

# Documentary and guarantee business



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**Zagrebačka banka**  
UniCredit Group

# Documentary and guarantee business

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If you decide to do business or expand your business on the international market, it is of utmost importance to arrange an adequate payment instrument or a security instrument, depending on particular business and related risks, in accordance with yours and your partner's business needs.

Zagrebačka banka can help you create the best business solutions, choose the right product and provide you with expertise and support, from the initial phase of negotiations to the final realization of the import or export business.

Most commonly used products within the documentary and guarantee business offered by Zagrebacka banka are as follows:

- documentary collection
- documentary letter of credit
- guarantee
- standby letter of credit
- letter of intent.

## Documentary collection

Documentary collection is a payment method by which an exporter submits certain commercial documents to its bank, after shipping the contracted goods, and issues a collection order – instruction to his bank to forward documents to the importer's bank for payment.

### BENEFITS OF DOCUMENTARY COLLECTION

Relatively simple realization with a higher degree of security compared to open account payment.

The exporter is certain that the bank will not forward the documents until the buyer fulfills the collection instructions (payment or acceptance of bills).

By submitting the documents, the exporter hands over the payment collection to the bank.

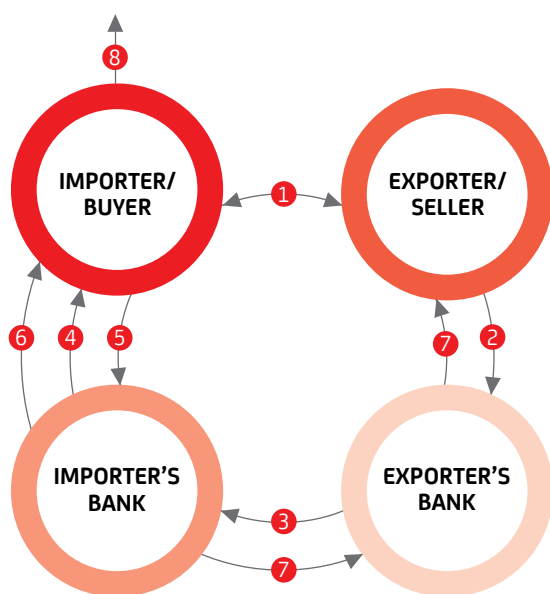
The bank does not take over the risk of the buyer's non-payment, what makes the documentary collection a simpler and more cost-effective payment option.

### IMPORTANT TO KNOW

The bank does not assume the default risk of the buyer - the collection depends on the buyer fulfilling the conditions, in accordance with the documentary collection conditions (payment or acceptance of bills).



## SCHEME: DOCUMENTARY COLLECTION



- 1 Importer/buyer and exporter/seller conclude a commercial contract.
- 2 After dispatch of goods, exporter gives order to his bank for documentary collection and provides commercial documents.
- 3 Exporter's bank opens documentary collection and submits the documents to the importer's bank.
- 4 Importer's bank informs the importer about the receipt of the documents and conditions of the documentary collection.
- 5 Importer provides cover for the documentary collection payment (or B/L acceptance for deferred payment).
- 6 Importer's bank delivers the documents to the importer.
- 7 Importer's bank effects payment through exporter's bank in favour of the exporter.
- 8 Importer takes over delivered goods.

## Letter of credit, L/C

Documentary letter of credit is the most frequently used payment and insurance instrument that provides you and your business partner a high degree of security in the realization of a contracted deal, and offers the ability to negotiate letter of credit conditions, payment terms, documents to be presented and the price. Payment by letter of credit can be arranged both in international and domestic business.

Zagrebačka banka offers you complete service related to documentary letters of credit, both domestic and foreign, import (nostro) and export (loro) letters of credit, from opening or forwarding letters of credit, completion of documents and amendment of letters of credit conditions, to payment under letter of credit as well as other financing options through forfaiting (discounting) of letters of credit. If you want additional insurance against the payment risk of the buyer's bank through confirmation of export letter of credit opened in your favour, we are at your disposal.

We also offer you the fastest way to submit applications for letters of credit - electronically, through e-banking, and for faster and easier realization of your requests, we offer you the possibility of setting up framework agreement for letters of credit.

### Participants in letter of credit business:

- Applicant/buyer/importer – gives his bank an order to open a letter of credit in favor of his business partner (exporter).
- Issuing bank, opening bank – applicant's bank, opens letter of credit based on the applicant's order.
- Beneficiary/seller/exporter – by presenting documents in accordance with the terms of the letter of credit, the beneficiary gains the right to receive payment.
- Advising bank – informs the beneficiary that a letter of credit is opened in his favour, and informs him about the letter of credit conditions.

