Navigating Uncertain Waters

Best Practices in Latin America for Managing Procurement and Selling Activities with your International Partners

Carlos Ballanti
Region Head—Trade Services Latin America
Carlos.ballanti@citi.com
305-347-1288

Treasury and Trade Solutions
LatAm Overview

- **LatAm** is closing a forgettable year in terms of growth. The seven largest economies in the region are estimated to close a year with average growth slightly below 1%.
- In **Brazil**, corruption scandals have hurt business confidence and the outlook for investments, stronger hikes in monitored prices and the reduction in personal income, as well as the likely monetary and fiscal tightening in 2015, should take its toll on domestic demand.
- **Argentina**, key amongst the sources of uncertainty is whether the government will settle with the holdouts. A widening fiscal deficit in a country in default, a deep recession and high inflation interacting with presidential elections in October 2015—it’s highly likely to result in significant volatility.
- **Colombia**, economic activity this year is expected to be mostly driven by domestic sectors such as construction, the financial sector, and retail. That being said, the country is expected to continue suffering from weak external demand, with the prospects for external factors such as oil prices only raising questions about for how long can local activity continue to outperform.
Trends in Global Trade

Trade Growth
- Following the deceleration in 2011, volume of world trade showed some growth with expected average growth of 6.1% per annum to 2030
- World trade is projected to grow faster than GDP, with a strong shift to Emerging Markets

Trade Globalization
- Reductions in transportation and communication costs have allowed firms to operate global supply chains
- Emerging economies have contributed to almost 52% of all export growth in the recent years
- New trade corridors—south-south flows

Commodity Flows
- Fluctuating commodity prices—especially in oil—constitute a risk factor for transactions
- East-West trade shifting to South-South quite significantly
- Growing injection of commodity flows—doubled in past 10 years

Increasing Trends
- Rise of SME’s in the Trade market
- Move back to open a/c with volumes increasing

Risk Mitigation
- Trade Finance instruments gaining prominence to mitigate global counter-party risk
- Availability of credit insurance is increasing

Regulation
- Basel III proposal includes tighter definition of capital, leverage ratio, liquidity regime and counter—cyclical capital buffer
- Regulation and operational controls

Convergence and Digitalization
- Technology is bringing industries together.
- Trade business globally is still largely paper based

Innovations
- MT798—an authenticated SWIFT message enabling multi-banking in trade finance and corporates to send financial instruments (L/C’s, SBLC etc.) to SWIFT member banks
- BPO—an electronic LC which can be used as an alternative means of settlement for international trade, providing the benefits of a LC in an automated and secured environment
Most Important Trade Corridors for LatAm

The recovery of the US in particular undoubtedly bolsters LatAm’s cross-border trade activity, but it is the region’s deepening “south-south” trade relationship with Asia and middle class economies on both sides that is creating the biggest stir.

**Drivers**
- Global Post-crises recovery
- Development of Intra-regional cooperations
- Growing middle class in emerging market economics

**South-South**
- Appetite for LatAm exports experiencing a significant resurgence
- Emerging markets’ growing middle-class populations (most notably in Asia) are now fueling demand for LatAm’s consumer goods

**Intra-regional**
- LatAm trade is continuing to develop at an intra-regional level, thanks in part to political efforts to improve trade cooperation and integration (e.g. the Pacific Alliance and Mercosur), and also due to the region’s evolving demographics
- It is projected that this middle class will comprise nearly half of LatAm’s total population by 2030
Main Challenges in International Trade

Global trade business can be risky and costly if it is not supported by proper trade tools and guidance. Below some of the key challenges companies are facing when conducting trade globally.

- Country and Payment Risk
- Working Capital Constraints
- Cash Flow
- Tighter Credit
- Documentary Risk
- Regulatory and Compliance
- Visibility
- Business Processes
# Payment Methods used in LatAm

Based on the payment terms that are chosen, there are various international trade solutions that can support both importers and exporters.

