

Bank Payment Obligation – BPO

Case studies of UniCredit as of February 2015

Agenda

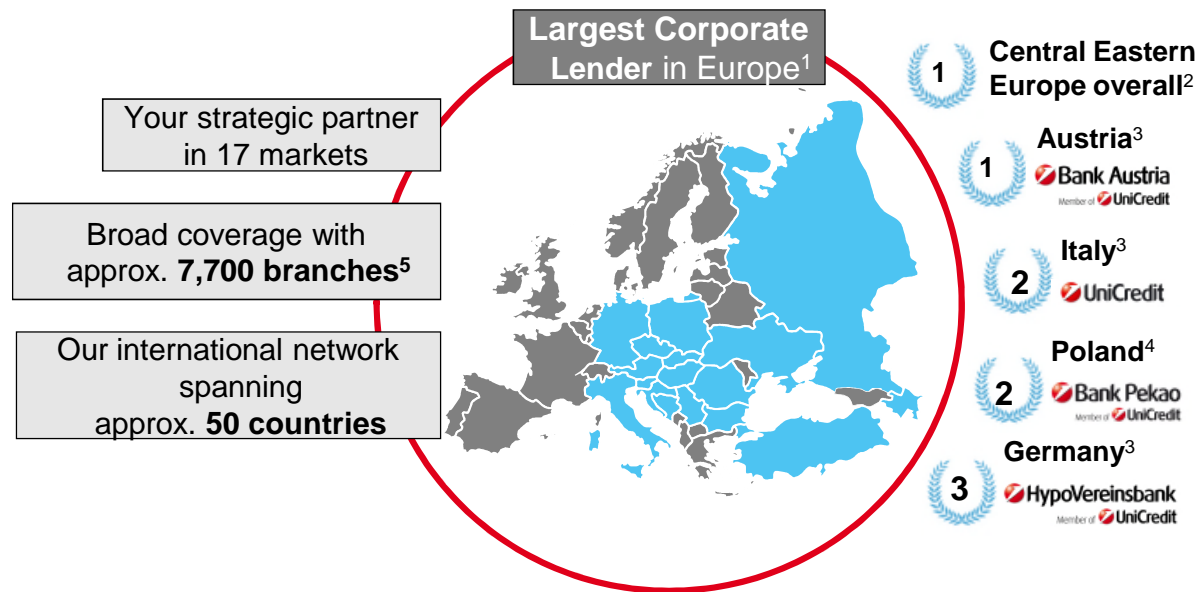
- UniCredit – A leading european bank ready for BPO
 - Case study – Export
 - “New exporter – importer relationship”
 - “Coming from pre-payment”
 - “Coming from open account”
 - Case study – Import
 - “Coming from Letter of Credit”
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UniCredit – A leading european bank ready for BPO

UniCredit at a glance and in relation to BPO



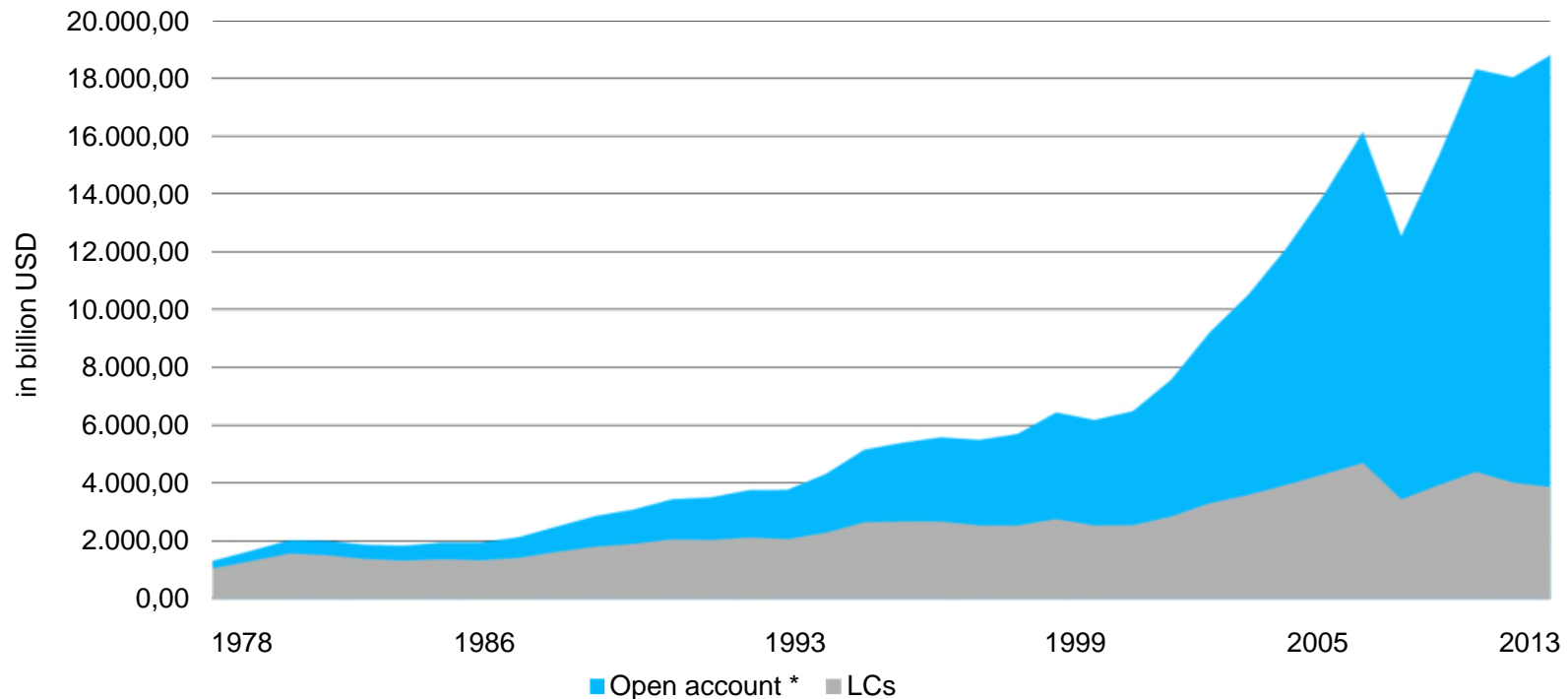
UniCredit in relation to BPO:

