



Trade Finance

Letter of Credit (export)

A Letter of Credit is suitable for all clients in the position of a supplier who:

- are afraid not to be paid and who need a payment certainty for delivered goods or provided services,
- do business with a country where there is a higher political or economic risk,
- begin to do business with a new business partner.

It is therefore particularly suitable for exporters; however, it can be used for domestic supplier-customer relationships. The Letter of Credit can also be used for real estate and securities transactions and wherever a bank's undertaking to pay is required.

The principle of a Letter of Credit

- The Letter of Credit is a written undertaking of a bank to pay the respective amount to the supplier, issued according to the buyer's instructions.
- The bank will pay the amount if the documents specified in the Letter of Credit are presented and all the terms and conditions of the Letter of Credit are fulfilled by the expiry date.

ČSOB acts as the bank that advises or confirms the Letter of Credit to the supplier.

Main attributes of a Letter of Credit:

- Banks only check if the terms and conditions of the Letter of Credit are complied with on the basis of the presented documents, they do not deal with the goods or services to which the documents relate.
- This is a separate transaction independent of the purchase contract between the supplier and buyer.

Typical documents used in the Letter of Credit transaction are an invoice, a transport document, a packing list, an insurance policy etc.

Types of Letters of Credit

ČSOB Confirmed Letter of Credit

A Letter of Credit is confirmed by ČSOB at the request of (or on authorization by) the issuing bank. The confirming bank has the similar undertaking to the supplier as the

issuing bank. Therefore the supplier has two banks guaranteeing that he will be paid.

ČSOB Advised Letter of Credit

A Letter of Credit which ČSOB advises to the supplier without assuming any undertaking to pay. Only the bank which has issued the Letter of Credit has the undertaking to pay.

Revolving Letter of Credit

A Letter of Credit which is, after the amount is drawn in full or in set periods, automatically renewed at its original level without any amendment of the Letter of Credit needed. It is suitable for deliveries regularly repeated after a certain period.

Transferable Letter of Credit

A Letter of Credit called "transferable" may, at the request of the initial beneficiary of the Letter of Credit, be transferred to another person (company) that then acquires the right to draw the Letter of Credit and the right to be paid. The Letter of Credit must be transferred under the same conditions except for the amount of the Letter of Credit and the unit price of the goods which may be reduced. The Letter of Credit can be further modified by shortening its validity, the deadline for sending the goods and the presentation of documents. A transferable Letter of Credit is primarily intended for business intermediaries.

Standby Letter of Credit

This is, in fact, a guarantee in the form of a Letter of Credit. It is primarily used to secure a debtor's obligation to pay as well as other contractual obligations. It can usually be drawn against a supplier's declaration that the contractor failed to meet his obligations (e.g. he did not pay), and copies of the unpaid invoice, transport document etc.



Benefits of a Letter of Credit

- The bank's undertaking is irrevocable – the supplier has a claim against the bank, not against the buyer.
- If the terms and conditions of the Letter of Credit are fulfilled, the supplier is guaranteed to be paid for the goods.
- The supplier is protected from the risk of a buyer's insolvency.
- The transaction is carried out without the risk of the nontaking of goods delivered.
- The decision to pay the Letter of Credit is the responsibility of the bank therefore the buyer cannot influence it. Any complaint about the goods must be handled outside the Letter of Credit.
- The confirming of the Letter of Credit by ČSOB prevents the supplier from the risks arising from a potentially unfavourable political and economic situation in the country of the buyer and the risk of non-payment by the issuing bank.
- Regarding a Letter of Credit with deferred payment, ČSOB can purchase a claim arising from the Letter of Credit from the client in the role of a supplier prior to its maturity.
- The supplier can use the Letter of Credit as a guarantee for his suppliers.

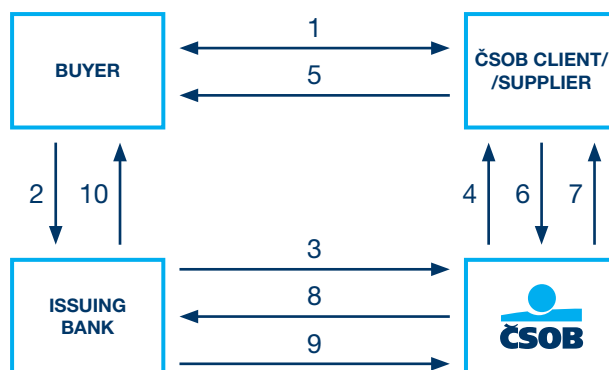
Alternative products

A Letter of Credit provides the best possible protection against the risk of default and non-taking of goods delivered by the buyer. Only advance payment provides a higher degree of certainty. In many cases a bank guarantee can be equally used. Documentary collection or bills for collection provide a lower degree of certainty; they are suitable if you have no doubts about the buyer's ability and willingness to pay.

Legislation and international conventions

- Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600.
- Regarding the Standby Letters of Credit, the International Standby Practices, International Chamber of Commerce Publication No. 590 can be alternatively applied.
- Law. No. 89/2012 Coll. Civil Code, § 2682–2693.

Diagram: Letter of credit transaction



- 1 The buyer and the supplier enter into a contract containing a Letter of Credit payment condition.
- 2 The buyer asks his bank to issue the Letter of Credit in favour of the supplier.
- 3 The buyer's bank (issuing bank) issues the Letter of Credit and sends it to ČSOB (advising bank).
- 4 ČSOB verifies the authenticity of the Letter of Credit and notifies (advises) it to the supplier. At the request of the issuing bank it can confirm the Letter of Credit.
- 5 The supplier sends the goods and procures the documents required in the Letter of Credit.
- 6 The supplier presents the documents to ČSOB for examination.
- 7 If ČSOB has confirmed the Letter of Credit, documents complying with the Letter of Credit terms and conditions are honoured according to the terms and conditions of the Letter of Credit.
- 8 ČSOB sends the documents to the issuing bank.
- 9 The issuing bank examines the documents. If all the terms and conditions of the Letter of Credit are fulfilled, it will make the payment under the terms and conditions of the Letter of Credit (immediately or at maturity).
- 10 The issuing bank delivers the documents to the buyer and debits his account with the respective payment (immediately or at maturity).

Vocabulary

Czech	dokumentární akreditiv
English	Documentary Credit, Letter of Credit
French	lettre de crédit documentaire
German	Dokumentenakkreditiv



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