Documentary operations and Trade finance 2025

Letters of credit

What is an integral attribute of economic life in modern world? Everyone knows the answer is money. Therefore, all transactions related to the supply of maproducts and services are completed with monetary settlements.

Export and import transactions can be complicated by a number of circumstances: time and risk of transportation, customs formalities, import and export restrictions, as well as partners' lack of awareness of each other's business reputation and reliability.

There are methods of international settlements to create favorable conditions for making payments.

One of the main methods is **a letter of credit** (originating from Latin **accredo** - I trust). During the evolution of settlements by letters of credit, various types were developed, 90% of which are documentary letters of credit.

Letters of credit

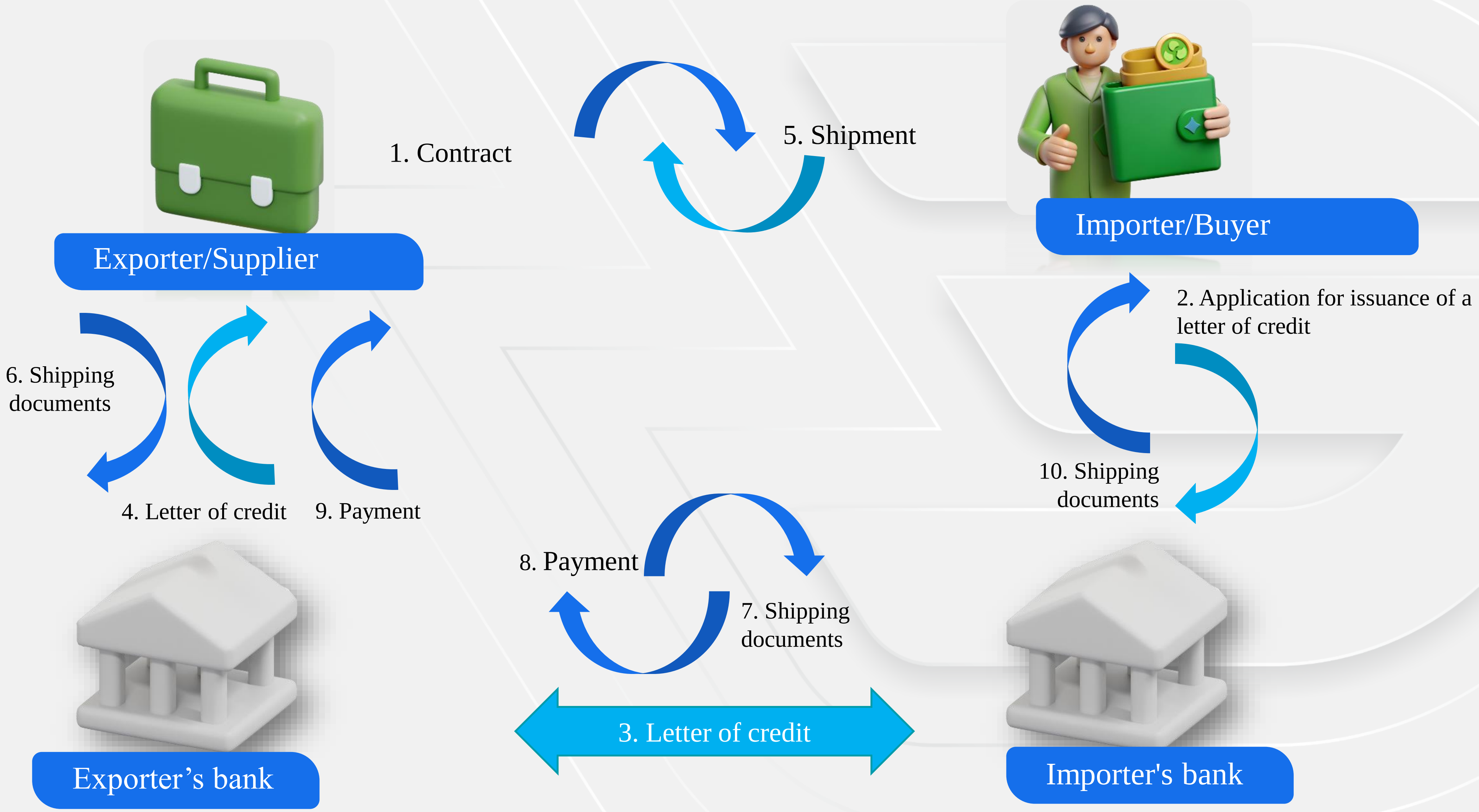
For importers

- A documentary letter of credit helps the importer to significantly reduce the risk associated with the seller's failure to fulfill delivery obligations.
- A letter of credit provides confidence that payment will be made only after the provision of documents confirming the shipment of goods.
- Having a letter of credit allows you to completely or partially avoid prepayment.
- A letter of credit enables the importer to structure payment schemes under the contract taking into account his interests.
- By opening a letter of credit, the importer confirms his solvency and can count on favorable payment terms in the future.

For exporters

- Guarantee of payment upon presentation of documents specified in the terms of the letter of credit.
- Reducing production risk, especially in cases where the customer cancels or changes an order.
- Possibility of structuring the delivery schedule taking into account his interests.
- The buyer cannot refuse payment for any claim regarding the goods.
- The importer must present all claims regarding the delivered goods separately from the letter of credit and the payment made under it, which gives the exporter a great advantage in settling such issues.

Letters of credit



Letters of credit

What is a letter of credit?

This is the bank's obligation to make a payment to the exporter/seller, on the instructions and at the expense of the buyer/importer, in the amount of the value of the delivered goods/services according to the documents presented by the exporter/seller.

The degree of security and the moment of risk assumption determine the types of letter of credit:

- confirmed and unconfirmed ones;
- covered and uncovered ones

Letters of credit

- **A confirmed letter of credit** contains an undertaking by a bank other than the issuing bank (the bank opening the letter of credit) to pay the exporter the amount due, regardless of whether it receives reimbursement from the importer's bank that opened the letter of credit.

- **An unconfirmed letter of credit** contains an obligation only for the issuing bank (the bank opening the letter of credit) to pay the exporter the amount due. In the case of an unconfirmed letter of credit, the exporter's bank pays only if the importer's bank (the issuing bank) transfers the corresponding amount to it .

