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Global Trade Finance Fund

Liquidity Solutions

Documentary Operations
Trade Lines & Coverage

Structured Commodity Solutions

2020

TRADE FINANCE PLATFORM
STRATEGIC BUSINESS UNIT-("SBU")

TRADE FINANCE PLATFORM & STRUCTURED COMMODITY FINANCING

The Trade Finance industry is a US$16 trillion dollars market with endless possibility and one of the most under serviced sector.

In one form, it is quite a precise 'Investment Method' managing the capital required for commercial & international trade to flow. Yet within this Method there are a wide range of tools at the financiers' disposal, all of which determine how cash, credit, investments and other assets can be utilized for trade.

In its simplest form, an exporter requires an importer to prepay for goods shipped. The importer naturally wants to reduce risk by asking the exporter to document that the goods have been shipped. The importer's bank assists by providing a letter of credit to the exporter (or the exporter's bank) providing for payment upon presentation of certain documents, such as a bill of lading. The exporter's bank may make a loan to the exporter on the basis of the export contract.

Structured Commodity Financing - STF

Structured Finance

QFTF Trade Finance Fund Platform', provides financing solutions, either based on a company 'Balance-Sheet' or on the cash flow generated by the future transactions-utilization from a company assets and/or as per the specific characteristics of a transaction. For different cash flow structures there are multiple methods to structure finance requirements for institutions and companies as follows:

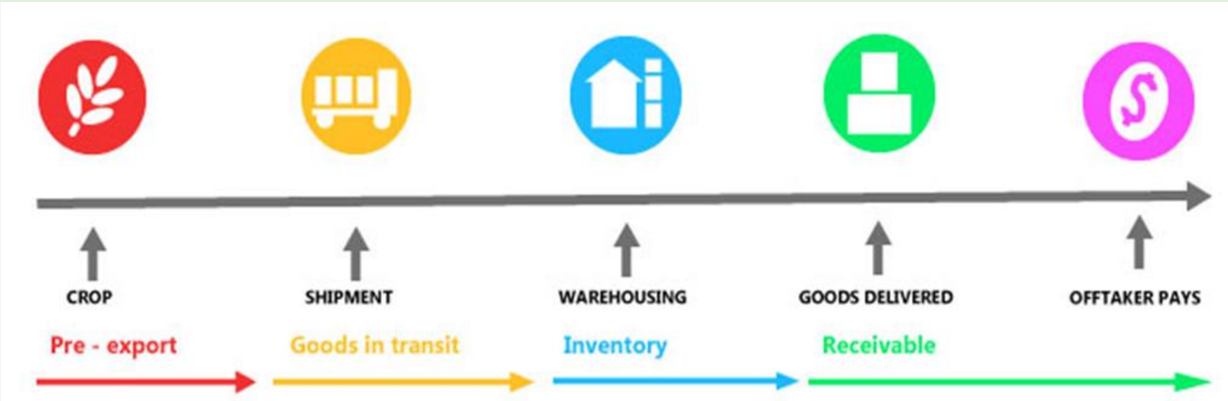
- Trade & Project Finance
- Asset Finance (income producing)
- Buy-out Finance
- Structured Commodity and Trade Financing

Structured Commodity Financing - SCF

Structured Commodity Financing (SCF) is a financing technique to provide assistance in the trade flow of commodities.

SCF was specifically designed for commodity producers and trading companies doing business in the developing markets. Specifically, Structured Commodity Finance provides liquidity and mitigates counter-party risks for the parties in the origination, production, purchase and sale of raw, semi-fined or semi-processed commodities.

For example, how the trade flow of soft commodities should look like below:



Trade cycle of soft commodities

QFTF Global Trade Finance Services:

Through our global correspondent banking relationships, QFTF will undertake to initiate relationships with global correspondents, establish documentary credit lines (limits) with a vast majority of foreign banks; we combine global capabilities from traditional trade products to bespoke finance solutions.

We provide trade finance activity in order to maximize the bank international and domestic trading potential while improving cash-flow. QFTF Global Trade Finance Services (FGTFS) extends and complements the capacity of banks to deliver trade financing by providing risk mitigation in new or challenging markets where trade lines may not be available; subject to our financing parameters.

