

A STUDY OF LETTER OF CREDIT OPERATION OF KUMARI BANK LIMITED



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ABBREVIATION

%	Percentage
&	And
ACU	Asian Clearing Union
A.D.	Anno Domine
BCI	Business Credibility Information
Bi.Bi.Ni./BBN	Bideshi Binimaya Niyaman
BKE	Bilateral Key Exchange
BL	Bill of Lading
BLC	Bank Force Loan
BM	Branch Manager
CAR	Credit Appraisal Report
CBD	Central Business Department
CEO	Chief Executive Officer
CFR	Credit Facility Report
CFT	Central Foreign Trade
CIF	Cost, Insurance and Freight
Cr.	Credit
DC	Documentary Credit
DL	Demand Loan
DN	Dairy Note
DO	Delivery Order
Dr.	Debit
FCY	Foreign Currency
GON	Government of Nepal
i.e.	That is
IBT	International Business Training
ICC	International Chamber of Commerce
INR	Indian Rupees

ISBP	International Standard Banking Practice
ISO	International Standards Organization
LC	Letter of Credit
LCY	Local Currency
Ltd.	Limited
M	Million
MT	Message Type
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
PAN	Permanent Account Number
RA	Reimbursement Authority
RM	Relationship Manager
RO	Relationship Officer
SSC	Standard Service Charge
STC	Standard Tariff Charge
SWIFT	Society of Worldwide Inter Bank Financial Telecommunication
TD	Treasury Department
T-Bill	Treasury Bill
TPND	Theft, Pilferage and Non Delivery
TR	Trust Receipt
TT	Telex Transfer
UCP	Uniform Custom and Practice
UCPDC	Uniform Customs and Practices Documentary Credit
USA	United State America
USD	United State Dollar
VAT	Value Added Tax

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

The word 'bank' came from the different words of different languages. Some of the words are Italian word '**Banco**' and '**Banca**', Latin word '**Bancus**' and French word '**Banque**' meaning '**Bench**' on which the bankers would keep money and all records. Banks are the business houses established to safeguard people's money. Banks use the money deposited to give out as loans and for other investments. Banks provide an easy way to pay bills through current account mostly known as cheque account. Money that is deposited in bank accounts earns additional amounts for depositors in terms of interest. Banks provide many services such as accepting various types of deposits, safeguarding deposits, giving out loans, providing means of payment, electronic banking and other services such as money orders, Draft, Promissory Notes, Bill of Exchange, Traveler's Cheque, Telex Transfer and SWIFT Service etc. It also provides services that don't involve real money like **Letter of Credit** and Guarantees. There are several authors defining the term bank in their own way. Some of the definitions are:

A bank is defined as an organization whose principle operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.

Ordinary banking business consists of changing cash for bank deposit for cash, transferring bank deposit from one person or another giving bank deposit in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessman to repay etc.

A bank is an establishment or custody of money received from or on behalf of its customers, its essential duty is to pay their draft on it, its profit arises from its use of

the money left unemployed by them."

Development of Modern Banking

With reference to historical undertakings, the origination of modern banking took place in medieval Italy, despite of strong Christian prohibitions against usury (the charging interest) according to the canon law. By the twelfth and thirteenth century Florence, Genoa and Lucca had become the centre of finance and trade.

The first bank called "Bank of Venice" was setup in the year 1157 A.D. to finance the monarch during wars. Then came "The Bank of Barcelona" which was established in 1401 A.D. and "Bank of Genoa" in 1407 A.D. Through this the banking concept slowly spread to the rest of the Western Europe.

The bankers migrated to England and other parts of the country from Italy and spread the idea of modern banking in general. Their contributions are considered highly significant for the development of modern banking. The Bank of England was founded in 1694 A.D. through which the growth of the bank accelerated with the Banking Act, 1833 A.D. in United Kingdom. In terms of popular category, Bank of Amsterdam held a prestigious position and has even been claimed responsible for modern day stock exchange as well.

