



Challenges ahead in Trade Business

Client Training Summer Seminar 2016

Agenda

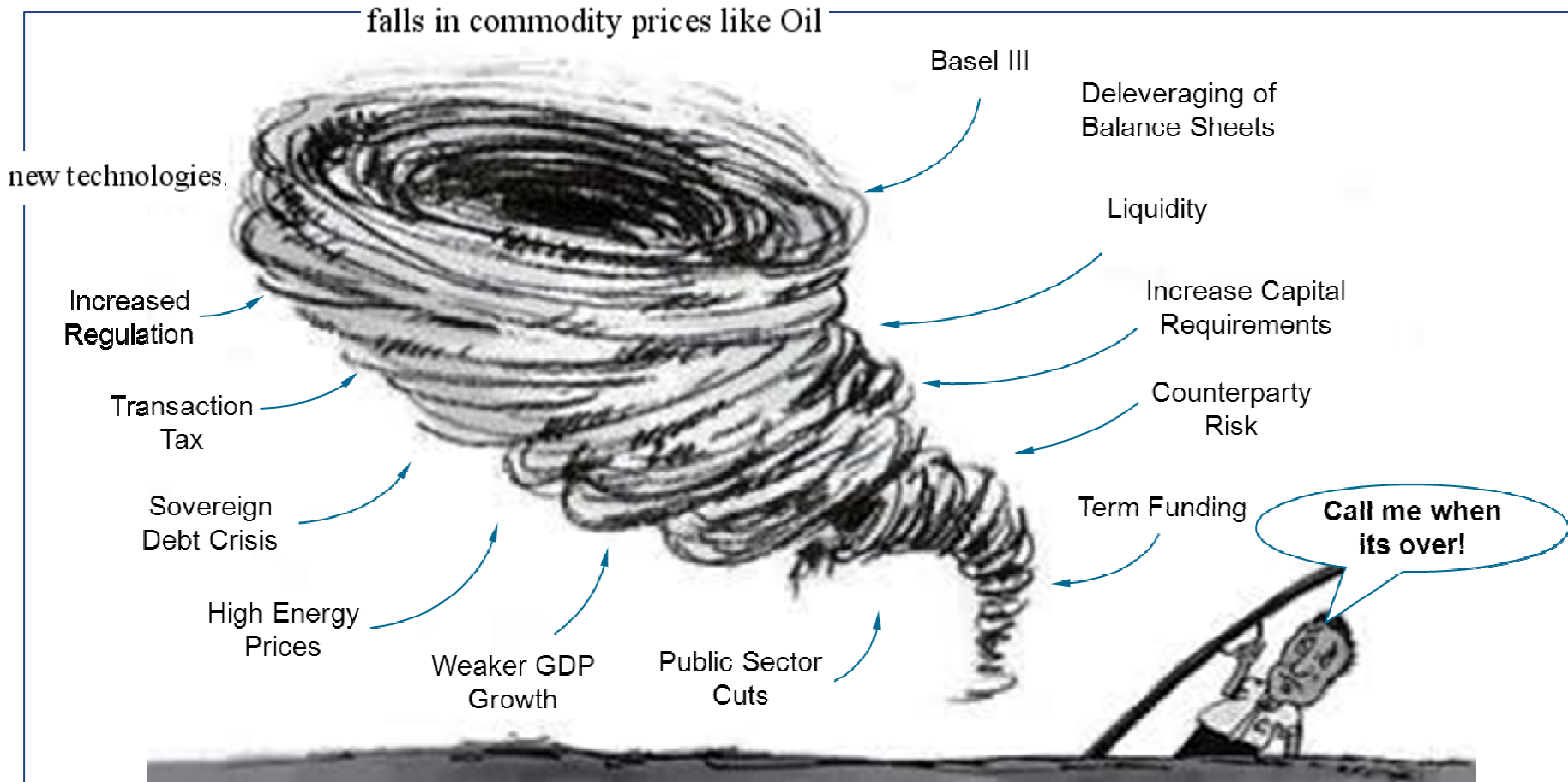
1. Status of Trade

2. Regulation

3. Standardization

4. Commerzbank