- Leading bank in the area of Supply Chain Finance and as such financing partner to support client liquidity needs
- Provided the delegate for Germany in ICC Consultative Group, which developed the UR BPO
- One of the “first mover” in German market that presented the BPO concept to clients
- Offers Import-BPO, Export BPO (also with additional undertaking of UniCredit, or financing deferred payment)
- Identified retail, pharmaceuticals, chemicals, automotive, food, textile, spare parts business for machine building industry as well as telecommunication techniques as client segments
- Organizes workshops, Webinars and “How-To video” for clients and external seminars for importers, exporters or other banks

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Answer to the demand for straight through processing, risk mitigation and liquidity provisioning

Development Foreign Trade (Exports) from 1978 until 2013



World trade volumes have seen a startling increase in open account transaction over the recent years. Already today more than 80 % of the total world trade volume (export) is settled by clean payment. This impressive ratio is expected to grow even further in the future. As a consequence banks are compelled to offer their corporate clients products that support fully automated processing as well as cost savings combined with payment assurance and financing options.

Noteworthy in this connection are the following stats:

- Short Term Export Credit Insurance (new business volume 2013): USD 1.640; exposure at year end 2013: USD 1.092 bn
- x-border Factoring volume 2013 amounts to USD 440 bn (domestic factoring volumes 2013: USD 2.667 bn)**

* based on exports

** 1 EUR = 1,25 USD

Source: WTO, Berne Union, Factors Chain International (FCI)

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BPO benefits for corporates and banks

The Bank Payment Obligation constitutes an irrevocable undertaking of a bank (usually the bank of the importer) in favour of the bank of the exporter to pay at sight or to pay at maturity, subject to the electronic comparison of trade data between the banks via a so-called Transaction Matching Application (TMA) such as for example SWIFT-TSU (see below). For the first time banks are now in a position to offer an enriched payment instrument that meets the demands of their clients in the open account space.

BPO combines important benefits for the corporate ...















... and there are some advantages for banks as well

- Significantly reduced operational risks due non-documentary process
- Lower operating costs than letter of credit
- Meets the market requirement for banks to collaborate more on risk and client on-boarding
- Set up Supply-Chain Finance-programs much faster
- Strengthens core relationships
- Steady source of commission and fee income
- Prudent use of capital

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View of exporters: BPO in comparison to other payment terms













	Open account	BPO		Letter of Credit	Pre-payment
Liquidity + Time	Uncertainty about receipt of payment 	Timely payment upon delivery 	Example: 10 mn EUR turnover, 15 days < LC, 4 / p.a. (10 mn./360*15*4) = 1,6 mn EUR Liquidity advantage	Timely payment but time consuming preparation of documents and their dispatch 	Immediate liquidity 
Risk	High risk regarding payment & acceptance of goods risk 	Low payment risk since payment is triggered after data match 	Especially for small transactions a good product to use	Secure payment, dependency on credit conform documents 	No payment risk 
Costs	Low cost 	Moderate cost; no / little manual work due to electronic data-matching 	In comparison to LCs, and Doc. Collections significantly lower handling fees	High cost due to manual checking of documents 	Low cost 


 Letter of Credit will be still used for large transactions, new trade partners as well as complex structures.
 BPO closes the gap of the already existing Trade Finance Products offering with due to:

- Risk mitigation combined with financing options for revolving small / medium sales volumes
- Ability of exporters to offer extended payment terms / maturities and / or increase credit limits for their clients
- Automated contract handling and reconciliation for trusted ongoing relationships between exporters & importers

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View of importers: BPO in comparison to other payment terms

	Open account	BPO		Letter of Credit	Pre-payment
Liquidity + Time	Time of payment can be individually determined 	Time of payment can be individually determined; transaction based liquidity provisioning possible 	Product offering BPO pre-shipment finance	Time of payment can be individually determined; transaction based liquidity provisioning possible 	Immediate payment 
Risk	No risk; can check goods before payment 	Data could differ from documents; risk of bad quality of documents and / or goods 	Alternative for advance payment terms	Secure payment, dependency on credit conform documents 	Risk of non-delivery 
Costs	Low cost 	Moderate cost; advantage lies with electronic data matching 	Example: 10 mn EUR turnover; handling fee minus 40 – 60 %	High cost due to manual checking of documents 	Low cost 

 Letter of Credit will be still used for large transactions, new trade partners as well as complex structures.
 BPO is a meaningful addition to the already existing trade finance products for transactions that

- Require an efficient risk mitigation combined with financing options
- Are characterized by a trusted and / or revolving relationship between buyer and seller

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Clients feedback

My client asked me whether my bank is ready to offer BPO.

From SEPA we know “XML-format”, so it is no problem.

When can I use the product? Our clients ask for it.

We would like to have easy processes, but do not want to miss out on risk mitigation. BPO is a good opportunity.

We need the documents for urgent shipping; the goods often arrive faster than the documents.

Which banks are BPO-ready now?

