

# Standby Letters of Credit

- improving your international trade



## Secure against the unexpected

The Standby Letter of Credit (Standby LC) is, like the guarantee, commonly used to cover the risk of a contract party not fulfilling agreed obligations, for instance failure to pay or deliver. Standby LCs can be used in open account trade as well as a complement to collections and documentary credits (DCs).

### Common uses for Standby LCs

- Advance payment guarantees
- Payment guarantees
- Performance guarantees

### A bank guarantee in a DC format

As the name indicates, a Standby LC takes the form of a DC (Documentary Credit / Letter of Credit) while its function and content is that of a guarantee. Like a DC and a bank guarantee, a Standby LC is a very flexible instrument, covering anything ranging from an ordinary guarantee commitment to more sophisticated financial instruments.

## Secure the payment

If you as a seller trade on an open account basis or use collections, you rely on the buyer's willingness and ability to pay as agreed. A Standby LC in your favour securing the buyer's payment obligation will provide you with compensation should the buyer fail to pay.

In order for you as a seller to further reduce your risk, if you and your buyer so agree and at the request of your buyer's bank, Nordea can confirm\* the Standby LC for you. This way your risk is on Nordea instead of the buyer's bank.

## Secure the delivery

As a buyer you rely on the seller's willingness and ability to fulfil his obligations, for instance to deliver right goods, at the right time and at the right place.

Again, a Standby LC covering the seller's obligation will provide you with compensation should the seller fail.

\*) subject to credit approval.

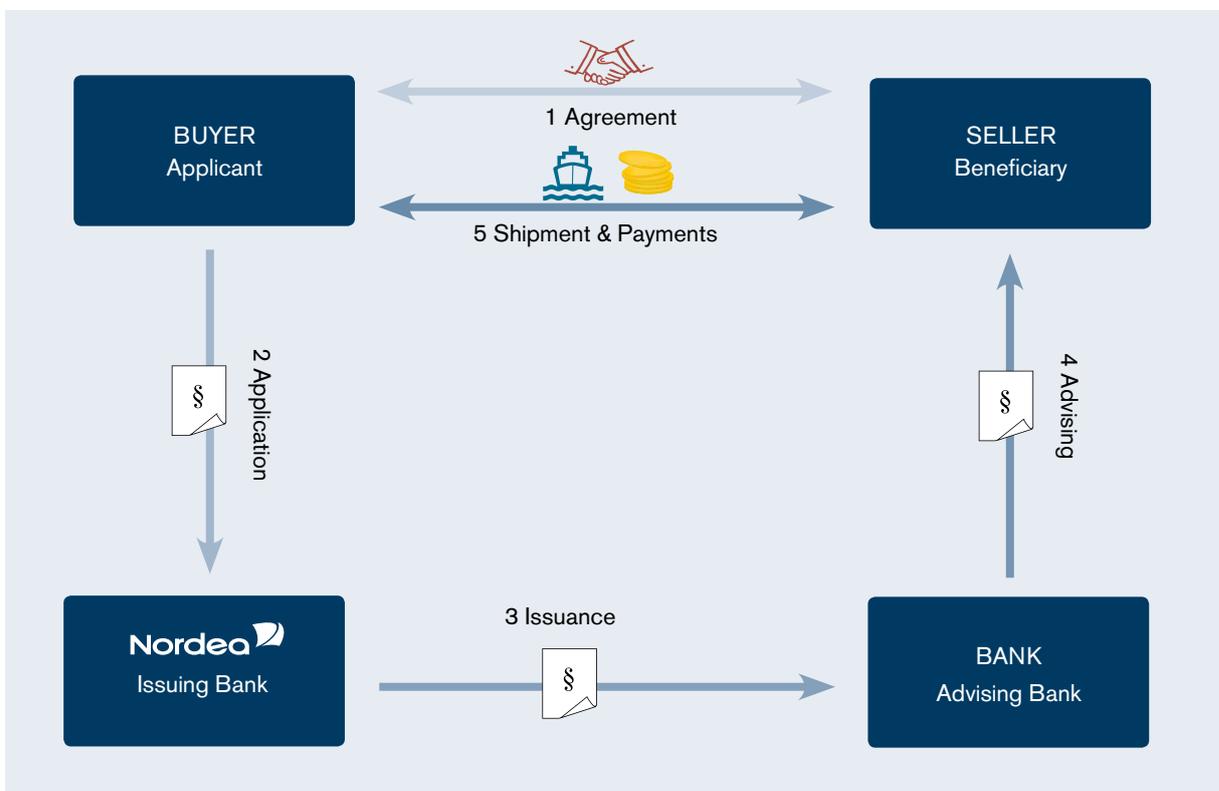
### How it works

First you and your trading partner agree on the contractual terms (1). In this example you are the buyer and have agreed to provide the seller with a Standby LC covering your payment. You will then apply for the Standby LC from Nordea (2). Nordea issues the requested Standby LC, based on the terms of the contract between you and the seller, and sends the Standby LC to the seller's bank (3). The seller's bank then advises the Standby LC to the

seller (4) and the seller makes the shipment and sends you the invoice etc. (5).

If you fail to pay the invoice as agreed, the seller can claim payment under the Standby LC.

**Welcome** to contact us and to find out more about how we can assist you with your trade finance transactions. You can also find us on the web [nordea.com/tradefinance](http://nordea.com/tradefinance).



#### Nordea Trade Finance:

- Located in Denmark, Finland, Norway and Sweden as well as in China, Estonia, Latvia, Lithuania, Poland, Russia, Singapore, UK and USA.
- Offers a full range of trade finance services including collections, documentary credits and guarantees as well as trade finance related e-solutions.
- Is the largest Trade Finance Bank in the Nordic Region.