

# Trade Finance



# Group Members



- |                                    |                   |
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# Agenda

- ❖ **What is trade finance?**
- ❖ **Benefit of Trade Finance**
- ❖ **Reducing risk by trade finance**
- ❖ **Trade finance products**
  - **Imports & Exports**
  - **Guarantees**



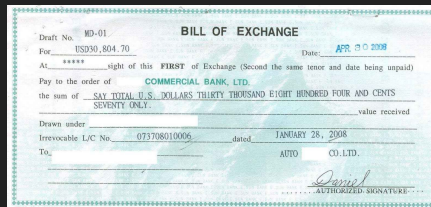
# What is trade finance ?

Trade finance relates to the process of financing certain activities related to commerce and international trade.

Which includes activities such as lending, issuing letters of credit, factoring, export credit and insurance.

Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers.

Most of the international trade is financed by trade finance. World Trade Organization (WTO) said that 80-90% of the world trade is relied on trade finance.



**BILL OF EXCHANGE**

Draft No. MD-01  
For. USD30,804.70 Date: APR 02 2008  
At, \*\*\*\*\* sight of this **FIRST** of Exchange (Second the same tenor and date being unpaid)  
Pay to the order of **COMMERCIAL BANK, LTD.**  
the sum of **SAY TOTAL U.S. DOLLARS THIRTY THOUSAND EIGHT HUNDRED FOUR AND CENTS SEVENTY ONLY** value received  
Drawn under Irrevocable L/C No. 073708010006 dated JANUARY 28, 2008  
To, MTPO CO. LTD.  
AUTHORIZED SIGNATURE

## SAMPLE – IRREVOCABLE STANDBY LETTER OF CREDIT

(NOTE: FORM MY VARY, SUBSTANCE MAY NOT)

BANK LETTERHEAD

IRREVOCABLE STANDBY LETTER OF CREDIT

TO: ATTN: GROUND FUELS DIVISION II, DIRECT DELIVERY FUELS, CONTRACTING OFFICER  
DEFENSE ENERGY SUPPORT CENTER (DESC)-PLC  
8725 JOHN J. KINGMAN RD. STE 4950  
FORT BELVOIR VA 22060-6220

EFFECTIVE DATE: \_\_\_\_\_  
AMOUNT OF LETTER OF CREDIT: \$ \_\_\_\_\_  
CONTRACTOR: \_\_\_\_\_  
CONTRACT NUMBER: SP0600- \_\_\_\_\_  
LETTER OF CREDIT NUMBER: \_\_\_\_\_

To Whom It May Concern:

We hereby establish our "Irrevocable Standby Letter of Credit" in your favor, available by your draft/s at sight, drawn on (Name of Bank issuing this Standby letter of Credit) accompanied by a manually signed statement that the signer is "an authorized representative of the Defense Energy Support Center", and one or both of the following statements:

- "I hereby certify that the United States Government has delivered product under the terms of Contract Number SP0600-\_\_\_\_\_, and that (Contractor) has not paid under the terms of that contract, and as a result owes the Government \$ \_\_\_\_\_."
- "I hereby certify that (Contractor) has failed to take delivery of product under the terms of Contract Number SP0600-\_\_\_\_\_, and as a result owes the Government \$ \_\_\_\_\_."

Drafts must be presented for negotiations on or before the expiration date of this Letter of Credit, (Expiration Date), at our bank. The Government may make multiple drafts against this Letter of Credit.

This Letter of Credit is subject to the Uniform Customs and Practice of Documentary Credits (1993 Revision, International Chamber of Commerce Publication No. 500) and except as may be inconsistent therewith, to the Uniform Commercial Code in effect on the date of issuance of this Letter of Credit in the state in which the issuer's head office within the United States is located.

We hereby agree with the drawers, endorsers and bona fide holders that all drafts drawn under and in compliance with the terms of this Letter of Credit will be duly honored upon presentation and delivery of the above documents for negotiation at our bank on or before the expiration date.

