

Highlights in this issue...



Keeping the wheels of trade moving: political risk need not cause a breakdown

This year's SIBOS roadshow rolls into Boston, Massachusetts...

[read more ▶](#)

02 editorial

Contents

- 02** Editorial welcome
- 03** Meet Commerzbank at...
- 04** Expert Opinion: Central Eastern Europe: a success story
- 06** Expert Opinion: The growth of South-South trade
- 08** Expert Opinion: Frankfurt to become first Eurozone RMB offshore clearing hub
- 10** FI News: Debut offshore CNY 1.5 bn issue in Frankfurt
- 11** FI News: ICC Trade Register Report published
- 12** FI News: Alfa Bank Russia's first Eurobond issue
- 13** FI News: The awards round-up
- 14** FI News: Commerzbank opens Africa desk in Shanghai
- 15** FI News: Crucial trade finance for Cypriot SMEs
- 16** Partnership Focus: Fostering Chinese SMEs' participation in global trade
- 18** Commerzbank in the press: Will correspondent banks survive?
- 20** Country Focus: A portrait of Ghana
- 22** People on the Move: Per Fischer reflects on 25 years at Commerzbank

Central Eastern Europe: a success story

The last 20 years have seen a huge... [read more ▶](#)



04 expert opinion

The growth of South-South trade

Asia and Latin America... [read more ▶](#)



06 expert opinion

Frankfurt gears up to become clearing hub

At SIBOS, discussions will be held over... [read more ▶](#)



08 expert opinion

Partnership focus: China

Chinese SMEs' participation in global trade... [read more ▶](#)



16 partnership focus

Keeping the wheels of trade moving: political risk need not cause a breakdown



This year's Sibos roadshow rolls into Boston, Massachusetts, with the host-city schedule thereafter reading: Singapore, Geneva, Toronto. All cities in politically stable and, largely, economically stable countries – and all entirely suitable for such a prestigious event.

But what when your business takes you into regions and countries that are less politically and economically secure? Certainly, developments in the Middle East and Eastern Europe have brought the issue of political risk to the fore. The question is, what should banks and companies do in light of these tensions – should they simply stop trading with these vital cogs of the global economy?

Of course, this is a sensitive issue, and by no means can all countries be seen as potential trading or business partners – nor should they be. But conflict in some areas of Eastern Europe, for instance, does not mean that the whole region should be cut off from international trade. Indeed, trade is the lifeblood to many economies – a driving force for development and a catalyst for innovation. Cutting off such regions would therefore have a significant negative impact economically, as well as politically. Poland is a perfect example, and one well highlighted in an article by Per Fischer in this edition of FI.News. Certainly, Poland's development since the fall of the Iron Curtain in 1989 has been rapid – and based largely on economic liberalisation and trade.

That said, the increased risk of trading with such regions should not be ignored. Companies, leaning on their financial institution partners, should ensure that they are well-informed on the political and economic environments in which their trading partners are domiciled, and analyse how this may affect individual creditworthiness. Banks – driven in part by KYC regulation – are having to go one step further, taking steps to analyse not only their customer, but also their customer's customer. For some banks, the cost of doing this is forcing them to abandon their correspondent networks.

At Commerzbank, we approach things differently. Indeed, we put great emphasis on ensuring that the wheels of global trade keep moving: once again we have contributed to the European

Investment Bank's Trade Finance Enhancement Programme, for instance, this time for Cyprus. This is just one example of our commitment to increasing access to international trade instruments for all.

Having ridden out 144 years of economic and political ups and downs, we have gathered a wealth of expertise in assessing the country and credit risk of our trade finance activities in all continents. We remain committed to our FI partners, and are heavily reliant on them for their local insight and expertise. Indeed, it is thanks to this that we have a unique risk appetite to confirm letters of credit where other international banks have never ventured, or have withdrawn their commitments as a result of political turmoil.

Sibos, as always, is a great chance for us to explore these issues with our clients, counterparties and peers. On this note, we believe that this special edition of FI.News will help contribute to the debate – not only providing the latest in news and trends, but also offering key insights from those at the forefront of their respective fields. I hope that you enjoy the content. ■



Christof Gabriel Maetze,
Global Head of Financial Institutions, Commerzbank

Meet Commerzbank at...