In our country, the banking industry has always been acting as a major force towards economic development and enhancing the financial market. This industry in our country has always been a reason for economic prosperity. Banking industry is completely service-oriented, and from decades has been providing various kinds of banking services and facilities.

Like in the other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. In ancient time private moneylenders used to grant loan to public. For granting loan, they used to charge very high interest rates. Therefore, they frequently failed to pay back the loan, their securities used to be forfeited, and people

were exploited. At that time, there were no organized institution to fulfill the need of the money; people were compelled to depend on private moneylenders. During the tenure of King Jayasthiti Malla, around 14th century, people were divided into 64 groups. TANKADHARI is one of them who dealt with lending of money to the people. As the main objective of the TANKADHARI was to earn profit from the higher interest charged. In order to protect people from exploitation, Prime Minister Ranodip Singh established TEJARATH ADDA in the 19th century. The TEJARATH ADDA was responsible for providing loans to the people working in the government office based on the security and the public based on collateral. It was the first step towards the institutional development of banking in Nepal. TEJARATH ADDA was not able to satisfy the needs of public, as it did not accept deposits from them. Thus the government felt the need of organized institution to provide banking services and established Nepal Bank Limited in 1937 A.D. as the first bank of Nepal. Nepal entered the modern banking system from this period and is known as the golden age in the history of banking. Nepal Rastra Bank (NRB) was established in 2013 Baishak 14th (1956 A.D.), as the Central Bank under NRB Act 2012 B.S. The main function of the Central Bank was to supervise banking industry and to guide the basic monetary policy of the nation. NRB's major aims were to regulate the issue of paper money, secure countrywide circulation of Nepalese currency, achieve stability in its exchange rate, mobilize capital for economic development and for trade and industry growth, develop the banking system in the country thus ensuring the existence of banking facilities and maintaining the economic interests of the public. NRB was also to oversee foreign exchange rates and foreign exchange reverses.

The total numbers of commercial banks existing in Nepal are:

Table: 1

List of Commercial Banks in Nepal

S.N.	Name of Commercial Bank	Year of Establishment A.D.
1	Nepal Bank Limited	1957
2	Rastriya Banijya Bank Limited	1966

3	Nabil Bank Limited	1984
4	Nepal Investment Bank Limited	1986
5	Standard Chartered Bank Limited	1987
6	Himalayan Bank Limited	1993
7	Nepal SBI Bank Limited	1993
8	Nepal Bangladesh Bank Limited	1993
9	Everest Bank Limited	1994
10	Bank of Kathmandu Limited	1995
11	Nepal Credit and Commerce Bank Limited	1996
12	Lumbini Bank Limited	1998
13	Nepal Industrial and Commercial Bank Ltd	1998
14	Machhapuchre Bank Limited	2000
15	Kumari Bank Limited	2001
16	Laxmi Bank Limited	2002
17	Siddharth Bank Limited	2002
18	Agriculture Development Bank Limited	2007
19	Global IME Bank Limited	2007
20	Citizens Bank International Limited	2007
21	Prime Commercial Bank Limited	2007
22	Bank of Asia Nepal Limited	2007
23	Grand Bank Nepal limited	2008
24	NMB Bank Limited	2009
25	Kist Bank Limited	2009
26	Mega Bank Nepal Limited	2009
27	Sunrise Bank Limited	2009
28	Janata Bank Limited	2009
29	Commerz and Trust Bank Limited	2010
30	Civil Bank Limited	2010
31	Century Commercial Bank Limited	2011

32	Sanima Bank limited	2011
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Source: Nepal Rastra Bank

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government and the Nepalese public. The French partners, Rastriya Banijya Bank, Rastriya Beema Sanstha (National Insurance Corporation), and the Nepalese public jointly owned the Nepal Indosuez Bank. Nepal Grindlays co-owned by a British firm called Grindlays Bank, Local financial interests, and the Nepalese public, which now is known as Standard Chartered Bank Nepal Limited. In 1993 A.D., Himalayan Bank Ltd was established under a joint venture with Habib Bank Ltd of Pakistan and Nepal SBI under a joint venture between employee's provident fund and SBI. In 1994 A.D., Nepal Bangladesh Bank Ltd established under a joint venture with IFIC Bank Ltd of Bangladesh. After 1995 A.D. Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd, NIC Bank, Lumbini Bank, Machhapuchhre Bank Ltd, Kumari Bank Ltd, Laxmi Bank Ltd, Siddhartha Bank Ltd, and very recently Global Bank Ltd, Prime Bank Ltd., Sunrise Bank Ltd., Bank of Asia has also came in operation.

