Factors Chain International

Annual Review 2014

The factoring industry is exploring new horizons, both in geographical terms and in functionality.

Factors Chain International plays a very important role in that process, introducing the factoring concept in more and more markets and by extending the range of services typically offered by its members.

The world economy is still in turmoil but the factoring industry has shown to be an excellent service provider, even in difficult times, supporting and facilitating domestic and international trade.

International trade in particular is heavily relying on ocean transportation, and lighthouses have played for many centuries an essential role in providing ships with safe passage. Lighthouses symbolise, both at night and during day time, the guiding hand in this process. Found all around the world, lighthouses and horizons are inseparable, like factoring and trade.

Factors Chain International

Annual Review 2014

Factoring – Exploring new horizons

United States of America, Portland Head Light, Cape Elizabeth, Maine

United Kingdom, Rattray Head, Scotland

Letter from the Chairman

By Daniela Bonzanini, FCI Chairman

The Winds of Change are blowing through FCI and the Global Factoring Industry!

2014 has begun under a much better light, as global economic indicators are showing improvement. Although signs are still rather weak, they generate cautious optimism after such a long crisis which hit many sectors at different levels. The latest cyclical indicators suggest that the recovery should strengthen in the second part of the year. In many countries, foreign orders are on the upswing and exports continue to provide the main support for growth. SMEs remain the engine for the development of the worldwide economy. In mature and emerging markets, open account terms continue to increase as a percentage of world trade and are expected to represent nearly 85% of global trade in the next few years.

While still below expectations, the global factoring industry continued to grow in 2013 and has proved its importance in support of the real economy and, in particular, for the SME. The improved economic environment will not diminish the role of factoring. On the contrary, it will continue to maintain a leading role in support of the global recovery. Corporates will make new investments to take advantage of the opportunities generated by increasing demand. The growing confidence in global trade prospects will require more international factoring. In 2014, FCI's internal figures have shown positive trends in Q1, when the correspondent cross border factoring registered a nearly 30% increase compared to the same period in 2013.

With the aim of being one of the actors of the economic recovery, FCI has already undertaken a path which will bring important results. For example, discussions with the ICC Banking Commission concerning the GRIF endorsement are in progress and the project is expected to be finalised in 2015. At the same time, cooperation has also been extended to other areas as well. Positive relations have been established with development banks, including the European Bank for Reconstruction and Development (EBRD), the Inter-American Investment Corporation (IIC), and the African Export Import Bank (AfriExim), mainly focused on education, industry promotion, and participation in their guarantee programmes in order to mitigate Import Factors' risks in emerging markets.

The Prudential Risk Committee (PRC) of the European Union Federation (EUF), chaired by our Secretary General has further strengthened the cooperation with the EUF and this will enable FCI to influence the representative bodies of regulators and governments. Investments on education programmes continue, the large range of qualitative training courses preferred by over 7,000 students worldwide will be enhanced as well the topics covered during the different seminars. The scope of FCI educational programmes has broadened and FCI courses are no longer restricted to only FCI members but are now available to non-member financial institutions as well. The high level of education has been appreciated for example by the Ministry of Commerce in China, which through its factoring division, the CFEC, the national industry association for the commercial factoring sector in China developed a joint factoring seminar with FCI in April 2014, educating nearly 100 students there.

Network extension is a must because of the new trade corridors, and new regions are being explored, such as sub-Saharan Africa where the wind of change is blowing and some markets will demonstrate their potential in the near future.

This same wind is blowing through FCI as well, as **CHANGES** are needed to help our organisation move forward and become the worldwide reference for factoring and receivables finance. 2014 will be a very important year in the history of FCI, with new strategies to be implemented to make our organisation bigger and stronger and have our industry flourishing globally.


Japan, Shimizu Miho Breakwater, Honshū, Shizuoka


Vietnam, Kê Gà Lighthouse, Bình Thuan

Introduction

By Peter Mulroy, FCI Secretary General

Factoring: A major growth engine in the open account trade finance space

2014 promises to be another very exciting year for FCI. Factoring has experienced unprecedented growth, as evidenced in the nearly doubling in size of the industry since the start of the financial crisis in 2009. Financial institutions globally are looking at this safe and unique form of trade finance, and with the continuous evolution towards open account, expectations are that this growth will continue unabated.

The global factoring industry achieved another milestone in 2013, surpassing EUR 2.23 trillion (the equivalent of US$3.1 trillion) in global annual volume, increasing by nearly 5% compared to 2012. Cross border international factoring grew at an even faster pace, generating over of €402 billion in volume last year, an 18% increase! This strong emerging market-led rebound in the world after the financial crisis marked a significant milestone for trade finance in general and factoring in particular.

Founded in Stockholm, Sweden in 1968, FCI was created at the initiative of just 6 relatively young and unrelated factoring companies based in Northern Europe and the US. Today, FCI boasts 271 members in 74 countries and acts as a bridge between factors located in two different countries, by providing a "correspondent factoring" platform, enabling an Export Factor to offer export factoring services to their local clients by using a local Import Factor in the country of the importer. This "bridge" permits the Export Factor to finance exporters against their foreign receivables and provides the Export Factor and Client the comfort and knowledge that the invoices are protected and collected by an Import Factor in the buyer's market.

FCI maintains a high level of service excellence by requiring all members to follow certain standards including the requirement to enroll their employees in various e-learning courses and seminars on factoring (offered to all FCI members), and to follow all rules, as stipulated in the FCI Constitution, the General Rules of International Factoring (GRIF) and the Rules of Arbitration.

FCI has an exciting agenda for change, to incorporate a wider view of the supply chain finance sector, increase promotion of our industry in developing markets, enhance the awareness of the many benefits the service offers to SMEs, and take a more assertive role in lobbying to reduce the sometimes adverse impact prudential risk regulations can have on our industry. However, FCI will continue to focus on our core mandate, the continuous delivery of a highly reliable and user friendly correspondent factoring system.

Since its founding, FCI has been the undisputed leader in open account trade finance. Central banks, regulators and politicians from around the world have looked at this growth story and have come to appreciate the service as a secure and reliable method of financing trade and the invaluable role factors play in financing SMEs, the engine of growth in most economies. And as open account trade expands, FCI has become the platform of choice for many financial institutions to offer their local clients cross border open account trade finance solutions as an alternative to traditional letters of credit and documentary collections. It is our hope that this publication will contribute to a better understanding of our industry and the important role factoring plays in today's fast changing environment.

