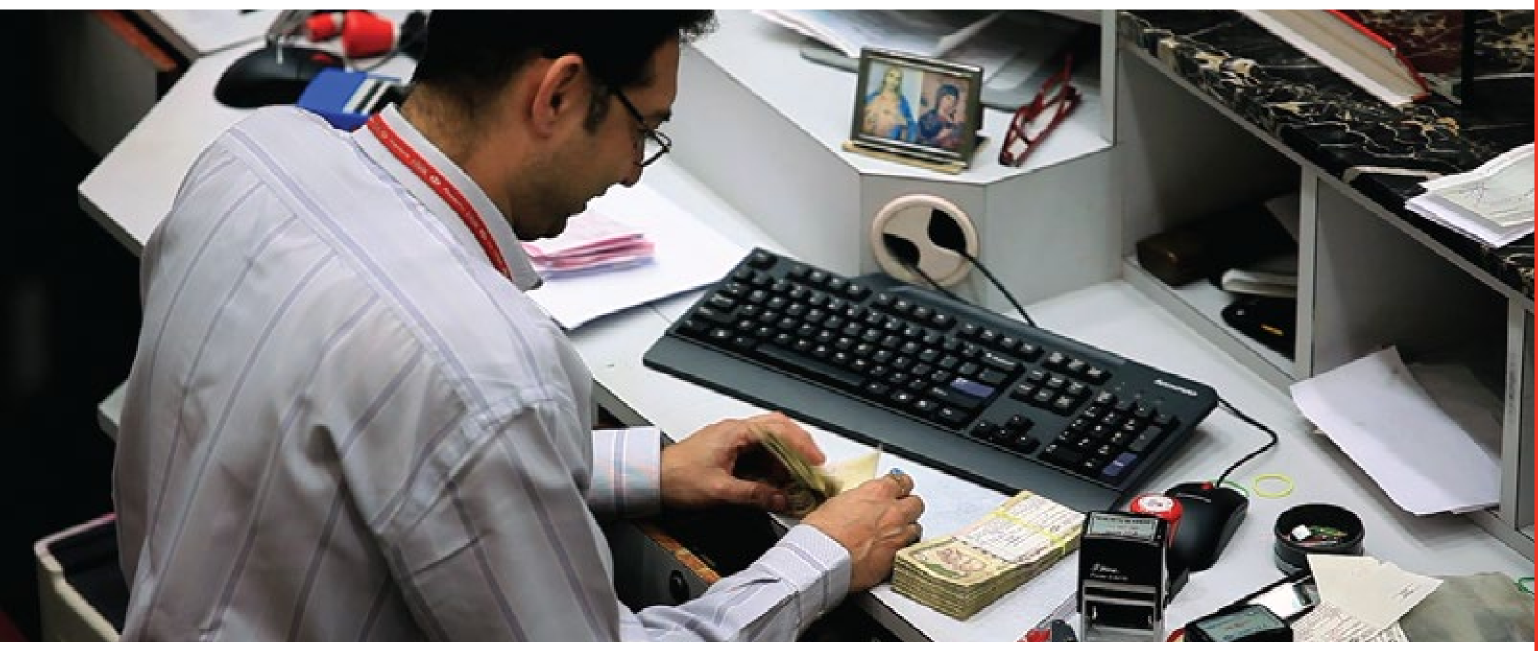
HSBC



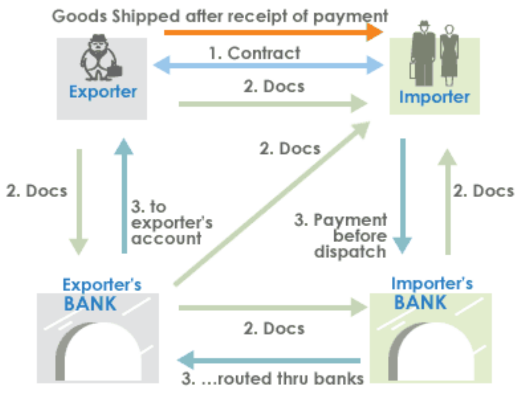
Methods of Payment

Advance Payment

This trade payment method is prevalent for transactions where the seller has a much higher bargaining power than the buyer. Such payment method may also be employed where the buyer may not have the ability to open letters of credit (formally called Documentary Credits) through their banks. It is also possible that the buyer is a cash rich company and therefore wants to avail a cash discount from the seller.