Event	Where	Date
SIBOS	Boston, USA	29th Sept-2nd October
IMF and World Bank Annual Meeting	Washington, USA	10th-12th October
Africa Forum	Frankfurt, Germany	22nd Oct-1st Nov
4th Annual China Trade & Commodity Finance Conference	Beijing, China	4th-6th November
ICC Bi-Annual Meeting	Istanbul, Turkey	3rd-7th November
3rd Annual Malaysia Trade & Export Finance Conference	Kuala Lumpur, Malaysia	10th November
Felaban Annual Assembly	Medellin, Colombia	15th-18th November
Executive Conference South Africa (Big Five Project)	Cape Town, South Africa	1st-4th February 2015

Central Eastern Europe: a success story

The last 20 years have seen a huge transformation take place in Central Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) says Per Fischer, Head of Financial Institutions at Commerzbank. Even despite the raised perception of risk driven by current conflicts, appetite for trade with the region remains high, given how deeply interconnected East and West have become.

Central Eastern Europe as a whole is an astounding success story. But over the 20 years that I've been covering this region, two countries in particular stand out: Poland and Russia.

Certainly, the economic and political transformations that have taken place in these countries over this timeframe have been remarkable, providing the solid foundation for strong and sustained growth. Poland, for example, was the only EU economy to weather the financial crisis and avoid a recession, becoming quickly competitive again post-crisis and showing the capacity for political and social innovation.

Indeed, Poland has come a long way since the fall of the Iron Curtain in 1989. Having pursued a policy of economic

liberalisation, privatised many of its state-owned companies and become a leading exporter, it now has a similar economic structure to Germany and is thriving. Since becoming a member of the EU in 2004, Polish GDP growth has averaged 4% a year, while many other European countries have experienced negative growth. Poland has also become an integral trade partner and investment location for Western Europe: around 80% of Poland's exports go to Europe with Germany being its most important trading partner.

And despite the ongoing geopolitical crisis in Ukraine, in terms of trade, Russia remains the region's powerhouse. For example, Germany relies on Russia for half of its oil and a third of its gas imports. And in

terms of EU exports, Russia is the third largest trading partner of the EU and is a huge importer of capital goods from Germany, including equipment, vehicles and chemical products.

Yet despite the positive developments that have taken place in Russia over the last two decades – including an improved legal system and business climate, as well as a better developed transport system – the country is still in need of modernization and diversification of its economy in order to lessen its dependence on volatile oil and gas prices.

And while Western Europe and CEE countries have developed a sustainable economic and political partnership over the past 20 years, current conflicts are posing challenges, which have increased the risk perception in certain countries. As a result, there has been increased demand for confirmation of letters of credit (LCs) for trade with these countries. However, LC

confirmation and processing can prove a burden for local banks, which may not have the capacity or resources to cope with the demand. For this reason, Commerzbank partners with local banks across the CEE region to increase their LC handling capabilities.

Indeed, Commerzbank has one of the largest networks of banking partnerships and is the main trade bank in the region, evidenced by its tenth consecutive EBRD award for "most active confirming bank". The bank has developed a strong presence in CEE over the last 20 years – mainly thanks to its widespread network – enabling it to support its customers, even during difficult economic times. ■

“...the economic and political transformations that have taken place in these countries over this timeframe have been remarkable...”



Per Fischer,
Head of Financial Institutions, Commerzbank



The growth of South-South trade: Asia and Latin America

Thomas Krieger, Regional Head of Latin America at Commerzbank, speaks to FI.News about the current developments in intra-emerging market trade, with a particular focus on increasing trade flows between Asia and South America.

“...innovation must be complemented by longevity and dedication to developing long-standing relationships”

One of the questions which will be discussed at SIBOS this year is: “How long will it be before South-South trade becomes a reality?” What are your thoughts on this?

Thomas Krieger: The truth is, it already is becoming a reality. South-South trade flows – particularly to and from Asia – are growing faster than developed-to-developed and developed-to-emerging market flows. Indeed, by 2030, the South-South trade corridors are expected to represent 40% of global trade. Yet this shift in world trade could mean that financial institutions in the Northern hemisphere are left

out, given that an increasing proportion of global trade is expected to bypass their countries altogether. Therefore, if financial institutions are to remain involved in the changing trade landscape, they need to find ways to tap into this South-South commerce. ■

How has trade between China and Latin America developed?