The Latest Developments in FCI

Despite the global financial crisis and the slowdown in economic activity, the factoring industry has not only weathered the storm, it has experienced solid growth, in particular for international factoring. While factoring is still most suited for clients from the SME sector, the trend continues that large corporations seek factoring services as well, often unbundled, allowing the client to make a choice from the three basic elements of factoring: working capital finance, customer credit risk protection and professional collection services. Much of this growth can be attributed to an increase in usage by commercial banks and bank-owned factors, stemming from a greater awareness of factoring's secure means of financing short-term trade conducted on open-account basis, a service with superior risk management control.

Geographical Coverage

FCI has steadily extended its physical presence to all the major trading markets of the world, including in all of the five BRICS countries. China is ahead of all the others, both in domestic and international factoring, but new members in Brazil, Russia and India will bring a welcome development in international capability. The BRICS represent 40% of the world's population, covering more than a quarter of the world's land mass and accounts for more than 25% of global GDP. Hence, great expectations are placed for the further development of factoring and receivables finance in these markets. Europe still accounts for over 60% of the global factoring market, and Asia now represents over 25%. However, 95% of FCI members are located in newly developed or developed countries. That means that factoring is relatively non-existent in most developing countries. And if you look at the up and comers, especially those in the MINT Countries (Mexico, Indonesia, Nigeria and Turkey), where factoring is practically non-existent (with the exception of Turkey, where the service is flourishing), the rational for investment there by FCI is a must! Looking at the table below, it is these developing markets that have the most potential for our industry:

Rise of the MINTs ($ trillions)

Gross Domestic Product 2012		Ranking		Estimated Gross Domestic Product in 2050
16.24	US	1	China	52.62
8.23	China	2	US	34.58
5.96	Japan	3	India	24.98
3.43	Germany	4	Euro Area	22.51
2.61	France	5	Brazil	9.71
2.47	UK	6	Russia	8.01
2.25	Brazil	7	Japan	7.37
2.01	Russia	8	**Mexico**	6.95
2.01	Italy	9	**Indonesia**	6.04
1.84	India	10	UK	5.69
1.82	Canada	11	France	5.36
1.53	Australia	12	Germany	5.22
1.32	Spain	13	**Nigeria**	4.91
1.18	**Mexico**	14	**Turkey**	4.45
1.13	South Korea	15	Egypt	3.61
0.88	**Indonesia**	16	Canada	3.47
0.79	**Turkey**	17	Italy	3.42
0.77	Netherlands	18	Pakistan	3.33
0.71	Saudi Arabia	19	Iran	3.19
0.63	Switzerland	20	Philippines	3.17
0.26	**Nigeria**	39		

Source: World Bank, Goldman Sachs

FCI 45th Annual Meeting 2013, Athens, Greece

However, FCI has its sights on these markets, especially Southeast Asia, South Asia, sub-Saharan Africa and Latin America. FCI has made progress in planting seeds in many of these markets. For instance in Africa, new members have reinforced our position in North Africa and FCI's first promotion conference was held in Ghana recently. Also, work is being done in sub-Saharan Africa to develop a uniform law on factoring. In South Asia, brainstorming sessions have been conducted with banks, investors and government officials in Bangladesh and Sri Lanka. And in Latin America, FCI held a successful seminar in Costa Rica, drawing many prospective members from the region. As such, FCI has developed promising contacts for further expansion in all of these markets. In addition, new laws on factoring have been established in Cameroon, India, Russia and Serbia, which will make it easier for companies interested in investing there and should result in increased membership for FCI in the future.

Business Promotion

The FCI Marketing Committee developed ambitious plans last year, including with the support of the other technical committees the launch of a new service within FCI called invoice verification (further outlined in this annual review). The Committee also organised sales seminars in China and Taiwan (and one planned for Panama later this year). They also worked on the deployment of a new website for FCI. And of course the committee spent time on increasing awareness through promotion. The market needs to be informed about the true nature of factoring, its procedures and the commercial application in both domestic and international trade. Conferences to promote factoring are often sponsored jointly by FCI and local members and usually attract considerable interest from the business community and media. In addition, FCI sponsored the publication of the seventeenth edition of the authoritative BCR World Factoring Yearbook, containing in-depth articles from more than fifty different countries. FCI officials accepted many speaking engagements at national factoring association meetings, ICC banking conferences, IT user meetings, and the annual BCR factoring convention, all in an effort to promote the concept of international factoring. The video presentations, accessible from the home page, are unique in the factoring industry. Five versions are available: English, Spanish, Chinese and Turkish aimed at exporters, plus an English video aimed at importers.

Education

FCI Education Committee, in conjunction with the Education Officer has developed a series of educational programmes which provide a transfer of know-how from seasoned factoring professionals to less experienced staff members. All of the material developed for our e-learning programmes and seminars are based on proprietary information, collected both internally and from our members. Regular seminars, covering all aspects of factoring are organised throughout the world. In addition to its seminar programmes, FCI and its Education Committee continued to offer the member companies the possibility to enroll staff members in a series of different Courses, logically following a career path approach. Now in its twenty-seventh year and currently based on a state of the art interactive programme accessible via the internet, the Courses have been followed by over 7,000 staff members from 65 countries (of which over 2,000 come from China alone). For new member companies, FCI endeavours to arrange various forms of on-the-job training, either by a comprehensive visit by the FCI Education Director or by internships with foreign FCI correspondents. And most recently, FCI offers prospective members the opportunity to enroll in the new e-learning course on the basics of international factoring.

Seminar Risk Management in international Factoring, Spitzingsee, Germany, February 2014

FCI Secretariat, Amsterdam

FCI Sales Seminar Costa Rica, November 2013

FCI Promotion Conference, Accra, Ghana, January 2014

FCI Executive Committee meets with representatives of the China Banking Association, and board members of the Factoring Association of China, February 2014

FCI Brain storming session with members and prospective members in Johannesburg, South Africa, January 2014

Legal Framework

The FCI General Rules for International Factoring (GRIF), developed and monitored by the FCI Legal Committee, have become the world's most widely recognised legal framework for international factoring. The GRIF is the standard for correspondent factoring relationships and probably close to 95% of the world's cross border factoring volume has been governed by these rules, since the GRIF's introduction in July 2002. The FCI Legal Committee offers on a continuous basis, assistance to FCI members in answering questions of a legal nature, or relating in particular issue pertaining to the GRIF. For problem resolution between Export Factors and Import Factors, a more formal FCI Arbitration process is available, even though most conflicts are settled in an amicable manner, based on the strong ties which exist between FCI members. As already mentioned in the "Introduction", the FCI Legal Committee has started very interesting discussions with the ICC Banking Commission, promoting the General Rules for International Factoring (GRIF) as the universal rules for correspondent factoring. The project will require extensive presentations to the ICC banking community and a commitment to maintain the highest standards of transparency and cross-industry cooperation.