In the ages when barter became impossible due to increase in demand, supply and trade, the commercial parties then invented the way to trade their goods and services across the world by the help of bank became more and more popular and trustworthy. One of the most popular and commonly used methods is now termed as "Documentary Letter of Credit".

It's users in any event rely upon commercial credit to finance the purchase of goods or devices. International trade historically has involved buyers and sellers striving to conduct trade despite differences in language, national customs, credit procedures and accounting practices. Such variances have lead merchants to seek protective devices to minimize the effects of nationalistic diversities and at the same time to facilitate trade and payments for goods. Commercial Credits are instruments well designed to meet

this international need. Within the United States purchases of goods and services between parties are far less complicated than dealing across international boundaries. The speed and simplicity of communication of shipment and of credit arrangements all have served to lessen the domestic dependency on commercial Letter of Credit as financing tool. However, whenever some firms need the special protection and can be equally useful in domestic market.

“In today’s world where customer is consider king the definition given by Mahatma Gandhi, A customer is the most important visitor on our premises. He does not depend on us. We are dependent on him. He is not an interruption in our business. He is purpose of it. He is part of it. We are not doing favor by serving him. He is doing us a favor by giving us an opportunity to do so” (Dahal, 2056:6).

For the issuing bank, the LC is an import LC while for the advising bank it is an export LC payment by means of letter of credit involves action between two banks, one in the importer's country and other in exporter's country. Thus, a bank in the importer's country issues a letter in favor of the exporter with an undertaking that bill of exchange drawn by him upon his importer up to the amount specified therein, will be honored by its presentation.

“According to the uniform Customs and Practice for Documentary Credit, 2007 Revision ICC Publication No. 600 the expression "documentary credit" means any agreement, however named or described whereby a bank (the issuing bank) acting at the request and on the instruction of a customer (the "Applicant") or on its own behalf” (Guide to Documentary of LC & UCP 600-Article 2).

In a broad sense, a commercial letter of credit (hereafter sometimes referred to as a "Credit" or "Commercial Credit") is simply a letter of instructions issued to an exporter by a bank at the request of its customer. In its narrowest sense, it is a specialized and technical instrument used to finance a shipment of goods from one party to another. Whether a Credit is highly specialized of simple is determined

usually not by its construction but rather by how well versed its users are in the language and practices of international trade.

What is Letter of Credit?

A letter of Credit is a conditional written undertaking issued by the bank on behalf of the Importer (Applicant) to the Exporter (Beneficiary) to pay for the goods or services, provided the documents submitted conform strictly with the terms and conditions of the credit.

In other words, A LC is written undertaking by a Bank (issuing bank) given to the seller (the Beneficiary) at the request and in accordance with the instructions of the buyer (the applicant) to effect payment (that is by making a payment or by accepting or negotiating bills of exchange) up to a stated sum within prescribed time limits, against stipulated documents and provided that the terms and conditions of the LC are complied with.

1.2 Statement of the Problems

Due to the adoption of liberal economic policy, globalization as well as industrialization, foreign trade comes into existence. It has made this world boundary-less village and goods can flow from and between the nations freely and easily. When goods are bought or sold abroad, then those transactions became very complicated for buyers and sellers. Such as, time, hazard of journey, formalities of customs, exchange control regulations, getting payment on time and in correct amount etc. The level of risk in extending credit is major consideration.

To satisfy both parties, i.e. for exporter and importer of different country, letter of credit is widely used, which will handle within the international banking network, calling for the exporter to present to a bank with documents evidencing shipment or dispatch of required merchandise for which, the documents are in order he will be paid. The requirement for such letter of credit has to be agreed upon the contract of

sale.