Starting from the production stage and producers of the soft commodities to the traders, SCF supports the whole supply chain. Common element in Structured Commodity Finance is that there is an asset or a transaction facilitated, not a company or a balance sheet. There are some generic structure components in the financing arrangements, but the precise design of the financing varies throughout the chain.

Key elements of Structured Commodity Finance

• Commodity assets with a liquid character (short term\current assets) have a financing based on face value or on market value.

• Assets could comprise of contracts, stocks, guaranteed/secured pre payments, shipments, receivables, hedges and so forth.

• The assets serves as a collateral to provide the financier control (security) over the goods and cash flow.

• Sometimes a portfolio of assets is subject to a financing, thus not only the individual assets but also the portfolio serves as a collateral.

• Depending the structure of the arrangement, hedges allocated to the assets might be an un-separated part of the collateral to the financiers.

• The financier tracks the goods from procurement to sales and sometimes to receivable and/or collection (quantity, quality, location, movements).

• The financier might assume (temporary) ownership for the goods it finances trough a sale/buy back arrangement (repo).

The unique value Structured Finance can bring to commodities

In industries like the commodity trade, where assets are continuously changing in terms of value and ownership and liquidation risk, SCF is a best practice financing solution.

Moreover, Structured Commodity Finance handles the complexity and risk of financing activities and transactions much better than the common trade finance (e.g. securing payments through letters of credit) or balance sheet based financing (leveraging equity). The asset based approach support the continuously changing locations and market values of assets and can survive ownership transfers.

Structure Commodity Financing can be embedded in buyers\supplier relationships, when such is initiated by one of the trading partners; in terms of vendor managed inventory or consignment stocks. Moreover, we can finance specific buyer/supplier relationships and thus enable very specific forms of supply chain financing.

How do we support Structured Commodity Finance?

For an effective use of Structured Commodity Finance trade desks, our logistic departments and finance departs work in parallel to track and trace the composition of a commodity portfolio and the aligned financing arrangements. Tracking and Transparency on the moving components, such as quantities, qualities, asset classes, locations, counter-parties is required to leverage a structured commodity finance arrangement and to efficiently finance an asset portfolio.

QFTF Trade Finance Platform - Transactional Program

QFTF provides transactional and structured short-term financing to trading companies. Dealing with a number of basic agri, precious metals and energy commodities. We provide flexible creative solutions supporting back-to back L/C deals and more complex structured trade transactions.

Our customers benefit from a one-stop shop to facilitate their transactions; whereas for a commodity transaction, QFTF arrange a closed-end, self-liquidating, secured and closely monitored transaction that may include:

- Pre-Export
- Export/Import
- Post-Import
- Receivable Financing
- Back-to Back L/C Financing (transactional finance)
- Syndicated Short Term Trade Finance

'QFTF' supports these facilities in all major currencies, combined with the necessary currency hedging instruments. Margins on the level of finance available apply, depending on the goods traded and the associated market risk for the product.

QFTF - Warehouse Finance

Warehouse finance provides our customers-trading companies with the means & flexibility, granting them, a period of extended credit undisclosed to the supplier; hence obtaining optimum payment terms and the ability to consolidate merchandise emanating from different suppliers.

'QFTF' provides this form of finance, which can be arranged where payment for the purchased goods is made via a documentary credit and / or a documentary collection and / or a confirmed purchase order. It is common for the underlying transaction to be settled on a 'sight' basis, with the supplier with the goods being consigned to the order or in the name of QFTF in conjunction with its participating banks. This allows our customer/the trading company to negotiate better terms with the supplier, and allows it more time to sell the goods and realize the proceeds deriving from the receivables.

When the goods are consigned to the order of or in the name of QFTF they can be warehoused in QFTF name for an agreed period, and may be drawn partially or fully by the trading company. This may be against cash payment or alternatively against substitute documentation required under an inward receivable (e.g. letter of credit or documentary collection) covering the shipment of goods to the end user. When immediate possession of the goods is required e.g. to fulfil orders already received, the goods may be released to the importer 'in trust' for an agreed period, at the end of which payment would be required. In either case, the agreed period would take into account the trading company's usual terms of trade, and would commence from the date of the bank's payment in settlement of the underlying transaction.