The “pilot-case” was successful. Lets go for the next!

BPO is definitely better than to deliver on open account.



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Overview case studies

■ “New exporter – importer relationship”

Exporter: RVT Rühr- und
Verfahrenstechnik Maier & Richter GmbH
Obligor Bank: Bank of Tokyo-Mitsubishi UFJ



■ “Coming from pre-payment”

Exporter: TWD Fibres Service GmbH
Obligor Bank: Türkiye Is Bankasi

■ “Coming from open account”

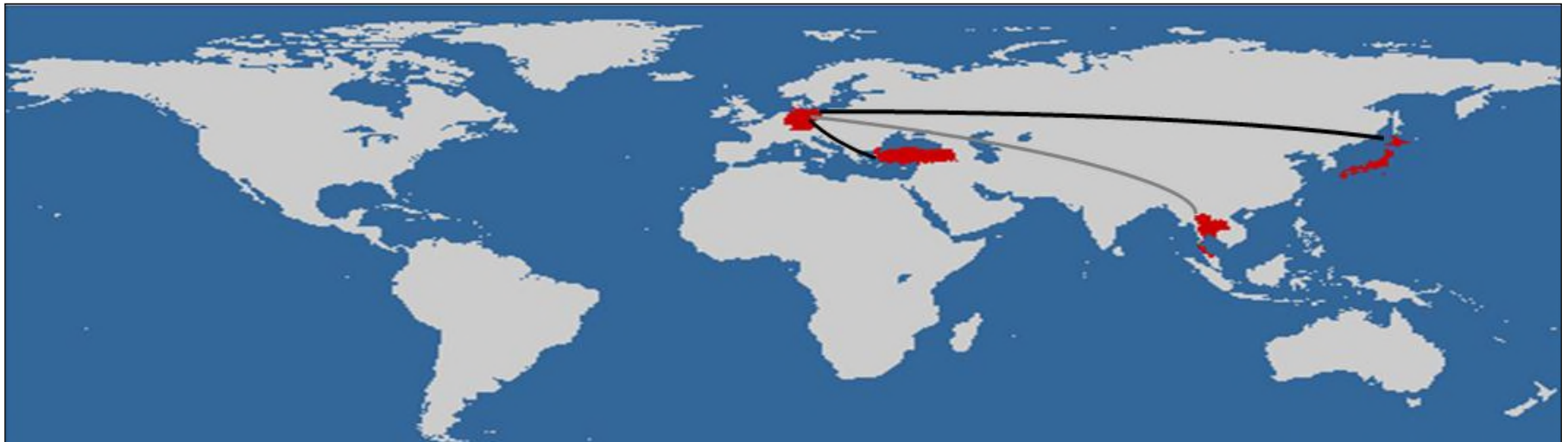
Exporter: ZF Friedrichshafen AG
Obligor Bank: Türk Ekonomi Bankasi

■ “Coming from letter of credit”

Importer: Polytrade GmbH
Recipient Bank: Bangkok Bank



The current transactions are handled with asian countries



Agenda

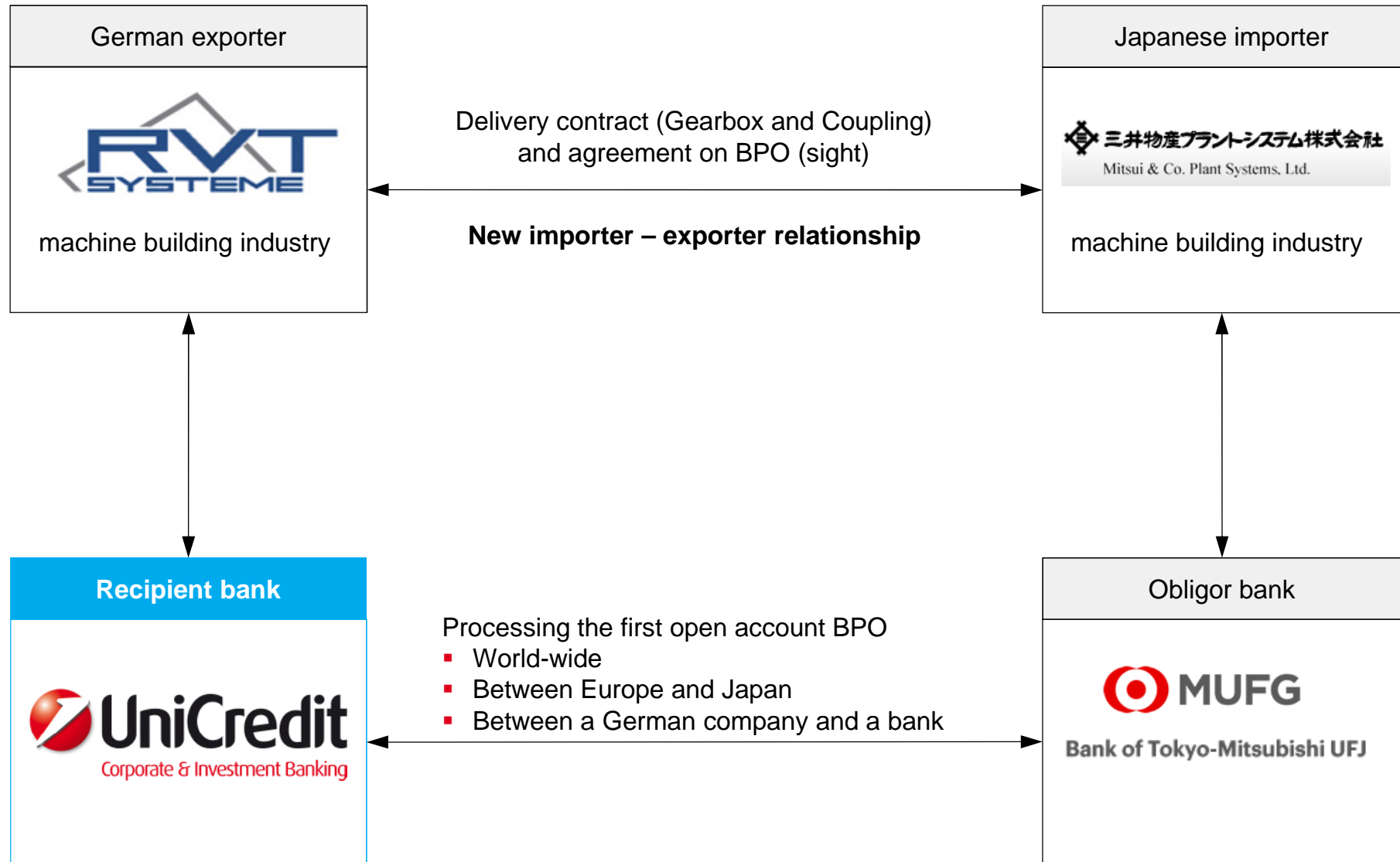
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Case study – "New exporter – importer relationship"