Very truly yours,

\_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
(Typed Name and Title)

(NOTE: FORM MAY VARY, SUBSTANCE MAY NOT)  
PROVIDE COPY OF EXHIBIT A- SOLICITATION CONTRACT FOR SALE OF PRODUCT TO YOUR BANK

SP0600-05-R-0040

EXHIBIT D

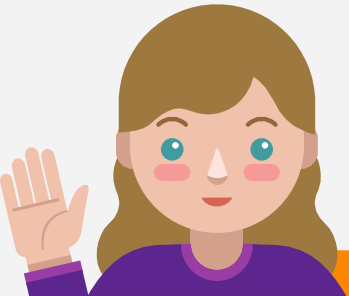
# Benefits by Trade finance

**Payment risk:** Will the exporter be paid in full and on time? Will the importer get the goods they wanted?

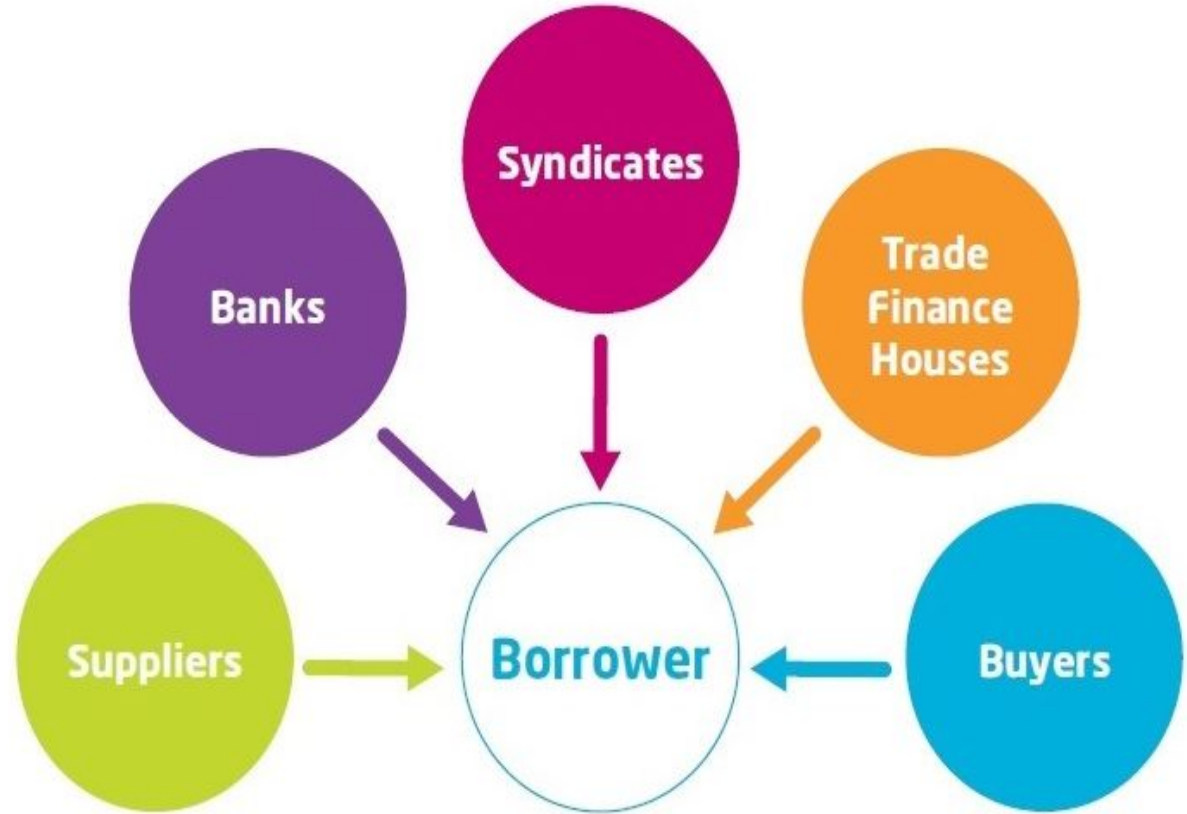
**Country risk:** A collection of risks associated with doing business with a foreign country, such as exchange rate risk, political risk and sovereign risk. For example, a company may not like exporting goods to certain countries because of the political situation, a deteriorating economy, the lack of legal structures, etc.