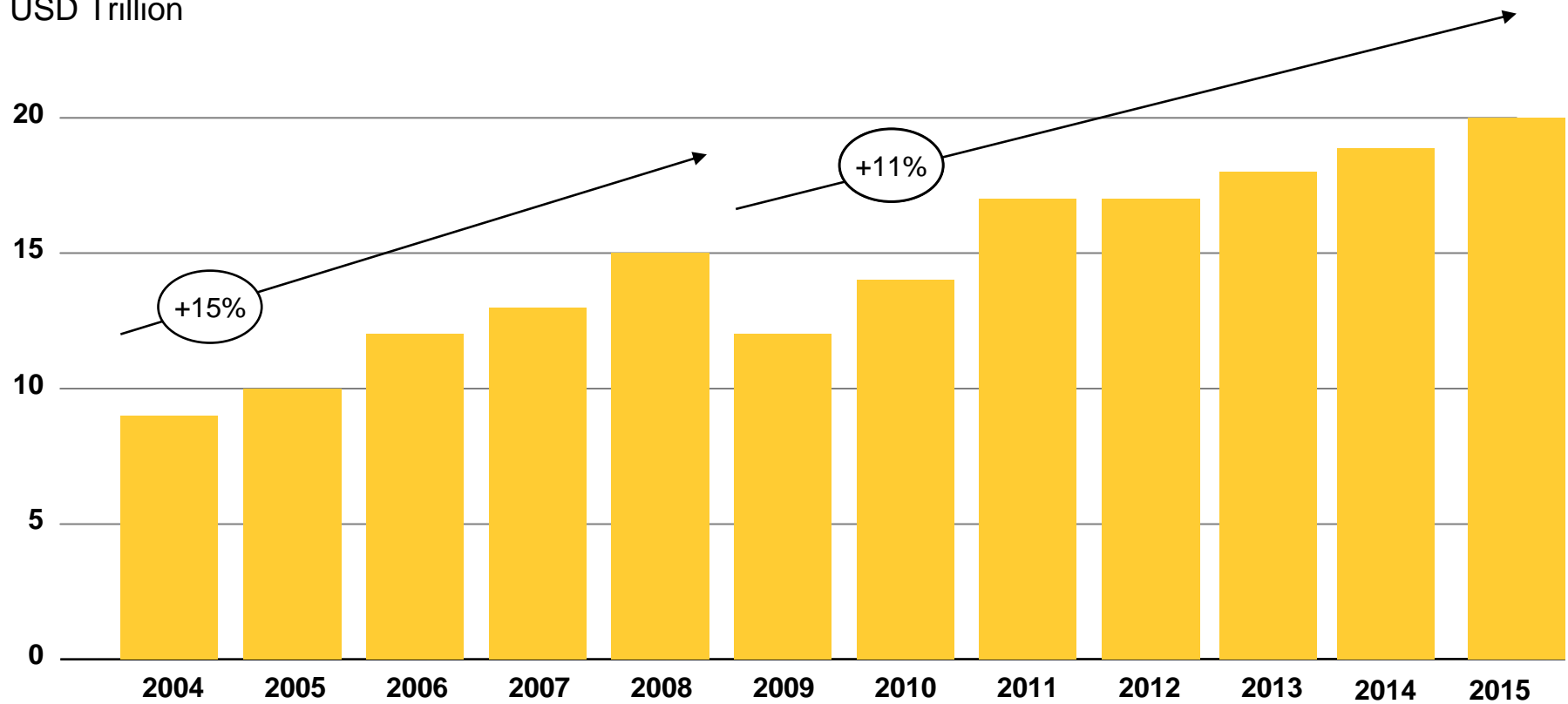
New Trade Finance Landscape



Expected growth of global trade

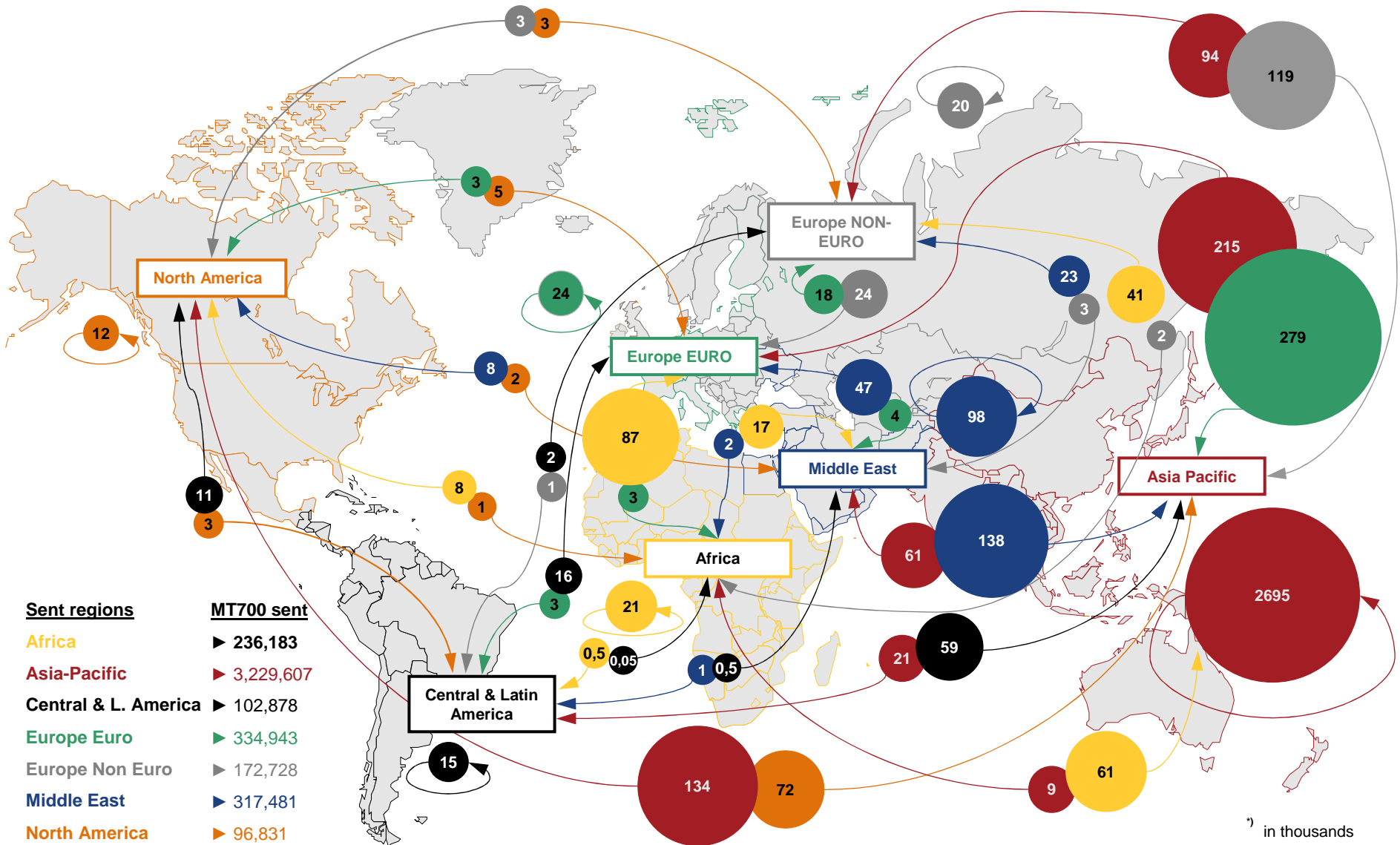
Global Trade of Goods (Export volumes)

