Innovative Lösungen im Forderungs- und Verbindlichkeitenmanagement
<table>
<thead>
<tr>
<th>Content</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction – HSBC Germany &amp; Trade Solutions</td>
<td>03</td>
</tr>
<tr>
<td>Trade Digitization – Market and Trends</td>
<td>14</td>
</tr>
<tr>
<td>Trade Digitization at HSBC</td>
<td>19</td>
</tr>
</tbody>
</table>
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)
²Balance sheet Total and CET 1 capital ratio as per: 31/12/2017 - preliminary results
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
3 HSBC internal management information 2016
What is Trade Finance?
Benefits for buyers and suppliers

**Seller**
*seller wants payment before shipping*

**Buyer**
*buyer wants goods before paying*

**Trusted Intermediary**
- ✓ Absorbs risks
- ✓ Bridges cash flow gaps
- ✓ Facilitates trade flows & settlements

**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

<table>
<thead>
<tr>
<th>Category</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documentary Collection</strong></td>
<td>Import and export documentary collections</td>
</tr>
<tr>
<td><strong>Letter of Credit</strong></td>
<td>Import issuance (incl. offshore DC issuance)</td>
</tr>
<tr>
<td></td>
<td>Export confirmation (open &amp; silent)</td>
</tr>
<tr>
<td></td>
<td>Export negotiation and payment</td>
</tr>
<tr>
<td><strong>Guarantees</strong></td>
<td>Issuance (direct &amp; indirect)</td>
</tr>
<tr>
<td></td>
<td>Bid bond, advance payment, performance, warranty etc.</td>
</tr>
<tr>
<td></td>
<td>Custom bonds, court bonds, payment bonds</td>
</tr>
<tr>
<td><strong>Structured Trade Finance</strong></td>
<td>Receivables Finance and Supply Chain Finance programs</td>
</tr>
<tr>
<td></td>
<td>European Multi-seller structures</td>
</tr>
<tr>
<td></td>
<td>Multi-data format processing</td>
</tr>
<tr>
<td><strong>Forfaiting</strong></td>
<td>Purchase of credit insured receivables, BoE etc.</td>
</tr>
<tr>
<td></td>
<td>Worldwide Forfaiting desk network with appetite for foreign corporate, government and bank risk</td>
</tr>
<tr>
<td><strong>Commodity Structured Trade Finance</strong></td>
<td>Financing commodity trade flows along the supply chains</td>
</tr>
<tr>
<td></td>
<td>Leveraging on HSBC presence on major commodity trade corridors</td>
</tr>
</tbody>
</table>
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.
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

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

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

### Need for Supply Chain Finance Solutions

<table>
<thead>
<tr>
<th>Icon</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="" alt="Search" /></td>
<td>Optimise working capital</td>
</tr>
<tr>
<td><img src="" alt="Down" /></td>
<td>Reduce supply chain costs</td>
</tr>
<tr>
<td><img src="" alt="Handshake" /></td>
<td>Enhance supplier relationship and loyalty</td>
</tr>
<tr>
<td><img src="" alt="Connections" /></td>
<td>Gain better visibility and control</td>
</tr>
<tr>
<td><img src="" alt="List" /></td>
<td>Easy adoption</td>
</tr>
</tbody>
</table>
Supply Chain Finance
How does it work?

The Procure-to-Pay process is undisturbed
- Purchase order issued and accepted
- Supplier delivers goods as usual
- Documentation flows are undisturbed

Set-up
- Early Payment Programme Profile
- Buyer Agreement
- Automated/ manual supplier identification

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 payment
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. 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

1. Digitize Information
2. Digitize Processes
3. New Business Areas
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

- 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 lead to multi-dimensional connections across banks and even products

- 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

**Traditional Proprietary Programs**

**3rd Party Programs**

**E2E Full Service Platforms**

- **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 lead to multi-dimensional connections across banks and even products

- **Digi**

- **Future**
  - 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
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

- 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

Global Trade and Trade Finance are connected

The need to digitise is shared and can be met with a shared ledger network
HSBC
HSBC’s Supply Chain Finance solution based on kyriba
Tradeshift
Process Flow

1. Supplier
2. Buyer
3. Confirmation/approval of invoices
4. Request for early payment
5. Discounted early payment provided
6. Invoice payment

Supplier → Purchase Order → TRADESHIFT® → Invoices → Buyer
Request for early payment → Discounted early payment provided → HSBC

Public Process Flow
Supplier
Purchase Order
Request for early payment
Discounted early payment provided
Confirmation/approval of invoices
Invoice payment
Buyer
Tradeshift

Key Capabilities

Electronic Invoicing
- Cloudscan: Accounts Payable
- Cloudscan: Supplier Validation

Document Validation
- Legal Country Compliance
- Multi-way Matching
- Chinese Tax Compliance

Discounting
- Remittance Advice

Collaboration
- Approval Workflow
- Reminders & Escalations
TFiNET
HSBC’s Receivable Finance solution based on efcom
TFiNET
HSBC’s Receivable Finance solution based on efcom

Multi-Data Converter Capabilities

Client

TFiNET Data Converter

Step 1
Step 2
Step n

HSBC
Processing
TFiNET
HSBC’s Receivable Finance solution based on efcom

Kundenauszug – SHSKRE016

<table>
<thead>
<tr>
<th>Buchungstag</th>
<th>Valuta</th>
<th>Beschreibung</th>
<th>Buchungsbetrag</th>
<th>Abrechnungskonto</th>
<th>Kundenkonto</th>
<th>Forderungswert</th>
</tr>
</thead>
</table>
TFiNET
HSBC’s Receivable Finance solution based on efcom
Blockchain

The HSBC GTRF transaction that made headline news

- Letter of Credit transaction
- Open Account Transaction
Blockchain
From Bitcoin to Distributed Ledgers – use best of both worlds for Shared/Distributed Ledgers
**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

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Blockchain: Distributed Ledger + Smart Contracts

Exporter

Authority

Forwarder

Authority

Consignee

Carrier
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 continuously 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


GTRF Trade Transaction Tracker
Trade Transaction Tracker
Documentary Trade

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
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