**Corporate risk:** The risks associated with the company (exporter/importer): what is their credit rating? Do they have a history of non-payment?

To reduce these risks, banks and other financiers have stepped in to provide trade finance products.



# Providers of Trade Finance



# Users of Trade Finance



# Main services of Trade Finance Products provided by Bank

## Imports

- **Letters of Credit**

## Guarantees

- **Advance Payment Guarantees**

## Exports

- **Export Negotiations**



# Imports & Exports



# Letter of Credits

It is a letter from a bank to guarantee that a buyer's payment to a seller will be received on time with the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Typically, Banks require a collateral such as securities or cash for issuing a letter of credit. The fee for service, will be charged as a percentage of the size of the letter of credit.



INTERNATIONAL BANKING GROUP  
**Megabank Corporation**  
P.O. BOX 1000, ATLANTA, GEORGIA 30302-1000  
CABLE ADDRESS: MegabB  
TELEX NO. 1234567  
SWIFT NO. MEGABC 72

ORIGINAL

OUR ADVISE NUMBER: EA00000091  
ADVISE DATE: 08MAR97  
ISSUE BANK REF: 3312/HBI/22341  
EXPIRY DATE: 23JUN97

\*\*\*\*AMOUNT\*\*\*\*  
USD\*\*\*\*25,000.00

BENEFICIARY:  
THE WALTON SUPPLY CO.  
2356 SOUTH N.W. STREET  
ATLANTA, GEORGIA 30345

APPLICANT:  
HHB HONG KONG  
34 INDUSTRIAL DRIVE  
CENTRAL, HONG KONG

WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS  
ISSUED BY:  
THIRD HONG KONG BANK  
1 CENTRAL TOWER  
HONG KONG

PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING:  
CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT  
SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE  
FOLLOWING DOCUMENTS:

1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.
2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.
3. PACKING LIST IN 2 COPIES.

EVIDENCING SHIPMENT OF: 5000 PINE LOGS – WHOLE – 8 TO 12 FEET  
FOB SAVANNAH, GEORGIA

SHIPMENT FROM: SAVANNAH, GEORGIA TO: HONG KONG  
LATEST SHIPPING DATE: 02JUN97

PARTIAL SHIPMENTS NOT ALLOWED TRANSHIPMENT NOT ALLOWED

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARY'S ACCOUNT.  
DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.

AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE  
WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS  
CREDIT WILL BE DULY HONORED BY US.

PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH  
THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR  
AN AMENDMENT.

# Export Negotiation

## Key Feature

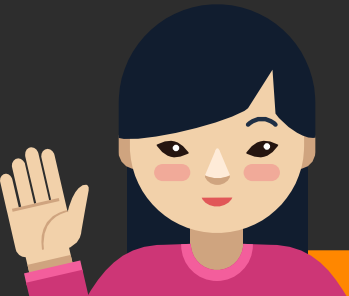
- To meet the demand of the exporters who want to have liquidity in the short term to run their business in the Bills under L / C with a term of payment

## Benefits

- Helps exporters who wish to receive immediate value for goods shipped under a Letter of Credit or Collection.
- The customer also gets to avoid the delays associated with cross-border presentation, mitigates cross-border and foreign bank risks.