USD Trillion

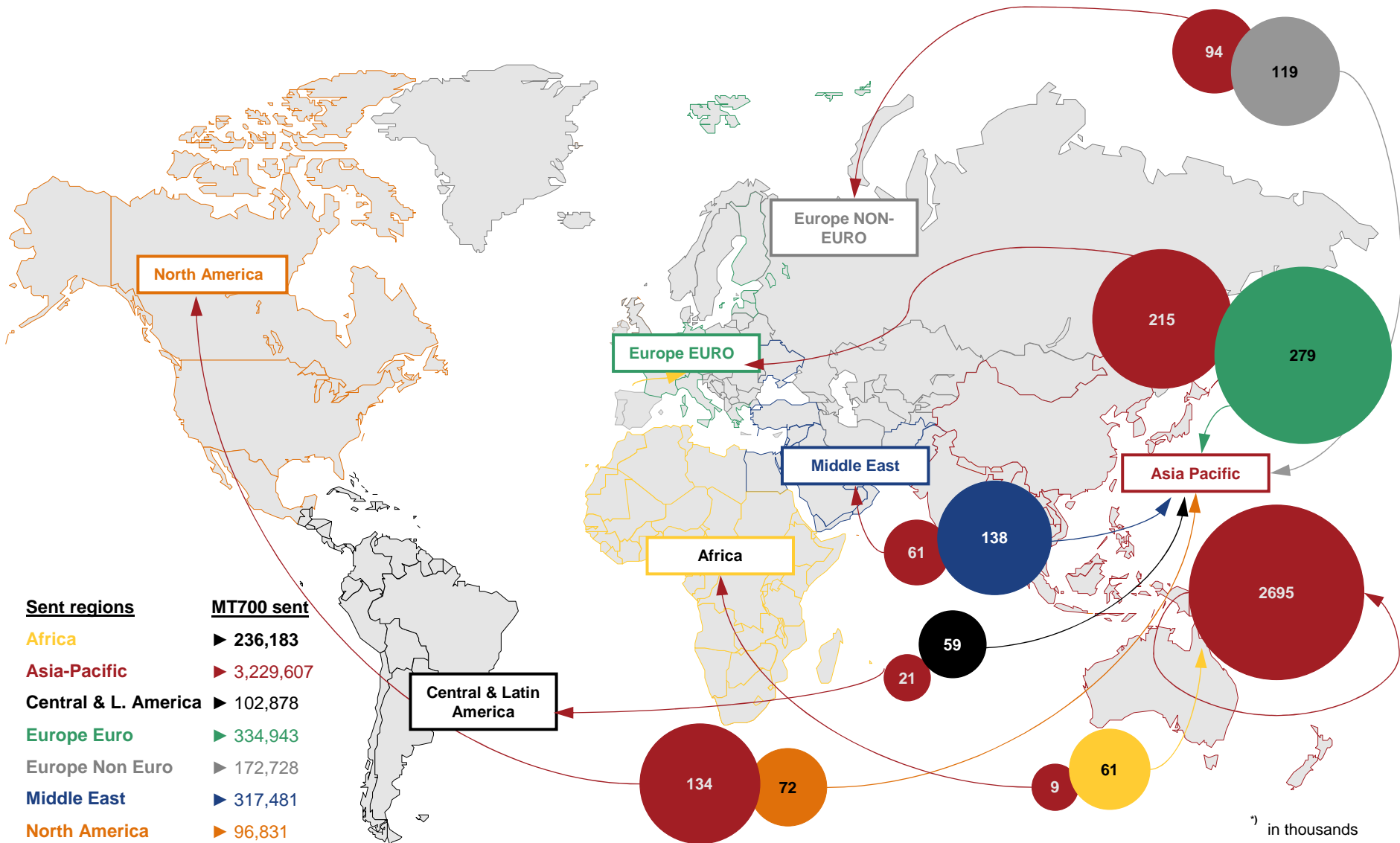


Source: World Trade Organization (WTO), Commerzbank

Total MT700 messages' sent / received by region in 2015



Total MT700 messages' sent / received by region in 2015



Oil producing economies will feel the strain while consumers see a windfall

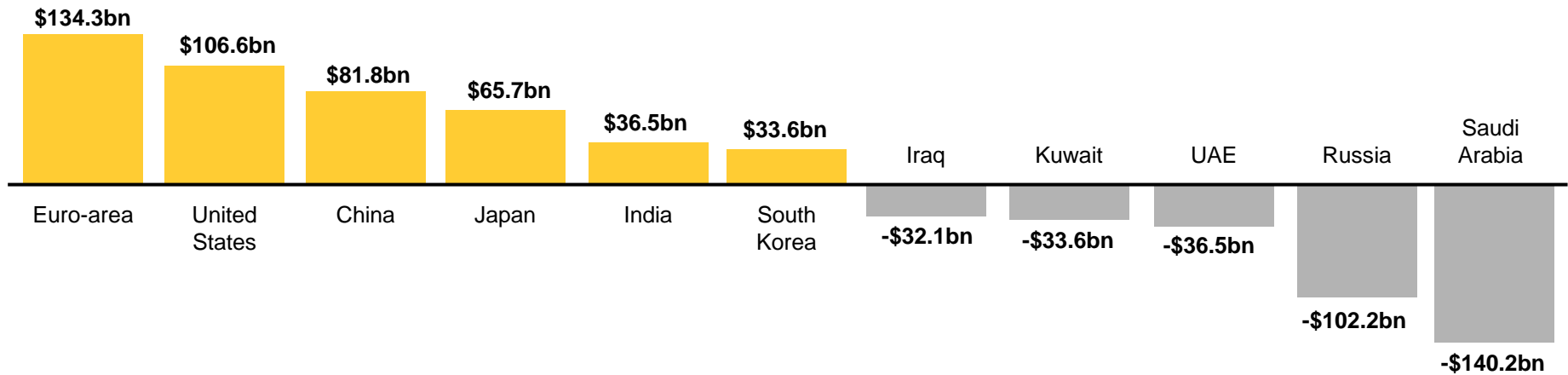
The drop in oil was unexpected: the first in recent decades not to follow a financial crisis or unsustainable spike in prices

Brent oil price drops dollars



Over the next year, sustained prices near \$60 per barrel, rather than \$100, will lead to the following costs and savings

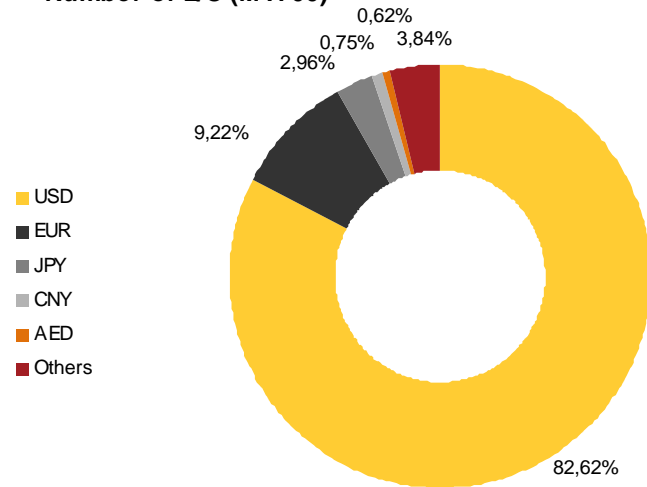
Estimated fiscal impact in 2015



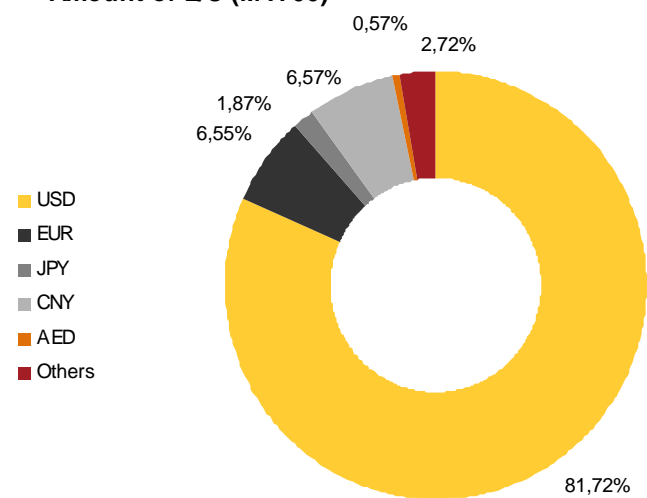
Source: Bloomberg, EIA, Oxford Analytica

Currencies used for Letters of Credit

Number of L/C (MT700)



Amount of L/C (MT700)