<table>
<thead>
<tr>
<th>Citi Solution</th>
<th>Concept</th>
<th>Transactional Profile</th>
</tr>
</thead>
</table>
| **Letters of Credit**         | A Letter of Credit (LC) is a document that stipulates the exact conditions that need to be met in order for the Exporter to get paid. If the Exporter complies with all conditions, the Importer is obligated to pay. | - New commercial relationships or unknown counterparties  
- Counterparties are typically smaller companies with limited banking relationships options  
- Payment tenors are at-sight or term  
- Requires Credit and Cross Border from bank |
| • Import LC                   |                                                                         |                                                                                       |
| • Export LC Advising and Confirmation |                                                                         |                                                                                       |
| • Direct Presentation       |                                                                         |                                                                                       |
| **Documentary Collections**  | The Exporter ships goods to the Importer but the Importer’s bank retains custody of the title documents until the Importer pays for the goods or signs a commitment to pay at a future date (draft, bill of exchange, p.note, etc.). | - Commercial relationship are more established  
- Cost is less compared to LCs as there is no contingent obligation  
- Payment tenors are at-sight or term  
- Payment method does not require credit support or obligation from bank. (e.g. Non credit product) |
| • Import                      |                                                                         |                                                                                       |
| • Export                      |                                                                         |                                                                                       |
| • Direct Collection            |                                                                         |                                                                                       |
| **Open Account**              | Goods are shipped to the importer and the payment is made on terms negotiated in advance with the exporter. Under EOAT importers outsource the inspection of Trade documents to Citi while reducing cost vs. LCs. | - Commercial relationships between importer and exporter are well established  
- Less document extensive and no contingent obligation from bank needed  
- Costs are less compared to both LC and Collection  
- Payment tenors are at-sight or term |
| • Cross-border fund transfer  |                                                                         |                                                                                       |
| • Enhanced Open Account Trade  |                                                                         |                                                                                       |
# How are these Instruments Relevant to My Operations?

Leveraging traditional trade instruments to address commercial, logistical, and financial needs.

<table>
<thead>
<tr>
<th>Client Need</th>
<th>Market Driver</th>
<th>Impact</th>
<th>Citi Solution</th>
<th>Client Benefit</th>
</tr>
</thead>
</table>
| Capital Optimization   | • Uncertain times and increased risk environment creates liquidity shortage and lack of financing alternatives | • Importers are looking to pay later; Exporters want to reduce their DSO                  | • Exporter Direct Collections  
• Export LC confirmation and discount | • Extend payment terms  
• Reduce funding costs  
• Access to more clients and business opportunities in growing markets  
• Speed up shipment of goods from suppliers  
• Speed up export payments from buyers  
• Increase operational efficiencies and decrease operational costs |
| Settlement Diversification | • EM-EM Growth: Companies are entering new markets and new supply chain relationships to grow business and reduce costs | • Increase risk from unknown markets  
• Regulatory  
• Commercial  
• FX | • Letter of Credit  
• SBLCs (Procurement, Bid and Performance)  
• Documentary Collections (Import/Export) | |
| Processing Efficiencies | • Increased risks require increase control, visibility and generate increase costs, | • Inability to manage international supply chain impacts crucial business operations  
• Materials arrive late or not as ordered  
• Processing costs are increasing decreasing profit margins | • Direct Presentation  
• Direct Collections  
• CitiDirect for Trade  
• Export Document Preparation Services | |
Digitization Trends in International Trade

- Traditionally, the Trade Services business has revolved around paper-based transactions and continues to be manually intensive. This has an impact on Business Scalability and Operational Efficiency.

<table>
<thead>
<tr>
<th>Market Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mail/Couriers</td>
</tr>
<tr>
<td>Fax Gateway</td>
</tr>
<tr>
<td>Adobe Forms</td>
</tr>
<tr>
<td>Bolero</td>
</tr>
<tr>
<td>Swift/MT798</td>
</tr>
<tr>
<td>E-banking Platform</td>
</tr>
<tr>
<td>Host-to-Host</td>
</tr>
</tbody>
</table>

Citi Handles over 30 Million Pages on a Yearly Basis Related to Trade Documents for Almost 4 Million Transactions Globally

LatAm is Quickly Making the Migration from Traditional Paper-based Transactions to More Electronic Options Especially as Volumes Increase

<table>
<thead>
<tr>
<th>2014 Snapshot</th>
<th>2015 Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instrument</td>
<td>%</td>
</tr>
<tr>
<td>Export Collections</td>
<td>44</td>
</tr>
<tr>
<td>Import LCs</td>
<td>87</td>
</tr>
<tr>
<td>Standby/Guarantees</td>
<td>35</td>
</tr>
</tbody>
</table>
Digitization: How Much Can Your Company Really Save?