Participating parties



Case study – "New exporter – importer relationship"

The german exporter



Facts and Figures

- Major manufacturer of stirring unit
- Client segments chemicals, pharmaceuticals, food and beverage industry, power, wastewater, paint and varnish industry, research and development, biotechnology, cosmetic industry, explosion protection
- Customers around the world
- 85 employees
- Annual turnover approximately EUR 10 mn
- For further details please refer to www.rvt-systeme.de

Challenges

- Partially custom-made products
- Small volumes with spare parts
- DSO between 30 and 60 days
- Often new and unknown buyers

Reason to use BPO – for new client (importer)

- Payment security
- Purchase orders often too small for (expensive) documentary credits (low costs of BPO)
- Buyer declines pre-payment
- Lean handling

Case study – "New exporter – importer relationship"

The japanese importer



Facts and Figures

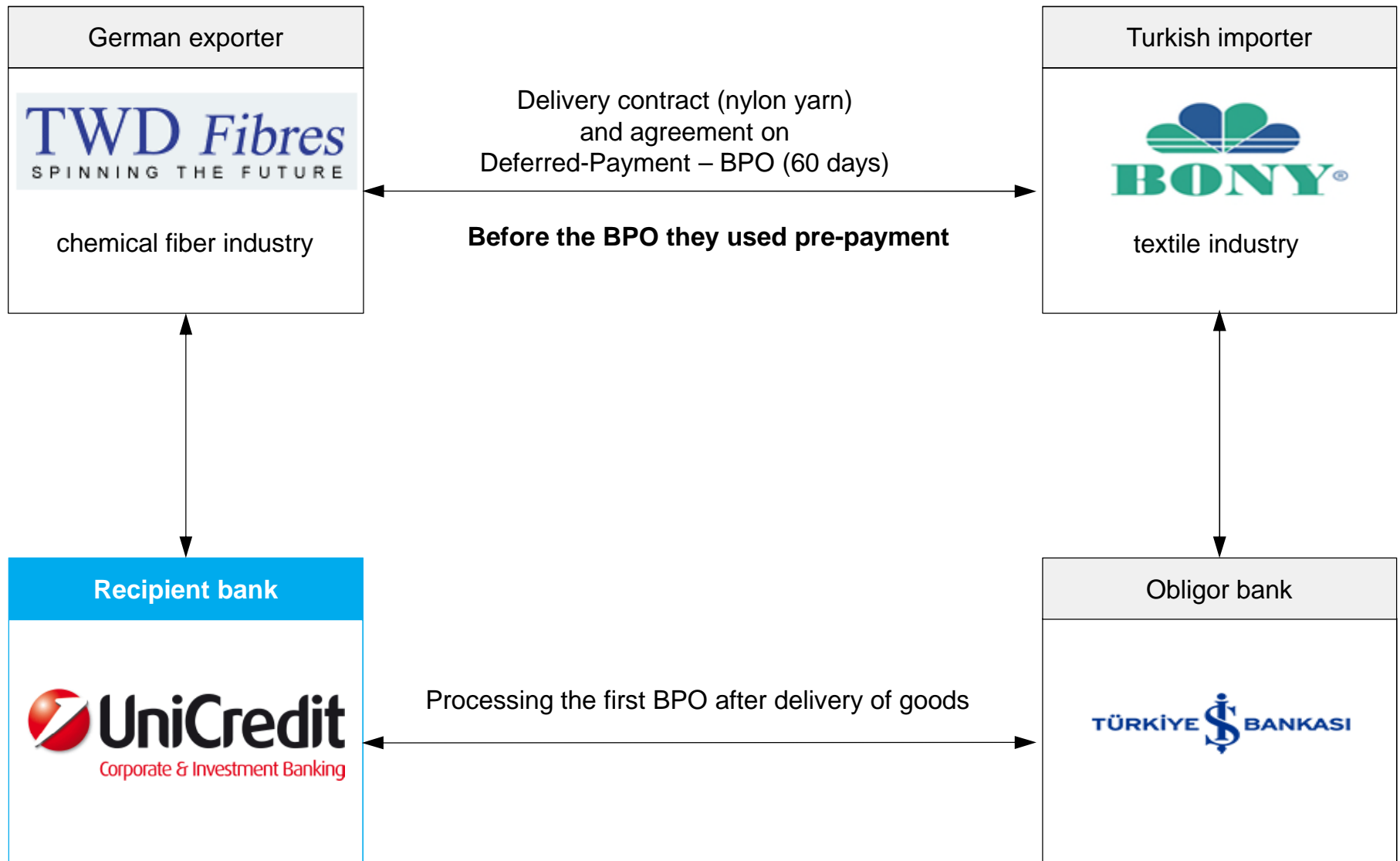
- 100 % shareholder Mitsui & Co., Ltd.
- Head office in Tokyo, Japan
- 16 domestic offices; 1 overseas (Indonesia)
- Business fields are power systems, heavy machinery, transportation, energy infrastructure in domestic and oversea
- 372 employees
- Mitsui & Co. Plant Systems, Ltd. was established in April, 2007 through a merger of four subsidiaries (Mitsui & Co. Project Corp., Mitsui Bussan Plant & Project Corp., Mitsui & Co. Power Systems Corp., Mitsui Bussan Transportation System Co., Ltd. of Mitsui & Co., Ltd.)