Letter of Credit (LC) is a reliable widely used instrument in the field of international trade in 21st century where the market of trade is enhancing. The need for it generally arises whenever any two parties (i.e., Exporter and importer) get into a contract to buy and sell something. In any international trading activity, as the parties to reside in two different countries, the issue of confident and credit worthiness of the both the parties arise. A party might be big or prestigious even then the other parties always have to think from the worst case scenario i.e. the other party might default and might renege in its obligation. It is to tide over such things that the instrument of LC involved.

The use of letter of credit by the business sector has been increasing extensively over the years. L/C division has proven to be the most profitable and productive sector for any commercial banks in Nepal. However, it is a very risky department because one party involved in the particular L/C transaction can be used on behalf of another party in the international court since the international articles of UCPDC govern L/C.

The important of LC is in increasing trend but there are many confusion regarding LC transaction theory and practices in our country. The main focus will be towards studying the obstacles of LC business, procedure of LC transaction rolled played by NRB for LC, document necessary for the letter of credit and other rules, regulation and obstacles in the LC business.

1.3 Objectives of the Study

As we know that import and export as well as doing foreign trade is quite difficult and it is highly riskier as well as sensitive too. Therefore, to satisfy both parties, i.e. of exporter and importer, letter of credit is widely used, which will handle within the international banking network. The use of letter of credit by the business sector has been increasing extensively over the years. L/C division has proven to be the most profitable and productive sector for any commercial banks in Nepal. However, it is a

very risky department. In this regard, this study focuses on the vitality and popularity of L/C as an international payment mechanism, internationally as well as in the context of our country. The primary objectives of this study is to analyze the overall LC theory and practices of Kumari Bank Limited however following are the specific objectives of the study:

- To know the procedure for opening Letter of Credit
- To find the prohibition regarding opening LC
- To analyze the problem while opening LC
- To explore the transaction and trend of LC operation of KBL.
- To examine the directive of NRB on LC activities

1.4 Significance of the Study

At present, the commercial banks are gaining a wide popularity within and outside the country through their efficient management and professional services and playing an eminent role in the economy. LC operation is one of the main functions of commercial bank where the whole banking business is rested upon. Study on commercial bank and especially their LC practice; carry a great significance to exporter, importer as well as shareholders of the bank, to the professionals, to the students who wants to know about LC practices of commercial bank. This study adds new ideas and findings about concerned commercial bank.

For the particle fulfillment of requirement of the Master of Business Studies, provided by Faculty of Management, Tribhuvan University, this field report was prepared as thesis on Letter of Credit. Being a finance student, letter of credit transaction is taken as study subject in Nepal. As I met to staffs and Foreign Trade Department Head of Kumari Bank Ltd., I asked necessary questions and documents which are helpful to carry out my thesis writing. Carrying out these kinds of particle mental exercise in the colleges is very good for the students. Because it saves students from being an educated illiterate. Generally, we seen or experienced that though we are a "Degree", we may not even know the simple thing regarding the operation of the organization.

What we have is the theoretical knowledge, which is not sufficient for the successful career. So giving opportunities to students to know about organization and their operation is a very good work. It develops students professionally.

The main importances of this field work assignment are as follows:

To gain first hand and actual knowledge about the working style of the organization or in other words we can say that to give the student the particle knowledge about the LC.

- To develop the business skills of the students, this may be helpful in their career path.
- To train the students for administrative and managerial functions.
- To gain practical knowledge about the LC.
- To enable the students for accessing the source of the information required by them.
- To gain ability to analyze the present and future market environment and also to improve the company's profitability.
- To make student capable of tackling the problems faced by them during the entire course of making thesis.
- To find out the process and problems of LC opening.
- To make students capable of sorting out the problem.
- To fulfilled the practical thesis work of Master of Business Studies.