TK: It has surged more than 20-fold from US\$12 billion in 2000 to US\$288 billion in 2013. Latin America as a whole is one of the largest commodity suppliers, including iron ore, copper, soy, oil, sugar, paper pulp and poultry – which account for more than 70% of exports – while China has a huge appetite for natural resources and new sources of energy. They are therefore natural trading partners. Latin America is also proving an attractive investment destination for China. Indeed, with its cushion of foreign currency reserves, China is making strategic investments in the region’s mining and energy sector, infrastructure and commodities. ■

Are there any particular examples of this?

TK: Ecuador, which has been focusing on developing its economy and productive base since it defaulted in 2008, is an interesting case. Certainly, the country has turned to China to provide the majority of the financing needed to meet borrowing costs in exchange for oil. Ecuador’s oil production accounts for 58% of its export income, yet it imports oil derivatives because of its low refining capacity. For this reason, Ecuador is about to close another multi-billion dollar financing deal with China to develop a refinery project on the country’s Pacific coast. ■

How can Western financial institutions take advantage of these changing trade flows?

TK: In this respect, innovation is

key. Modern cross-border trade now demands more efficient and less expensive trade processing. And while more than 80% of global trade is now conducted on open account, it is less viable for new trading partners in higher-risk countries; therefore, many corporates prefer the risk-mitigating properties of the letter of credit. ■

What do you see as the potential solutions?

TK: There is no doubt that trade processing centres – which can speed up the processing of LCs and reduce costs – will be of growing importance as the markets develop. Commerzbank, for example, established two trade processing centres in Poland and Malaysia – which enable us to offer 18-hour processing – and we are strengthening our long-standing

product expertise in foreign trade activities. All of this can be leveraged by our local partner banks in Asia and Latin America. But innovation must be complemented by longevity and dedication to developing long-standing relationships. Once again Ecuador serves as a fine example where Commerzbank has remained present even when the global financial crisis forced many international banks to retreat from the country. ■



Thomas Krieger,
Regional Head Latin America, Commerzbank

Frankfurt gears up to become the first Eurozone RMB offshore clearing hub

At SIBOS, discussions will be held over the significance of the internationalisation of the renminbi, or RMB, and how financial institutions should react with respect to the development of banking services. As such, in this special SIBOS edition of FI.News, Agnes Vargas, Regional Head Greater China and the ASEAN countries, and Marcus Lenz, Senior Product Manager Cash at Commerzbank, discuss the latest developments in China's currency liberalisation, particularly with regards to the establishment of Frankfurt as a centre for renminbi business.

“Commerzbank is the only bank to have acted for both of the first two RMB transactions to be listed and cleared in Frankfurt.”



The renminbi's internationalisation was further boosted by the establishment of Frankfurt as an offshore renminbi clearing hub this year. The choice of Frankfurt was unsurprising, given that Germany is China's biggest trading partner in Europe and EUR140 billion of trade was settled between the two countries in 2013. Yet it is highly significant, signalling serious intent from the Chinese government to open up the currency outside Asia.

With the hub due to become operational this year, it is likely that this will drive increased EU-China trade flows. And, crucially, more trade volumes settled in RMB as European companies are able to settle directly via a local market, speeding up settlement and potentially resulting in lower costs when dealing with their Chinese

trading partners. Certainly, this boon to trade was the case when the Singapore clearing hub was first established in 2011.

Naturally, we therefore expect to see a jump in demand for renminbi services over time; in particular from European mid-size exporter companies, which may use the ability to settle and invoice in RMB to gain a competitive edge when expanding into Asia.

Growing offshore use of the renminbi is not confined to Europe, however. It should therefore also be noted that an increase in intra-Asian trade business denominated in renminbi has been witnessed over the past months, with approximately 80% of renminbi letters of credit coming from Asia. Indeed, this significant increase in intra Asian trade was

one of the contributing factors to the renminbi becoming the second most used currency in global trade finance at the end of 2013.

So the signs are all pointing to the renminbi's internationalisation as a trade currency, but what can banks do to take advantage of these positive developments and remain competitive?

First, financial institutions (FIs) need to ensure that they have the capacity to facilitate trade business in renminbi. The renminbi's internationalisation, and particularly the establishment of offshore markets, is a growth opportunity, as corporates outside of China now need to invoice, pay and invest the

renminbi they receive. Yet ever-changing regulation in China poses an ongoing challenge for banks to stay informed of all the latest developments – especially those that do not have an on-the-ground presence. It is vital that FIs position themselves, not just for the end result, but to leverage on each development as it is announced.