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Case study – “Coming from pre-payment”

Participating parties (2 transactions by now)



Case study – “Coming from pre-payment”

The german exporter



Facts and Figures

- Founded 1959 by Heinrich Kunert
- Incorporated corporations with Daun & Cie AG, Rastede
- Approx. 800 employees
- Approx. EUR 100 mn turnover
- Supplied industries: automotive, medicine, home textile, technical textiles, apparel, hosiery
- For further details please refer to www.twd.de

Challenges

- Competitive pressure
- Getting paid on time
- Formal complications with LC
- Long payment terms

Reason to use BPO – coming from pre-payment

- Independency from specific banks
- More flexibility
- Better cash flow management
- Payment assurance

Case study – “Coming from pre-payment”

The turkish importer



Facts and Figures

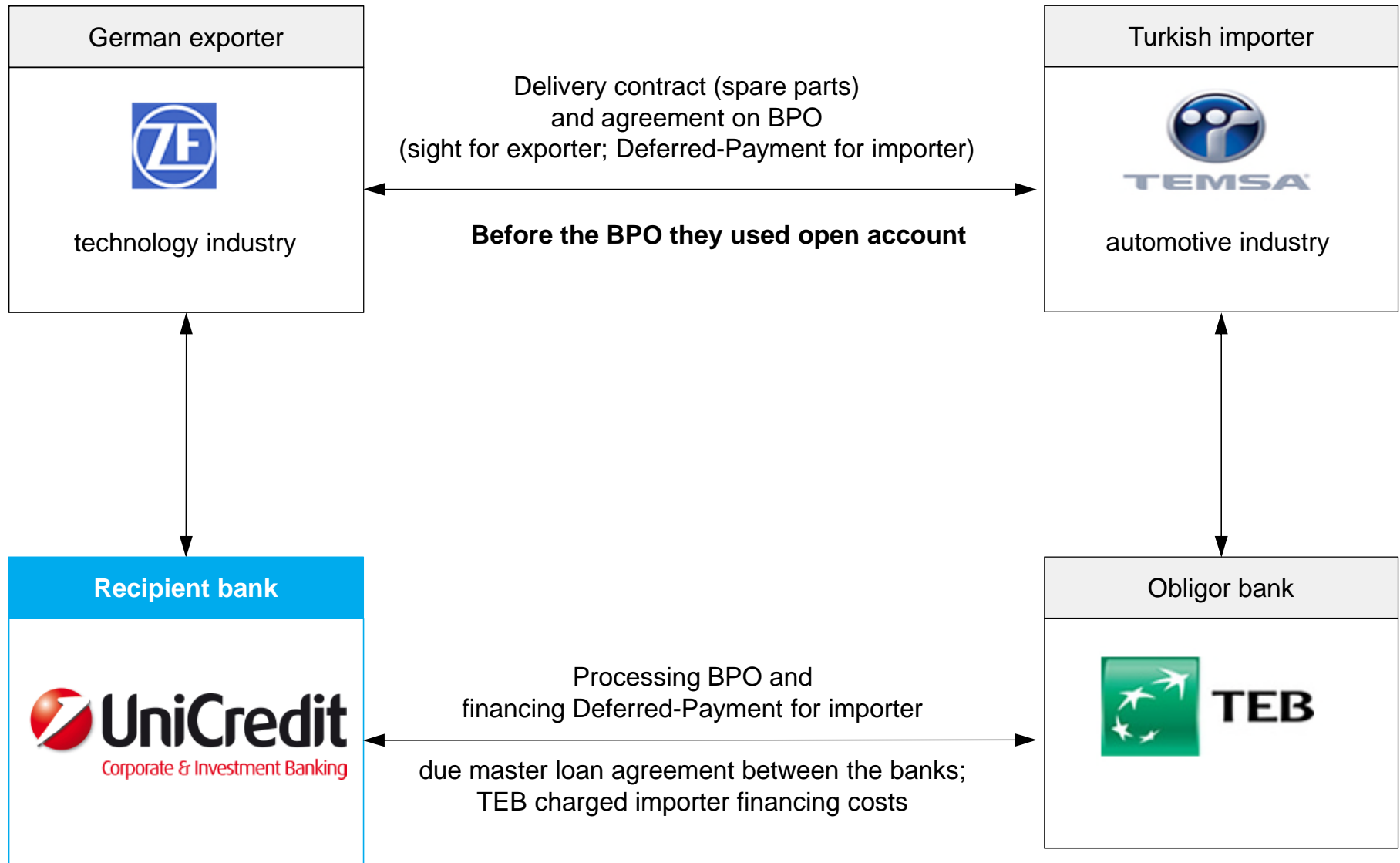
- Founded in 1986 by Hasan Gülkaya
- Customers in e.g. France, Spain, Italy, Sweden, UK, Japan and America
- Annual socks production capacity of 100 million pairs and completely owned by the company
- The company is able to provide the highest quality service to its customers with the production, packaging and quality control system
- 50.000 m² manufacturing plant
- 1200 trained employees
- Earns a number of awards every year