Letters of credit

- **Covered letter of credit** secured by the Client/Applicant's funds. The amount of the letter of credit is debited from the Client/Applicant's account and deposited in a special cover account for the entire term of the letter of credit.

- **An uncovered letter of credit** is opened against the limit set for the Client/Applicant by the Bank. The decision on the terms and rates of the limit is made by the Bank's Credit Committee.

Letters of credit

- **Transferable letter of credit** is one of the types of a letter of credit. Its peculiarity is that the beneficiary, in whose favor the letter of credit is opened, can transfer his rights under the letter of credit (in part or in full) to third parties. For example, it is advisable to open a transferable letter of credit in the case when the beneficiary does not produce all the parts sold himself, but purchases them from subsuppliers. Having received the buyer's consent to open such a letter of credit, the seller can pay his subsuppliers by transferring part of the letter of credit to them, which is much cheaper than opening separate letters of credit for subsuppliers.
- **Compensatory letter of credit (back-to-back)**. In practice, there may be casesin letter of credit settlements, when an intermediary or general supplier would like to assign their claims under a basic letter of credit opened in their favor to a manufacturer or supplier (sub-supplier), although the terms of the letter of credit do not allow its transfer. In such a case, the intermediary or general supplier may ask their bank to open a Compensatory Letter of Credit (back-to-back) on the basis of a letter of credit opened in his favor.

Letters of credit

- **Revolving letter of credit (automatically revolving letter of credit).** The buyer often orders more goods than he currently requires in order to get a better price. In this case, the delivery of goods is divided into parts, and individual lots are sent at certain intervals. In this case, it is advisable to issue a revolving letter of credit, which covers each time a partial delivery.
- **Red clause Letter of credit.** This is a special type of advance payment under a letter of credit. "Red clause" is a special privilege for the seller. It allows the bank advising the letter of credit to pay the seller a part of the letter of credit amount as an advance payment for the shipment of goods. A red clause letter of credit means that the advising bank, under the responsibility of the opening bank, can pay the beneficiary the specified advance payment even before the required documents are submitted.
- There is a special type of letters of credit - standby letters of credit. **Standby letter of credit (Standby L/C, SBLC**), like a bank guarantee, is an instrument for ensuring the fulfillment of obligations. Standby letters of credit may be governed by the same international rules as all other letters of credit (for example, the Uniform Customs and Practice for Credits (UCP-600)), or by special rules - the International Standby Credit Practices (ISP-98).