Therefore, for those banks without a presence in mainland China, leveraging Commerzbank's vast correspondent banking network is one way of staying ahead of the curve. In addition to its 1200 German branches, Commerzbank has 35 branches and representative offices

across Europe ready to facilitate renminbi business.

Furthermore, through Commerzbank's reputation as a leading trade services bank, it has won around 300 renminbi accounts from its correspondent banks – a strong endorsement of the bank's renminbi expertise, not only in trade finance, but also across DCM bonds and loans, currencies and fixed income.

The Chinese currency's internationalisation is showing no signs of slowing down; therefore, there is no better time to get ready for the next steps in the use of this new global currency. ■



Agnes Vargas
Regional Head
Greater China and
the ASEAN countries,
Commerzbank



Marcus Lenz
Senior Product
Manager Cash,
Commerzbank

Commerzbank manages debut offshore CNY 1.5 billion issue in Frankfurt



Bull and bear sculpture outside the Frankfurt Stock Exchange

Leading Chinese commercial bank, China Construction Bank (CCB) – acting through its German branch, China Construction Bank Corporation Niederlassung Frankfurt – successfully issued its debut Offshore Renminbi (RMB), or CNY, transaction on 19th May. CCB is the first non-domestic issuer to list an offshore RMB benchmark transaction on the Frankfurt Stock Exchange, and the first Chinese issuer to launch a benchmark transaction through a German branch. It was also the first bond listed and cleared in Frankfurt that was not governed by German law.

Commerzbank was mandated as Joint Global Co-ordinator and Joint Lead Manager on the transaction, reflecting its extensive experience in the offshore RMB market, as well as its position as one of Germany's leading banks.

Commerzbank is the only bank to have acted for both of the first two RMB transactions to be listed and cleared in Frankfurt (having jointly lead-managed a two-year

CNY1 billion transaction for KfW, the German development bank, a month earlier).

Agnes Vargas, Regional Head Greater China, comments: "Commerzbank's involvement in these deals reflects our leadership in Frankfurt's growing offshore RMB market and our ability to support major Chinese clients in realising their strategic goals in Europe."

The CNY1.5 billion (EUR176.5 million) two-year transaction was initially offered with coupon guidance of 3.6%. The A-rated issue attracted interest from 100 major investors and financial institutions in Asia (accounting for 72% of investment) and EMEA (28% of investment).

Banks took 56% of the transaction, asset managers 36%, private banks 5% and others 3%. With final order books reaching CNY4.3 billion – close to three times the target issue – it was possible to reduce pricing to 3.38%, representing very competitive value for the client. ■

ICC Trade Register Report published with data from Commerzbank

The International Chamber of Commerce (ICC) released its Trade Register Report 2014 in June empirically demonstrating that trade and export finance is a low risk bank financing technique.

The report is based on data contributed by the major trade finance banks, including Commerzbank, reflecting more than 4.5 million transactions totalling an exposure in excess of US\$2.4 trillion. It records that short-term trade finance customer default rates range from a low of 0.033% to a high of 0.241% – a fraction of the 1.38% default rate reported by Moody's for all corporate products in 2012.

Ruediger Geis, executive committee member of the ICC Banking Commission and Head of Product Management, Trade Services at Commerzbank, comments: "This is further proof of the low risk nature of trade finance, which reconfirms the assessment of the trade finance community."

The report was drawn up with the intention of providing a transparent view of the risk profile of trade finance with a view to contributing to informed policy and regulatory decisions. Indeed, if the findings of the report were fully reflected in capital requirements, it could help banks to give companies the financing support they need for their exports, and to contribute even further to the global economy as it recovers from the global financial crisis. ■



“ This is further proof of the low risk nature of trade finance, which reconfirms the assessment of the trade finance community. ”

“Commerzbank is the only bank to have acted for both of the first two RMB transactions to be listed and cleared in Frankfurt. ”



Success for Alfa-Bank: Russia's first Eurobond issue

Having been largely frozen out of the global debt markets since February following events in Ukraine, Russian borrowers returned to the market in June with a EUR350 million offering of three-year debt by ABH Financial Ltd – the holding company for Russia's largest private lender, Alfa-Bank Russia.