1.5 Limitation of the Study

The benefits and limitations are the two faces of a same coin. Each and every research work has more or less limitations. To make this study precise, meaningful and valuable, some limitations are made so that the objective of this study is achieved within limited time, resource and information.

The law relating to LC was very scare and the material relating to theory and practice of LC was very difficult to find in the market as well as Kumari Bank Limited. It was difficult to get various rules and regulation regarding the LC transaction, Since LC is

complicated subject matter and there seems lot of fraud in LC so depth knowledge regarding LC should be provided to the man dealing in LC but due to incompetent manpower in LC department of banks it seems difficult to get proper interpretation to LC operation in Bank.

- The field study is costly for going and coming to the office for data collection, typing and binding of the thesis require a lot of expenses. Being a student it is very difficult to manage such expenses.
- The banks were very co-operative in providing the necessary facts and data, at many times they were reluctant to provide certain data, which they considered was company's secrecy. Such attitude puts the question mark on the authenticity of the study.

1.6 Organization of the Study

The thesis an Operation of Letter of Credit of Kumari Bank Limited has been divided into five chapters, viz Introduction, Conceptual Framework & Review of Literature, Research Methodology, Data Analysis & Presentation and Summary, Conclusion & Recommendation

Chapter –I: Introduction

The introduction chapter describes general overview, statement of the problem, objectives of the study, limitation of the study, methodology of the study.

Chapter –II: Conceptual Framework & Review of Literature

In this chapter, Conceptual Framework, meaning and kinds of Letter of Credit, Parties Involved in Letter of Credit, rules and regulation for letter of credit, Glossary, Documents under Letter of Credit, Pre-requisites for opening Letter of Credit and advantage of Letter of Credit as well as review of various articles similar to this study is discussed briefly.

Chapter –III: Research Methodology

In this chapter is concerned with the methodology adopted in the research work. It

contains research design helps to collect quantum of accurate data economically but there is various type of research design. This chapter deals with research design, nature and sources of data, method of data collection and analysis etc. Here, is applied descriptive and analytical research design.

Chapter –IV: Data Presentation and Analysis

In this chapter is concerned with procedure of opening letter of Credit, amendment procedure, cancellation procedure, examination of document and settlement of import bills, Problems while opening letter of credit and examine the directive of NRB on LC activities. As well as all collected relevant data are analyzed and interpreted. It will explain the major findings of the study also.

Chapter - V: Summary, Conclusions and Recommendations

The last chapter is concerned with summary of the study, conclusions of the study and various suggestions and recommendations for the improvement of LC operation in Kumari Bank Limited.

CHAPTER- II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Literature review a “Stock taking” of available literature in one’s field of research. The purpose of review is thus to find out what research studies have been conducted in one’s chosen field of study and what remain to be done. Here, the review of literature is divided into two parts.

- Conceptual framework
- Review of related studies

2.1 Conceptual Framework

Under this, Meaning and concept of LC, Parties involved in LC and their rights and responsibilities, Types of LC, Standard forms of the documentation, pre-requisites for opening LC in Nepal, Amendment and cancellation of LC, Payment settlement, Document Check lists.

2.1.1 Meaning and Concept of Letter of Credit

The earliest trade known to be done was through barter. Barter is exchange of one good with another i.e., salt with oil, wool with leather etc. Goods and property were then traded on spot and the deal was closed.

In the primitive ages when human civilization and economic development were not advanced the desired and needs were limited. With advancement in civilization and growth in economic development the desires and needs increased. This resulted in human beings of one locality moving to other localities to fulfill their unmet desired and needs a process which indicated shift “self sufficiency” to “inter dependence”. As a result “Barter Economy” came into existence. Human needs and desire soon became unlimited and produce of a given locality or vicinity could not meet the demands.

Movement of people from one place to another reduced due to increase in size of family and development of the culture of setting families in allocation. This forced people to involve in buying and selling i.e., trading of goods and produces from one place to another. By then money has already been introduced as measuring rod for goods and services.