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Case study – “Coming from open account”

Participating parties



Case study – “Coming from open account”

The german exporter



MOTION AND MOBILITY



Facts and Figures (as of 31 December 2013)

- Client segments: automotive industry (car / truck / bus / off highway) – share of sales > 85 %
- Employees: 72.643; turnover: EUR 16,8 bn (in 31.12.2014: > EUR 18 bn); investment in R/D: EUR 836 mn)
- One of the leading Tier1-suppliers (no. 9 in the relevant industry) and one of the world's leading technology groups
- In 2015 ZF is celebrating its 100 years' anniversary
- Milestone 2014: Acquisition of TRW – transactions' closing is expected in QII/15
- ZF / TRW will rank together at 3rd place
- For further details please refer to www.zf.com

Challenges

- Growing business in emerging markets
- Regional OEMs expect „exotic“ payment terms
- Production and corresponding cash cycle of truck and bus producers require innovative payment methods
- Therefore long payment terms are requested, but unconvertible when considering their credit rating

Reason to use BPO – coming from open account

- Covering the difference of the interest: ZF prefers payment at sight, while TEMSA prefers payment after getting their invoices
- Improves position in comparison with payment by open account, but avoid disadvantages of an L/C (cost, duration, efforts, complexity, strictness)
- Continuation of business relationships by supporting customers / pave the way for longer payment terms

Case study – “Coming from open account”

The turkish importer



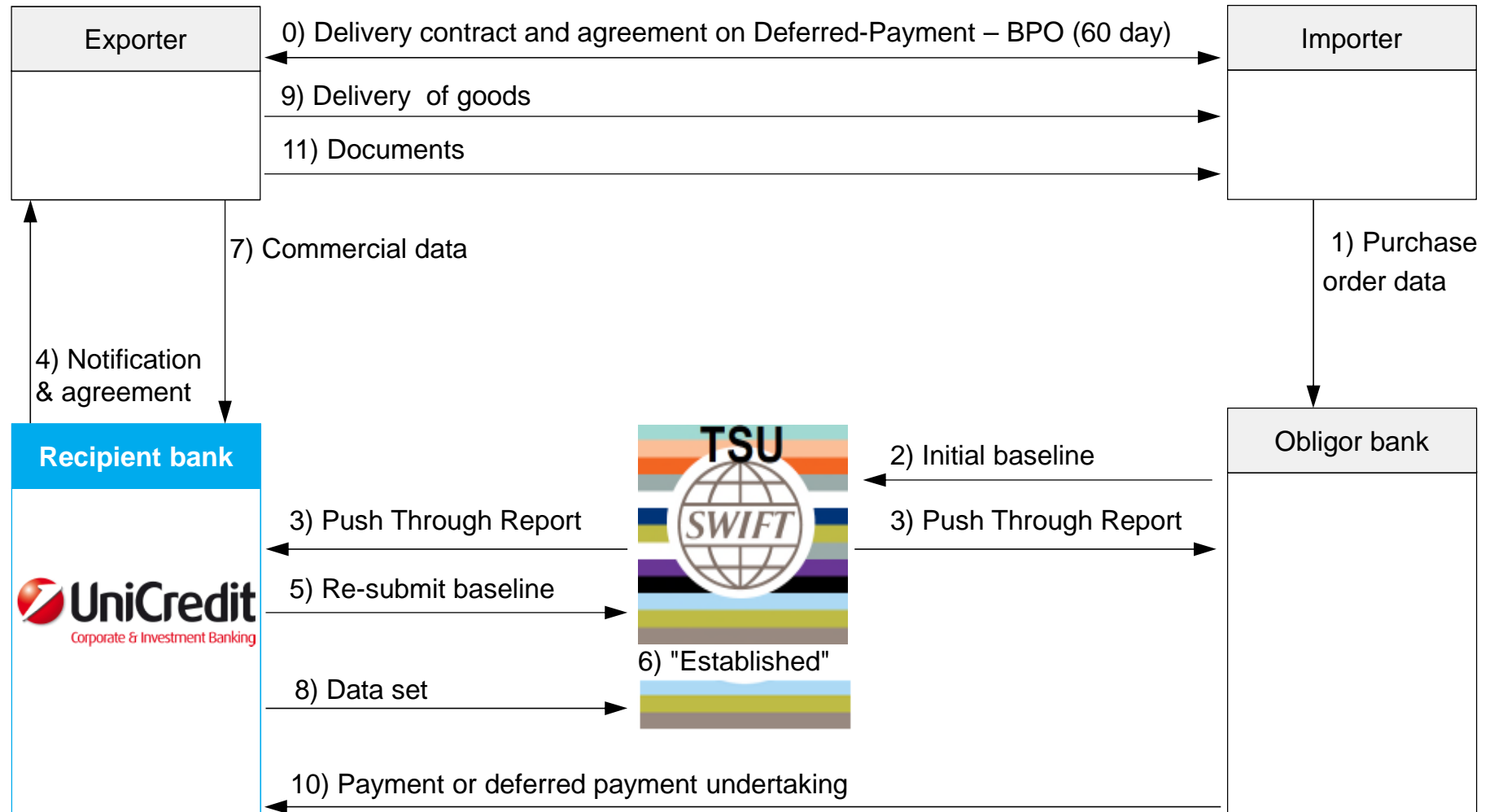
Facts and Figures

- TEMSA Global manufactures and distributes buses & coaches with its own brand in domestic and international markets
- One of Turkey's leading automotive companies
- Total annual production capacity of 11.500 vehicles in one shift at its Adana Production Plant, comprised of 4.000 buses & coaches, and 7.500 light trucks
- Total area of 555.000 m²
- TEMSA sells its products to 64 countries in addition to Turkey. In France alone, more than 3.000 TEMSA branded buses are on the roads
- The company's major markets in Europe include Germany, Italy, Austria, Sweden, Lithuania and the Benelux region; meanwhile, TEMSA continues to strengthen its market share in the United States through increased product diversification
- For further details please refer to www.temsa.com.tr

