

### **1. How do I apply for the issuance of an import letter of credit?**

Liaise with your NBKI Relationship Officer about your needs. To support the issuance of an import letter of credit, you will have to set up a line of credit. Once approved, complete the application for an irrevocable documentary credit and bring it to your NBKI Relationship Officer. If you require assistance in completing the application, you may call our Trade Finance division.

### **2. What is the uniform customs and practice for documentary credits (UCP)?**

The uniform customs and practice for documentary credits (UCP) is a set of recognized and internationally accepted rules for documentary credits published by the International Chamber of Commerce (ICC) in Paris, France. These rules are used in the international trade community for determining the roles and responsibilities of all parties involved in letters of credit, including standby letters of credit, where the letter of credit expressly stipulates that it is subject to the UCP.

### **3. What are the risks to the buyer in an import letter of credit?**

Under an import letter of credit, the bank promises to make payment to the seller against the seller's presentation of pre-specified documents. However, it does not provide the buyer with protection if the seller presents documents that comply with the letter of credit but later prove to be fraudulent. If all appropriate documents are presented to the bank in absence of clear fraud, the bank will not be able to refuse payment should a dispute arise between the buyer and seller.

To reduce this risk, a buyer should thoroughly investigate prospective sellers. Our Trade finance experts will assist you in compiling this information using public information available from their global contacts.

### **4. In what situations would I use a standby letter of credit?**

A standby LC provides security to a beneficiary in that promises to pay the beneficiary upon presentation of pre-specified documents. The following are some instances where standby letters of credit are used:

- The buyer to purchase goods without having to make a cash deposit
- Performance related during the tender process of a contract
- Support contractual / payment obligations

### **5. Can a standby letter of credit be cancelled prior to expiry?**

Yes. A standby letter of credit can be cancelled prior to expiry by having the beneficiary return the original standby LC to the Trade Finance division along with a letter printed on the beneficiary's letterhead, addressing their agreement to the standby letter of credit cancellation.

## **6. What are standard charges to issue letters of credit?**

- The commission rate is based upon the risk assumed by collateral and your financial strength.
- Commission is collected at the time of issuance of the letter of credit.
- Other charges may include correspondent bank charges and expenses incurred by relating to the letter of credit such as courier, swift charges, etc.

## **7. What is a sight letter of credit?**

A letter of credit that is payable once its stipulated documents are present and document has no discrepancies.

## **8. What is a transferable letter of credit?**

The first beneficiary (often a middleman) transfers his rights to a second beneficiary (normally the producer or ultimate seller). According to ICC rules, article 38(b), an LC can only be transferred if the issuing bank expressly designates it as transferable. Only the nominated bank or a bank authorized by the issuing bank may transfer the DC.

## **9. What kind of documents should we require under the letter of credit?**

In order to receive payment, the exporter must present the documents stipulated in the letter of credit. There are no requirements for specific documents to be presented in an LC. The list and form is open to negotiation by the seller and the buyer, and sometimes the LC contains requirements to present documents issued by a neutral third party evidencing, for example, the quality of the goods shipped or their place of origin. As a proof that goods have been shipped, the LC often requires some kind of transport document to be presented, for example bill of landing or airway bill. Please see our checklist specifying the most common documents required under a DC presentation under an export documentary credits (DC).

## **10. Where should I send the import letter of credit application?**

Send the application to the Trade Finance Department, NBKI.

## **11. When will we receive payment under the letter of credit?**

As per the agreed terms between buyer and seller, the period of credit is decided in the LC. Based on that period of credit, the time to effect payment by the opening bank (buyer's bank) is determined.

## **12. Am I sure to receive payment when I have a confirmed LC?**

Yes, if you have presented correct documents and if has confirmed the LC you can be sure to receive payment at the time of maturity. If the LC is without confirmation you will receive funds when the Issuing bank effects payment.

### **13. What is a reimbursement bank?**

It is the bank designated in the LC to reimburse the nominated bank. Thus it is the bank where the issuing bank maintains an account for the designated currency. The nominated bank will claim funds from the reimbursing bank after having accepted the documents.

### **14. Who has the documents forwarding risk with or without discrepancies?**

If the documents are clean (without discrepancies), the exporter has the risk on the issuing bank. If the documents are discrepant, the seller has the risk on the buyer who has the option to waive the discrepancies or refuse documents.

### **15. What are the consequences if I delivered documents with discrepancies?**

The buyer might refuse to pay, and you may have to sell the goods to another buyer. If the goods, for example, are custom made it can be difficult to find a new buyer.

### **16. When is the issuing bank no longer obligated to honor the claim?**

If LC has already expired and documents presented are discrepant and not accepted by the applicant.

### **17. Under an LC, how much will be the insurance cover?**

If the LC does not state the amount of insurance, the insurance document must cover at least 110% of the invoice amount (CIF/CIP value).

### **18. What is transshipment and partial shipment?**

Transshipment is taking shipment from one mode of transport to another during the goods transportation route. Partial shipment is when you ship the goods more than once.

## **Documentary collections**

### **19. If the payment term is cash against documents (i.e. export collection), how can I as an exporter gain control over my goods and secure payment?**

The idea with the documentary collection is that the goods remain in your control until the buyer has paid and received the documents. To achieve this, remember to put the collecting bank (buyer's bank) as consignee of the goods in the transport documents.

### **20. What is an aval?**

An aval is a joint commitment by the principal debtor and a third party (normally a financial institution) to make payment of an obligation in favour of the beneficiary. The third party commits itself for the full credit amount in the event that the principal debtor does not fulfill his obligation by the due date.

## **Letters of guarantee**

### **21. What are URDG?**

The uniform rules for demand guarantees, developed by the ICC, are used by banks and businesses across continents and industry sectors. A demand guarantee is an independent undertaking where guarantors are assured that their commitment is subject to its own terms.

### **22. What is required to issue a guarantee?**

A bank guarantee request has to be approved by the bank. Normally you get an offer letter for a specific guarantee or you will get an offer letter for a guarantee facility up to a certain limit. As a customer you must provide us with at least the following information: Name and address of debtor/principal, Name and address of beneficiary, Guarantee amount, Expiry date, What the guarantee is related to (e.g. the underlying contract) and Type of guarantee (e.g. performance, payment or advance payment).

### **23. What is the price for a guarantee?**

The pricing of a guarantee depends on the amount and length of the guarantee, the type of guarantee, what kind of security the bank receives, the general market situation and the specific situation for your line of business.

### **24. How do I claim a guarantee?**

A claim is brought against the guarantor when the beneficiary believes the principal has defaulted with the underlying conditions covered by the guarantee. The claim must state: a reference to the guarantee in question, how the principal has defaulted on the underlying agreement covered by the stated guarantee, and if possible documentation: the amount claimed under the guarantee and to which account the money should be credited.

### **25. How long will it take to be paid after a claim has been presented i.e. when will the bank pay?**

Payment will depend on whether the guarantee is an accessory or demand guarantee. A demand under an accessory guarantee will be paid when one of the following conditions is true: amicable agreement (e.g. the principal accepts the demand), final judgement in court or arbitration award. Payment under a demand guarantee will depend on the wording of the guarantee, describing what must be presented and when payment should be made.

### **26. What documentation does NBKI London need to cancel a guarantee with an open-ended date?**

If the guarantee is open ended (i.e. no expiry date), we need either the original guarantee document returned to us or for the beneficiary to state in writing states that they release NBKI from its obligations.