**Average amount
of an L/C over the last 12
month was
US\$468.547**

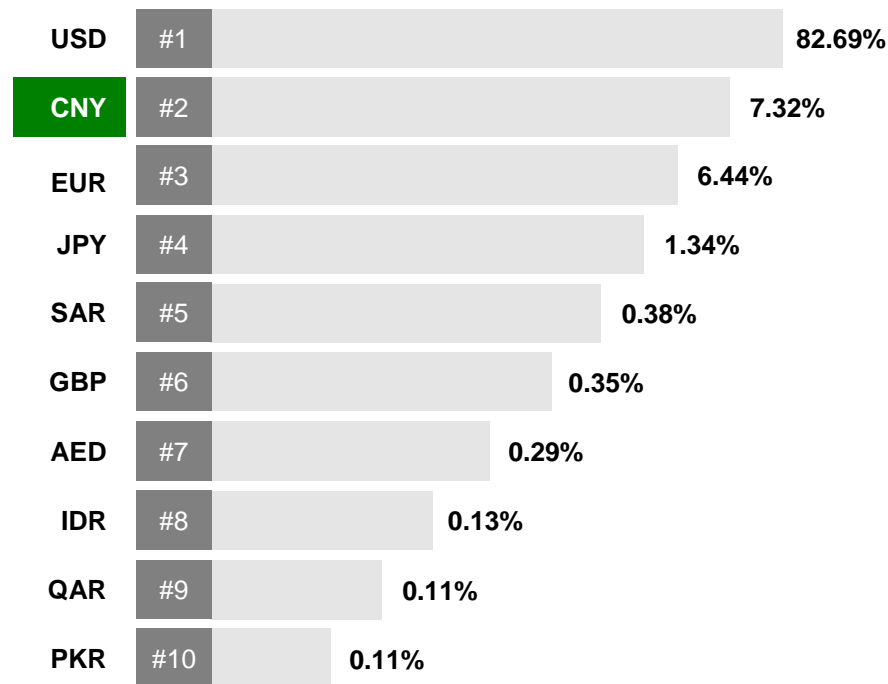
Source: SWIFT Watch

USD: US Dollars, EUR: Euros, JPY: Japanese Yen, CNY: Chinese Yuan,
AED: United Arab Emirates Dirham, SAR: Saudi Arabia

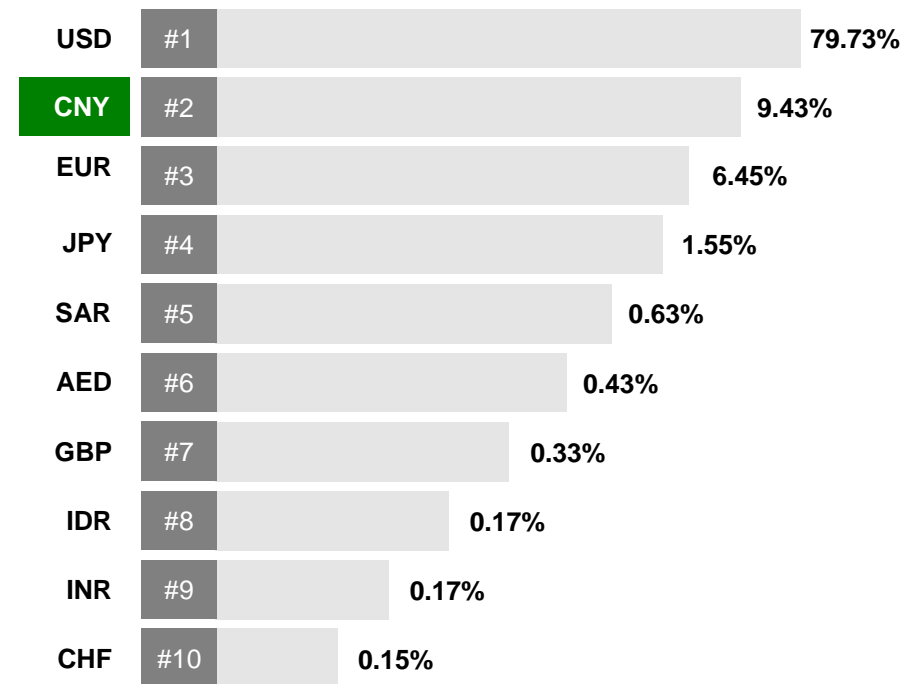
Currencies in Trade Finance

Major Trade Finance Currencies (Global Market Share, Volume)

2013



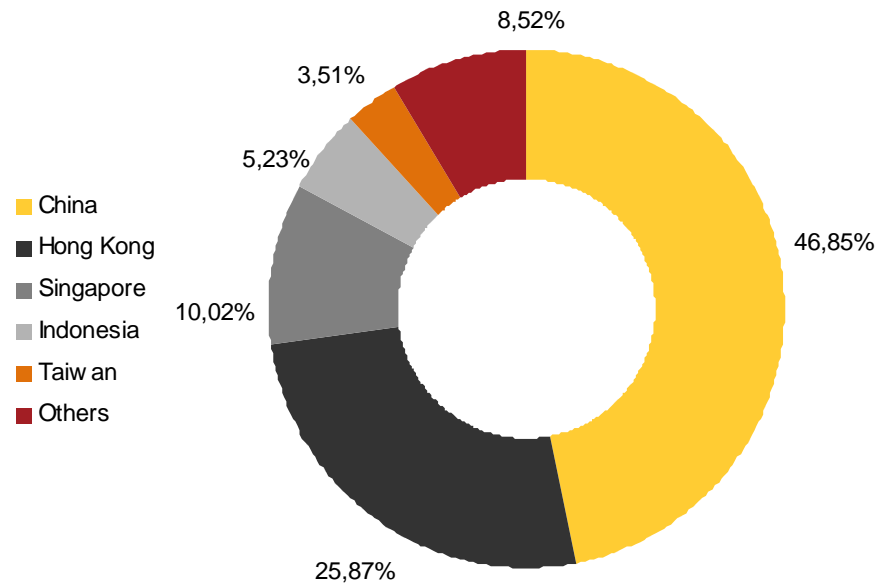
2015



Source: SWIFT Watch

Renmimbi in Trade Finance

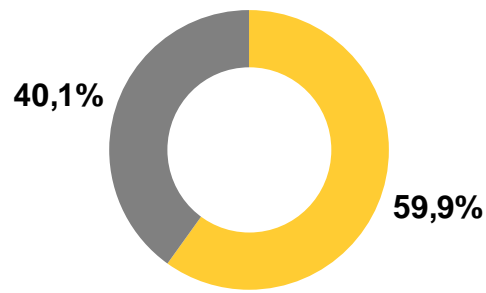
Top 5 countries using RMB for trade finance during the last 12 month



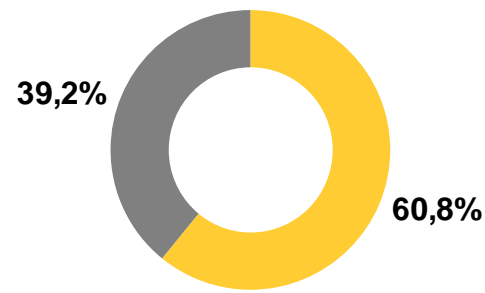
Source: SWIFT Watch

Changes in Letters of Credit expected in the coming months

Demand for confirmation of L/Cs



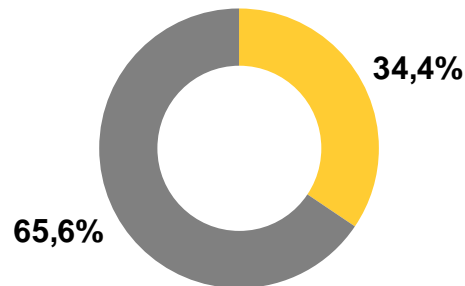
Expectations of demand for confirmation of L/Cs