QFTF is in a position to provide these facilities in all major currencies, combined with the necessary currency hedging techniques and variable cost linked to the base rate for the currency. QFTF can arrange for finance, between 65% to 80% of the cost of goods; preferably via an irrevocable letter of credit. Certain criteria, such as goods standing of counter parties, assignment of inward receivables, appropriate insurance cover, nature of merchandise, the possibility of having Collateral Management Structures (CMA) / Stock Monitoring Agreements, and workable time frames and delivery dates, must be in place.

Documentary Credit Insurance Policy (DCIP) and BMP (Bank Master Policy) Cover:

This policy is designed to protect LC confirming banks from the risk of non-payment of issuing Bank; with regards to the parameters of coverage, this would be comprehensive non-payment i.e. the default is the cause of loss (FAILURE OF ISSUING BANKS TO HONOR LETTERS OF CREDIT). This will be ideal for banks to mitigate regional & global risk concerns pertinent to LC confirmations, discounting and post financing.

Coverage and De-Risking for Lenders

Letter of credit DCIP & BMP coverage

QFTF will arrange DCIP (Documentary Credit Insurance Policy) and/or BMP (Bank Master Policy) in favor of correspondents that confirm, discount, or otherwise finance commercial letters of credit issued by originating banks in countries with developing or risky economies.

Confirming banks with our cover are protected against non-payment of letters of credit by issuing banks for virtually any reason following presentation of conforming export documents. Our DCIP can be purchased to cover a single L/C, an issuing bank, or a selected portfolio of letters of credit or issuing banks.

Our Objectives, Services and coverage Facilities:

Structuring and arranging for trade credit risk insurance programs for lenders and applicants of trade and export transactions, and negotiate the placement of insurance programs for the full spectrum of commodity and export finance transactions.

There are any number of programs and underwritings that we can implement, and we have the latitude to structure and arrange these programs on either a one off transaction by transaction basis or alternatively, we can arrange cover on a portfolio basis (in essence, create a facility in which to facilitate insurance for global transactions).

Our services are tailored on a bespoke to target three market segments;

Banks-Lenders, Trade Finance Clients and Investors. For each of the segments, we will provide different insurance instruments and structure in order to address specific client's needs.

-Minimize risk of credit loss; obtain additional capacity to expand lending to existing clients when the total relationship with the client exceeds internal limits.

-Lay off country, borrower and correspondent bank trade exposures due to internal limit considerations and Country Risk.

"Trade Guarantee":

Program in which the insurance/reinsurer provider engage the exporter directly complimenting and/or substituting for L/C issuing bank.

Trade Finance also follows:

Below we have outlined the various ways in which corporate &trade is financed by banks beyond the basic financial transaction described above – which we would refer to as traditional commercial & trade finance. We have divided this extended definition into the sectors where our focus mainly is on Trade Finance as a channel for the latest news and analysis for this market strives to cover.

Trade services and supply chain

Building on what we have termed traditional trade finance, there are a number of ways in which our insurance services presented to banks can assist corporate clients trade, and B2B (both domestically and cross-border) for a fee.

A typical insurance-reinsurance provided services will include:

- Letters of credit (LC),
- Import bills for collection,
- Shipping guarantees,
- Import financing,
- Performance bonds,
- Export LC advising,
- LC safekeeping,
- LC confirmation,
- LC checking and negotiation,
- Pre-shipment export finance,
- Export bills for collections, invoice financing,
- All the relevant document preparation.

Structured Commodity Finance

Structured commodity finance (SCF) as covered by Trade Finance is split into three main commodity groups:

- Metals & mining, energy, and soft commodities (agricultural crops). It is a financing technique utilized by commodity producers and trading companies conducting business in the emerging markets.

SCF provides liquidity management and risk mitigation for the production, purchase and sale of commodities and materials. This is done by isolating assets, which have relatively predictable cash flow attached to them through pricing prediction, from the corporate borrower and using them to mitigate risk and secure credit from a lender. A corporate therefore borrows against a commodity's expected worth.