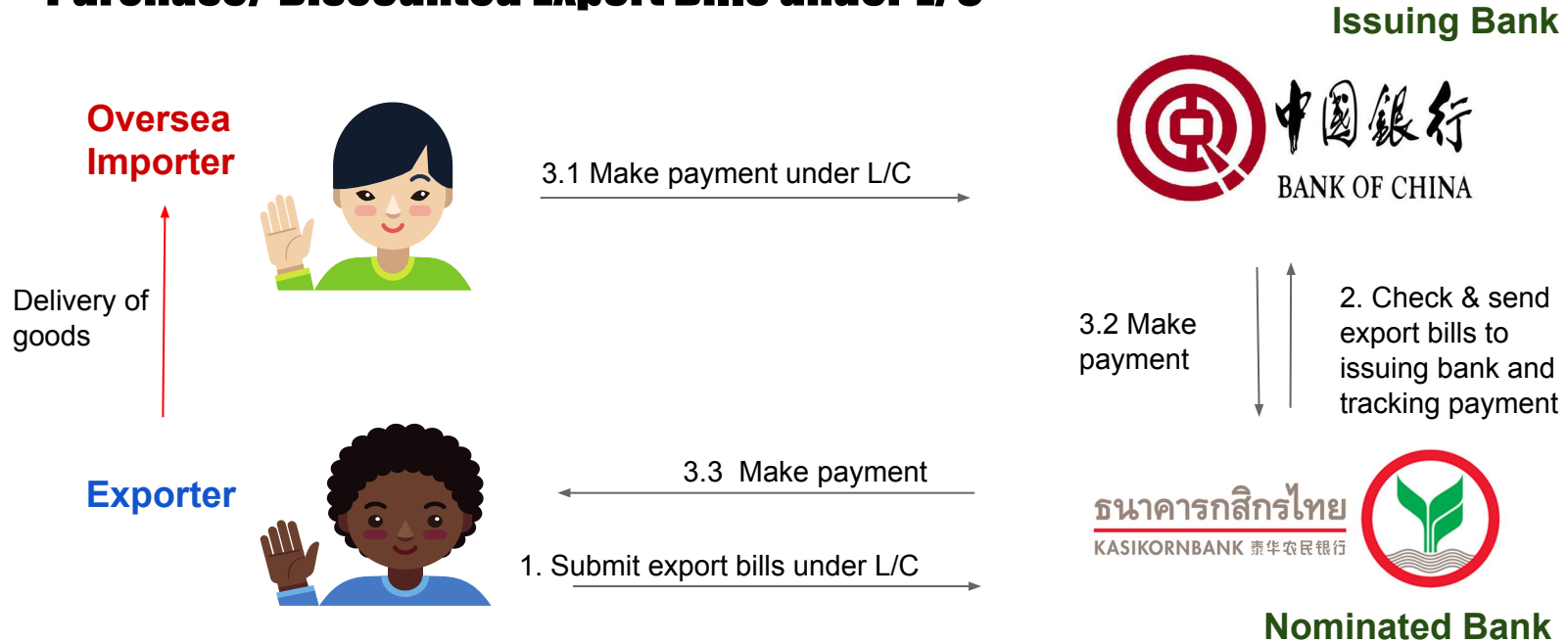
## Required Document

1. Application for Negotiation/Discount of Export Bills Drawn under Letter of Credit for the purchase or discounted purchase of export bills drawn under L/C
2. Original L/C
3. Original export documents under L/C
4. An Application Form for Foreign Currency Transaction (for the amount of USD50,000 or equivalent, or greater)