Digital channel drives more efficiency in clients and bank processes.

<table>
<thead>
<tr>
<th>Paper vs. CitiDirect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paper</strong></td>
</tr>
<tr>
<td>E-mailing/Faxing Agreements via unsecured channels</td>
</tr>
<tr>
<td><strong>Digital</strong></td>
</tr>
<tr>
<td>Online Initiation and Collaboration</td>
</tr>
</tbody>
</table>

Time and Money
How Citi Brings it All Together: CitiDirect for Trade

Through our award winning electronic banking platform, CitiDirect, allows Importers and Exporters to manage trading activities effectively while providing detailed information at every step along the way.

Benefits

1. Real time information and instant access from anywhere in the world
   CitiDirect offers trade initiation and reporting capabilities, available in over 40 countries with real-time access to the status of letters of credit and collections. Your information history is updated with each new event or activity

2. Centralized document handling and standardized customizable reporting
   Over 40 reports address all trade payables and receivables needs. CitiDirect, in addition to libraries and pre-formats, has the ability to import data from another source to complete the entire template or just the merchandise description

Importers May
- Initiate Letters of Credit applications and Amendments
- File Import of Purchase Orders from our Clients’ Procurement Systems
- View Full Text and Actual Image of Outgoing Issuance
- View Settlement Details and Track Pending Items LC
- View Shipping Documents and Approve Discrepancies
- View Collection Shipping Documents and Approve Payment
- Receive Event Notifications of Key Events in the Import Trade Cycle

Exporters May
- Initiate direct and documentary collections, and track direct and documentary payments
- View Advised Letters of Credit
- Track Letters of Credit and Amendment Activity
- Create Export LC and Collection Cover Letters
- Monitor Transaction History
- View Shipping Documents
- Transfer LCs
- Subscribe to event notifications via e-mail/text/fax
- Transfer letters of credit and create amendments
Trade Mobile—Authorizing Transactions

From the Summary Menu user can authorize by selecting a specific transaction and clicking the “Authorize” button or Batch select all list transactions by clicking the top check box.
How can an importer or exporter mitigate commercial trade risks?

Traditional Risk Mitigation Products:
- Open Account
- Documentary Collection
- Letter of Credit
- Cash in Advance

Risk Mitigation and Payments Instruments

- Exporter/Seller’s Risk
  - High: Risk of Non-payment
  - Low: Importer/Buyer’s Risk

- Importer/Buyer’s Risk
  - High: Risk of Non-delivery
  - Low: Exporter/Seller’s Risk

Risk levels:
- High
- Low
Export Collections Overview

Exporter’s bank presents documents to the Importers bank and in exchange receives payment of the amount owed or obtains acceptance of a time draft for payment at a future date.

Solutions

For standard Export Collections, Citi offers the following
- Documentary Collections Against Payment
- Documentary Collections Against Acceptance
- Direct Collections
- Direct Collections via CitiDirect

Key Benefits

For Exporters

- Risk Mitigation: Exporters do not lose title to goods until Importer pays or commits to pay
- Simple and inexpensive handling

For Importers

- Importers have the option to reject documents and refuse payment, allowing for risk mitigation
Export Direct Collections Flow

The Importer and Exporter have Decided on Collections Terms

1. Exporter ships the goods
2. Seller inputs details into CitiDirect Direct Collections Module
3. Seller sends documents directly to buyer’s bank
4. Buyer’s bank sends documents to drawee
5. Buyer gives its bank instructions to pay
6. Collecting bank pays Citi and Citi makes payment to the seller

Serves as an Alternative to Traditional Documentary Collections. Using Direct Collections, you can take control of documents by sending directly to the buyer’s bank and Citi will track payments.