If all proceeds to plan then the lender is reimbursed through the sale of the assets. If not then the lender has recourse to some or all of the assets. Volatility in commodity prices can make SCF a tricky business;

hence hedging is required to mitigate risk. Lenders charge interest any funds disbursed as well as fees for arranging the transaction.

SCF funding techniques include:

- Pre-export finance,
- Countertrade, barter, and inventory finance.

These solutions can be applied across part or all of the commodity trade value chain: from producer to distributor to processor, and the physical traders who buy and deliver commodities.

As a financing technique based on performance risk, it is particularly well-suited for emerging markets considered as higher risk environments.

Export & Agency Finance (ECA)

This part of Trade Finance's remit covers the roles of the export credit agencies, the development banks, and the multilateral agencies. Their traditional role is complement lending by commercial banks at interest by guaranteeing payment.

These agencies have once again become of vital importance to the trade finance market due to the role that they play in facilitating trade, insuring transactions, promoting exports, creating jobs, and increasingly through direct lending. All are important in the current global downturn.

ECAs are private or governmental institutions that provide export finance, or credit insurance and guarantees, or both. ECAs can have very different mandates which we will not delve into here (please refer to Trade Finance's annual World Official Agency Guide).

The development banks, sometimes referred to as **DFIs** (development finance institutions), and the multilaterals similarly have different mandates depending on their ownership or regional remit. Most will have a form of trade facilitation program that promotes trade through the provision of guarantees.

ECAs and multilaterals are becoming a crucial part of the financing of large infrastructure projects around the world as credit from commercial banks remains scarce.

Factoring & Forfaiting

Factoring, or invoice discounting, receivables factoring or debtor financing, is where a company buys a debt or invoice from another company. In this purchase, accounts receivable are discounted in order to allow the buyer to make a profit upon the settlement of the debt. Essentially factoring transfers the ownership of accounts to another party that then chases up the debt.

Factoring

Facilitate for the supplier selling of its short-term (30, 60, 90, 120 days) accounts receivables to the factor (a funding source, bank or specialized trade finance company) for cash at a discount on the face value. Factoring therefore relieves the first party of a debt for less than the total amount providing them with working capital to continue trading, while the buyer, or factor, chases up the debt for the full amount and profits when it is paid.

The factor is required to pay additional fees, typically a small percentage, once the debt has been settled. The factor may also offer a discount to the indebted party.

Forfeiting

Facilitate the supplier selling of a large, medium-term receivables at a discount to the forfeiter. The supplier ships goods to the buyer and delivers documents to the forfeiter, who assumes the risk of non-payment and handles collection. In distinction from factoring, forfaiting contracts are made on a transaction basis with suppliers (usually exporters) that sell capital goods, commodities or large projects with medium-term credit needs ranging from 180 days up to 7 years. It is also a Method of export trade financing, especially when dealing in capital goods (which have long payment periods) or with high risk countries. In forfeiting, a bank advances cash to an exporter against invoices or promissory notes guaranteed by the importer's bank. The amount advanced is always 'without recourse' to the exporter, and is less than the invoice or note amount as it is discounted by the bank. The discount rates depend on the terms of the invoice/note and the level of the associated risk.

Forfaiting (note the spelling) is the purchase of an exporter's receivables – the amount importers owe the exporter – at a discount by paying cash. The purchaser of the receivables, or forfaiter, must now be paid by the importer to settle the debt.

As the receivables are usually guaranteed by the importer's bank, the forfaiter frees the exporter from the risk of non-payment by the importer. The receivables have then become a form of debt instrument that can be sold on the secondary market as bills of exchange or promissory notes.

Export financing

Facilitate to the following: In pre-shipment export finance the bank provides a loan to the supplier (exporter) to finance the processing of goods to be delivered to the buyer (importer) on the basis of a confirmed purchase order and/or L/C. In post-shipment export finance the bank provides a loan to the supplier against their export receivables for the period between shipment of goods and receipt of payment from the buyer.

Credit insurance (CI)

Facilitate Credit Insurance which protects an exporter of products or services against the risk of non-payment. CI generally covers commercial risks such as buyer insolvency, bankruptcy or protracted defaults, and certain political risks, as well as currency inconvertibility, expropriation, and changes in import or export regulations. Documentary Credit Insurance Policy (DCIP); this policy is designed to protect LC confirming banks from the risk of non-payment of issuing banks.