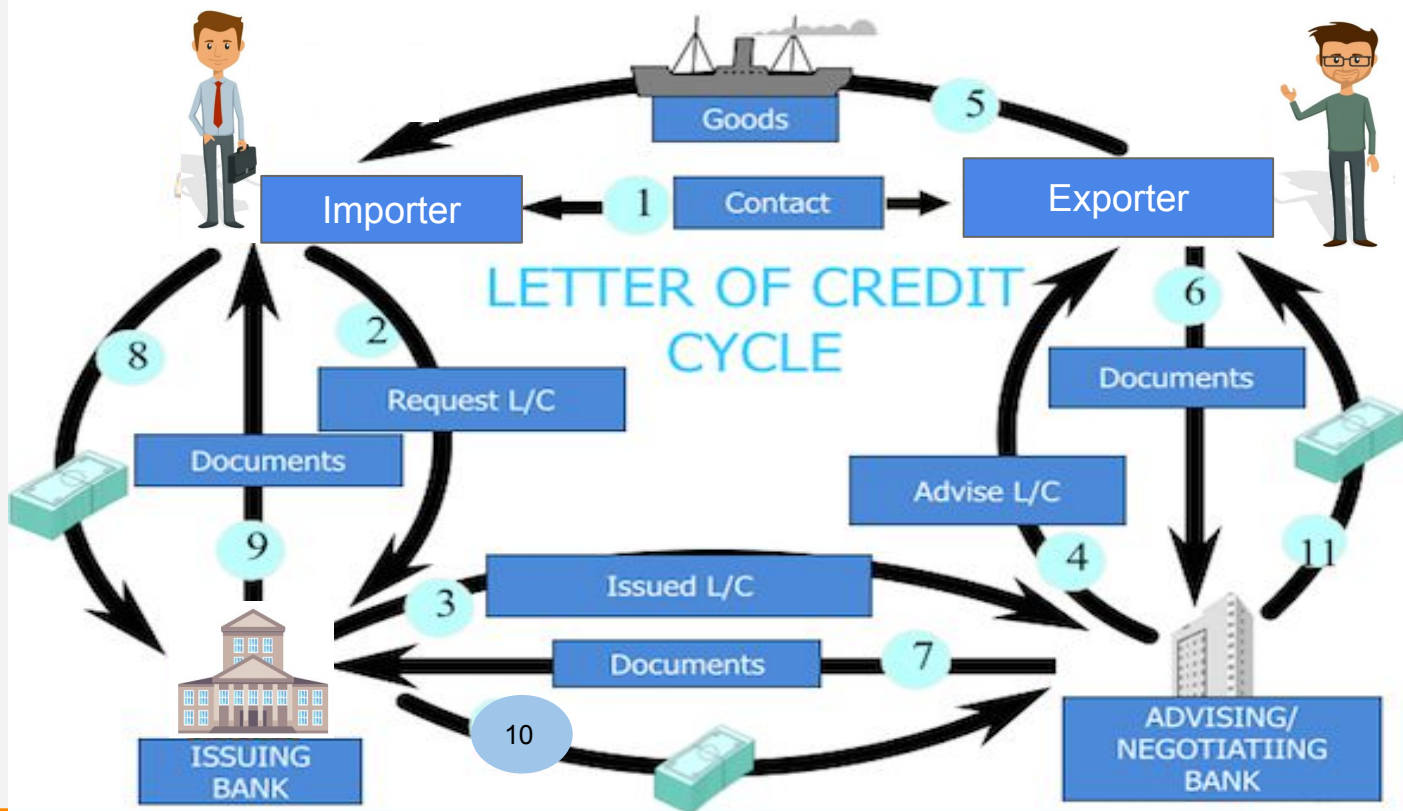


# Export Negotiation under L/C

## Purchase/ Discounted Export Bills under L/C



# Letter of Credit Cycle



# Guarantees



# Advance payment guarantee

An advance payment guarantee is a form of protection that makes it possible for a buyer to recover any advance payments extended to a seller in the event that the seller fails to abide by the terms and conditions that govern the purchase of goods or services.

A guarantee of this type may be used in a number of situations, including deals where goods are imported or exported. It is also used with domestic transactions, such as the purchase of heavy equipment, construction projects, or even large lots of retail goods.

**GUARANTEE**



“

**FORMAT OF BANK GUARANTEE FOR ADVANCE PAYMENT**

**Note:**

1. This Guarantee should be furnished by a Nationalized Bank / Scheduled Bank except The Bank of China as per the following format.
2. The Bank Guarantee should be furnished in Stamp paper as per Stamp Act (at present not less than Rs.80/- Stamp Paper)
3. The stamp paper should have been purchased either in the name of the Bank executing the Guarantee or in the name of NLC.
4. This Bank Guarantee should be directly sent to the Purchaser by the issuing Bank under RPAD.