As joint lead manager for the transaction, Commerzbank played a decisive role in ensuring the success of the bond issue, harnessing its extensive syndicate network and relationship with major investors to guarantee that the Russian bank's first Eurobond issue was well-received. Indeed, it was more than three times over-subscribed.

The successful transaction was priced at 5.500% on the back of an order book in excess of EUR1.3 billion from more than 160 accounts. The bond was broadly placed, with the investor base consisting of: banks (56%), asset managers (36%), private banks (5%) and others (3%). These investors were mainly based in Germany and Austria (51%), Switzerland (28%), the UK (12%), the rest of Europe (9%), Russia (7%), and Asia (3%).

The success of this transaction illustrates the retained investor confidence in Russian credit as well as in Alfa-Bank Russia. ■

“As joint lead manager for the transaction, Commerzbank played a decisive role in ensuring the success of the bond issue...”

The awards round-up

2014 has been an eventful year for Commerzbank FI so far, picking up the following awards:

 In April, **Flmetrix** confirmed Commerzbank as a *Distinguished Provider of Global Transaction Services* for the second year running. The 2014 award recognises Commerzbank as a leading performer for EUR transactions, showing that it has consistently gone above and beyond the market standard in delivering services to its customers. Commerzbank was one of only four banks from around the world to be awarded this accolade.

 In May, **The Banker** awarded Commerzbank a “Deal of the Year for Best Securitisation” for its CoTrax Finance II-1 deal. The magazine cited the deal as “the most innovative example” of trade finance securitization in 2013, given that this was the first time any bank had securitised interbank assets.

 In May, the **EBRD** (European Bank for Reconstruction and Development) recognised Commerzbank as the “most active confirming bank under the Trade Facilitation Programme in 2013”, for the tenth year in a row since 2004. This placed the bank above more than 800 confirming banks from 88 different countries.

 In July, **Trade & Forfaiting Review** awarded Commerzbank the Silver Award for “Best Bank in Eastern Europe” reflecting Commerzbank's continuing commitment and dedication to providing trade finance and settling payments for its customers in the region.

Africa desk opened in Shanghai

“Our research and experience clearly shows that Chinese trading companies are increasingly interested in using Commerzbank for the future expansion of their export businesses towards Africa.”



On May 20th 2014, Commerzbank officially launched its African desk in Shanghai, which will serve as a gateway into Africa for local Chinese corporates and help them tap into Africa's growing trade potential. Certainly, China has now firmly established itself as Africa's top business partner. Trade volumes between China and Africa reached US\$210 billion in 2013, far exceeding the US\$85 billion of trade between the US and Africa.

To announce the news, Florian Witt, Regional Head Africa at Commerzbank, gave a speech at a special customer breakfast in Shanghai explaining the advantages it will have for Chinese corporates. Witt remarked: “Our research and experience clearly shows that

Chinese trading companies are increasingly interested in using Commerzbank for the future expansion of their export businesses towards Africa. Certainly, for these corporates looking to enter Africa, it is essential to have a banking partner that has the on-the-ground presence and expertise to help them navigate the risks that are an inherent part of conducting business in Africa.”

Commerzbank has a strong network of correspondent banking partnerships in Africa, as well as six representative offices in Addis Ababa, Cairo, Johannesburg, Lagos, Luanda and Tripoli. This expansive network will enable Chinese corporates to trade with even the remotest African regions. ■

Crucial trade finance to be provided for Cypriot SMEs by Commerzbank

Commerzbank has agreed to contribute EUR25 million of trade financing to the European Investment Bank's (EIB) Trade Finance Enhancement Programme for Cyprus. The programme will help to re-ignite international trade flows with Cyprus, favouring an export-led recovery by SMEs in particular.

The programme – which is now actively geared towards respective clients – will see Commerzbank contribute EUR25 million of the total EUR50 million amount. Under the trade finance facility, the EIB will offer guarantees to Commerzbank and another foreign bank to cover the risks related to letters of credit and other trade finance instruments issued by Bank of Cyprus. This will help alleviate cash collateral constraints for SMEs – which not only hinder their own growth, but that of the entire economy – and increase access to international trade instruments, helping boost trade flows with Cyprus.

This is the second time that Commerzbank is participating in the EIB's Trade Enhancement Programme, having contributed EUR100 million in trade financing to the Greek programme in June 2013 in support of the Greek economy. ■

“The programme will help to re-ignite international trade flows with Cyprus.”

Fostering Chinese SMEs' participation in global trade

Mr Jiong Xie, General Manager of the Shanghai Free Trade Zone branch of Ping An Bank – one of Commerzbank's valued Chinese partner banks – shares how an increasing number of its clients, especially small and medium-sized enterprises, are now trading beyond national borders. Facilitating this is made far easier with the help of a global banking network.

Small and medium-sized enterprises (SMEs) represent the engine of China's economic growth. Indeed, they account for more than 60% of China's GDP and approximately 80% of jobs, as well as over 90% of all companies in China. And as China develops and consolidates its position as a top-tier global trading nation, we are seeing more and more SMEs looking to engage in international trade, both with developed markets as well as emerging markets. Indeed, intra-emerging market trade is now the fastest growing part of Asia's exports.

This shift in the composition of China's trade flows owes a lot to the effects of the financial crisis, which resulted in a fall in demand from developed countries, causing Chinese businesses to look for new consumers in new markets. This, along with China's more general economic growth, has seen Chinese SMEs, in particular, become more innovative and reach further into emerging markets.

Yet while the larger, often state-owned, companies in China generally have the channels and relationships in place to facilitate international business, as well as access to the necessary funding and risk mitigation, new entrants often do not. On the whole, SMEs have trouble building up strong credit ratings. Furthermore, many large Chinese banks have traditionally placed emphasis on catering for the needs of state-owned enterprises. As a result, trade finance can often be expensive for Chinese SMEs.

This is where Ping An Bank – which focuses on offering trade finance services to SMEs – differentiates itself. As a regional, joint-stock bank, we build local relationships and tools to specifically serve our SME clients. Our branch network is testament to our focus on "local banking" – we now have more than 400 branch offices across 28 cities in China. Furthermore, we were also the first bank to launch a "supply

chain financing" business model in China, providing financing support to SMEs, as well as their partners up and downstream.

In addition, Ping An Bank has bolstered competence in international trade finance in order to meet our SME clients' demands. In this regard, our partnership with Commerzbank is crucial, offering us credit lines and international financing solutions, ultimately enabling

us to provide our SME clients with lower-cost trade finance solutions. We value this partnership, particularly given that the banking industry in China is highly regulated and it continues to restrict the services banks can provide and the amount of credit they can extend.

Certainly, Commerzbank's deep understanding of China – where it has been present since 1961 –

combined with its international expertise, is what sets it apart from other global banks. For China to remain globally competitive, supporting SMEs in their international trade ambitions is essential. We are therefore delighted to be working with Commerzbank and to be able to leverage its global network in order to help our clients expand beyond Chinese borders and reach into new markets. ■

“Commerzbank's deep understanding of China – where it has been present since 1961 – combined with its international expertise, is what sets it apart from other global banks.”



From left to right: Betty Yang, Commerzbank, Jiong Xie, Ping An Bank, Guoqiang Wei, Commerzbank Regional Head of Financial Institutions China, and Barry Liu, Deputy General Manager, Shanghai FTZ Branch of Ping An Bank

Mr Jiong Xie holds an EMBA from Peking University and has been a banker for more than 25 years. Prior to working for Ping An Bank, he worked at Industrial and Commercial Bank of China and China Merchants Bank as Deputy General Manager of the Offshore Banking Department. In 1998, he undertook management training at Dresdner Bank and later worked at the bank's head office and its branches in a management role.

Will correspondent banks survive?

The correspondent banking model is, for now, alive and well. Yet pressure on banking networks is currently mounting. Evidence of this fact can be seen in the increasing number of banks retreating from high-risk markets, closing their branches in certain countries and culling banking relationships.

A key driver is increased scrutiny from regulators regarding Know Your Customer (KYC) and anti-money laundering (AML) policies with banks facing heavy sanctions if they fail to put the correct procedures in place. As a result, trade finance is becoming more expensive for banks to provide and survival in the trade finance arena will rely on them either cutting costs or finding new funding sources.

But all hope is not lost. Leading market organisations, such as the International Chamber of Commerce (ICC) and the Bankers Association for Finance (BAFT), are now devising industry-wide standardisation efforts as a proactive solution to some of the challenges in today's regulatory environment. But will it save the correspondent banking model?

Challenges facing trade banks
Certainly, compliance continues to be a critical challenge for many banks. While the higher cost of compliance is threatening the demise of some smaller players, tougher

KYC regulations also increase the possibility of another unwelcome situation: the "unbanked banks". In this instance, large global banks withdraw support to their smaller regional correspondent banks on the basis of reducing risk. Even more concerning is the risk that whole countries become "unbanked" – cut off from correspondent banking networks completely.

And capital adequacy requirements are also proving a burden. For example, Basel III regulation is now prompting banks to find new ways to reduce risk-weighted assets. As such, several leading banks are now securitizing their loans to attract non-bank investors. However, while securitization may be becoming more widely used, there have been a limited number of deals so far, in part, due to institutional investors' lack of awareness of trade finance assets.

New solutions

On a positive note, leading industry organisations have

been working to provide a unified response to these challenges.

One such response was the introduction of the Master Loan Agreement (MLA) in May by BAFT for bank-to-bank trade loans. This type of documentation was previously issued individually by banks all over the world using different terms and definitions, resulting in inconsistency. Therefore, the MLA will help provide uniformity by clarifying universally agreed definitions and making the process more transparent, saving time and money for all participants.

In addition, in April, the ICC Banking Commission formed the Global Supply Chain Finance Forum in an attempt to officially standardise Supply

Chain Finance terms. This was the first time that six leading organisations – the ICC, BAFT, the Euro-Banking Association (EBA), Factors Chain International (FCI), International Factors Group (IFG) and the International Forfaiting Association (IFA) – joined together with such a purpose. It is hoped this initiative will help banks, regulators and investors to gain a common understanding of trade finance products and processes and to feel more comfortable with this emerging asset class.

For smaller banks, these initiatives will help them overcome the regulatory changes taking place and to continue to provide trade finance to their customers. It is critical that these smaller players are not forgotten. Their

exit from the market would be a huge blow to global trade.

The market can be optimistic about implementing more efficient and transparent processes, which will allow all participants to be active players in global trade finance. ■

The full version of this article was published in *International Financing Review* on 8 July 2014.

“...compliance continues to be a critical challenge for many banks.”



Ruediger Geis
Head of Product Management, Trade Services at Commerzbank

A portrait of Ghana

Following Commerzbank's recent nomination as Lead Arranger and Bookrunner on the Ghana Cocoa Board's annual pre-export financing of the country's cocoa harvest, FI.News turns the spotlight on Ghana and explores its recent economic developments.

Ghana is deemed to be a role model for democracy and political stability among African countries. Until 2013, it was also one of the fastest-growing economies in the world, recording a 15% expansion in GDP in 2011 and 7.9% in 2012. Since then, the country's growth has decelerated somewhat, mainly owing to international factors. However, it remains comparatively high: average annual growth over the last six years has been 6%.

Much of this has been driven by oil, despite the country only beginning oil production in 2010. Indeed, oil now accounts for 22% of the country's total exports. Yet, despite rising exports, import demand for fuel, as well as oil - and mining -related capital goods remains high, generating chronically high current account deficits, which pose a risk to further economic growth.

Aside from oil, Ghana is Africa's second-biggest gold producer behind South Africa with gold accounting for 42% of the country's total exports.

Significantly, Ghana is also the second-biggest cocoa producer in the world – behind only the Ivory Coast – producing an average of 800,000 tonnes of cocoa a year. Cocoa contributes 21% of Ghana's total exports and is often described as the backbone of the country's economy.

The cocoa industry in Ghana is monopolised by the Ghana Cocoa Board (commonly known as Cocobod), which was established in order to help Ghanaian farmers market and sell their annual crop at a fair price. As such, Cocobod purchases the bulk of Ghana's cocoa crop each year and exports it throughout the world at a fixed price.

Ever since 1994, Cocobod has raised the funds it needs to purchase the cocoa harvest through a syndicated loan facility between itself and a consortium of international banks. The annual facility is the most important soft commodity trade finance facility in Africa and one of the largest soft commodity financings in the world.

This year, Commerzbank – together with four other international banks – was nominated co-ordinating initial mandated lead arranger and bookrunner on the US\$1.6 billion eleven-month pre-export receivables-backed trade finance facility. The 2014 deal is the largest in the history of the facility (in 2013 it was US\$1.2 billion).

Olaf Schmueser, Senior Representative at Commerzbank's Lagos Representative Office, comments: "It is expected that the loan will be oversubscribed,

reflecting the confidence of the international financial market in Cocobod's operations and in Ghana's potential as a cocoa producer."