Supply chain finance (SCF)

Facilitate SCF programs generally refer to bank-sponsored buyer-centric initiatives using open accounts and providing liquidity to suppliers through reverse factoring.

Trade-receivables-backed financing

The supplier transfers accounts receivable assets, usually on a revolving basis, to a special purpose vehicle, which issues notes sold to investors through secondary distribution. This form of structured finance can be beneficial to non-investment-grade medium-size suppliers, as the securitized assets are rated according to the creditworthiness of the buyers, providing the supplier with liquidity at a lower cost of funds.

Commodity inventory financing

Facilitate structured finance in which the pledge of a commodity is used to improve credit terms. The Funding techniques will include pre-export finance, inventory finance, where a funding source is reimbursed through the sale of the assets.

Documentary collections (D/C)

Facilitate a transaction where the supplier entrusts collection of payment to the remitting (supplier's) bank which sends documents and instructions for payment to the collecting (buyer's) bank. The buyer pays the face amount either upon acceptance of documentation or at a specified future date to the collecting bank, which transfers funds to the remitting bank.

Letter of credit (L/C)

The buyer's (issuing) bank makes payment to the supplier's bank, with the supplier presenting documents confirming the shipment of goods within a given time frame. L/Cs reduce the risk of non- delivery for the buyer and guarantee payment to the supplier upon shipment.

Letter of guarantee (L/G)

Promise by the bank on behalf of a buyer to compensate a supplier for any detriment suffered on the basis of the non-fulfillment of obligations. L/G(s) protect the buyer against the commercial risks of non-fulfillment of the supplier's obligations and reduce non-payment risk for the supplier.

Project Finance Insurance coverage

The Bank branch plans to finance, industrial, infrastructural, and agri-business projects, both in the public and private sectors. A major part of this financing would be through special funding extended and facilitated to projects and enterprises. The guiding principle would remain that the potential transactions/projects should be financially viable and operationally feasible for the Bank branch to commit its resources.

Co-financing

Co-financing would be performed at two levels: commercial co-financing for private sector projects with commercial banks, e.g. through syndication; and official co-financing with export credit and investment-insurance agencies, and international institutions such as development banks and bilateral donors through their national development assistance programs.

Foreign buyer credit facilities

A growing number of lenders provide short-term trade finance to companies located in emerging foreign markets, without letters of credit, for individual orders or revolving purchases from regional and global suppliers.

Such lenders can cover virtually all commercial and political risks of non-payment by their foreign borrowers with comprehensive trade credit insurance. This coverage manages a lender's concentration of trade finance risk associated with a single foreign borrower and may engender new business relationships for the lender with the borrower's local, regional and overseas suppliers.

Medium term export credit insurance

Medium term export credit insurance is purchased by lenders who make multi-year export finance loans to companies in emerging foreign markets for their purchases of capital equipment from local, regional and global exporters.

Insurance protection against virtually all commercial and political non-payment risks can be structured with terms of up to five years. New medium term export credit insurance policies offered by some underwriters afford experienced lenders the benefits of “multi-buyer” coverage, including delegated authority, programmatic terms and conditions, and blended premium rates.

Deprivation of collateral coverage

In order to extend medium term export finance, capital/operating leases, or other kinds of trade finance, banks and financial institutions may depend upon liens they’ve perfected on capital equipment or other assets located in regional or foreign countries.

Lenders can obtain collateral deprivation insurance to protect against confiscation, expropriation, or nationalization of such assets. This political risk insurance mitigates the risk to lenders of being prevented from exercising their legal rights over collateral following a trade finance payment default or at the end of an equipment lease.

Political risk insurance for investors

Political risk insurance is purchased by investors who extend medium term or long term export finance, project finance, or cross-border debt or equity investments into high-risk foreign countries. Political risk insurance policies can also cover loans made to U.S. companies for investments in their own international operations.

Payment defaults or investment losses are covered if they’re caused by expropriation, political violence, currency inconvertibility, export/import license changes, or other government actions, country issues, or political risks.

Facilitation Services:

When we offer our targeted clients export credit insurance, our insured clients sometimes may require financing for their foreign receivables (and/or their domestic receivables, inventories, or other assets). Some of our clients may also need assistance with export or import letters of credit, foreign exchange, or documentary collections.

