



# **BOV** Letters of Credit

## Product Information Guide

### **your guide to:**

*General Product Information*

*Our Services*

*The Benefits*

*Your Checklist*

*Your Next Step*

*Important Information*

*Our Interest Rates*

*Our Fees and Charges*

*Important Information relating to the undertaking of Letters of Credit*

### General Product Information

A vital consideration in any trade transaction for buyers and sellers is the securing of shipments of goods, and their subsequent settlement. Those who supply goods or provide services are entitled to payment, and those who make payment are entitled to the goods or services for which they have contracted.

Letters of credit are still one of the most versatile and widely used payment mechanisms in international trade and whether you import or export, settlement by means of a letter of credit can provide a high level of security. Nevertheless many corporate customers may consider Letters of Credit administratively cumbersome, and difficult to procure.

Overcoming these perceived obstacles requires professional guidance and technical assistance.

#### *Letters of Credit at BOV*

Bank of Valletta has always been engaged in international trade and is very well equipped to provide a wide and comprehensive range of products and services based on the letter of credit.

Our Trade Finance Centre, established in 1993, has a group of highly trained and experienced trade finance specialists who are always ready and willing to assist any importer, exporter or trader with tailor made solutions to secure their international deals. Furthermore this Centre offers expert back-up to the group's operations handled at the relative branches, business and corporate centres.

A letter of credit is an irrevocable undertaking issued by a bank (issuing bank) on behalf of the buyer (applicant) to the seller (beneficiary), to pay for goods and/or services, provided that the seller presents documents which comply fully with the terms and conditions of the credit. It is commonly referred to as a letter of credit or documentary credit.

Letters of credit are issued in an irrevocable format, which means that payment is guaranteed provided its terms and conditions are complied with. It also means that it cannot be cancelled or amended unless all parties agree. All letters of credit are issued subject to universally accepted rules and regulations issued by the International Chamber of Commerce in Paris. These rules are referred to as the UCP600, ISBP681E, ISP98 and URR725.

#### *Letters of Credit*

With other payment methods (advance payments, open account trading and bills for collection) the exporter and the importer depend on each other for proper performance in order to ensure a trouble-free exchange of goods for payment. In letters of credit however, both parties have the additional independent assurance of the bank that issues the credit. When issuing a letter of credit an issuing bank undertakes to pay the exporter provided that:

- the documents stipulated in the credit are in order, and
- the terms and conditions of the credit are complied with.

### Our Services

General services related to documentary credits in international trade include:

- Assistance with interpretation of ICC publications;
- Currency hedging services;
- Foreign exchange and treasury;
- Status reports;
- Introduction to business contacts; and
- Support on trade missions.

The Bank of Valletta Trade Finance Services Unit also provides services specifically aimed at facilitating the trader's business requirements.

#### *Services to the exporter*

- Advising and confirming commercial letters of credit;
- Standby letters of credit;
- Pre and post shipment finance by means of overdraft and loan facilities, negotiation of drafts and documents, and discounting of receivables;
- Expert advice on credit conditions and assistance in document preparation.

#### *Services to the importer*

- Issuance of all types of letters of credit;
- Import finance facilities such as loans and overdrafts;

## BOV Letters of Credit

- Advice and consultancy services;
- Advice and assistance in drawing sales contracts.

### *Services to the trader*

- Standard Letters of Credit;
- Back to Back letters of credit;
- Transferable letters of credit;
- Credit facilities against the comfort of letters of credit;
- Letters of assignment.

## The Benefits

There are advantages to both the exporter and the importer.

### *The Exporter*

- Payment is guaranteed by one or more banks if the terms and conditions of the credit are complied with.
- An exporter will be in a position to extend more favourable terms to the importer if payment is guaranteed and effected by means of a letter of credit.
- It is possible to have the letter of credit confirmed by the exporter's banker, thus substantially curtailing buyer, bank and sovereign risk on a transaction.
- A letter of credit is also a finance instrument and the receivables are commonly discounted to the exporter at very good rates.
- The letter of credit is universally known and accepted even in legal circles.
- There are many types of letters of credit which an exporter can make use of.
- Banks offer assistance and advice and exporters can rely on their experience even in other fields such as shipping and insurance.

### *The Importer*

- When accepting to settle by means of a letter of credit, the importer is proving to the exporter that he has sound financial means since banks usually request some form of security in order to issue a letter of credit.
- Since the letter of credit provides payment assurance from both the importer's and exporter's banks, the importer may negotiate better terms such as discounts and extended credit periods.
- The importer can exercise better control when using letters of credit such as: control shipment dates and specific documents, most valid when the nature of the goods is seasonal or perishable.
- An importer can also improve cash flow management when using letters of credit since no interest is incurred on contingent facilities until payment is effected under the letter of credit.
- The applicant of a letter of credit can rely on the expertise of the bank to check that all documents requested comply with the credit terms.
- Payments under letter of credit are only effected against the presentation of reliable evidence that the goods have been shipped. It is pertinent to note, however, that banks deal only in documents and not in goods.

