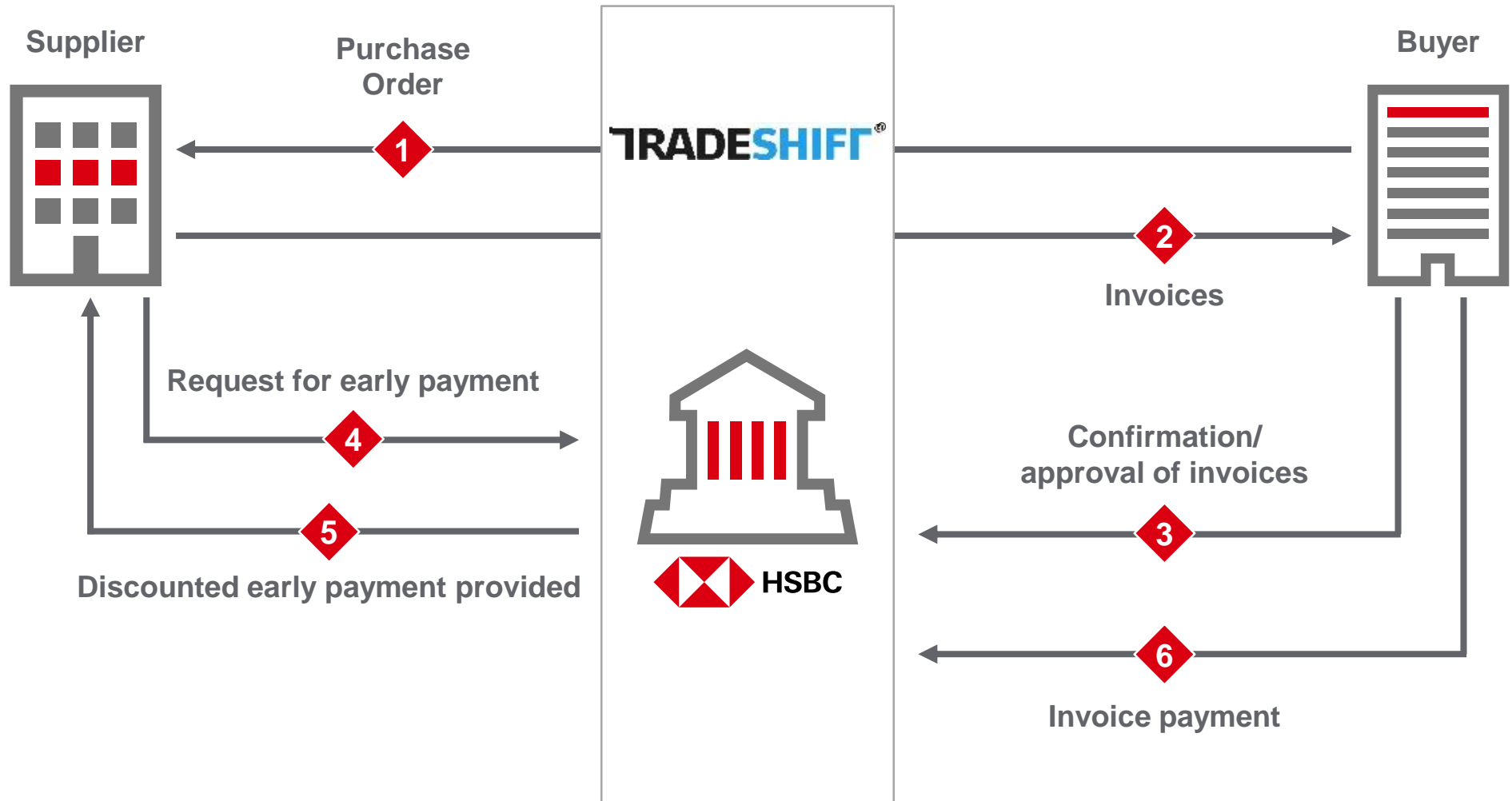


- Treasury Payments
- Supplier Payments
- Payment Factory
- etc.