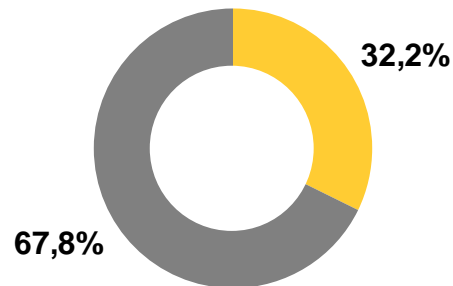
Expectations of cost of confirmation fees for L/Cs



Trend in refusal rates of document under L/Cs



Market expectation going forward for refusal rates of document under L/Cs



■ Increase ■ Decrease

Source: ICC 2015 Rethinking Trade & Finance / Commerzbank

Changes in trade activity / trade finance needs

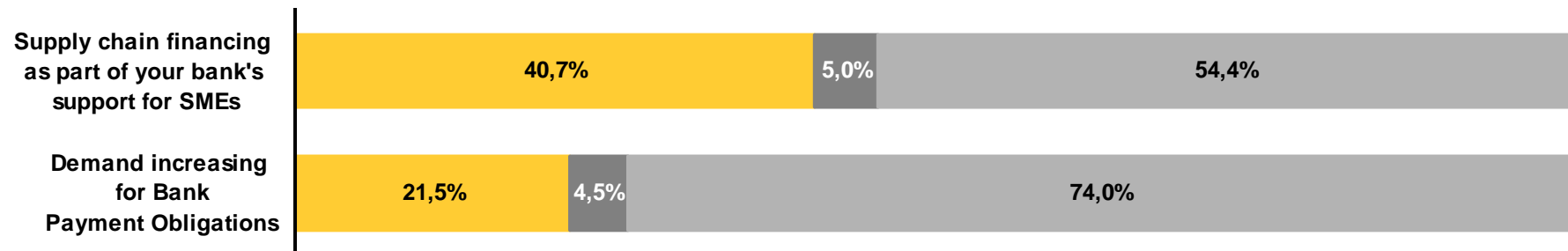
Overall trade finance activity



Respondent banks' capacity to satisfy customers trade finance needs



Increased interest in innovative trade finance solutions – supply chain and BPO

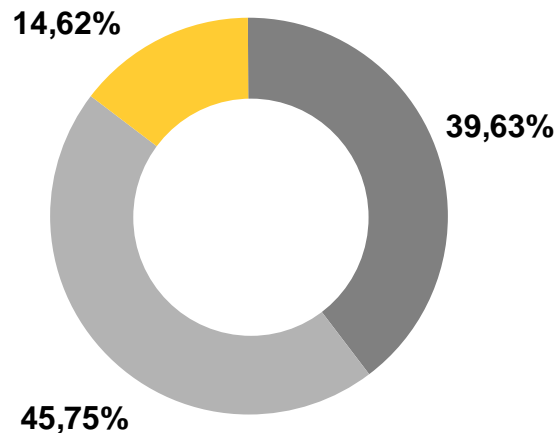


■ Increase
 ■ Decrease
 ■ No change

Source: ICC 2015 Rethinking Trade & Finance

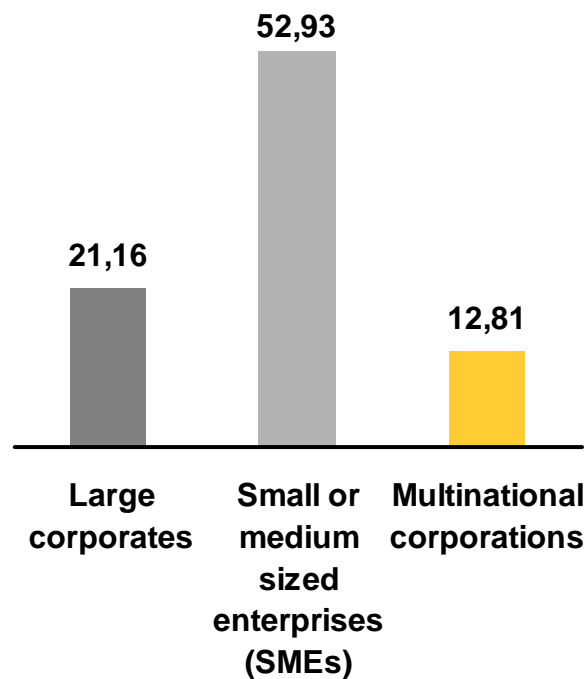
Distribution of proposed / rejected trade finance transactions

Proposed transactions by client Segment

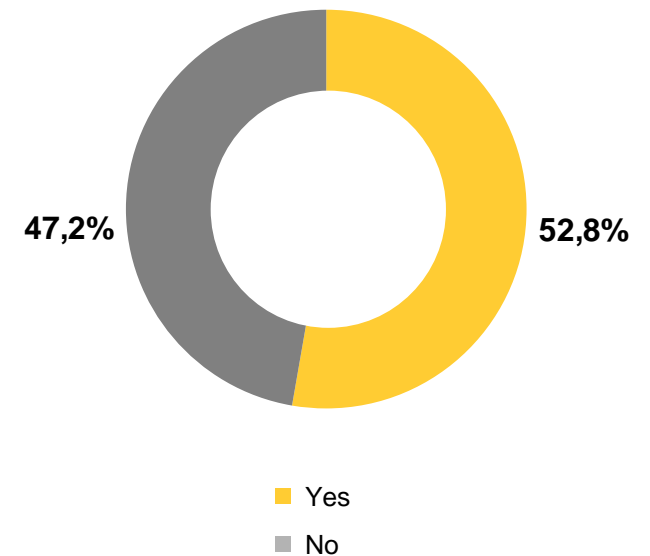


- Large corporates
- Small or medium sized enterprises (SMEs)
- Multinational corporations

Rejected transactions by client segment



Do you believe that there is a shortfall of trade finance globally?