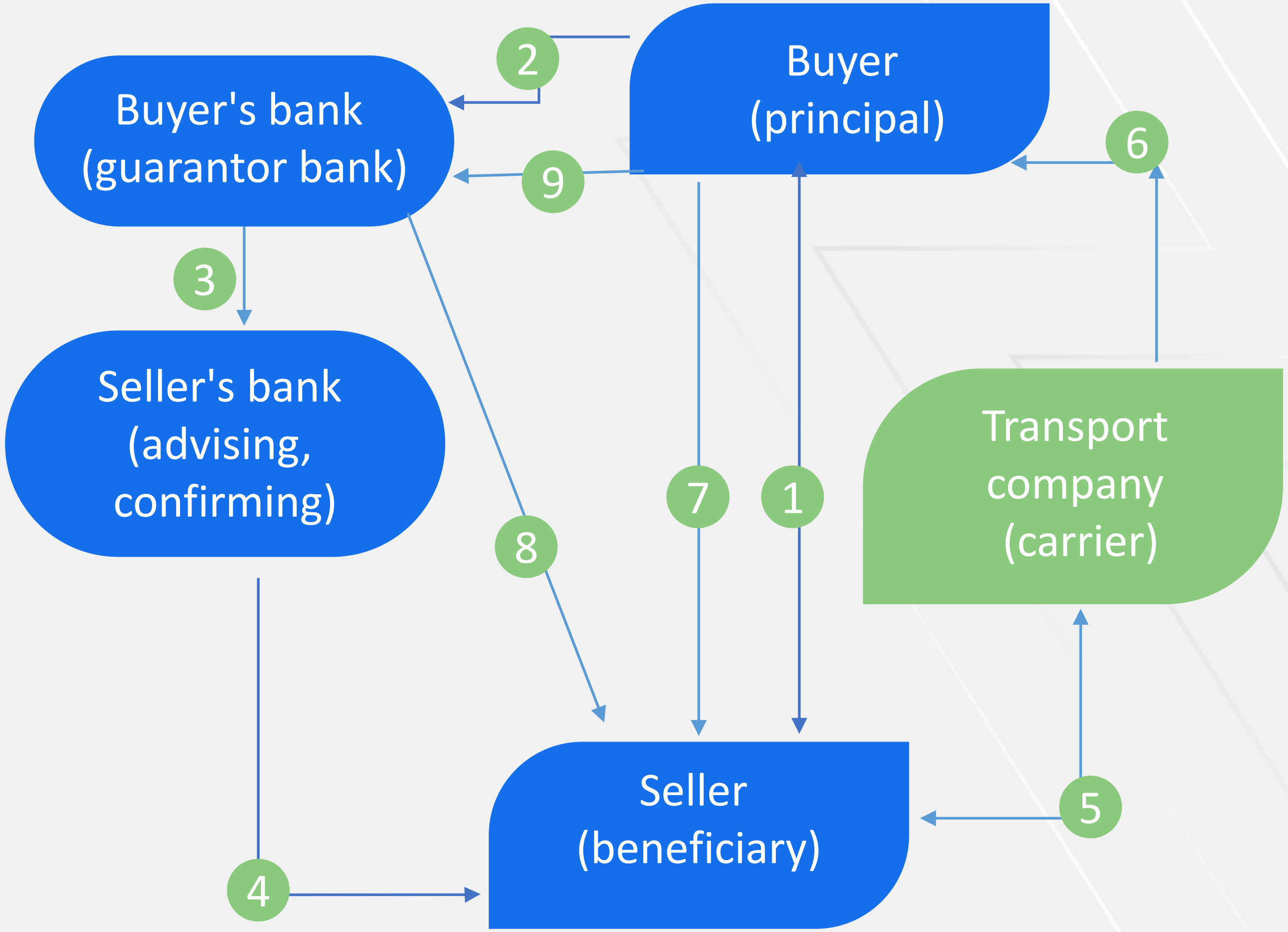
Guarantees

What is a guarantee?