Communications

The strength of the FCI network is determined not only by geographical presence, but also by efficient communications between the individual correspondent factors. Today, 'communication' in FCI means a state-of-the-art application of EDI technology. The investments in the EDI infrastructure have been substantial over the previous years and the FCI Communication Committee has recently launched the latest edition of an upgraded Internet-based communication system, capable of meeting the requirements of an e-commerce environment. The system was originally introduced in 2002, but with regular upgrades, the system enjoys excellent user-friendliness and superior cost-efficiency.

FCI Secretariat

The FCI Secretariat, based in Amsterdam, continues to play a crucial role in initiating and coordinating the global activities which directly or indirectly affect the scope and strength of the FCI network. Numerous projects are acted upon in close cooperation with the FCI Executive Committee and with the technical committees. The Invoice Verification project is a perfect example, originally spearheaded by the Communication Committee, then subsequently adopted by the Marketing Committee with the support of the Legal Committee and Education Committee. FCI members also frequently seek advice from the Secretariat in a wide variety of situations. The full-time FCI staff has been responding to these needs for more than four decades. As an experienced, professional team they enjoy supporting FCI members and look forward to welcoming new members to the Chain.

The Mission of Factors Chain International

FCI is a global network of leading companies, whose common aim is to facilitate international trade through factoring and related financial services.

FCI's mission is to become the worldwide standard for international factoring.

FCI helps its members achieve competitive advantage in international trade finance services through:

- A global network of first-class factoring companies
- Modern and effective communication systems, to enable them to conduct their businesses in a cost-efficient way
- A reliable legal framework to protect exporters and importers
- Standard procedures, aimed at maintaining a universal quality
- A package of training programmes
- Worldwide promotion aimed at positioning international factoring as the preferred method of trade finance

FCI will always have a flexible and market oriented attitude. It will remain an open chain, encouraging quality factoring companies to join its ranks. As an open chain, FCI will view competition as a stimulus for superior service to exporters.

FCI: The *standard* in international factoring

Gibraltar, Europa Point Light

Tunisia, Sousse Light

Australia, Hornby Light, Sydney Harbour

A Growing Industry

A growing number of companies offer factoring services and many of these work internationally. Most factors are either owned by, or associated with, well-known international banking or other financial institutions as well as insurance companies or industrial organisations.

Factoring is now universally accepted as vital to the financial needs of small and medium-sized businesses. It has the support of government offices and central banks throughout the world.

As international trade continues to increase, so too do the opportunities for the factoring industry. Because international factoring works in a similar way to domestic factoring, exporters have realised that it can help them to become more competitive in complex world markets.

Many businesses that turn to factoring companies are reassured that the industry is closely related to banking. Although factoring companies remain highly specialised institutions, nearly all major banks now have factoring subsidiaries. This has enabled the industry to promote its services with great success and to work for businesses of every size.

Factoring has become well established in developing countries as well as those that are highly industrialised. In various Asian countries, the growth of factoring has been dramatic while in Latin America, financial institutions continue to join the industry. Similar growth has occurred in Central Europe, the Baltics and the Middle East. A new region for factoring is in sub-Saharan Africa, where FCI counts only two members today.

Almost every industry can profit from factoring. Textiles, clothing and (consumer) electronics are the most popular but manufacturers of industrial and farm equipment, office equipment and processed food are increasingly turning to factoring.

FCI members report that more service industries and large corporates have become clients. There is also plenty of evidence to suggest that fast-growing, sales-driven organisations appreciate the improved cash flow, efficiency and profitability that factoring can offer.

A Global Network

Factors Chain International was established in 1968 to represent the interests of factoring companies around the world. With member companies offering domestic and international factoring services in countries across all five continents, FCI is by far the world's largest factoring network. Member transactions represent nearly 85% of the world's international factoring volume.

When FCI was founded, domestic factoring services were only available in North America and a few European countries. At the time the idea of international factoring was new, yet FCI members could see its potential.

They realised that they needed to do two things:

- Introduce the concept of factoring into countries where the service was not available.

- Develop a framework for international factoring that would allow factors in the country of both the exporter and importer to work closely together.

This framework has been built around the availability of local expertise and sensitivity to national cultures together with an understanding of the economic and commercial influences affecting each country.

FCI also believes that global alliances require flexibility. Members can maintain their preferred methods of operation as long as they are compatible with FCI's standard methods of communication.

Membership in FCI is popular but an application to join does not automatically mean acceptance. Members must meet strict admission standards which apply to financial strength and an established reputation for quality and service.

The Role of Factoring in International Trade

For many companies, selling in an international market place is the ultimate challenge. While the rewards can be substantial, success can also bring its share of problems. Different customs, currency systems, laws and languages still create barriers to trade in a world where sophisticated computer technology allows orders abroad to be placed within seconds.

One of the greatest problems facing exporters is the increasing insistence by importers that trade be conducted on open account terms. This often means that payment is received many weeks or even months after delivery. Unsurprisingly, many organisations find that giving buyers credit in this way can cause severe cash flow problems. Further problems can arise if the importer delays payment beyond originally agreed terms or makes no payment at all because of financial failure.

International factoring provides a simple solution regardless of whether the exporter is a small organisation or a major corporation.

The role of the factor is to collect money owed from abroad by approaching importers in their own country, in their own language and in the locally accepted manner. As a result, distances and cultural differences cease to be a problem. A factor can also provide exporters with 100% protection against the importer's inability to pay.

The advantages of export factoring have proved to be very attractive to international traders. It is now seen as an excellent alternative to other forms of trade finance and the role of the letter of credit is gradually diminishing as a consequence.

This means that the prospects for international factoring can be seen as favourable in all countries. Not only those that are highly industrialised, but also those that are still developing. In the future though, the real challenge for factoring companies will be to maintain their flexibility, so that they can react quickly to changing market circumstances.

South Africa, The Hill Lighthouse, Port Elizabeth

How Export Factoring Works with FCI

There is nothing complex about factoring. It is simply a unique package of services designed to ease the traditional problems of selling on open account. Typical services include investigating the creditworthiness of buyers, assuming credit risk and giving 100% protection against write-offs, collection and management of receivables and provision of finance through immediate cash advances against outstanding receivables.