Process Overview

UniCredit Bank AG as recipient bank

We started with the TSU test environment to agree with the corporate client and the bank on the technical handling, before we used the live-system. So all participating contractors got a better feeling.

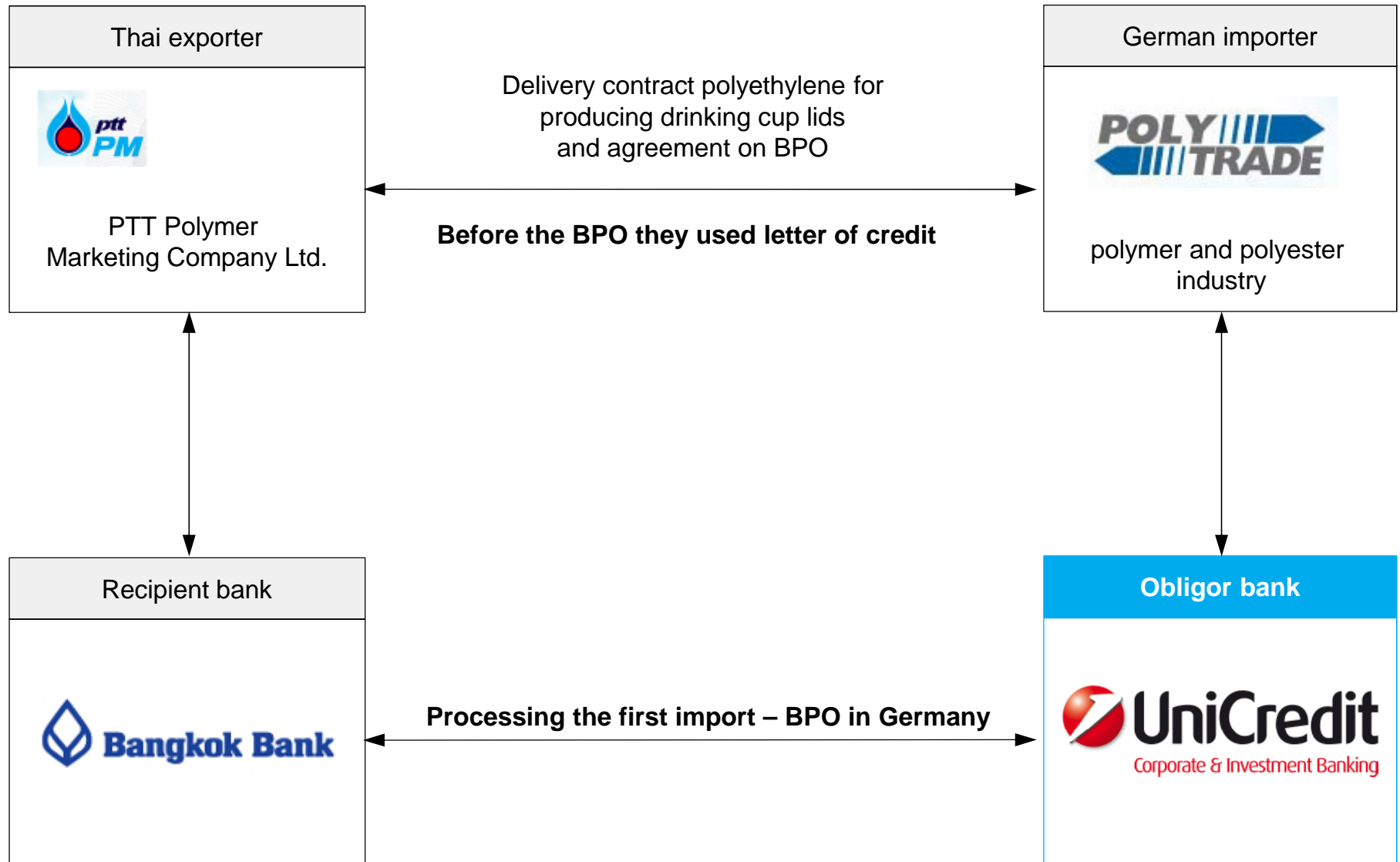


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Case study – “Coming from letter of credit”

Participating parties (6 transactions by now)



Case study – “Coming from letter of credit”

The german importer



Facts and Figures

- Founded in 1990 as a Metallgesellschaft AG spin-off and in 2006 acquired by an indian investor
- Legal form is GmbH (limited liability company) with 12 employees and approx. EUR 30 mn turnover
- Polytrade is an all-round marketing and logistic service provider with a traditional technological background specializing in polymers and polyester, additives for polymers and polyester as well as raw materials for polyester
- Polytrade was classified as high valued strategic partner 2014 by PTT for continuous development of defined target markets on an exclusive basis
- For further details please refer to www.polytrade.de

Challenges

- Tight delivery schedules require optimized processes
- Small margin business demands extreme cost awareness