A bank guarantee is a method of ensuring the fulfillment of obligations, according to which the guarantor bank assumes a monetary obligation to the Beneficiary to pay funds for the Principal (Client) in the event of the latter's failure to fulfill its obligations in full or in part upon presentation of a demand by the Beneficiary and compliance with all conditions provided for by the guarantee.

The guarantee is faced with the task of achieving a balance of interests of three parties, as well as the task of determining the rights and obligations of the parties, to avoid disputes arising in the future.

Guarantees



Description of the scheme:

1. Conclusion of the contract.
2. Application for a bank guarantee.
3. Issuance of a bank guarantee and its transfer to the advising bank (usually located in the seller's country) with a request to advise this guarantee to the seller.
4. Official seller's notice (advice) on the issuance of a bank guarantee in his favor.
5. Shipment of goods in favor of the buyer.
6. Delivery of goods to the buyer by the transport company.
7. Buyer’s payment for the goods received.
8. In the event of non-payment for the goods by the buyer, the guarantor bank or confirming bank transfers the guarantee amount to the seller.
9. Reimbursement by the buyer of the amount transferred under the guarantee obligation to the guarantor bank.

Guarantees

An issued bank guarantee is a document that cannot be returned because it is “not needed”. In accordance with the norms of the current legislation, the bank guarantee is terminated under the following conditions:

- upon payment to the beneficiary of the amount for which it was issued;
- upon expiration of the period specified in the guarantee for which it was issued;
- as a result of the beneficiary's waiver of his rights under the guarantee and its return to the guarantor;
- a written statement by the beneficiary releasing the guarantor from his obligations.

Guarantees

Main types of guarantees

Tender guarantee - a guarantee to ensure that the tender participant fulfills his tender obligations to the customer.

Purpose of the guarantee: this guarantee is required when conducting open tenders (bidding) and ensures the payment of a guaranteed sum of money in the following cases:

- withdrawal of a tender bid by a tender participant before the expiration of the period for consideration of tender bids;
- refusal of the tender winner to sign a contract with the customer or contractor for the supply of goods or services;
- failure of a tender participant to fulfill other obligations stipulated by the tender (auction/tender) documentation.

Guarantees

Advance payment guarantee is a guarantee of return of previously received advance payment by the supplier/contractor in the event of failure to fulfill their obligations under the contract or use of the advance for purposes other than those specified in the contract.

Contract performance guarantee is a guarantee issued on behalf of the supplier/service contractor as a guarantee of fulfillment of their obligations under the concluded (agreement) contract. The presence of this guarantee significantly strengthens the contractual relations between the parties.

The purpose of guarantees: to ensure the fulfillment of obligations of the supplier/ service contractor to the buyer/customer.

Payment guarantee - a guarantee issued on behalf of the buyer/customer in favor of the supplier/ service contractor to ensure timely payment for supplies/works/services.

The purpose of the guarantee: to ensure the fulfillment of the obligations of the buyer/customer to its suppliers/contractors .

Guarantees

Customs guarantee is the Bank's obligation to ensure payment of customs duties and fees and other obligations to customs authorities.

Purpose of the guarantee: A customs guarantee is issued to importing enterprises to ensure customs payments and amounts of expenses, penalties, etc. required by customs authorities.

Counter-guarantee (indirect, implied) - a guarantee that may be provided by a Bank in favor of another Bank, including a foreign one, in order to secure a direct guarantee issued by this Bank to the Beneficiary at the request of the Principal.

The purpose of the guarantee: to ensure the fulfillment of the obligations of the supplier/contractor to the buyer/customer located in a country other than the country of the supplier/contractor.

Guarantees

Bank guarantees as a means of ensuring the fulfillment of obligations

For importers:

- Issue of any types of guarantees by Eldik Bank OJSC and provision of guarantees for banks in other countries.
- Issue of counter-guarantees
- Advising of guarantees.
- The opportunity for the importer to conclude a contract on favorable terms when using the guarantee of Eldik Bank OJSC, namely:
- a way to avoid an advance payment when settling accounts with the seller.
- obtain a deferred payment under a contract (commodity credit).