When export factoring is carried out by members of FCI, the service normally involves a six-stage operation.

- The exporter signs a factoring contract assigning all agreed receivables to an Export Factor. The factor then becomes responsible for all aspects of the factoring operation.

- The Export Factor chooses an FCI correspondent to serve as an Import Factor in the country where goods are to be shipped. The receivables are then reassigned to the Import Factor.

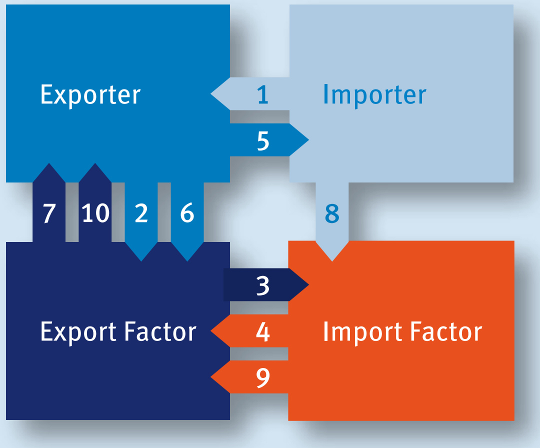
- At the same time, the Import Factor investigates the credit standing of the buyer of the exporter's goods and establishes lines of credit. This allows the buyer to place an order on open account terms without opening Letters of Credit.

- Once the goods have been shipped, the Export Factor may advance up to 80% of the invoice value to the exporter.

- Once the sale has taken place, the Import Factor collects the full invoice value at maturity and is responsible for the swift transmission of funds to the Export Factor who then pays the exporter the outstanding balance.

- If after 90 days past due date an approved invoice remains unpaid, the Import Factor will pay 100% of the invoice value under guarantee.

Not only is each stage designed to ensure risk-free export sales, it lets the exporter offer more attractive terms to overseas customers. Both the exporter and the customer also benefit by spending less time and money on administration and documentation.



1. Exporter receives purchase order
2. Exporter sends importer's information for credit approval
3. Export Factor checks the importer's credit worthiness through FCI partner
4. Import Factor evaluates the importer and approves a credit limit
5. Exporter makes shipment to importer
6. Exporter submits invoice details and supporting documents
7. Export Factor makes cash advance up to 80% of factored invoices
8. Collections are carried out by the Import Factor
9. Import Factor remits funds to Export Factor
10. Export Factor remits 20% remaining Balance to Exporter's account less any charges

In all cases, exporters are assured of the best deal in each country. This is because Export Factors never appoint an Import Factor solely because the company is a fellow member of FCI. Import Factors are invited to compete for business and those with superior services are selected.

In some situations, FCI members handle their client's business without involving another factor. This is becoming more common in the European Community where national boundaries are disappearing. However FCI members conduct their business, one thing remains certain. Their aim is to make selling in the complex world of international trade as easy for clients as dealing with local customers.

Selling More Competitively Overseas

One of the greatest advantages of international factoring is that it allows both exporters and importers to trade on open account terms without risk.

FCI services to exporters

A member of FCI can offer three types of service to exporters that will give complete security, ensure administration is simpler and make a positive contribution towards cash flow:

- Export factoring establishes the credit-worthiness of existing and prospective customers and provides up to 100% credit protection.
- Sales ledger administration reduces non-productive overheads and frees up valuable management time.
- An agreed level of finance can be advanced once the goods have been shipped. The balance, less the factor's charges, is paid when the invoice is settled in full.

The advantages for exporters are

- They can expand sales abroad by offering competitive terms and conditions.
- They can offer open account terms by invoicing the importer and granting deferred payment terms, usually 30-90 days.
- They are fully covered against credit losses.
- They avoid the delays often encountered when arranging letters of credit.
- Speedy collection and remittance improves cash flow.
- Administration costs are reduced.
- They have access to a flexible source of working capital to help increase export sales.

FCI services to importers

A Letter of Credit is the most internationally accepted method of guaranteeing payment. Yet, while this method does have some merit, it is outdated and cumbersome plus it places financial burdens on both the exporters and the importers.

The alternative is for FCI members to guarantee payment to the exporter through an arrangement with a local factor. No Letter of Credit is necessary. All that is required is for a revolving credit limit to be established on the importer's business. When invoices are due for payment, the importer pays the Import Factor member who sends the funds on to the corresponding Export Factor.

The advantages for importers are

- They can buy on open account terms.
- They do not need to open Letters of Credit.
- They can expand their purchasing power without using existing lines of credit.
- They can purchase goods without incurring delays.
- They will find it easier to generate new sources of supply.

Argentina, Les Éclaireurs Light, Ushuaia

Iceland, Sauðanes North, Siglufjörður

Ireland, Black Head Light, County Clare

Invoice Verification

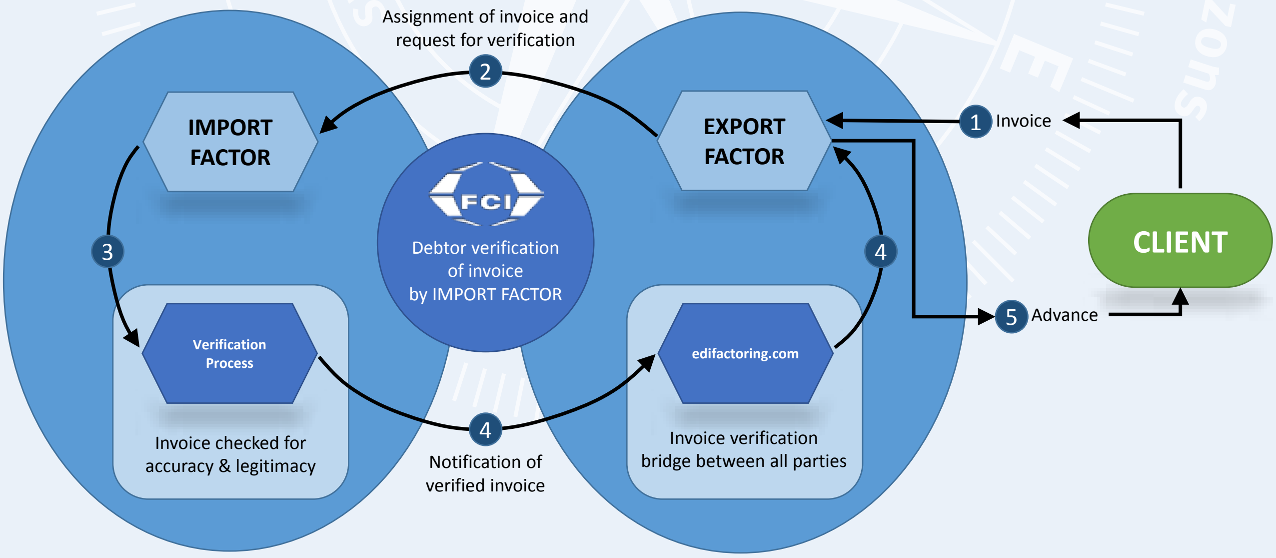
Verification of invoices is a key element in the factoring service. It supports the secure provision of finance and prompt payment of invoices. It enables early identification and resolution of disputed or invalid invoices.