Advance Payment Guarantee No. ....

Place            :

Date             :

TO

THE HEAD OF UNIT,  
MATERIALS MANAGEMENT COMPLEX,  
NEYVELI LIGNITE CORPORATION LTD.,  
NEYVELI-607, CUDDALORE DIST,  
TAMIL NADU, INDIA.

Dear Sirs,

1. Pursuant to the purchase order, hereinafter referred to as "The Purchase order" with M/s.....hereinafter referred to as the "SELLER", which expression shall, unless repugnant to the context or meaning thereof, include its successors, administrators, representatives and assignees, have concluded with NEYVELI LIGNITE CORPORATION LTD., NEYVELI, herein after referred to as the "PURCHASER", which expression shall, unless repugnant to the context or meaning thereof, include its successors, administrators, representatives and assignees, on ..... vide Letter of Intent / Purchase Order No.....dated .....the seller have

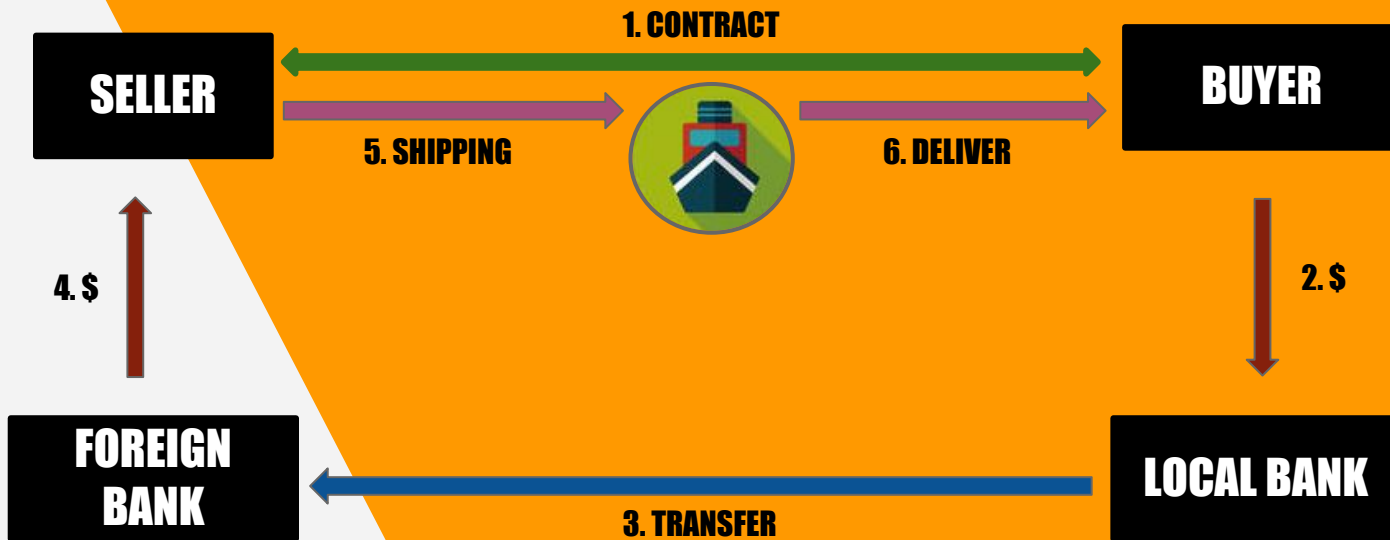


The advance payment guarantee solve the problem of mutual mistrust between both parties of a transaction. The seller can obtain advance payment and the buyer can exercise the payment guarantee if the seller does not take steps to fulfil the contractual obligations.





# Advance Payment Guarantee Cycle





# THANK YOU! ANY QUESTIONS?