Source: : ICC 2015 Rethinking Trade & Finance

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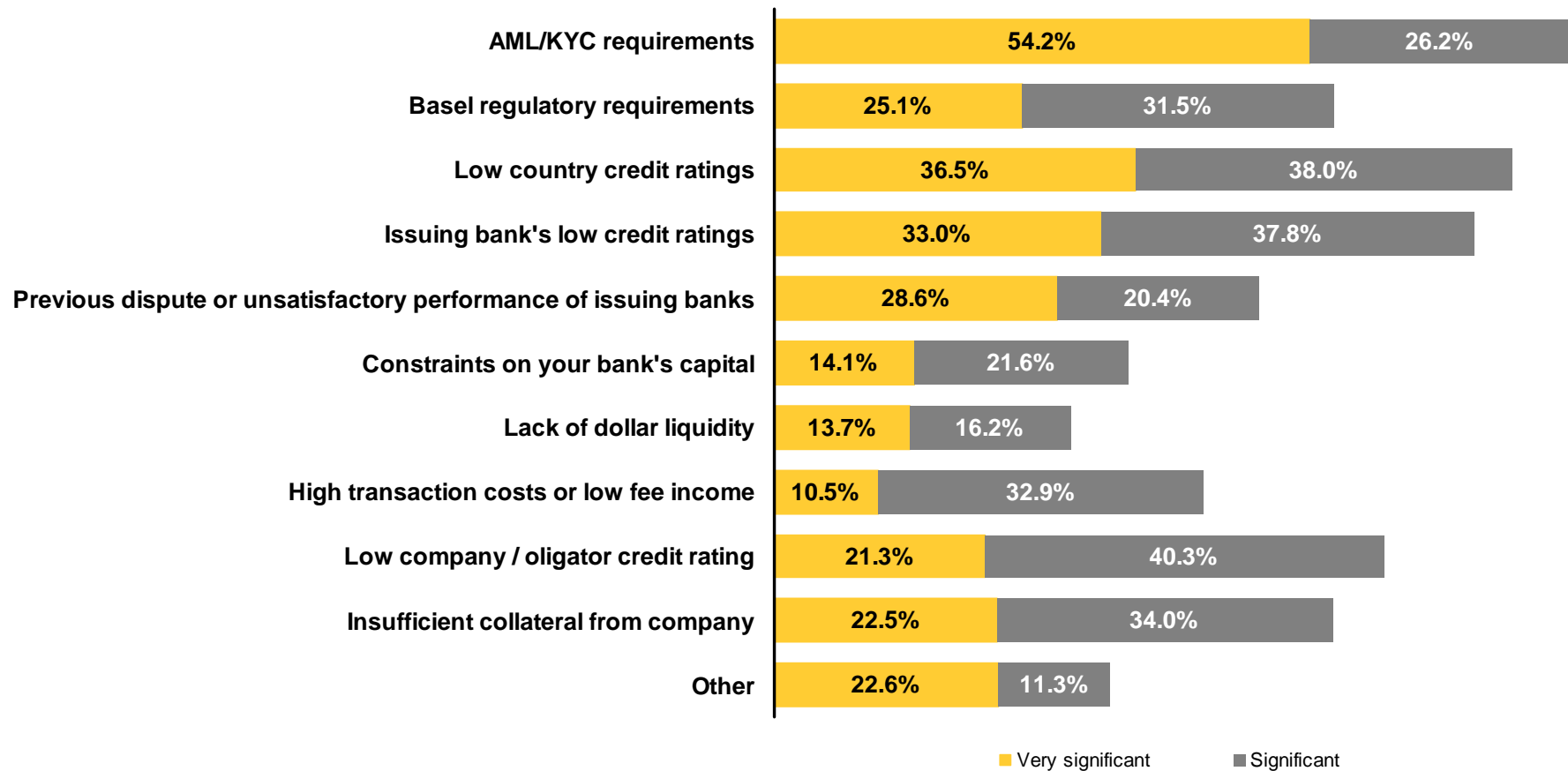
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Impediments to trade finance (1)

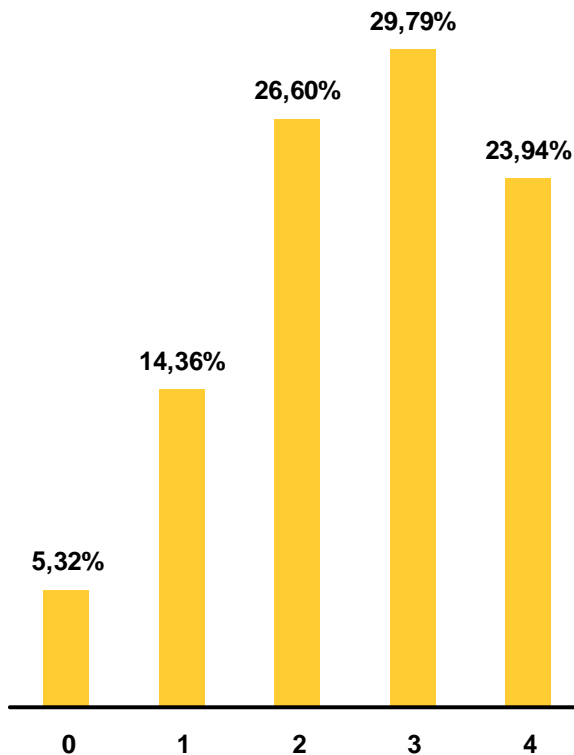


Source: ICC 2015 Rethinking Trade & Finance / Commerzbank

Impediments to trade finance (2)

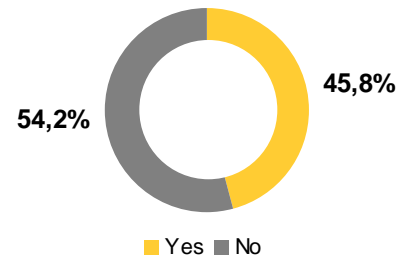
Lack of harmonisation of compliance requirements between jurisdictions a challenge to the trade finance industry

'0' means 'not at all' and '4' means 'to a very great extent'

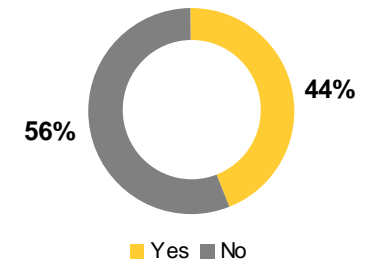


Source: ICC 2015 Rethinking Trade & Finance / Commerzbank

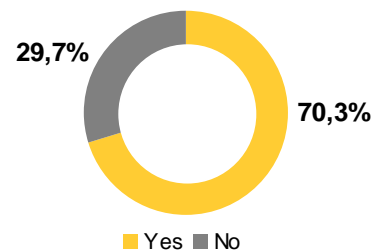
Termination of correspondent relationships (2011 to present) due to the increasing cost or complexity of compliance (including more stringent AML and KYC)



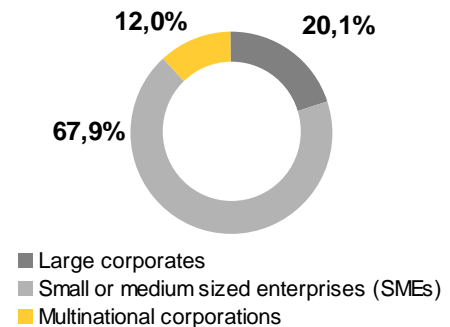
Termination of banks' correspondent relationships by other banks (2011 to present) due to the increasing cost or complexity of compliance (including more stringent AML and KYC)



Declined trade finance transactions due to KYC / AML issues from 2011 to present



Customers most impacted by your more stringent compliance (AML and KYC) requirements