In April 2014 FCI implemented an upgrade to the conduct of verification by Export Factors and Import Factors within the correspondent factoring model. The upgrade introduced dedicated messages within the secure and encrypted inter-factor data exchange and more clearly defined roles and responsibilities. There is a clear articulation of best practice for both parties. This is supported by a supplement to the Inter-Factor legal agreement and specific training material. Whilst there is no need to charge extra for the enhancement the possibility now exists where verification is frequent and intensive.

The enhancement was introduced following research with FCI members. The research identified the need for stronger verification to ensure that clients and customers can enjoy the best possible support for their cross boarder business.

For FCI this represents further progress in project governance and joint working between the Technical Committees. A post implementation review will determine the next steps to keep improving this important area for FCI members.

Invoice verification – Prevention of Fraud Risk



Case studies

Supporting Global Supply Chains through International Factoring

Two examples of international factoring in action: the first from Tanner S.A. in Chile and the second from China Merchants Bank in China. Both show how exporters are supported in winning sales by offering open account terms whilst FCI members provide risk management and working capital to ensure their cash flows are healthy.

FCI member Tanner Servicios Financieros S.A. supports their customer Salmones Magallanes' successful export business with working capital finance and collection services.

Salmones Magallanes grows salmon in the clear cold waters of the Pacific Ocean close to the southern tip of the Americas. The company was founded in 1995 by Chilean entrepreneurs. They produce fresh salmon for the domestic and export markets.

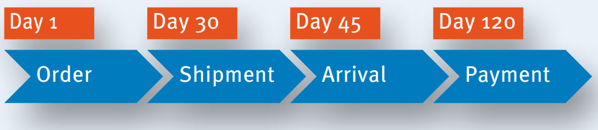
The main export markets for Salmones Magallanes are U.S.A. and Brazil which attract 75% of their US$50 million in fresh salmon meat exported per year.

Tanner has supported Salmones Magallanes' exports since 2010. Exports have grown in average by 56% yearly during the past 4 years. With Tanner's backing Salmones Magallanes offers highly competitive open account credit terms of up to 90 days to the buyers, making them convenient to deal with. Tanner is able to provide finance from dispatch of the salmon enabling Salmones Magallanes to pay creditors reliably and on time, something fundamental to business success. Tanner works with its Factors Chain International correspondents to manage collection of payment from the buyers overseas and ensure all valid invoices are paid on time, using convenient local payment instruments. The buyers thus have reasonable credit periods to work with whilst the professional credit control services provided by local respected financial institutions ensure that terms are respected and any issues can be discussed in their language and time zone.

The legal structure of the facility is assignment of the receivables. Salmones Magallanes is thus using their own assets efficiently and this does not constitute extra borrowing.

As Salmones Magallanes has been using Trade Credit insurance successfully for many years, Tanner takes an assignment of the policy to mitigate the risk of buyer insolvency or protracted default. The services of FCI and the insurer are complementary in this case but FCI members can also provide credit protection to those who do not have insurance policies or do not want the compliance burden.

The partnership between Salmones Magallanes and Tanner enables high quality Chilean salmon reach a global customer base conveniently and safely.



"Want to buy thousands upon thousands of pairs of shoes and pay 180 days later?" This was the challenge and opportunity faced by one FCI member, China Merchants Bank (CMB) who produced a comprehensive solution based on careful research and the risk management available through FCI.

CMB and their FCI partners in Russia now support 20 Chinese exporters achieve sales of $100 million per year to a major Russian retail chain. The Chinese exporters receive CMB's guarantee against the buyer's inability to pay (through insolvency or protracted default) plus access to working capital finance. The Russian buyer receives 180 day credit which covers the working capital cycle from dispatch, transportation, stocking and eventual sale so the buyer can match their cash outlay to incoming revenues. The retailer has outlets in Russia, Ukraine and Poland.

The Russian retailer had previously purchased on "payment upon delivery" terms. They built a close relationship with the suppliers but such terms impose a real constraint on business growth as they are not matched to the retailer's cash flow. As sales rise the working capital burden increases. They thus sought 180-day-after-shipment open account terms. This gave the exporters the burden of funding that period and managing the associated risks but the possibility of business growth in return.

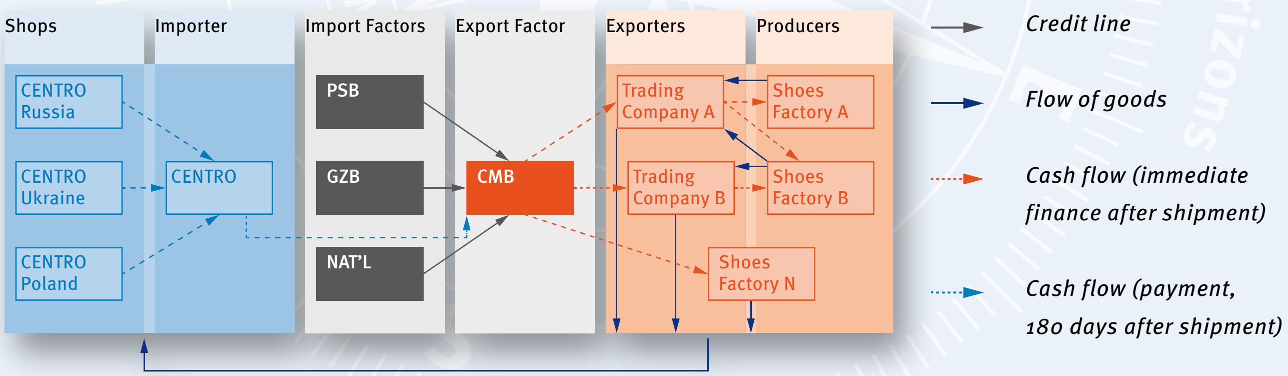
CMB's solution was based on sound principles but is innovative in its execution.