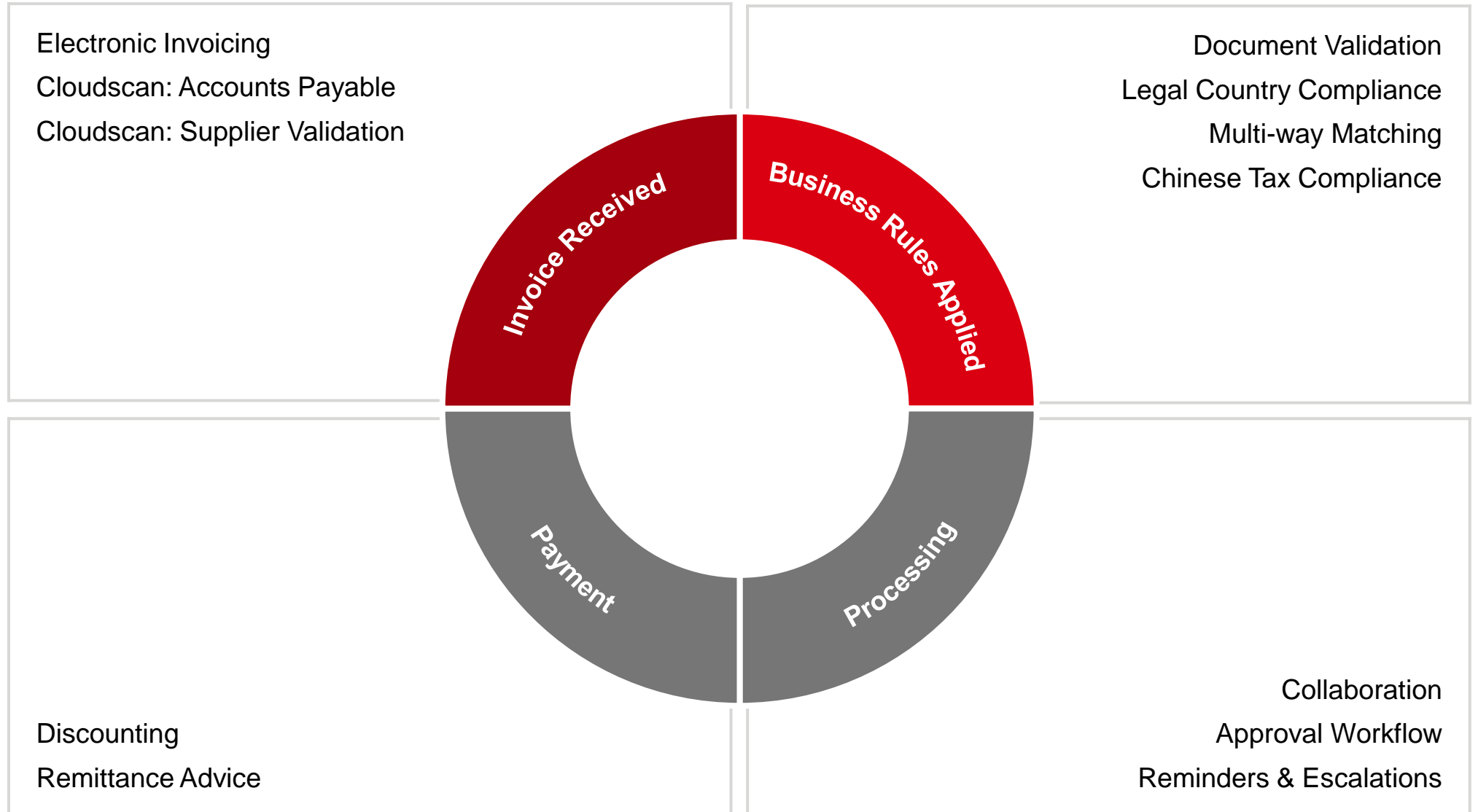
- Cash Management & Forecasting
- In-house Banking
- Multilateral Netting
- etc.