1. Buyer gives its bank instructions to pay
2. Seller inputs details into CitiDirect Direct Collections Module
3. Seller sends documents directly to buyer’s bank
4. Buyer’s bank sends documents to drawee
5. Buyer gives its bank instructions to pay
6. Collecting bank pays Citi and Citi makes payment to the seller

1. Seller inputs details into CitiDirect Direct Collections Module
2. Seller sends documents directly to buyer’s bank
3. Seller sends documents directly to buyer’s bank
4. Buyer’s bank sends documents to drawee
5. Buyer gives its bank instructions to pay
6. Collecting bank pays Citi and Citi makes payment to the seller

1. Exporter ships the goods
2. Seller inputs details into CitiDirect Direct Collections Module
3. Seller sends documents directly to buyer’s bank
4. Buyer’s bank sends documents to drawee
5. Buyer gives its bank instructions to pay
6. Collecting bank pays Citi and Citi makes payment to the seller
Export LC - Direct Presentation Overview

What is Direct Presentation?
- The Exporter/Beneficiary of a Letter of Credit submits electronic documents that Citi examines.
- Once the presentation is compliant, the Exporter/Beneficiary mails documents directly to the Issuing Bank using Citi’s prepared Remittance Letter and courier slip.

Advantages of Direct Presentation
- Saves the Exporter/Beneficiary considerable time and cost.
- No courier transit time in order for Citi to examine documents; no courier cost.
- No transit time in returning documents should they be deemed discrepant; no courier cost.

Solution Benefits

Control: All documents are physically retained in our client’s office.

Efficiency: Saves client significant time and courier costs.

Faster payment, DSO reduction: Documents reach the issuing bank and buyer faster.

Our Client Needs

Consolidated management of Trade Business into regional hubs.

Faster payment and reduced Days Sales Outstanding (DSO).

Increased efficiency and greater control of export LC document processing.

Direct Presentation

Instant, secure electronic presentation of export docs to Citi for same-day checking.
Physical documents sent directly to the Issuing Bank once Citi has checked and they are compliant.
Export LC - Direct Presentation Flow

1. Exporter submits documents to Citi electronically
2. E-mail alert to Citi: Docs submitted by Exporter
3. Citi examines docs. If docs are clean, sends e-mail alert with Citi cover letter and courier AWB to Exporter
4. E-mail notification that docs are clean, cover letter and courier AWB ready to print
5. Electronic notification for pickup sent to the courier
6. Exporter sends original docs to Issuing Bank using Citi partner Courier
Capital Optimization: LC Confirmation and Discounting

How it Works?

This structure facilitates supplier financing through the buyer under a letter of credit; the most widely used payment instrument in trade between LatAm and Asia.

- By offering a financing option to its suppliers, this structure provides the importer in LatAm with the opportunity to negotiate improved payment terms including extension of payment tenors.
- Importer extends payment terms while the exporter has the opportunity to be paid earlier by discounting LC through Citi Singapore.
- Pre-issuance: LatAm importer will negotiate with exporter commercial terms including LC tenor.
- The discount rate is set prior to issuing the letter of credit and is based on the importer’s credit relationship with the issuing bank. The rate is quoted based on alternative funding from Singapore’s competitive market.
- Importer extends payment terms while the exporter receives their export proceeds earlier under at-sight payment terms.

Benefits

<table>
<thead>
<tr>
<th>Importer (LatAm)</th>
<th>Exporter (ASIA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importer extends payment tenors—optimizes liquidity</td>
<td>Supplier speeds up cash conversion cycle of exports—optimizes liquidity</td>
</tr>
<tr>
<td>Importer maintains added value of mitigating commercial risk through letter of credit payment instrument—Guarantee of receiving accorded goods</td>
<td>Supplier has access to support of Citi’s local trade team while having the flexibility to choose preferred bank in their own market—as negotiation and Second advising bank.</td>
</tr>
</tbody>
</table>
Citi’s Global Trade Network

Citi operates the world’s largest network of international trade services processing sites, expanding 100 countries, and a correspondent network of over 3,000 banks.
Thank you!
IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the “promotion or marketing” of any transaction contemplated hereby (“Transaction”). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

In any instance where distribution of this communication is subject to the rules of the US Commodity Futures Trading Commission (“CFTC”), this communication constitutes an invitation to consider entering into a derivatives transaction under U.S. CFTC Regulations §§ 1.71 and 23.605, where applicable, but is not a binding offer to buy/sell any financial instrument.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

© 2015 Citibank, N.A. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi’s unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles: a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation