Financial Risk:

What is Financial Risk while dealing with Global business? Whether it's an investment with the company / borrowing funds from Private Equity, or Private Debt for business, the financial risk is common for both sides of the COIN.

Financial risk refers to the possibility that an investment's actual return will be different from what was expected. It encompasses various factors, including market volatility, credit risk, liquidity risk, and operational risk. Here's a brief overview of some common types of financial risk:

1. **Market Risk**: Also known as systematic risk, market risk arises from changes in market prices, such as interest rates, exchange rates, and commodity prices. It affects all investments in a particular market and cannot be diversified away.
2. **Credit Risk**: This is the risk of loss due to a borrower's failure to repay a loan or meet contractual obligations. It's prominent in bonds, loans, and other debt instruments. Credit risk can be mitigated through diversification and credit analysis.
3. **Liquidity Risk**: Liquidity risk is the risk of not being able to buy or sell an asset quickly enough without substantially affecting its price. It's particularly relevant for assets with low trading volumes or in volatile markets.
4. **Operational Risk**: This encompasses the risk of loss resulting from inadequate or failed internal processes, systems, or human error. It includes risks related to fraud, legal issues, and regulatory compliance.
5. **Political and Regulatory Risk**: Changes in government policies, regulations, or political stability can affect investments. These risks are prevalent in emerging markets or industries sensitive to government actions.
6. **Currency Risk**: Also known as exchange rate risk, currency risk arises from fluctuations in exchange rates. It affects investments denominated in foreign currencies and can impact returns when converting profits or dividends back into the investor's base currency.
7. **Interest Rate Risk**: This is the risk that changes in interest rates will affect the value of fixed-income securities. When interest rates rise, bond prices typically fall, and vice versa.
8. **Reputational Risk**: Reputational risk refers to the potential for negative publicity, public perception, or stakeholder sentiment to harm an organization's reputation and, consequently, its financial performance.

Investors and organizations manage financial risk through various strategies, including diversification, hedging, insurance, and risk transfer mechanisms. Understanding and effectively managing these risks are essential for achieving financial objectives and minimizing potential losses.

Project / Purpose Based Short term and Long-Term borrowing for Corporates – Across world

Business or project-based funding within corporate entities can take various forms and can vary significantly depending on the size of the company, its industry, geographical location, and specific project or business needs. Here's an overview of some common types of funding methods used by corporate entities across the world:

These kinds of funding from Private Investor support funding facilities under the debt Program through Credit Enhancement Services (bank to bank) however, the following facilities are available across countries.

Credit Enhancement – Bank 2 Bank Loan Collateralization Services with SWIFT:

Bank-to-bank credit collateralization typically refers to the practice where one bank pledges collateral to another bank to secure a credit transaction. This arrangement is common in interbank lending (through secured SWIFT communication) and borrowing activities, where banks extend credit to each other for various purposes, such as meeting short-term liquidity needs or funding operations.

Here's how it generally works:

A borrower approaches their own bank to get the acceptable verbiage for MT760 format and share the underline project summary in detail to BG/SBLC Provider through the authorized Mandate.

A standby letter of credit, as an example, allows an investor to block the cash that they want to invest into your business in their account. In turn, their bank will provide the business owner with a letter of credit, and then it's up to the business owner to figure out a way to monetize the letter of credit – referred to as a banking instrument.

SBLC Provider shares the Draft Terms and conditions (Approved Format) with the borrower to review and check with the Receiving Bank confirmation to move first step. Upon confirmation of the Receiving bank, the borrower can fill the Deed of Information with all the details filled in without signing and sent to us for review and forwarded to the Investor team for due diligence.

If the due diligence is positive, the investor can fill in the profile, contact details, and bank details for Borrower due diligence, within 3 working days the borrower signs in and sends DOA to begin the commercial contract. *(if the due diligence is negative the investor may ask for additional information /documents depending on the purpose of funding)*

The SBLC Provider Countersign the Deed of Agreement and Convert the document from Word to PDF (non-editable format) and send for Issuing Bank Approval. Once the Issuing Bank accept the SBLC application, and approved, then the SBLC provider will be sharing the following:

1) Copy of SWIFT downloaded acknowledgement from the Issuing Bank seal and Sign
2) Invoice to make SWIFT Transmission fee
3) Refund Guarantee Letter (if the swift transmission fee is refundable category)

On receipt of the above information, the borrower needs to transfer the funds through SWIT and share the copy of payment receipt to track the payment and move the processing to the next stage.

Rest all the formalities can follow as per the Signed Deed of Agreement whether It's for Credit Enhancement, Delivery of the instrument to your supplier, or Delivery of the Instrument to Monetizer to convert as Cash Fund.

Collateral: A private Investor / Capital Management company provides collateral to the client's bank could be in the form of Cash-Backed-Securities or Guarantees. The Private investor usually takes care of the underlying business summary, requirement of funds, and tenure of the contract with a detailed tera revalidation as indicated in the **Deed of Agreement. OR** another kind of asset, through a Private Investor to the issuing bank. The collateral serves as security for the loan for the underlying business, and tenure helps mitigate the Clients bank credit risk. lender's credit risk.

Credit Agreement: Both banks enter into a credit agreement that outlines the terms and conditions of the transaction, including the amount borrowed, interest rate, maturity date, and details regarding the collateral.

Default and Collateral Liquidation: If the borrowing bank fails to fulfill its obligations under the credit agreement (e.g., defaults on the loan), the lending bank can seize and liquidate the collateral to recover its funds.

Considering the above process, The SWIFT transmission fee is MANDATORY TO transfer the funds to the SBLC Provider as per the agreed Deed of Agreement. **None of the Financial / Banking institutions will progress the loan application without any financial commitment from the borrower.** The borrower can read the terms and conditions of the Deed of agreement before executing, otherwise cancelling the application (after executing) may lead to a Penalty clause with Legal complication in the present and future borrowing.

Please note that any bank fees, legal fees, Security Deposit, and tax obligations associated with your transaction are your responsibility, not Jade Corporate Advisors Pvt Ltd

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