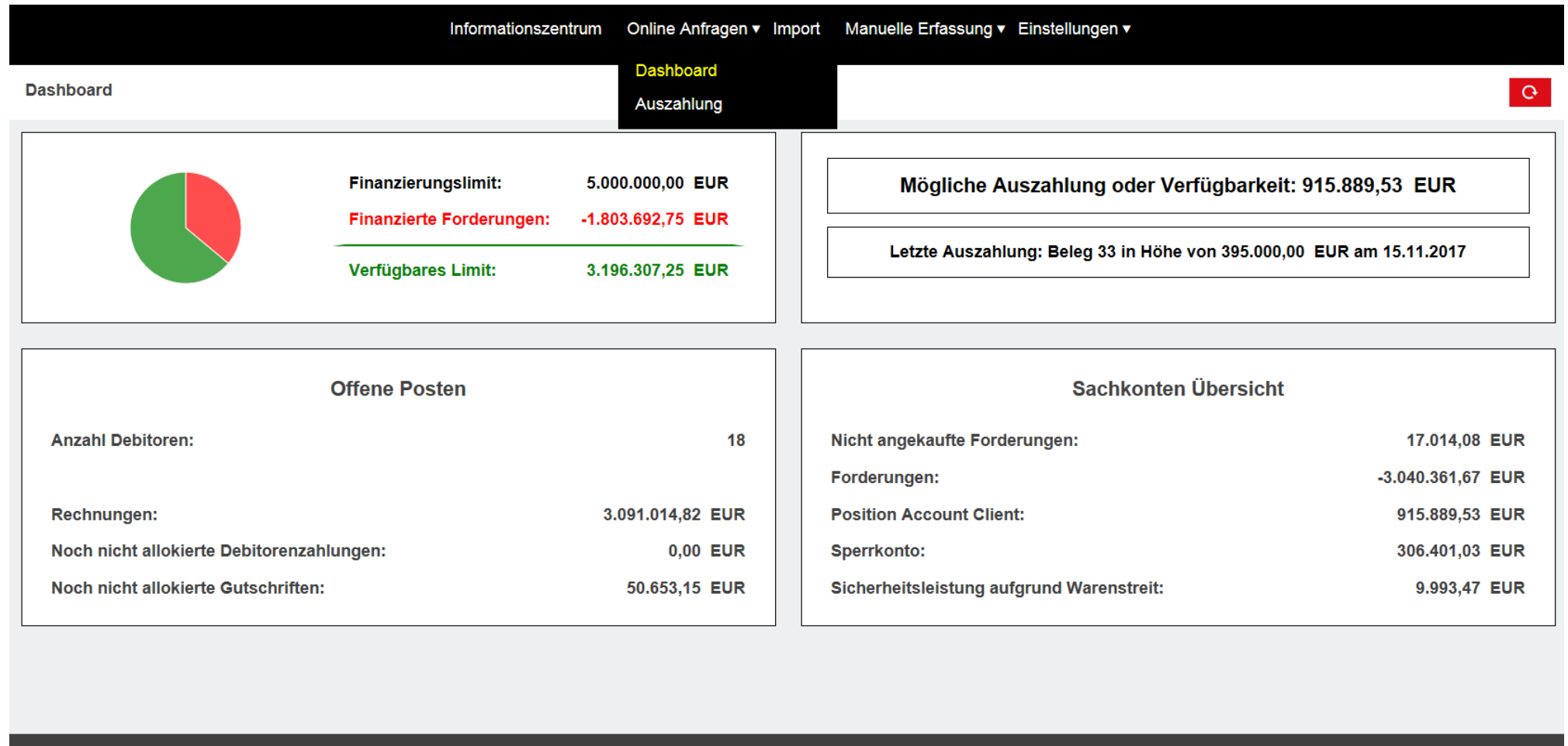
Tradeshift Process Flow



Tradeshift

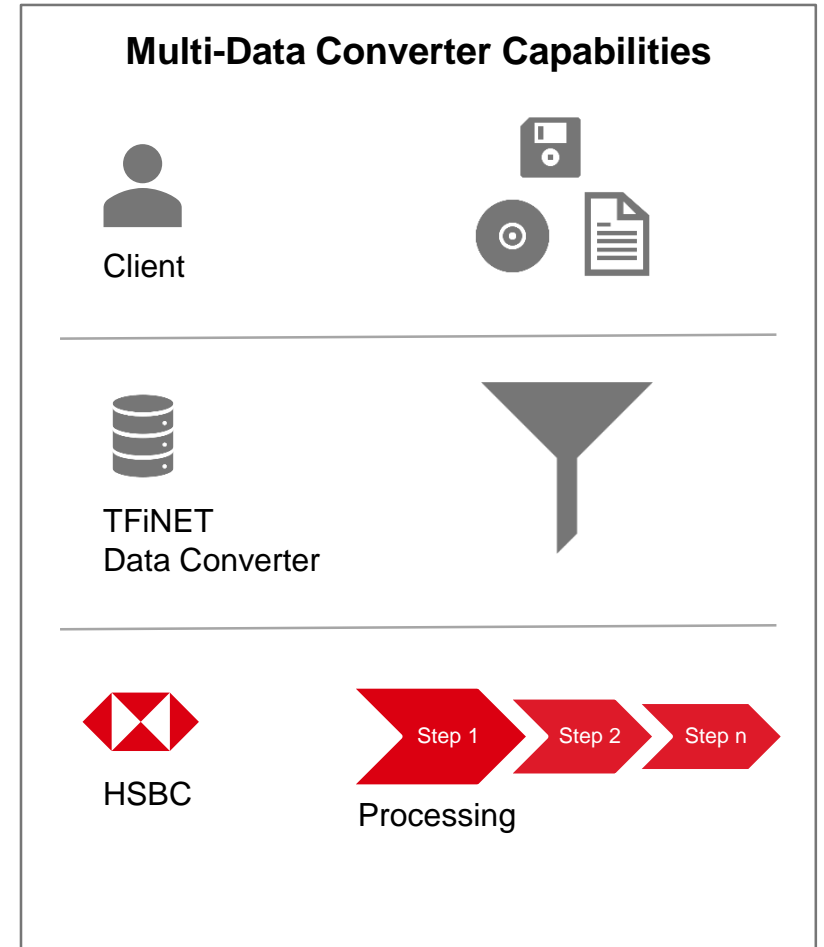
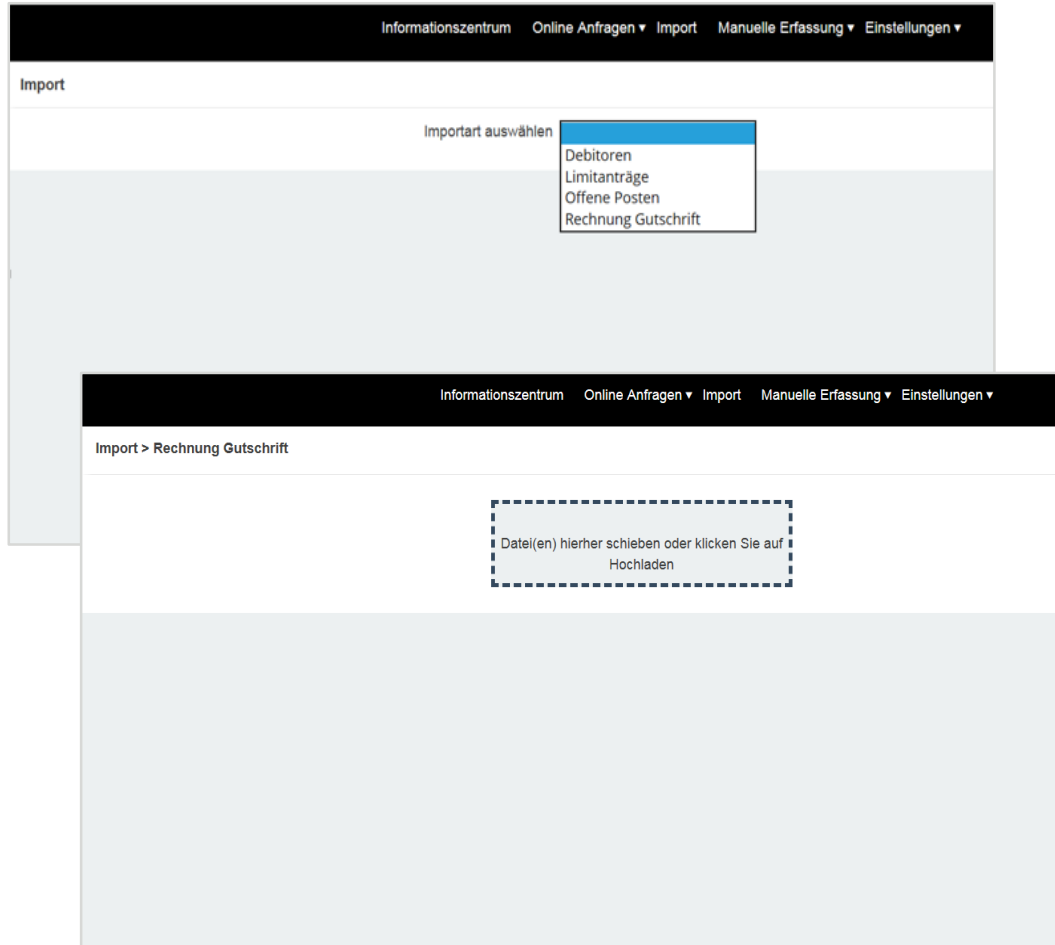
Key Capabilities





TFiNET

HSBC's Receivable Finance solution based on efcom



Kundenauszug – SHSKRE016

Kundenauszug



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 Telefax: +49 211 9
 Umsatzsteuer-ID-Nr.: DE 121 310 482

Auswertungsmonat: 12 / 2017

Per (Datum): 29.12.2017

Buchungstag	Valuta	Beschreibung	Buchungsbetrag	Abrechnungskonto	Kundenkonto	Forderungsbestand
28.12.2017	22.12.2017	Akontozahlungen	51.936,20	-15.135.530,72	1.395.766,40	-16.535.400,06
28.12.2017	22.12.2017	Abzüge (Zahlungen)	262,56	-15.135.530,72	1.395.503,84	-16.535.137,50
28.12.2017	27.12.2017	Akontozahlungen	477.772,46	-14.657.758,26	1.395.503,84	-16.057.365,04
28.12.2017	28.12.2017	Einreichungen - Forderungsankauf	-1.460.693,98	-14.657.758,26	2.856.197,82	-17.518.059,02
28.12.2017	28.12.2017	Factoringgebühren	2.045,00	-14.657.758,26	2.854.152,82	-17.518.059,02
28.12.2017	28.12.2017	Gutschriften	30.870,98	-14.657.758,26	2.823.281,84	-17.487.188,04
28.12.2017	28.12.2017	Auszahlungen	-617.397,93	-15.275.156,19	2.205.883,91	-17.487.188,04
28.12.2017	28.12.2017	Anpassung FF	-2.045,00	-15.277.201,19	2.205.883,91	-17.487.188,04
29.12.2017	28.12.2017	Akontozahlungen	11.889,75	-15.265.311,44	2.205.883,91	-17.475.298,29
29.12.2017	29.12.2017	Auszahlungen	-323.911,17	-15.589.222,61	1.881.972,74	-17.475.298,29
29.12.2017	29.12.2017	Einreichungen - Forderungsankauf	-7.146,78	-15.589.222,61	1.889.119,52	-17.482.445,07
29.12.2017	29.12.2017	Factoringgebühren	10,01	-15.589.222,61	1.889.109,51	-17.482.445,07
29.12.2017	29.12.2017	Anpassung FF	-10,01	-15.589.232,62	1.889.109,51	-17.482.445,07
29.12.2017	14.08.2017	Umbuchungsbetrag	1.248,54	-15.587.984,08	1.890.358,05	-17.482.445,07
29.12.2017	21.12.2017	Korrektur Finanzierte Forderungen	-4.102,94	-15.592.087,02	1.890.358,05	-17.482.445,07
29.12.2017	29.12.2017	Zinsen	-25.554,16	-15.617.641,18	1.864.803,89	-17.482.445,07
29.12.2017	31.08.2017	Zinsen	1,40	-15.617.639,78	1.864.805,29	-17.482.445,07
29.12.2017	30.09.2017	Zinsen	2,38	-15.617.637,40	1.864.807,67	-17.482.445,07
29.12.2017	31.10.2017	Zinsen	24,05	-15.617.613,35	1.864.831,72	-17.482.445,07
29.12.2017	30.11.2017	Zinsen	150,31	-15.617.463,04	1.864.982,03	-17.482.445,07

Seite: 5

Einwendungen gegen Saldenbestätigungen, Rechnungsabschlüsse, Kontoauszüge oder sonstige Mitteilungen oder Listen des Factors müssen unverzüglich, spätestens vor Ablauf von sechs Wochen nach deren Zugang geltend gemacht werden; bei schriftlichen Einwendungen genügt die Absendung innerhalb der Frist. Das Unterlassen rechtzeitiger Einwendungen gilt als Genehmigung.

Informationszentrum Online Anfragen ▾ Import Manuelle Erfassung ▾ Einstellungen ▾

Auszahlung **Dashboard** ↻

Auszahlung

Bankkonto	<input type="text" value="DE5005020100000000050011 - Frankfurter Sparkass"/>	<input type="button" value="Bestätigen"/>
Bankname	Frankfurter Sparkasse	
IBAN	DE5005020100000000050011	
BIC		
Kontonummer	4711	
BLZ	50050201	
Maximale Auszahlung	<input type="text" value="6.000,00"/>	<input type="text" value="EUR"/>
Auszahlung*	<input type="text" value="6.000,00"/>	<input type="text" value="EUR"/>