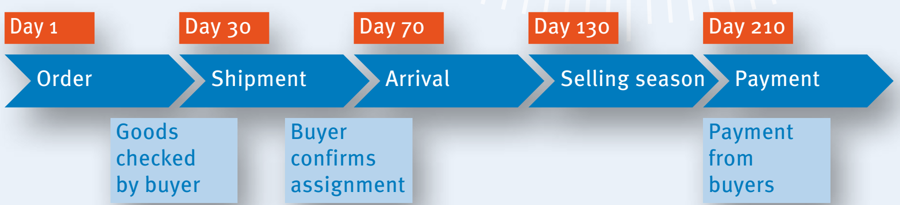
Structure of the transaction

CMB identified three Russian members of FCI who could manage the buyer risk for them. 180 days credit is long by the standards of open account and so the credit standing of the Russian based Import Factors and their operational processes need to be very high. They bring both credit expertise but also the language and commercial insight of the three countries. Having three correspondent factors ensured that the risk was spread effectively to satisfy CMB's credit policy.

CMB then researched the 40 potential exporters. Its extensive branch network clearly helps this work, for at the start only two had an existing relationship with CMB. It is important to say that not all exporters had the quality track-record and resources to satisfy CMB that they were suitable for this scheme operating on open account sales terms. The first 10 chosen were a combination of large manufacturers and traders. CMB's evaluation paid a lot of attention to understanding the nature of the mutual responsibilities between exporter and importer to ensure that they could fulfil those responsibilities and that there was risk mitigation in place in the event of disputes.
CMB had to be satisfied that 180 days credit periods were necessary and matched the cash flow cycle of the retailer. This required investigating all the milestones from order to payment including examining the evidence available which proved each had been achieved.

The diagram below displays the flows of goods and money in this cross-border supply chain of shoes:





This diagram shows the order to payment cycle and the major milestones

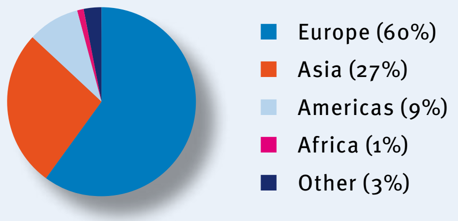
FCI Expressed in Figures

Source: Factors Chain International

FCI: A Catalyst for Growth in the Open Account Trade Finance Space

In 2013, global factoring surpassed EUR 2.23 trillion in annual volume, an increase of 4.6% over 2012. Domestic and international factoring accounted for 82% and 18% of the overall volume respectively. Regionally, Europe accounts for 60% of the global factoring volume, whereas Asia is the second largest, accounting for 27%, as indicated below:

Table 1: Global factoring industry 2013 by region (all figures given in billions of Euros)



	2012	2013	% change
Europe	1,298	1,354	4.3%
Asia	572	599	4.7%
Americas	188	192	2.1%
Africa	23	23	0%
Other	50	62	24%
Total	**2,132**	**2,230**	**4.6%**

Since the start of the financial crisis, domestic and international factoring has been growing at a rate of 13% and 25% per annum respectively, adding nearly One Trillion Euro in annual factoring volume. As can be seen below, international increased nearly twice the pace compared to domestic. The industry practically doubled in size during this period, a substantial feat considering the modern era of factoring began over a century ago in the United States.

Table 2: Total domestic factoring volume 2009-2013 (in millions of Euros)

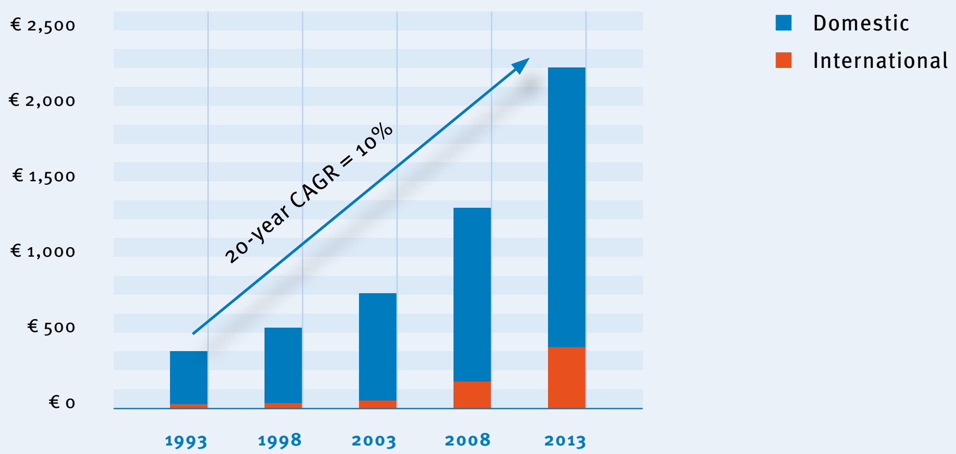
2009	2010	2011	2012	2013	CAGR
1,118,100	1,402,331	1,750,899	1,779,785	1,827,680	13%

Total international cross-border factoring volumes 2009-2013 (in millions of Euros)

2009	2010	2011	2012	2013	CAGR
165,459	245,370	264,108	354,840	402,753	25%

Since 1993, the global factoring industry has been growing at a relatively fast pace, increasing on average 10% per annum, driven in part by the expansion in open account trade in general and the expansion of factoring in the emerging markets, especially China, in particular.

Table 3: Total Global Factoring Volume 1993-2013 (in billions of Euros)