For such trade finance services, we may refer exporters to their local banks or asset-based lenders. Referrals by us would be handled in the strictest confidence and with the greatest respect of the relationships between banks/lenders and their customers.

Banks-Lenders:

To protect the confirming bank of a Letter of Credit against the risk of non-payment by the issuing bank. Bank Master Policy (BMP) Documentary Credit Insurance policy (DCIP).

The following are some of the required documents in addition to the reinsurance Check-List in which we would request when are facilitating credit insurance for banks.

- Proforma Invoice
- Country of origin of the goods
- Beneficiary/Supplier's name
- Buyer/Applicant's name
- Amount of the L/C
- Opening Bank's name and country – Central Bank Guarantee

Our role is to facilitate and arrange through its third party affiliate a credit insurance policy for the issuing bank, the confirming bank and/or transaction applicant provide coverage for failure of the bank to honor the LC/risk of non-payment.

Exporters:

- To protect Exporters and Banks against the risk of nonpayment of an export receivable.
- Comprehensive Short Term Policy (CSTP)
- Supplemental Medium Term Policy (SMTP)
- Specific Transaction Policy (STP)

Investors

There are three foreign investment insurance policies in the market today:

- Equity Investment Insurance Policy.
- Financing Facility Investment Insurance Policy.
- Loan Guarantees Investment Insurance Policy.

In conclusion:

We will undertake to provide the following; subject to QFTF financing parameters:

- Structure and set up a comprehensive trade finance frame-work for the bank & traders, including but not limited; initiation of relationships with our net-work of global correspondents;

- Opening of $/€ NOSTRO-VOSTRO accounts; secure trade lines-ceiling in favor of the originating bank & traders. Origination, negotiation, packaging, managing, syndication, remarketing and/or project repositioning in need of subject coverage and recapitalization;
- Devise strategic planning, including the development of a comprehensive trade finance platform;
- Provide the means for the development and implementation of a comprehensive investor relations strategy, regional and global;
- Devise in favor of the Bank a capitalization road-map for Traders, Lenders, institutional investors, capital providers, distributors, licensees, and /or strategic participants, as may be appropriate;
- Provides a unique comprehensive De-Risking apparatus (wraps, mitigants, and cover) in favor of regional and global traders & correspondents; secure trade finance ceiling, subject to QFTF funding parameters;
- Put together an integrated packages of financing for traders & banks, in favor of its corporate clients- Off-Takers with sovereign and/or sovereign owned entity's Off-Takes (private & public);
- Establish investment and business relationships with banking network, including treasury management, corporate, trade & project finance.

QFTF net-work of Banks – Treasury Scope:

- The Bank (s) uses Reuters for Market data for currency prices and transactions.

- For the treasury transactions Settlement:

- Swift for international transactions; treasury transactions are integrated via swift for both incoming and outgoing international transactions; MT 940 / 950 for Nostro account reconciliation.
- RTGS for local transactions: treasury transactions are integrated via swift for both incoming and outgoing transactions.

Usage of the system:

1. Daily morning checks.

a. Check maturity Ladder for the inflows and outflows (by Currency).

b. **Limits and exposures.**

i. Country limits
ii. Currency limits & Forecast
iii. Group of currencies limits (Dollar/Euro or Local Currency, Other currencies)
iv. Counterparty limits
c. Nostro balances
d. Reserves account with the Central bank

2. **Reuters**

a. Core is integrated with Reuters for the Currency prices; automatically uploaded to the system.
b. Core is integrated with Reuters for the Foreign exchange Buy and Sell Tickets; transactions are then incorporated in the system.

3. Transactions processed in the system for the bank

a. Foreign Exchange transactions mainly for the bank and customers.
i. Foreign exchange Spot (Buy and Sell).
ii. Foreign exchange Swap.
b. Money Market transactions for the bank liquidity management.
i. Commodity Murabaha placement.
ii. Commodity Murabaha borrowing.
iii. Wakala deposit.
c. Sukuks buy and sell.
d. Equities buy and sell.
e. Managing few portfolios for selective customers etc.

Sincerely,

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