Schmueser continues: "Commerzbank's nomination as one of the lead arrangers and bookrunners on this prestigious transaction is evidence of our strong track-record in the field of syndicated loans, as well as our long-established relationships with local financial institutions and our extensive reach into the community of loan investors." ■

“It is expected that the loan will be oversubscribed, reflecting the confidence of the international financial market in Cocobod's operations and in Ghana's potential as a cocoa producer.”



Per Fischer reflects on 25 years at Commerzbank

Per Fischer joined Commerzbank in 1985 and over the course of his career at the bank has spent four years in Moscow and a further three years in Kiev. Since 2003, he has been the Head of Financial Institutions covering Central and Eastern Europe (CEE), Turkey, the Commonwealth of Independent States (CIS), the Baltics and Mongolia. Later this year, Per will be retiring following 25 years of service at Commerzbank. In a special interview, Per recounts some of the highlights of his career.

What have you most enjoyed about working for Commerzbank?

Per Fischer: Pioneering new markets has been one of the most interesting aspects. When I first joined Commerzbank in the 1980s, it was during the collapse of the Soviet Union and the transition for these countries to a market-based economy. As such, it was a “banking desert” and it was fascinating to be part of the establishment of the banking system in the region and to strengthen our role as a partner bank to the local banks.

What has been your biggest achievement?

PF: During the 1998 Russian financial crisis, I faced my biggest challenge. It was a tough period, restructuring debt and attempting to recover some of the funds we had lent to some Russian banks, but it also served to strengthen our relationships in the region. Therefore, one of my biggest achievements has been

navigating our way through this crisis and coming out of it successfully.

How has Commerzbank developed over your time there?

PF: Today, Commerzbank has a significant local presence in the CEE region – with our subsidiaries, such as mBank in Poland, and branches in Prague, Bratislava, Budapest and Moscow. Our trade finance business has also grown and we are one of the biggest clearers of euro payments. In addition, Commerzbank has one of the largest correspondent banking networks in the region. It has been a privilege to watch the bank grow and develop, evolving from a German bank to a large European one.

Any parting words?

PF: I have immensely enjoyed my time at Commerzbank, looking after an experienced and passionate team of relationship managers and representatives

and having had the opportunity to work with so many of our clients based all over Eastern Europe. ■

Per Fischer (right) is pictured with Holger Kautzky



Holger Kautzky, Regional Head of Russia and Belarus, also has 25 years' experience in the banking sector, having joined Commerzbank from Dresdner Bank during the 2009 merger. Holger will be taking over as Head of Financial Institutions and gives FI.News a brief overview of his new responsibilities

What are you most looking forward to in your new role?

Holger Kautzky: I'm particularly looking forward to getting to know more of our clients in all the countries my new remit covers. One of my main priorities will be to further enhance the strong business relationships we have with our valued clients and to grow the business – amid a challenging regulatory environment. I am also looking forward to working with a dedicated team who are committed to ensuring that our clients experience our FI brand: how partnership meets expertise.

What does the future hold for Eastern Europe?

HK: Eastern Europe continues to be an extremely important trade partner for the rest of Europe. Commerzbank, as a leading corporate bank with export-orientated customers, will therefore play a major role in supporting our clients in their trade business. In this respect our network of partner banks will also be key and we will enhance the cooperation with FIs in the region. ■

“It has been a privilege to watch the bank grow and develop, evolving from a German bank to a large European one.”

Important information:

The information in this newsletter is generally based on usage and legal requirements in Germany and is subject to data obtained from sources considered to be reliable, but no representations or warranties are made by Commerzbank with regard to the accuracy or completeness of the data. The opinions and estimates contained herein have been done with due care and diligence and are true and correct to the best of our knowledge at the given time, and are subject to change without notice. This newsletter is for information purposes only. Commerzbank accepts no responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this newsletter.

Contact:

Barbara Stein
Commerzbank AG, Mittelstandsbank, Marketing
Kaiserstraße 16, 60311 Frankfurt am Main, Germany
fi.news@commerzbank.com
Commerzbank AG, Frankfurt am Main <http://www.commerzbank.com>
Mandatory information
<http://www.commerzbank.com/mandatory>

Legal info:

Published on behalf of Commerzbank Financial Institutions.
Edited by Moorgate Group, London / Great Britain.
Design and layout: Bizmedia Ltd, UK.