Blockchain

The HSBC GTRF transaction that made headline news



Frankfurter Allgemeine
Digital bezahlen

Erste Handelsfinanzierung über Blockchain geschlossen

VOR EINER REVOLUTION?
Erste Handelsfinanzierung über Blockchain geschlossen

AKTUALISIERT AM 14.05.2018 - 10:29

MARKET DATA: DAX @ 12.313,06 -0,29% | EUR/USD 1,1644 -0,13% | DOW JONES 24.174,82 -0,54%

Navigation: POLITIK WIRTSCHAFT **FINANZEN** FEUILLETON SPORT GESELLSCHAFT STIL RHEIN-MAIN TECHNIK WISSEN REISE KARRIE

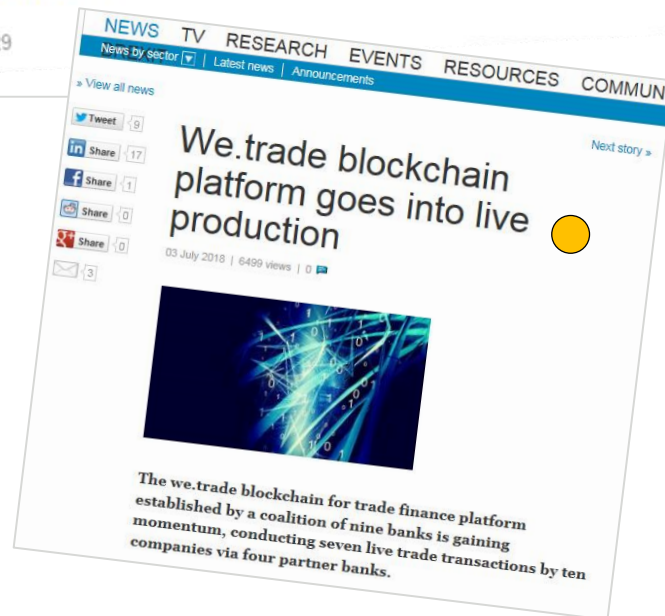
Buttons: E-Paper



SUPPLYCHAINDIVE Home Events Library Jobs Data Opinion Topics




BRIEF
HSBC, Cargill successfully complete blockchain trade-finance transaction



NEWS TV RESEARCH EVENTS RESOURCES COMMUNITY

We.trade blockchain platform goes into live production

03 July 2018 | 6499 Views | 0



The we.trade blockchain for trade finance platform established by a coalition of nine banks is gaining momentum, conducting seven live trade transactions by ten companies via four partner banks.



CNBC HOME INTL NEWS MARKETS INVESTING TECH MAKE IT VIDEO

HSBC says it's made the world's first trade finance transaction using blockchain

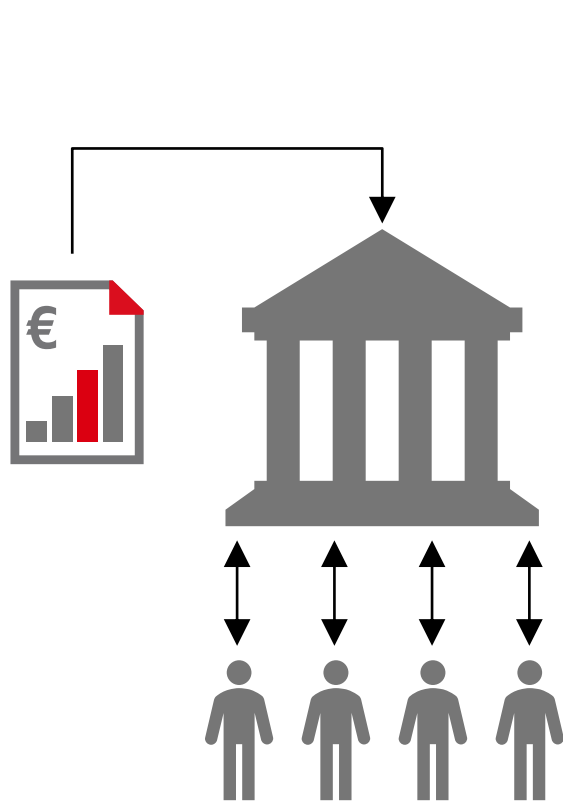
- HSBC issued a letter of credit for U.S. food and agriculture firm Cargill using blockchain.
- It used a platform developed by blockchain start-up R3 called Corda.
- The exchange was performed in 24 hours, HSBC and ING said.

Ryan Browne | @Ryan_Browne
Published 6:16 AM ET Mon, 14 May 2018 | Updated 8:29 AM ET Fri, 1 June 2018

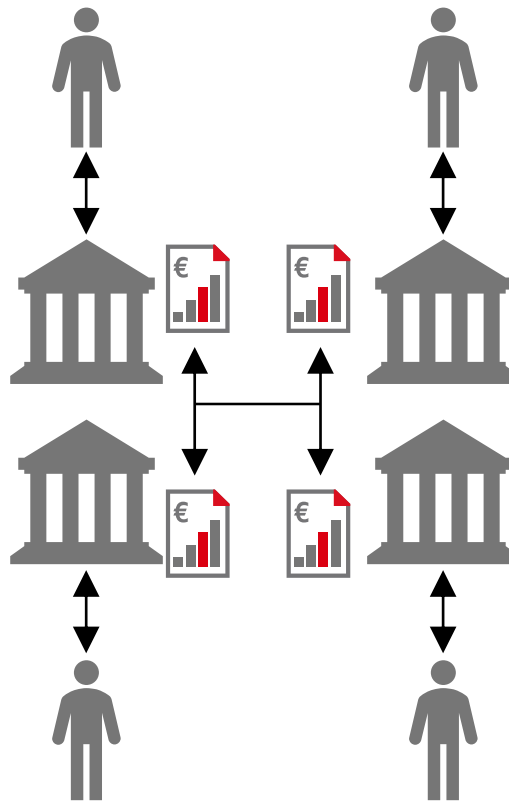
- Letter of Credit transaction
- Open Account Transaction

Blockchain

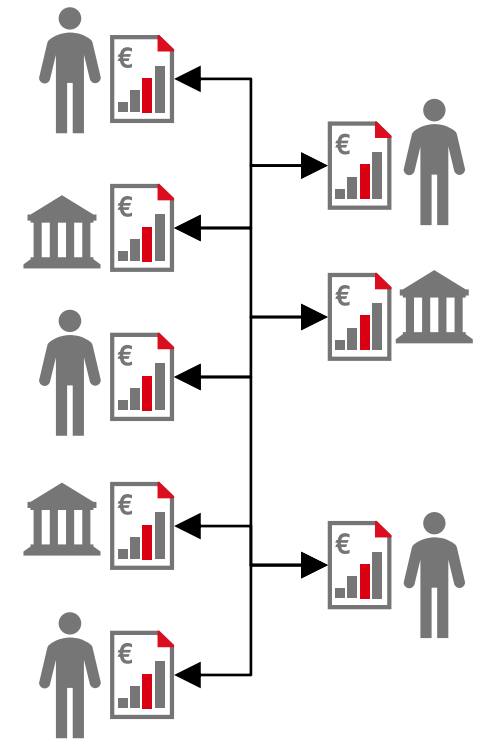
From Bitcoin to Distributed Ledgers – use best of both worlds for Shared/Distributed Ledgers



Centralised Ledger



Private Blockchain Ledger



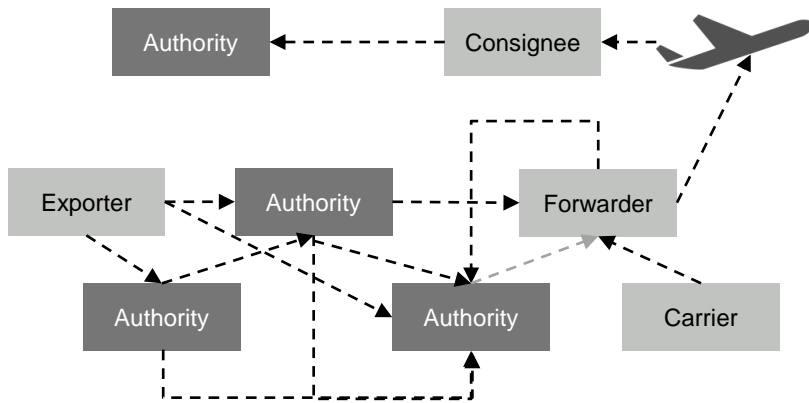
Public Blockchain Ledger

we.trade

Clearing of seller and buyer interaction for our clients with we.trade

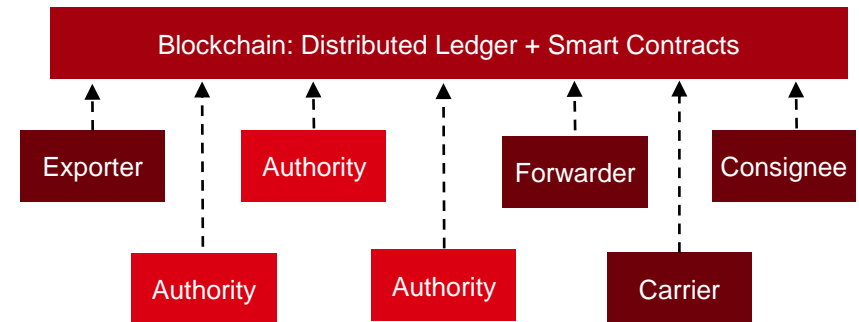
Today

- Manual, paper-based processes
- Humans must carry documents to authorities for stamps
- Air Courier Expense and delays



Tomorrow

- Digital Documents
- Trusted Data Exchanges
- Trusted Workflows
- Instant secure Accesses



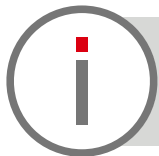
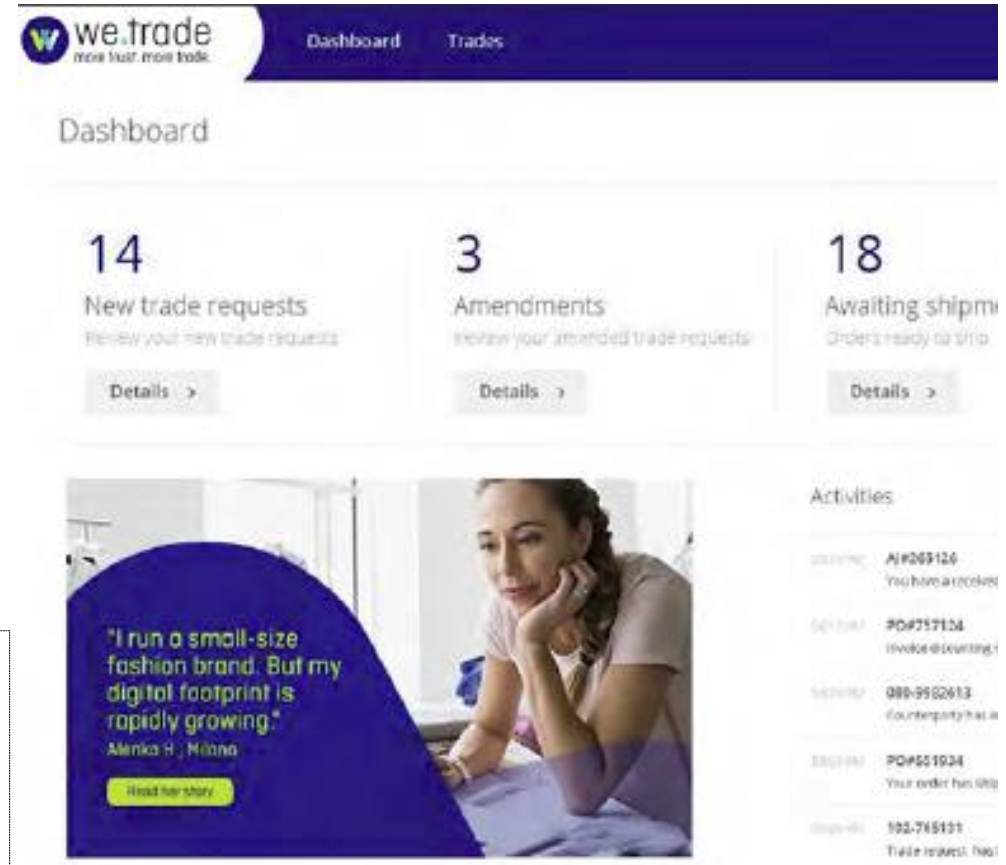
we.trade