Reason to use BPO – coming from letter of credit

- Quicker operational process
- Reduced risk of "discrepancies" for minor errors
- Cost reduction expected

Case study – “Coming from letter of credit”

The thai exporter



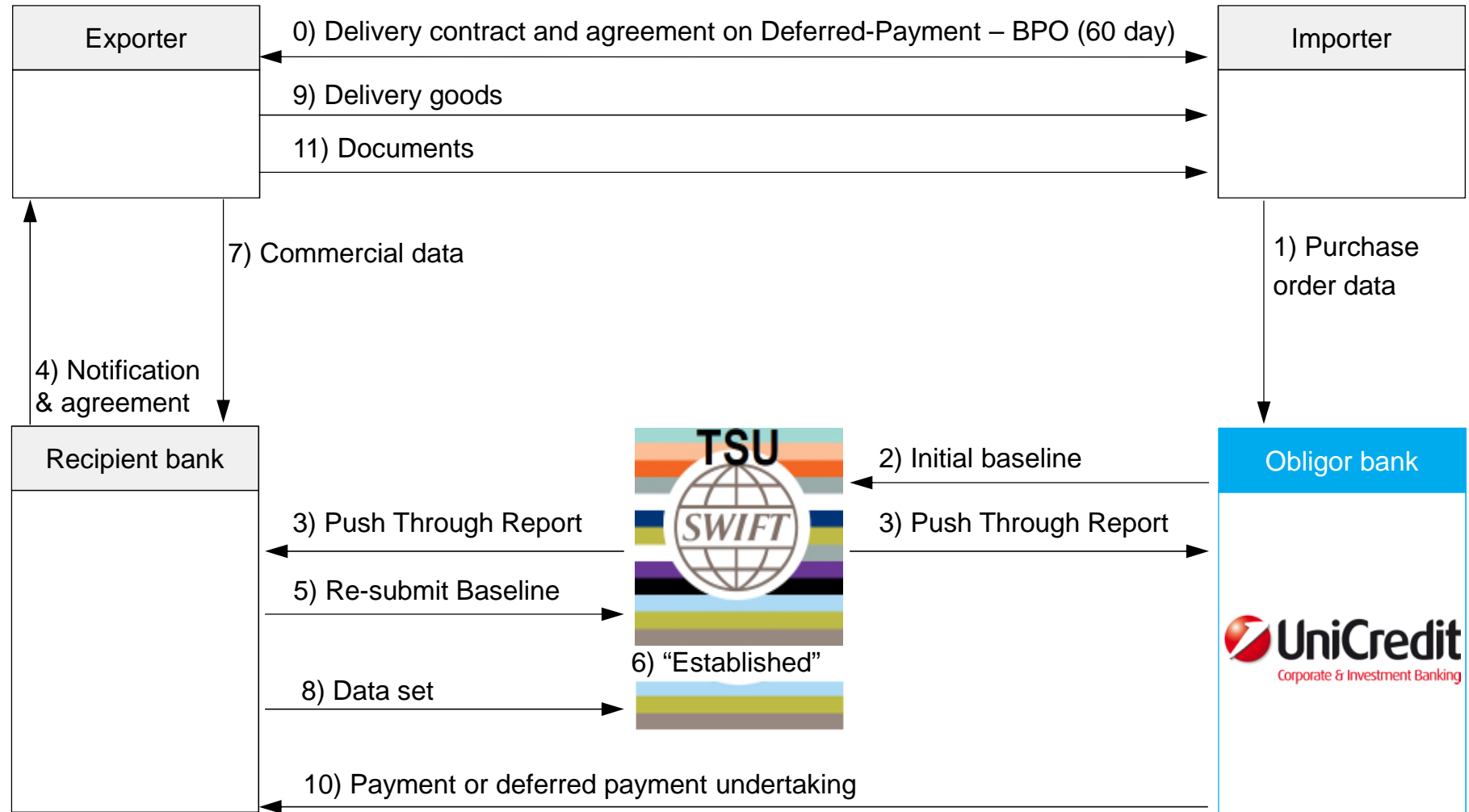
Facts and Figures

- PTTPM, a company of PTT Group, is a leading polymer sales and marketing company in Thailand
- Integrated upstream to downstream petrochemical business and combined polymers production capacity of 3 million tons per year
- PTT is Thailand's largest petroleum and petrochemical company and the leading petrochemical producer in Asia
- Offer variety of high quality polymers; such as, high density polyethylene (HDPE), low density polyethylene (LDPE) and linear low density polyethylene (LLDPE), polypropylene (PP) and polystyrene (PS)
- Products are distributed throughout Thailand as well as being exported to more than 100 countries around the world
- To further enable proximate access to our valued customers, PTTPM has established Polymer Marketing DMCC in Dubai, United Arab Emirates, representative offices in: Guangzhou and Shanghai in China and Ho Chi Minh City in Vietnam
- For further details please refer to www.pttpm.com

Process Overview

UniCredit Bank AG as obligor bank

In this case we opened the initial baseline and in addition to act as recipient bank the transactions is associated with credit lines.



Your contact



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Export, Trade & Supply Chain Finance



- #1 Trade Finance Bank in Austria, Bulgaria, Italy, Czech Republic, Ukraine and CEE in 2014
- #1 Supply Chain Finance Provider in CEE in 2014



- #1 Bank for Financial Supply Chain Management in CEE in 2014



- #1 Trade Bank in CEE in 2014
- #2 Forfaiting Institution in 2014
- #3 SME Financier



- #1 Trade Finance Provider in Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Poland, Romania, Russia, Serbia, Slovakia, Turkey and CEE in 2015
- #1 Bank for Guarantees in 2015
- #1 Bank for Open Account Payments in 2015

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