## Your Checklist

### *The Stages of a letter of credit transaction are as follows:*

- A buyer contracts the purchase of goods from the seller and agrees to pay by a letter of credit.
- The buyer calls on his banker to issue the letter of credit.
- If the banker agrees, it issues the Letter of Credit in favour of the seller through one of its many international corresponding banks.
- The Letter of Credit is advised by the corresponding bank to the seller.
- If requested by the issuing bank the advising bank may add its confirmation to the credit.
- The seller ships the goods and executes its obligations under the sales contract.
- The seller prepares the documents called for by the letter of credit and presents them to the advising/confirming bank nominated in the credit.
- The confirming bank examines the documents and, if found to be compliant, submits them to the issuing bank for settlement. If it has confirmed the credit it is obliged to pay the seller as detailed in the letter of credit.
- Once received by the issuing bank, the documents are once again checked and, if found in order, the issuing bank pays the advising/confirming bank.
- The issuing bank releases the documents to the buyer and debits the buyer's bank account.

The buyer can now take possession of the goods by means of the shipping documents.

### Your Next Step...

Feel free to contact us at the BOV Trade Finance Centre on telephone numbers 2275 5288, 2275 5263, or by e-mail to [doccredits@bov.com](mailto:doccredits@bov.com).

### Important Information

Bank of Valletta p.l.c., (Bank or BOV) is committed to providing you with sufficient information that helps you to make informed decisions in relation to the acquisition of BOV products and services. We strongly recommend that you read this Product Information Guide carefully, and that you keep a copy of it for your reference.

If you would like to have anything in this Guide clarified, please feel free to contact us by e-mail to [customercare@bov.com](mailto:customercare@bov.com), or by calling our BOV Customer Service Centre on 2131 2020.

Throughout this Guide: the terms '**we**', '**us**' or '**our**' refer to BOV and each of our subsidiaries and associated companies, the issuer of the product or service; when we use the term '**you**' we mean you as the user of BOV products or services; when we refer to '**customer(s)**' we mean you or other user(s) of BOV products or services as applicable.

The Bank's Base Rate (BBR) means the basis, established by the Bank from time to time, on which the rate of interest payable generally on all Bank lending is determined. The current Bank Base Rate can be obtained either by visiting any BOV branch, or by calling our Customer Service Centre on 2131 2020 or through our website – [www.bov.com](http://www.bov.com).

Information contained in this Guide is subject to change from time to time and is up to date as at the stated Issue Date. BOV has no obligation to update, modify or amend this Guide or otherwise notify you of any change or revision.

The information provided in this Guide is general in nature and does not take into account your financial situation or investment requirements. Nothing in this Guide should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment, product or service or to engage in any other transaction, or to provide any investment advice or service. Nothing contained in this Guide constitutes investment, legal, tax or other advice and is not to be relied on in making an investment or other decision. You should obtain relevant and specific professional advice before making any investment decision.

This Guide is designed for use in Malta and is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this Guide or such distribution or use would be contrary to local law or regulation. If you choose to use this Guide, it is your responsibility to comply with the applicable local, national or international laws and any use of this Guide outside Malta is entirely at your own risk. For guidance relating to your specific situation, please contact your legal adviser.

Use of BOV Products and Services is governed by the Terms and Conditions applicable once you sign the relevant application form and conditions.

Any complaints regarding the product or service should ideally be first discussed with an official of the Unit where the transaction took place or where the account is domiciled. If the response is not satisfactory, one may:

- contact the Bank's Customer Service Centre on 2131 2020; or
- write to The Manager, Customer Issues, Bank of Valletta p.l.c. 4<sup>th</sup> Floor, 45 Triq ir-Repubblika, Il-Belt Valletta, VLT 1113 - Malta; or
- complete a Bank's complaint form available in electronic format on our website – [www.bov.com](http://www.bov.com) via 'Get in Touch'.

In the event that you are still not satisfied with the Bank's reply or no agreement was reached with the Bank, you may refer the matter in writing to the Office of the Arbiter for Financial Services, as per the contact details provided below:

The Office of the Arbiter for Financial Services, First Floor, Pjazza San Kalcidonju, Floriana FRN 1530, Malta.

Further information may be obtained through the official website: [www.financialarbiter.org.mt](http://www.financialarbiter.org.mt); Freephone (local calls): 8007 2366 and Telephone: 2124 9245.

### Our Interest Rates

Interest Rates on peripheral products affiliated with this service may incur their own rates. Please refer to our BOV Website for updated information, or contact any BOV Branch or our BOV Customer Service Centre on 2131 2020 for additional information.

### Our Fees and Charges

Fees and charges may change after this product has been acquired and peripheral products may incur their own costs. Such costs are to be charged as per the Tariff of charges issued by the Bank from time to time in relation to its products and services and which is available at the branches of the Bank, on the website [www.bov.com](http://www.bov.com) or by calling the Bank's Customer Service Centre on 2131 2020.

### Important Information relating to the undertaking of Letters of Credit

A Letter of Credit is an undertaking issued by a bank on behalf of the Buyer (applicant), to the Seller (beneficiary), to pay for goods and/or services, provided that the seller presents documents which fully comply with the terms and conditions of the Documentary Credit. Terms such as Documentary Credit, DC, LC, and Credit synonymously denote Letters of Credit.

Letters of Credit are handled by Bank of Valletta p.l.c., and international banks in accordance with a universally accepted set of rules and regulations, presently known as the UCP600, which are issued and upgraded by the International Chamber of Commerce. They are also governed by world-wide case laws.

All Letters of Credit should be established in accordance with the Uniform Customs and Practice for Documentary Credits developed by the International Chamber of Commerce. The current edition is Publication No. 600 2007 Revision. This offers added protection to practitioners of Letters of Credit by achieving a level of uniformity and standardisation in the interpretation of Letter of Credit terms and conditions.