

Export Documentary Letters of Credit

What are they?

A Documentary Letter of Credit ("L/C") is a written undertaking from a bank at the request of the buyer of goods/services to pay the supplier an amount of money within a specified time, provided the supplier presents documentation, which is in conformity with the terms of the L/C.

L/C are usually issued subject to internationally recognised standards published by the International Chamber of Commerce, which provide robust standard customs and practices for handling transactions.

How does it work?

Please see diagram on the following page.

1. You arrange a sales contract with your buyer in which it may be agreed that a L/C will be used to settle the transaction. You provide Santander's details for the L/C to be directed through us.
2. Your buyer uses a credit limit with its bank to request the issuance of the L/C. They provide details of the transaction, a list of the exact documentation they require the bank to receive before payment can be made and any additional conditions. These documents typically consist of an invoice, transport document and related commercial documents.
3. Your buyer's bank sends their L/C to Santander and we advise the terms of the L/C to you. If the L/C requests us to also underwrite the buyer's bank payment commitment and we have the availability to do so, we will be able to advise you after adding this confirmation.
4. Once you have delivered the goods/services as required, you send the documents required by the L/C to us. We verify the documentation complies with the L/C conditions. If there are any discrepancies which you are unable or do not wish to correct, these may be referred to your buyer to accept or decline.
5. We will send the documents to your buyer's bank and arrange the payment according to the terms of the L/C. If the agreed payment terms require payment to be made on a later date, we may be able to discount the payment undertaking and pay you in advance, after deducting our related interest charge and fees.

6. The L/C documents are sent to the buyer and upon payment, the buyer's bank is reimbursed by the buyer.

When are they used?

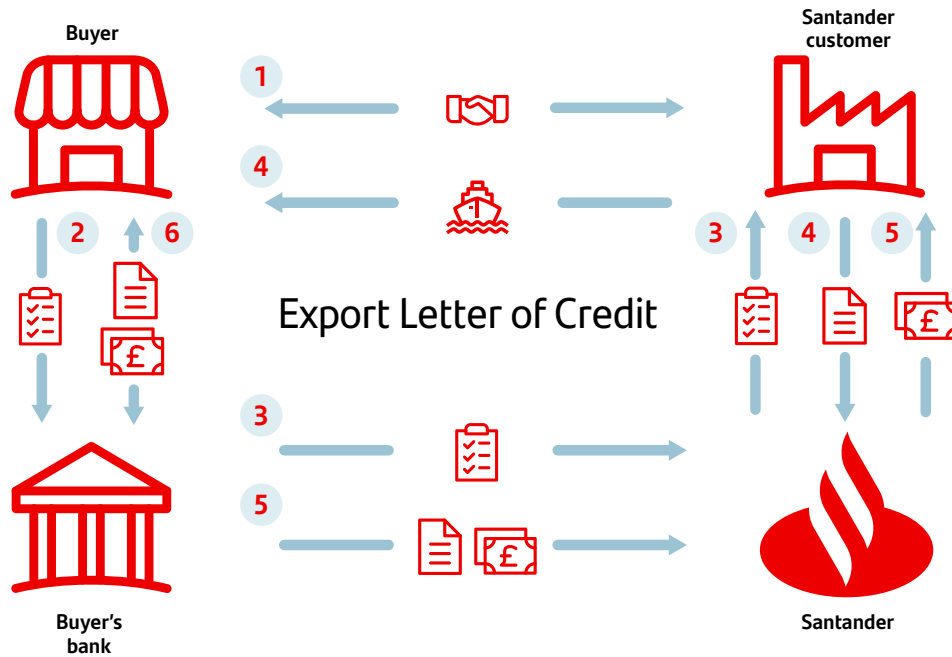
L/C are commonly used where there is a need for the buyer or supplier to mitigate payment/supply risk, to support the provision of finance for the transaction and to allow companies to do business with confidence, especially when trading with a new country, trading with a higher risk buyer/country or establishing new trading relationships.

Benefits

- The L/C provides you with additional security and control of the payment. You have assurance that if you present the documentation required, in accordance with the L/C terms, the payment will be made by the nominated bank, irrespective of the status of the buyer.
- For further assurance, you may be able to arrange for Santander to add their confirmation, meaning that we will also guarantee the payment.
- Improved cashflow may be available if complying documentation has been submitted and the contract terms dictate that payment is due at a later date, as it may be possible for Santander to discount the payment - advancing funds less risk fees and funding costs.

Considerations

- If the goods are shipped and the presented documents do not comply with all terms and conditions within the L/C, they can be rejected by the buyer. Negotiate with the buyer and ensure the terms to be incorporated into the L/C are appropriate.
- Consider where the documents need to be presented for verification and whether a confirmation added by Santander is needed to reduce payment risk from a foreign bank or country.



◦ There is additional cost and administration required to conduct transactions through L/C's.

What does it cost?

Santander will charge fees for the administration of the L/C. Any additional risk fees and costs for adding our confirmation or for discounting a future payment are assessed on a case-by-case basis. Full details will be provided by your Relationship or Trade & Supplier Finance Director.

Next steps

If you are an existing Santander client and would like to know more about Export Documentary Letters of Credit, speak to your Relationship Director or one of our dedicated Trade & Supplier Finance Directors to discuss your specific requirements and how L/C can support you.

Or visit santander.co.uk/solutions/finance/specialised-finance/trade-finance

All lending is subject to status and our lending criteria. The right to decline any application is reserved.