Obviously, the inherent risk in the transaction is borne by the buyer which involves performance risk on the exporter as well as country risk where cross-border trade is involved. Risk mitigants for the buyer could be an established relationship with the seller, or any mutual dependence between the buyer and the seller. Bank Guarantee from the seller covering the performance risk could also provide comfort to the buyer.

The schematic below elucidates Advance Payment transaction flow:

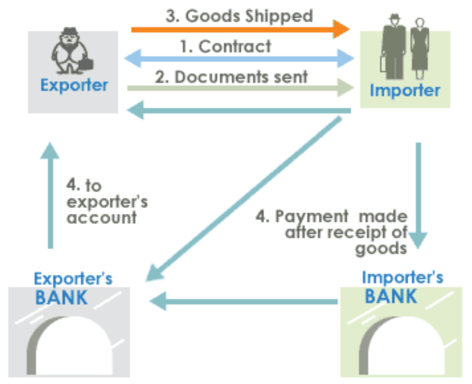


Open Account

In an open account trading scenario, the buyer has a much greater leverage than the seller. Under open account trade, the entire risk in the transaction is borne by the seller since the payment is made by the buyer only after the latter has taken possession of the goods. Seller's risk is therefore of non-payment or delayed payment.

Risk mitigants for the seller will be an established track record with the buyer, mutual dependence between the buyer and the seller or alternative structures built into the transaction such as avalisation, export factoring, etc.

The schematic below elucidates Open Account transaction flow:



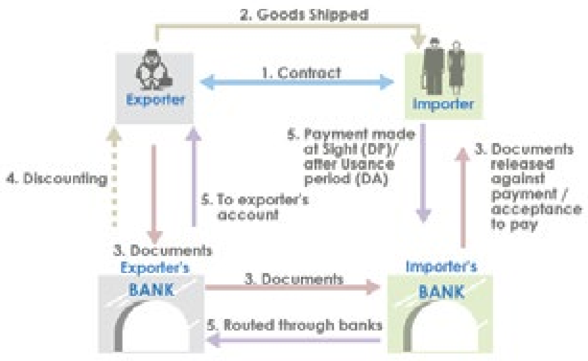
Collections

Trade between counterparties on collection basis is carried out where there is an inherent comfort level between the buyer and the seller but each party desires to safeguard itself to some extent. However, the buyer is at relatively lower risk than the seller. He can inspect the documents before paying for them.

The collection cycle starts when the seller, having shipped the goods and obtained the necessary documents, presents the documents together with his instructions to his bank (remitting bank). The bank will send these to its branch/ correspondent bank (collecting bank) in the buyer's country for payment. Collection can be on D/P (Documents against Payment) or D/A (Documents against Acceptance) basis. Under D/P, the buyer gets the title to the goods only after he pays for them. In a D/A scenario, the buyer gets title to the goods against accepting to pay on a future date (i.e. due date) by accepting a Bill of Exchange drawn by the seller on the buyer; hence a credit period is extended by the seller to the buyer.

The risk to the exporter is much greater because he does not have a bank's undertaking as in the case of a documentary credit; but he may retain control over the goods through the collecting bank. This system is usually used when dealing with parties that have an established track record or where the exporter is sure that the importer will not refuse the goods.

The schematic below elucidates Collections transaction flow:



Documentary Credits (DC)

DCs, more commonly known as letters of credit are a widely used method to effect payments in domestic and international trade. A written undertaking is issued by a bank (usually referred to as the issuing bank) on the instructions of the buyer of goods to the seller. The payment is made under conditions stated in the undertaking. Payments are always upto a stated limit and against stipulated documents.

The use of a DC provides enough safeguards for the parties involved. The seller is ensured payment, provided he complies with terms he agreed to while the buyer can include all terms and conditions within the DC that satisfy him on the quality and quantity of the goods without having to sight / inspect the goods themselves.

Since banks act as trustworthy third parties/ intermediaries, the issues relating to trust between the buyer and the seller are taken care of.

DCs can be either sight or usance depending on whether credit period is extended to the buyer by the seller.

Important aspects to check for when you receive a DC are:

- Payment terms
- Availability of the DC
- Acceptability of issuing bank
- Terms of shipment
- Feasibility of complying with terms of the DC
- Workability of the DC
- Bank charges to whose account

Confirmation to a DC enhances security under the DC and mitigates any existing issuing bank and/ or country risk since the same are taken over by the confirming bank.

The schematic below elucidates Documentary Credit transaction flow:

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