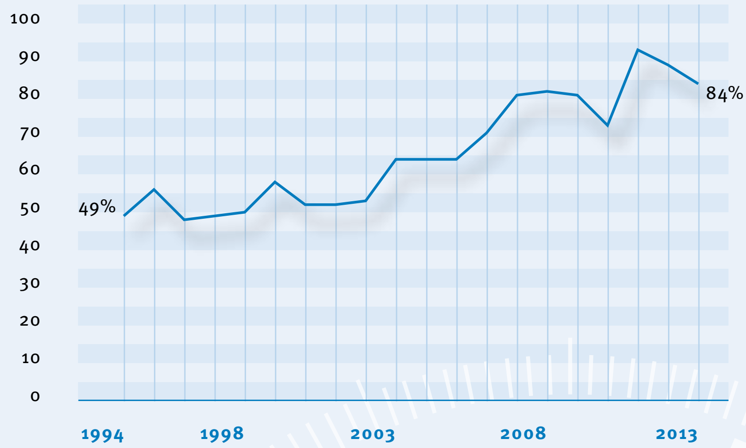


FCI Expressed in Figures

Source: Factors Chain International

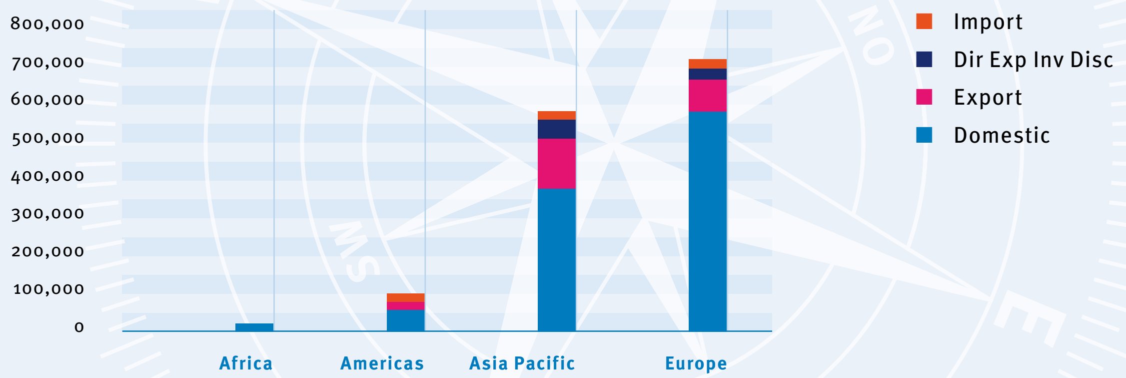
The share of international factoring volume has increased substantially over the past 20 years, from 49% in 1993 to 84% in 2013. This is in line with the increase in membership of FCI, as more and more factoring business is channeled through our members, and today accounts for the lions share of the total cross border figure, as depicted in Table 4:

Table 4: FCI's % Share of World International Factoring Volumes 1994-2013



2013 FCI Member turnover shows that the vast majority are primarily focused on domestic business. However, as mentioned previously, 18% of total volume is considered international business, of which 85% is considered export and 15% import. Not surprising, Asia Pacific region shows a much larger percentage of export factoring and direct export invoice discounting business, nearly 96% of their total international volume, while only 4% is considered import.

Table 5: FCI Member's Turnover 2013 (in millions of Euros)



The factoring industry has changed dramatically over the past 20 years. This significant increase in world factoring volume has been driven by a systematic growth in factoring throughout most of the developed and developing world, led by commercial bank-owned factoring companies or divisions of banks, especially in Europe and Asia. In Europe alone, over 90% of the factoring industry is made up of bank subsidiaries owned by commercial banks. In most of Asia, banks control the vast majority of the factoring activities there. Only until recently, banks in China were the only parties permitted to operate a factoring activity. But in other markets, like the United States and Brazil, factoring is unregulated, and therefore most players in these markets are considered non-bank financial institutions (NBFIs). Nonetheless, the explosive growth of the industry, especially since the start of the financial crisis, is in large part inspired by the enhanced perception of risk globally, but also stemming from the shift from overdraft /unsecured credit facilities to receivables-based factoring/invoice-discounting. This shift is also enhanced by the introduction of Basel II/III rules impacting capital requirements but also based on the understanding that factoring is simply a more prudent form of financing.

Factoring Turnover by Country in 2013

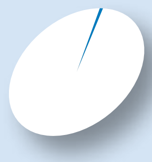
in millions of Euros

	Nr. of Companies		Domestic	International	Total
Europe	4	Austria	10,153	3,957	14,110
	5	Belarus	300	150	450
	5	Belgium	35,763	11,921	47,684
	7	Bulgaria	1,280	320	1,600
	19	Croatia	3,080	66	3,146
	3	Cyprus	2,800	23	2,823
	6	Czech Rep.	3,674	1,628	5,302
	6	Denmark	5,359	3,573	8,932
	8	Estonia	1,667	232	1,899
	5	Finland	15,000	2,699	17,699
	14	France	161,844	38,615	200,459
	210	Germany	130,630	40,660	171,290
	8	Greece	10,213	1,881	12,094
	19	Hungary	2,343	318	2,661
	6	Ireland	19,799	1,407	21,206
	40	Italy	136,777	41,225	178,002
	7	Latvia	357	235	592
	8	Lithuania	1,048	1,715	2,763
	1	Luxembourg	282	125	407
	2	Malta	107	71	178
	5	Netherlands	33,800	18,200	52,000
	7	Norway	14,379	1,917	16,296
	33	Poland	26,740	4,848	31,588
	14	Portugal	19,666	2,637	22,303
	15	Romania	2,087	626	2,713
	40	Russia	41,072	888	41,960
	20	Serbia	642	37	679
	5	Slovakia	640	428	1,068
	4	Slovenia	367	259	626
	18	Spain	101,796	14,750	116,546
	31	Sweden	29,628	916	30,544
	6	Switzerland	2,800	300	3,100
	79	Turkey	26,538	5,498	32,036
	32	Ukraine	1,325	15	1,340
	40	United Kingdom	287,649	20,447	308,096
	732	**Total Europe**	**1,131,605**	**222,587**	**1,354,192**
Americas	5	Argentina	830	26	856
	1	Bolivia	18	13	31
	1,127	Brazil	31,500	52	31,552
	57	Canada	5,297	383	5,680
	150	Chile	23,700	1,800	25,500
	27	Colombia	6,698	378	7,076
	19	Costa Rica	115	0	115
	18	Mexico	27,872	189	28,061
	18	Panama	722	2	724
	9	Peru	7,941	222	8,163
	110	United States	71,739	12,000	83,739
	3	Uruguay	55	3	58
	1,544	**Total Americas**	**176,487**	**15,068**	**191,555**
Africa	6	Egypt	200	250	450
	1	Mauritius	145	0	145
	2	Morocco	2,000	755	2,755
	6	South Africa	19,280	120	19,400
	4	Tunisia	343	30	373
	19	**Total Africa**	**21,968**	**1,155**	**23,123**
Asia	6	Armenia	50	12	62
	27	China	295,451	82,677	378,128
	15	Hong Kong	7,750	24,500	32,250
	12	India	5,000	240	5,240
	1	Indonesia	808	11	819
	8	Israel	1,010	50	1,060
	4	Japan	76,425	830	77,255
	19	Korea	7,343	5,000	12,343
	1	Lebanon	305	47	352
	5	Malaysia	1,425	357	1,782
	1	Qatar	55	33	88
	9	Singapore	6,530	3,440	9,970
	21	Taiwan	28,000	45,000	73,000
	15	Thailand	3,312	36	3,348
	5	United Arab Emirates	2,000	1,500	3,500
	8	Vietnam	20	80	100
	157	**Total Asia**	**435,484**	**163,813**	**599,297**
Australasia	18	Australia	62,137	175	62,312
	18	**Total Australasia**	**62,137**	**175**	**62,312**
	2,470	**Total world**	**1,827,680**	**402,798**	**2,230,477**