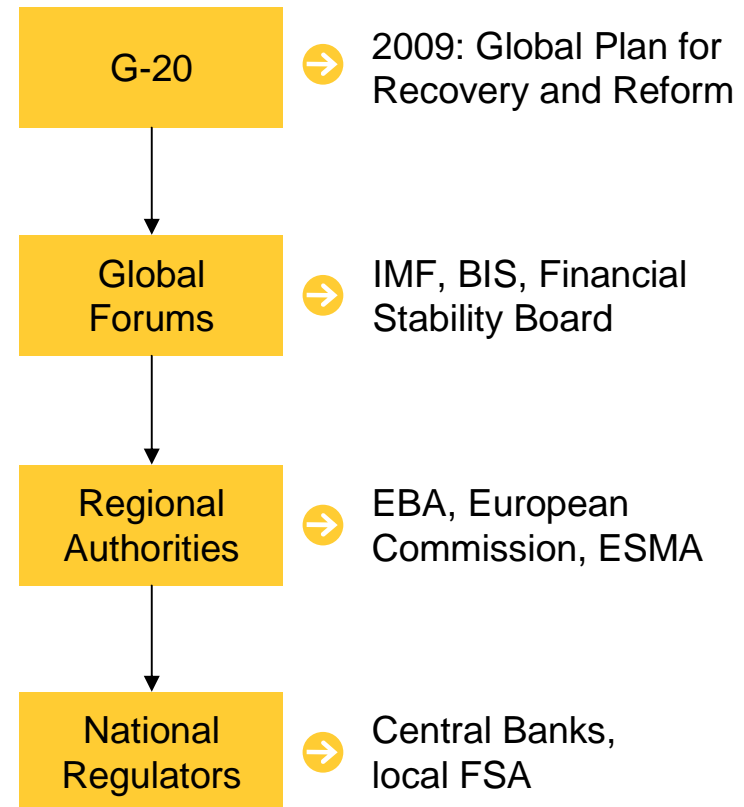


Challenges for Trade: Trade in the focus of Compliance

- › Increased compliance activity in trade
- › Increased complexity owing to multiple authorities and jurisdictions
- › Focus on transparency
- › Follows on the compliance drive in payments
- › Increased allocation of resources
- › Consequences are increasingly costly:

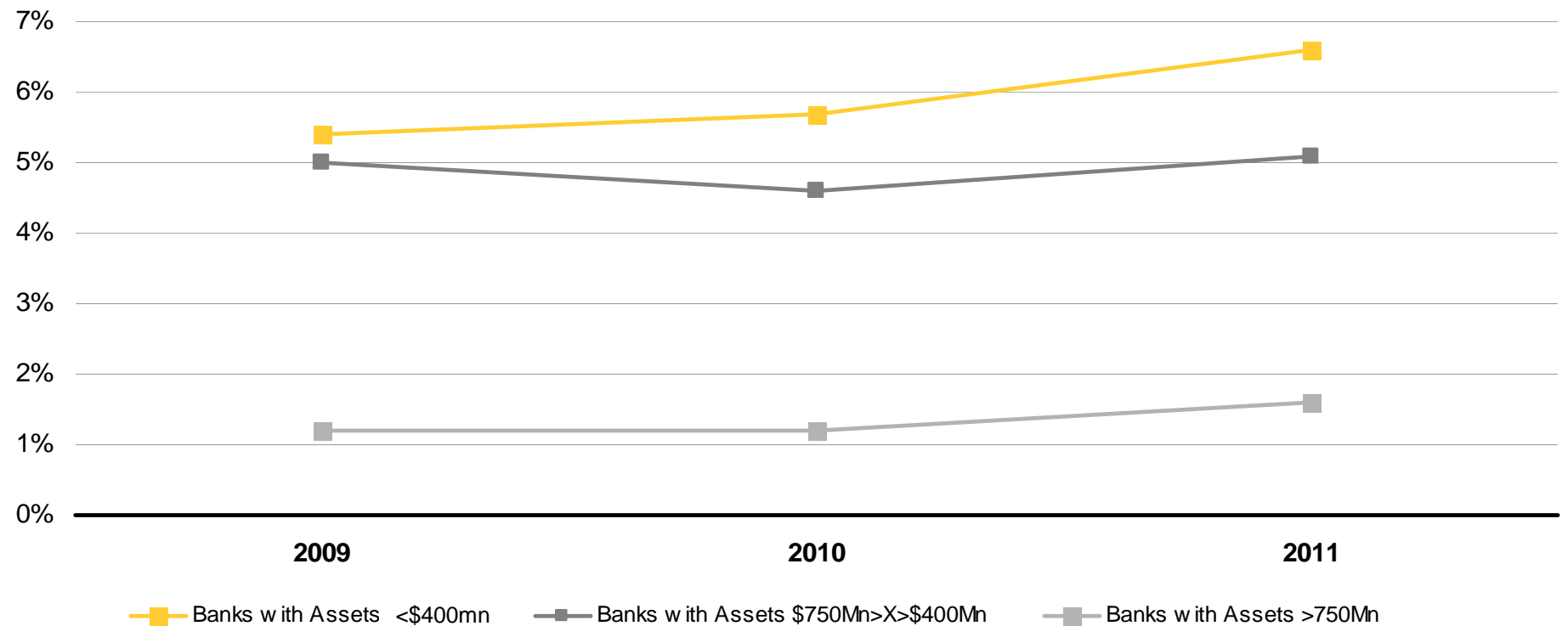
Costly Compliance Cases

Bank	Date	Fine (in \$ Mn)
BNP	06/2014	8.900
HSBC	12/2012	1.921
Commerzbank	03/2015	1.452
Standard Chartered	12/2012	667
ING	06/2012	619



A surge in compliance costs

Compliance Costs as % of US Bank Revenues



Compliance as % of average assets – 27 banks surveyed in New York & New England by Northeast Capital & Advisory Inc.

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The cost of correspondent banking KYC is becoming prohibitive One possible solution: KYC Registry from Swift



Commerzbank and five other banks started the KYC Registry in connection with Swift

ICC Trade Register – short term

Customers default rates

Product	Customers	Customer Defaults	Customer Default Rate	Moody's rating with same default rate
Loans for import/export (bank and corporate risk)	145,021	1,050	0.72%	Ba
Loans for import (bank and corporate risk)	53,661	527	0.98%	Ba-B
Loans for export (bank and corporate risk)	57,470	417	0.73%	Ba
Loans for import/export – bank risk	36,144	53	0.15%	A
Loans for import/export – corporate risk	108,877	997	0.92%	Ba-B

Commerzbank one of 26 participating banks

ICC Trade Register – short term

Obligor default rates

Product	Total # obligors	Total #defaulted obligors	Obligor default rate	Moody's rating for comparable default rate
1. Export L/C	92,881	36	0.04%	Aaa-Aa
2. Import L/C	113,026	333	0.29%	Baa
3. Performance guarantees	181,626	773	0.43%	Baa-Ba
4. Loans for import/export	145,021	1,050	0.72%	Ba

Transaction default rates

Product	Total # transactions	Total # defaulted transactions	Default rate
1. Export L/C	1,847,734	121	0.01%
2. Import L/C	3,164,200	2,509	0.08%
3. Performance guarantees	1,615,351	2,736	0.17%
4. Loans for import/export	6,816,742	15,176	0.22%

Source: ICC Paris / Commerzbank

Achievements from the ICC Trade Register

Based on evidence from the ICC Trade Register, ICC & WTO called to soften Basel III rules on trade finance with some success in a few areas:

Requested	Obtained
1. Trade finance defined	Under Capital Requirements Regulation (CRR) Trade Finance (TF) is defined for the first time. This provides clarity in terms of what products fall within the ambit of TF. Basel does not.
2. Exemption of trade instruments from the one-year maturity floor	The Basel committee waived the one year maturity floor for trade-related letters of credit in October, 2011
3. Off balance sheet items, such as standby letters of credit and trade letters of credit, are subject to a 100% credit conversion factor (CCF) when calculating the leverage ratio, reflecting the likelihood that these positions become on balance sheet items.	Maintain the CCF at 20% for trade-related contingencies (50% for transaction-related contingencies)

BAFT Trade Loan Documentation Group → Master Trade Loan Agreement

Three documents developed

- › English and New York Law Master Loan Agreement
- › Guidelines
- › Legal Opinion

Advantages of a standardized agreement

- › Transparency
- › Improves legal framework
- › Facilitates understanding among investors, regulators
- › Reduces legal costs
- › Promotes uniformity and simplification of processes
- › Facilitates international trade

Participating banks

- › Bank of America, Bank of Montreal, Barclays, BNP Paribas, Citi, **Commerzbank**, Deutsche Bank, HSBC, ING, JPMorgan, PNC, Royal Bank of Scotland, Scotiabank, Standard Bank, and Standard Chartered + borrower banks from Brazil, Turkey, China, India, Russia, Colombia



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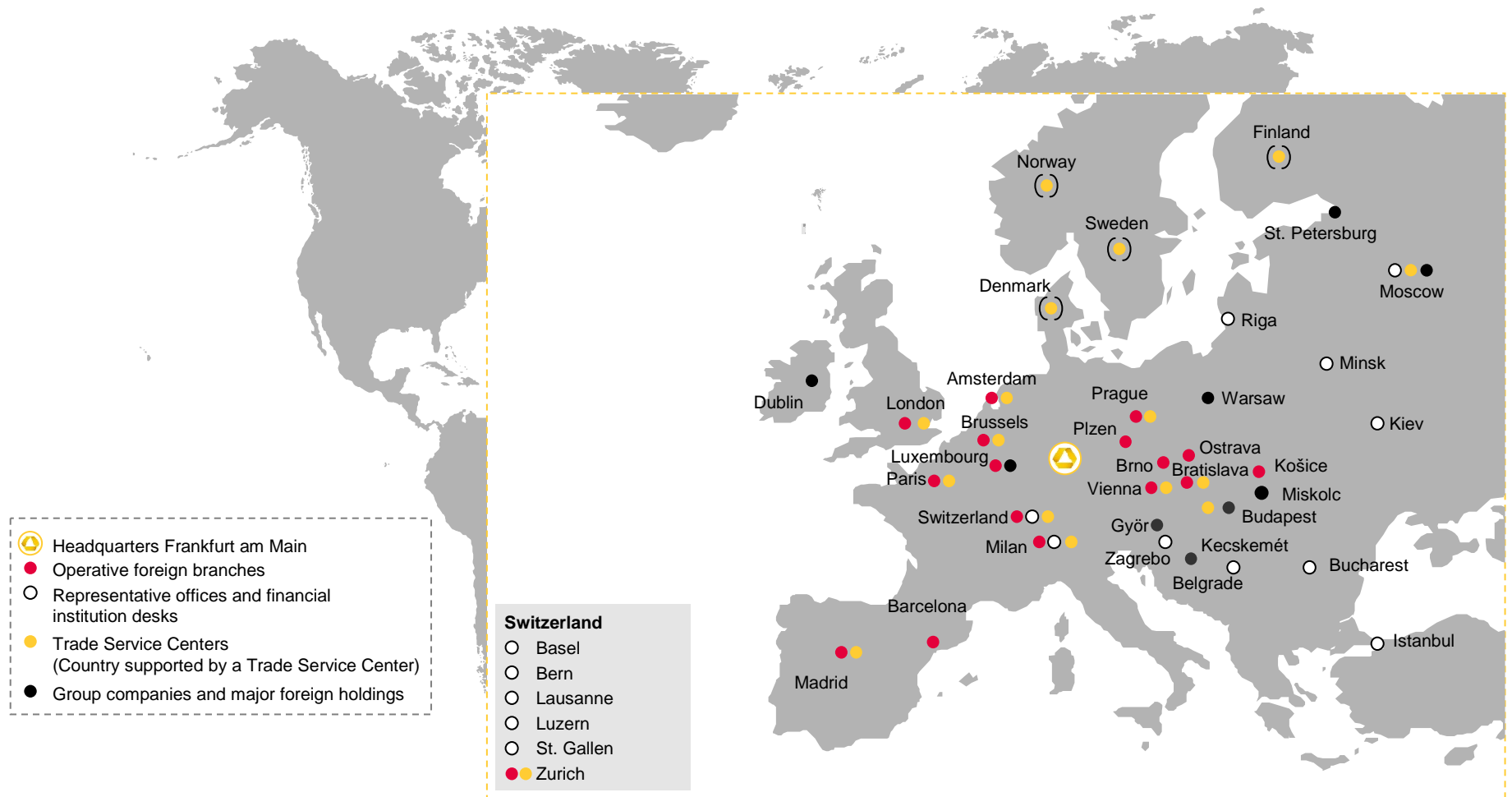
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Nothing is faster than already being there

In Europe ...



Nothing is faster than already being there

... and worldwide!



Recent awards



Only work with the best. We're one of them.

Commerzbank voted as “Best Bank for Documentary Processing”

- › Commerzbank has been awarded “Best bank for documentary processing” two times in a row by the readers of one of the most reputable Trade Magazines, Global Trade Review
- › Being voted “Best Bank for Documentary Processing” by our customers is a great endorsement of our trade service capacities, correspondent banking network and dedication to facilitating trade globally
- › Continued investment in upgrading our trade processing capabilities has contributed to strengthening our market position as one of the leading trade finance banks in the world



Outlook: Expected market trends in 2016 and beyond

- › Trade growth to remain subdued in 2016 at 2,8 %
- › Emerging markets growth higher than in advanced markets
- › Enough liquidity available
- › Some global banks withdraw from certain regions, regional banks try to fill the gap
- › Global banks concentrate on „Premium clients“, small and medium sized banks (as well as corporates) in some markets face problems in getting access to trade services
- › KYC / AML discussions: Consideration of reputational risks versus real risk is increasing
- › Complexity / contradictions between regulations / regulators increase
- › Smaller banks & corporates in emerging markets are the ones to suffer most
- › Supply Chain Financing is a growing business
- › Increasing discussions of sustainability issues



New challenges and new opportunities – let us take the opportunities



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