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## BENEFITS OF LETTER OF CREDIT

Security for the importer (buyer) that the payment will only be made if the conditions of the letter of credit are met.

Security for the exporter (seller) that the payment will be made if he fulfills the letter of credit conditions. The payment risk for the exporter depends on the buyer's bank creditworthiness, not the buyer's creditworthiness.

Additional insurance against the default risk of the importer's (buyer's) bank by letter of credit confirmation. By adding confirmation to the letter of credit opened in favour of the exporter, the confirming bank undertakes to pay the letter of credit amount, irrespective of the execution of the payment obligation of the importer's bank which opened the letter of credit.

The possibility of improving liquidity by forfaiting (discounting) of letter of credit with deferred payment. An exporter can sell to Zagrebacka banka its receivable under a letter of credit opened in his favour, thus improving his liquidity without generating new indebtedness.

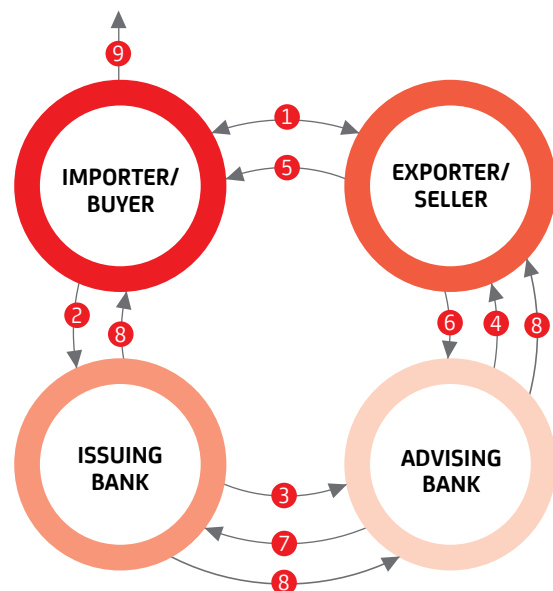
## IMPORTANT TO KNOW

More complex documentation.

The exporter must ensure that all documents are strictly in accordance with the terms of the letter of credit in order to obtain the payment

Payment under letter of credit depends solely on the documentary terms of the letter of credit, not on the sales contract and the related goods and / or services.

## SCHEME: LETTER OF CREDIT



*Comment: the basic scheme of documentary letter of credit. Depending on the transaction, it is possible to include other banks (confirming, nominated etc.).*

- 1 Importer/buyer and exporter/seller conclude a commercial contract.
- 2 Importer/buyer gives order to his bank/issuing bank for opening letter of credit in favour of the exporter/seller.
- 3 Issuing bank opens letter of credit through SWIFT in favour of the exporter/seller through his bank/advising bank (who informs the beneficiary about the opened letter of credit).
- 4 Advising bank checks the authenticity and conditions of the letter of credit and informs the exporter/seller about the same.
- 5 Exporter/seller dispatches the goods.
- 6 Exporter/seller presents the documents to the advising bank.
- 7 Advising bank checks the documents and submits them to the issuing bank.
- 8 Issuing bank checks the received documents and, in case they comply with the letter of credit conditions, delivers the documents to the importer and effects payment according to the instructions of the advising bank, which transfers the payment to the exporter/seller.
- 9 Importer/buyer takes over the goods on the basis of the received documents.



## Guarantee, L/G

Guarantee is the most frequently used insurance instrument whereby the guarantor bank guarantees to pay the amount covered by the guarantee, if the principal debtor fails to fulfil his obligations, in accordance with the terms of the guarantee.

Since guarantee is solely a security instrument, and not a payment instrument like letter of credit, if a guaranteed case occurs, the guarantee beneficiary submits to the guarantor bank a written demand for payment under the guarantee. Otherwise, without a demand for payment, no guarantee payment will be executed.

Guarantee, as the most reliable insurance instrument in international and domestic trade, allows you to cover a large number of risks and to ensure the widest range of obligations arising from commercial contracts with your business partners, which can be divided into two groups

**Payment guarantees** secure payment obligation that may arise based on:

- purchase of goods / services,
- concluded loan contract,
- concluded lease agreement,
- obligations towards the Customs Administration, etc.