Open account trade based on blockchain technology

- Know your counterparty: All corporates are onboarded by a bank
- An new fit-for-market product: Bank Payment Undertaking (BPU)
- Smart contracts: Event based automatic payment triggers
- Invoice financing: additional working capital without leveraging credit lines
- Track and trace across multiple couriers
- Real-time settlement enabled by one platform for all parties

▪ The we.trade platform uses an experimental and continually evolving technology. Adding it to a largely manual trade process introduces new risks, which are mitigated by testing the platform with a selected number of customers.

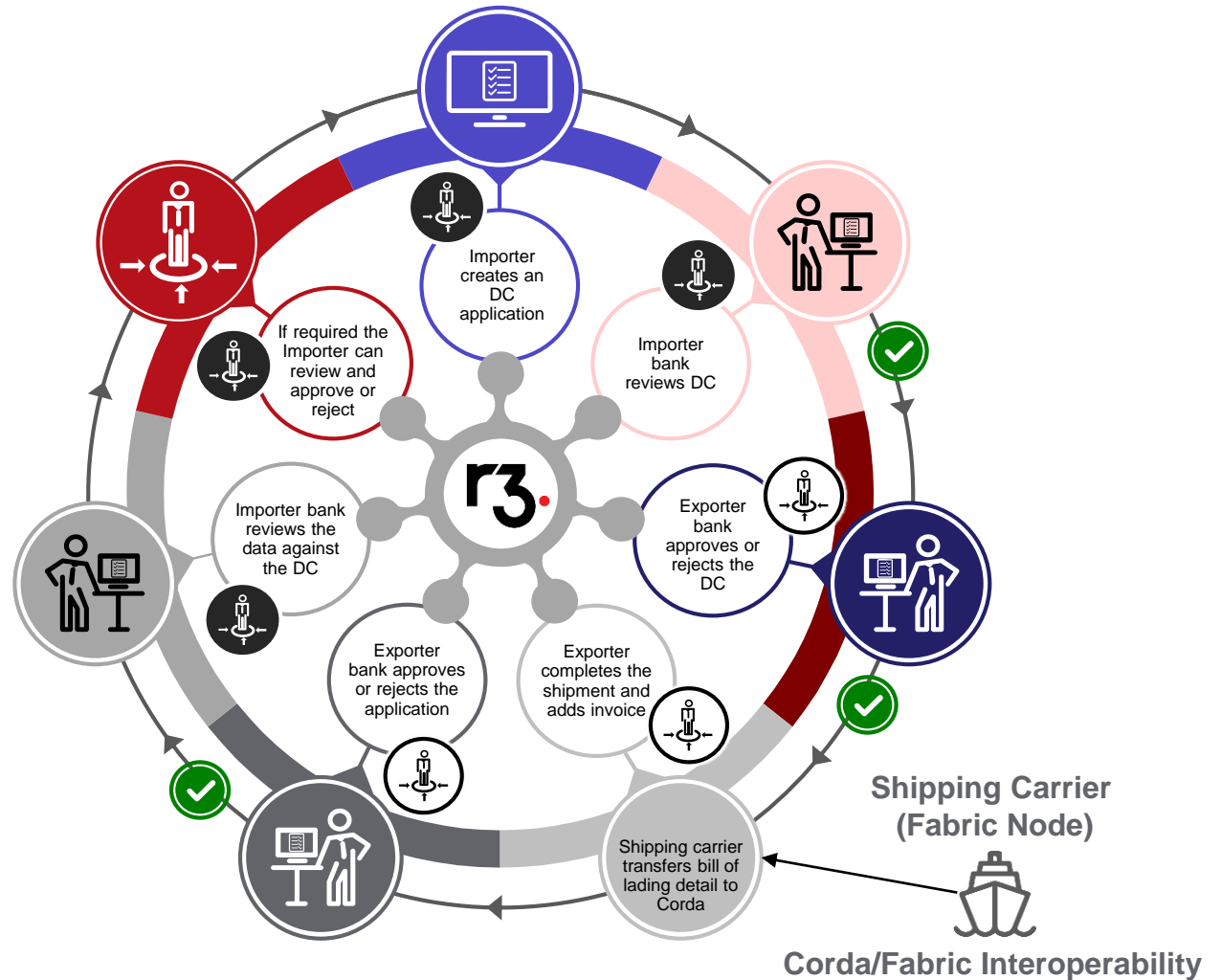
▪ The proposition entails a significant amount of legal documentation which may be challenging for customers to understand. To address this, HSBCs on-boarding materials provide simplified explanation about the rules and how the platform operates. Additionally, there are product specific factsheets which provide simplified information about the products. Please refer to product specific fact sheets for more information (including product descriptions for: Auto-settlement, BPU and BPU Financing)