For exporters:

- Issue of any types of guarantees by Eldik Bank OJSC and provision of guarantees for banks in other countries.
- Issue of direct guarantees under counter-guarantees of foreign banks
- Advising of guarantees.
- The exporter's confidence in receiving payment under the contract.
- Strengthening the competitive position of the exporter and the possibility of expanding the sales market by using bank guarantees as security for payments.

Trade finance

What is trade finance?

Trade financing is the financing of foreign trade operations of clients through credit funds from interbank loans attracted by Eldik Bank OJSC from foreign banks, through credit lines opened by international financial institutions for the bank and using documentary instruments, mainly letters of credit and guarantees.

Foreign trade operations of clients are operations that involve cross-border settlements between parties to a contract, traditionally associated with the import or export of goods or services.

Potential clients.
The Bank's clients for whom trade finance may be of interest are exporters or importers of goods or services.

Trade finance is a necessary element of financing for any company engaged in export and import activities.

Trade finance

Types of documentary operations and trade finance instruments

LETTERS OF CREDIT

Letters of credit with payment
upon presentation of documents to the bank
Letters of credit with deferred payment on documents
Red clause letters of credit
other

BANK GUARANTEES

Payment guarantees
Advance payment refund guarantees
Contract performance guarantees
Tender guarantees
other

Trade finance

TRADE FINANCE:

Short-term trade finance:
pre-export financing
import financing
financing using documentary letters of credit:
post-financing under letters of credit denominated in US dollars, euros, soms.
Deferred payment letters of credit

Medium and long term trade finance:
Financing under guarantees of Export Credit Agencies
Financing within the framework of credit lines opened for the bank by foreign banks and international financial institutions.

Trade finance

Trade finance using documentary letters of credit.

Letters of credit are convenient and popular not only as a form of payment under contracts, but also as tools for organizing the financing of foreign trade transactions.

Among the instruments of short-term trade financing, the most popular are **letters of credit with post-financing**, i.e. with deferred payment.

This area is of particular interest to companies carrying out import operations and requiring the attraction of banking resources for a period of up to 1 year.

Post-financing under a letter of credit is a loan for a predetermined period, which Eldik Bank OJSC provides to its client at the expense of its own funds, credit lines opened for the bank and under the insurance coverage of export credit agencies.

Trade finance

A letter of credit with post-financing has a number of advantages over traditional bank lending:

Lower cost for the client due to the Bank attracting cheaper financial resources from foreign partner banks.
Using all the advantages of the letter of credit form of settlements and the ability to avoid advance payments when settling contracts.
Ensuring and streamlining settlements by the Bank, monitoring the delivery schedule.
Reducing currency and commercial risks when conducting transactions with foreign suppliers.

Trade finance

Pre-export financing is targeted financing (usually for a period of no more than 1 year) for clients who carry out foreign trade activities related to the export of goods and services from one country to another.

Within the framework of existing credit lines from foreign banks, export clients are offered tied loans and credit lines as pre-export financing instruments to finance the production of export products and/or the purchase of materials, components, etc. for such production.

Pre-export financing allows our clients to complete the production cycle without diverting their own working capital.

Financing rate for the client consists of the corresponding rate of foreign bank and the rate of Eldik Bank OJSC.

Trade finance

Advantages of trade finance :

FOR IMPORTER

- Obtaining credit funds, the cost of which is significantly lower compared to a traditional bank lending by attracting cheaper credit resources from foreign financial institutions.
- Saving working capital.
- Opportunity to increase the volume of purchased imported products and business development.
- Increasing the financing terms for the acquisition of capital goods (equipment, etc.) from 1 year or more.
- Taking advantage of related documentary instruments (primarily documentary credit).

FOR EXPORTER

- Reducing the cost of credit resources compared to traditional bank lending by attracting cheaper financial resources from foreign financial institutions.
- Saving working capital.
- Possibility of repaying the provided loan using export earnings.
- Opportunities to expand the sales market and increase sales volumes.
- Strengthening the competitive position in the market.
- Taking advantage of related documentary tools.
- The participation of the Bank, as well as its foreign partners, in the implementation of clients' projects contributes to the development and strengthening of our clients' relations with foreign counterparties and allows them, in many cases, to conclude contracts with foreign counterparties on favourable terms.

Trade finance

Feel free to contact the staff of the Export and Trade Finance Department of Eldik Bank OJSC for additional advice on products or tariffs.

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