Total factoring volume

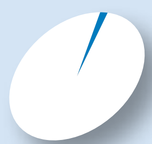
Europe 61%

Americas 9%



Africa 1%

Asia 27%



Australasia 2%

Total Factoring Volume by Country in the Last 7 Years

in millions of Euros

		2007	2008	2009	2010	2011	2012	2013
Europe	Austria	5,219	6,350	6,630	8,307	8,986	10,969	14,110
	Belarus							450
	Belgium	19,200	22,500	23,921	32,203	38,204	42,352	47,684
	Bulgaria	300	450	340	550	1,010	1,500	1,600
	Croatia	1,100	2,100	2,450	2,793	2,269	2,269	3,146
	Cyprus	2,985	3,255	3,350	3,450	3,758	3,350	2,823
	Czech Republic	4,780	5,000	3,760	4,410	5,115	5,196	5,302
	Denmark	8,474	5,500	7,100	8,000	9,160	8,800	8,932
	Estonia	1,300	1,427	1,000	1,227	1,164	1,877	1,899
	Finland	12,650	12,650	10,752	12,400	13,000	17,000	17,699
	France	121,660	135,000	128,182	153,252	174,580	186,494	200,459
	Germany	89,000	106,000	96,200	129,536	158,034	157,420	171,290
	Greece	7,420	10,200	12,300	14,715	14,731	12,761	12,094
	Hungary	3,100	3,200	2,520	3,339	2,817	2,676	2,661
	Ireland	22,919	24,000	19,364	20,197	18,330	19,956	21,206
	Italy	122,800	128,200	124,250	143,745	175,182	181,878	178,002
	Latvia	1,160	1,520	900	328	371	542	592
	Lithuania	2,690	3,350	1,755	1,540	2,134	2,488	2,763
	Luxembourg	490	600	349	321	180	299	407
	Malta	25	52	105	136	200	240	178
	Netherlands	31,820	30,000	30,000	35,000	46,000	50,000	52,000
	Norway	17,000	15,000	15,100	15,075	16,395	18,115	16,296
	Poland	7,900	7,800	12,000	16,210	17,900	24,510	31,588
	Portugal	16,888	18,000	17,711	20,756	27,879	22,948	22,303
	Romania	1,300	1,650	1,400	1,800	2,582	2,920	2,713
	Russia	13,100	16,150	8,580	12,163	21,174	35,176	41,960
	Serbia	226	370	410	500	926	950	679
	Slovakia	1,380	1,600	1,130	981	1,171	1,024	1,068
	Slovenia	455	650	650	650	550	650	626
	Spain	83,699	100,000	104,222	112,909	122,125	124,036	116,546
	Sweden	21,700	16,000	18,760	18,760	29,259	33,149	30,544
	Switzerland	2,513	2,590	5,000	4,000	3,450	3,000	3,100
	Turkey	19,625	18,050	20,280	38,988	30,869	31,702	32,036
	Ukraine	890	1,314	530	540	955	1,233	1,340
	United Kingdom	286,496	188,000	195,613	226,243	268,080	291,200	308,096
	Total Europe	**932,264**	**888,528**	**876,649**	**1,045,069**	**1,218,585**	**1,298,725**	**1,354,192**
Americas	Argentina	362	355	335	350	475	614	856
	Bolivia			18	18	35	35	31
	Brazil	21,060	22,055	29,640	49,050	45,623	43,627	31,552
	Canada	4,270	3,000	3,250	3,723	5,284	7,100	5,680
	Chile	14,620	15,800	14,500	16,422	21,500	24,000	25,500
	Colombia	2,030	2,100	2,392	2,784	4,990	4,562	7,076
	Costa Rica				160	30	180	115
	Mexico	9,200	9,550	2,120	14,538	21,074	26,130	28,061
	Panama	483	460	500	600	700	852	724
	Peru	648	875	758	2,712	2,461	2,310	8,163
	United States	97,000	100,000	88,500	95,000	105,000	77,543	83,739
	Uruguay						61	58
	Total Americas	**149,673**	**154,195**	**142,013**	**185,517**	**207,202**	**187,844**	**191,555**
Africa	Egypt	20	50	110	200	200	220	450
	Mauritius			121	125	127	128	145
	Morocco	660	850	910	1,071	1,406	1,844	2,755
	South Africa	9,780	12,110	13,500	15,120	21,378	21,378	19,400
	Tunisia	245	253	276	295	340	357	373
	Total Africa	**10,705**	**13,263**	**14,917**	**16,811**	**23,451**	**23,928**	**23,123**
Asia	Armenia	50	7	7	14	14	0	62
	China	32,976	55,000	67,300	154,550	273,690	343,759	378,128
	Hong Kong	7,700	8,500	8,079	14,400	17,388	29,344	32,250
	India	5,055	5,200	2,650	2,750	2,800	3,650	5,240
	Indonesia					3	3	819
	Israel	800	1,400	1,400	1,650	1,650	1,422	1,060
	Japan	77,721	106,500	83,700	98,500	111,245	97,210	77,255
	Korea	955	900	2,937	5,079	8,087	8,000	12,343
	Lebanon	176	306	420	450	327	301	352
	Malaysia	468	550	700	1,058	1,050	1,782	1,782
	Qatar			23	23	75	75	88
	Singapore	3,270	4,000	4,700	5,800	6,670	8,670	9,970
	Taiwan	42,500	48,750	33,800	67,000	79,800	70,000	73,000
	Thailand	2,240	2,367	2,107	2,095	3,080	4,339	3,348
	United Arab Emirates	340	1,860	1,910	2,000	1,750	2,900	3,500
	Vietnam	43	85	95	65	67	61	100
	Total Asia	**174,244**	**235,418**	**209,863**	**355,463**	**507,694**	**571,528**	**599,297**
Australasia	Australia	33,080	32,546	39,410	44,915	57,491	49,606	62,312
	Total Australasia	**33,780**	**33,246**	**40,110**	**45,515**	**58,091**	**50,206**	**62,312**
	Total world	**1,300,666**	**1,324,650**	**1,283,552**	**1,648,375**	**2,015,023**	**2,132,231**	**2,230,477**

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