**Commercial guarantees** secure the beneficiary:

- from non-execution of works and/or contractual obligations by the applicant, e.g. delivery of goods/equipment, contracted works, installation – performance guarantees,
- that the applicant will fulfill his warranty obligations – warranty period guarantees,
- that the applicant will not withdraw his offer and that he will sign the contract if selected as the best bidder on the tender – bid bond or tender guarantees,
- that the applicant will return received advance payment if he does not fulfill his contractual obligations - advance guarantees, etc.

For the purpose of insurance in international business, **direct** and **indirect guarantees** can be issued. Direct guarantees – guarantor bank issues a guarantee in favour of the beneficiary directly, regardless whether a guarantee itself is delivered through the bank or not. Indirect guarantee - the issuance of **counterguarantee** in favour of a bank which issues the guarantee in favour of the final beneficiary. Indirect guarantees are generally used if the beneficiary does not accept the applicant's bank guarantee, for not knowing the bank, the bank's rating or due to the regulations imposing the guarantee to be issued by a bank from the beneficiary's country.

Zagrebačka banka can offer you a wide range of services in domestic and international business, such as issuing various types of guarantees and counterguarantees, advising of guarantees issued in your favour, and issuing other instruments, such as stand-by letters of credit or other instruments issued for specific purposes. If you plan to participate in tenders for submitting project proposals for granting EU funds or public tenders cofinanced from EU sources, Zagrebačka banka can offer you assistance and issue guarantees in accordance with the tender/invitation requirements.

We also offer you the fastest way to deliver your guarantee requests - electronically, through e-banking, as well as the possibility of setting up framework agreement for guarantees, for faster and simpler realization of your requests.

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## Participants in guarantee business:

- Applicant – gives his bank order to issue a guarantee; it is also possible to issue a guarantee by the order of one party on behalf of another party.
- Beneficiary – party in whose favour the guarantee is issued.
- Guarantor bank – bank which issues the guarantee in favour of the beneficiary.
- Advising bank – bank which receives a guarantee for the purpose of forwarding it to the end user and confirming the authenticity of the guarantee (the guarantee may also be issued directly to the beneficiary without involving the bank).

## BENEFITS OF GUARANTEE

A reliable insurance instrument that provides the highest level of protection against different types of risk.

The guarantee beneficiary has surety that he will receive payment from the guarantor bank, if his partner fails to fulfill his contractual obligations arising from the underlying business covered by the guarantee.

Payment under the guarantee is only possible based on the beneficiary's written demand for payment to the guarantor bank and if all of the conditions from the guarantee have been fulfilled.

## IMPORTANT TO KNOW

While performing the payment under the guarantee (in accordance with the terms of the guarantee), the guarantor bank does not examine the underlying business.

In international business the beneficiary can define the guarantor bank (due to unacceptance of the applicant's bank guarantee, the bank's rating, or the regulations imposing the guarantee to be issued by a bank from the beneficiary's country), which may require the issuance of a counter-guarantee.

## Standby letter of credit, SBLC

Standby letter of credit is an insurance instrument that can be used instead of a bank guarantee, since its usage is the same as with the guarantee – payment in favour of beneficiary under the standby letter of credit can be obtained after beneficiary provides the statement that the applicant is in breach of his obligation arising from the underlying contract.

The requirement for payment is not the presentation of commercial documents, as it is customary with letters of credit.

Depending on the client's needs or client's request, Zagrebačka banka offers you the possibility to issue a standby letter of credit either in the form of a letter of credit or in the form of a guarantee, applying the rules issued by the International Chamber of Commerce in Paris applicable to letters of credit or guarantees.



## Letter of intent, LOI

Letter of intent is an instrument issued by a bank upon request of its client by which the bank expresses readiness to take certain actions such as guarantee issuance, project financing, etc.

A binding letter of intent is a confirmation that for example a bank will issue a guarantee or finance a particular project when certain conditions arise. By issuing a non-binding letter of intent the bank expresses the possibility of issuing a guarantee or financing a particular project. It is informative and non-obligatory for the bank.

Zagrebačka banka can offer you assistance if you need a letter of intent to participate in tenders for submitting project proposals for granting European Union funds (EU) or public tenders co-financed by the EU.

When negotiating new business, domestic and abroad, and applying for tenders, Zagrebačka banka is also at your disposal in cases when your partner requires a letter of recommendation, letter of confirmation of business relationship with the bank, and similar.

Letter of intent, letter of recommendation and letter of confirmation of your business relationship with Zagrebacka banka can be issued in Croatian, English or, if necessary, in another foreign language, and the content of the documents can be adapted to the specific needs of your business.



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