Outlook: onboarding of further UK clients planned for 2018, further markets potentially in 2019

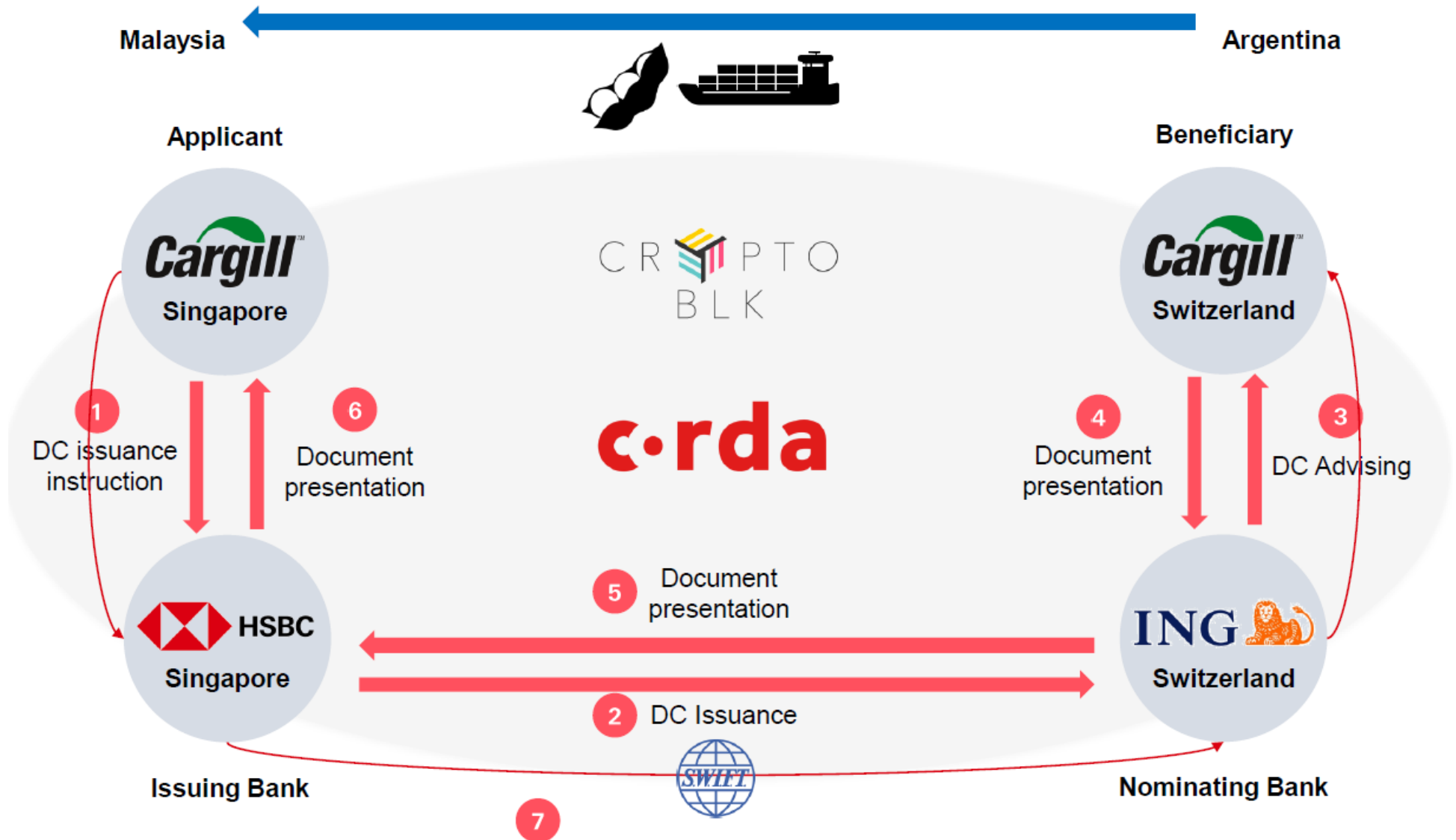
The current landscape for trade is paper driven and in need of digitization – Corda/Voltron

- Originally 11 Banks participated – collaborative development with continuous integration and delivery
- Built of successes of 2016 project
- Role for shipping carrier (allows for electronic bill of lading)
- Full document set (Invoice, packing list, certificate of origin, bill of lading, etc)
- Payment off ledger
- Pilot ready prototype – fully secured and ready to be scaled
- HSBC participated in the first ever LC transaction



Each step is a ledger entry, shared near instantaneously to the required parties, and encrypted to protect from others

HSBC with first trade finance transaction using blockchain



Video Trade Transaction Tracker

<https://digitalmarketplace.hsbc.com/content/business-readiness/en/videos/Trade-Transaction-Tracker.html>

GTRF Trade Transaction Tracker



Trade Transaction Tracker

Documentary Trade



HSBCnet Mobile App with Trade Transaction Tracker

Client benefits

- Get an overview of your documentary credits, collections and payments
- Access your export and import documentary credits and collection transactions
- View real-time transaction status detail
- Save time on the phone, faxes or email with access to your detailed trade account information

Contact

HSBC Germany – Global Trade and Receivables Finance



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