The human desire could not be met by the goods and services produced in one locality to another and people now wanted to use produce from one country to another and from one continent to another and from one end of the globe to another end of the globe. In such a scenario it was impossible for people to move around and buy the product of their choice or demand due to geographical distance as well as risk in carrying money and then complications faced in carrying back the produces to their habitat. The LC is also popularly known as non fund loan of bank. “Non-Fund based business helps to facilitate trade/non trade transactions between parties who are unknown to each other. The bank acts as a facilitator or a middlemen and charges commission for this business. The goodwill and reputation of the bank helps alleviate doubts and apprehension of parties”. Currently, technology had also advanced a lot and facilities like transportation, communication etc. had made trade easier as well as sophisticated. A person say from Nepal could get in touch with a merchant of Singapore to find out if a produce of their needs were available there or not. Deals were made to buy particular goods for payment of specified amount giving birth to concept of exporter and importer more commonly known as buyer and seller.

Through by now trading had become easier settlement of trade but transaction posed problems for the parties involved. Goods bought and sold abroad started becoming complicated transactions for number of reasons voyage time, import/export control regulations, customs formalities and the very fact the buyer and seller were widely separated geographically.

Moreover, in much of these cases the buyer and seller would not have met or seen one another and possibility of not knowing each other standing and integrity also loomed

large. So the trades felt the need to safeguard and protect the interests of both buyers and sellers, the need of bankers who are widely accepted for its credibility and standings to be involved in financial transactions. The buyer needs to know that he has paid for and getting the getting the right goods and the sellers interest is to get promptly paid for his goods. As a result the banks started arranging and extending wide use of credit instruments, which satisfied the needs of both the buyer and seller. The instrument was called the Documentary Credit or more commonly Letter of Credit handled by international banking network calling for the exporter to present to a bank documents evidencing shipment or dispatch of the required merchandise for which if the documents are in order he will be paid. The requirement for such documentary must be agreed upon in the contract of a sale.

Meaning of Letter of Credit

“Documentary Credit is an instrument facility international or national trade where in all parties to the credit deal only with the documents and not the goods. It is an instrument by which a bank undertakes to pay a seller for his goods, provided complies with the condition laid down on the credit” (*Rakesh, 2008: 223*).

A Documentary Credit is a conditional Bank undertaking of payment. It is a written undertaking by a bank to a seller at the request and instruction of buyer to pay at sight or determinable future date up to a stated sum of money, within a prescribed time limit and against stipulated documents. The documentary credit is the safest and convenient means of paying for export among all other methods of paying existing.

“The letter of credit abbreviated as LC, stands at centre of international commercial transaction, issued by a bank at the request of importers, the letter states that the bank will pay a specified sum of money to a beneficiary, normally the exporter on presentation of particular specified documents” (*Charles, 1994: 431*). Similarly “LC means letter written by one of bank to another directing the letter to accept cheque draft or hundi of specified person up to the amount specified” (*NRB Act 2058*).

“Credit means any arrangement however named or described where by a bank (the issuing) acting at the request and on the instruction of a customer (the applicant) or on its own behalf” (*UCPDC, ICC Publication No.600*).

The letter of credit is defined as “An arrangement by means of which bank (Issuing Bank) acting at the request of a importer (Applicant) under takes to pay to exporter (Beneficiary) for a predetermined amount by a given according to agree stipulation and against presenting of stipulated documents” (*Gartener, 1999: 54*). In simple term, “it is banks conditional undertaking of payment. Letter of Credit is letter from a bank guaranteeing that a buyer payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchasing, the bank is required to cover or remaining amount of the purchase. The parties to LC are usually an applicant who wants to send money, the beneficiary who will receive the money, the issuing bank and the advising bank. However, LC is not a bank guarantee. But guarantee is issued on behalf of applicant to cover situation of its non-performance, i.e., the issuing bank agrees to make payment to beneficiary once he surrenders the requisite documents and in compliance with stipulated conditions, irrespective of the fact whether the applicant pays for such documents or not” (*Bhandari, 2003 : 127*).

A letter of Credit is an instrument wherein a bank authorized another bank to debit its account for payment to the exporter upon submission of specified document and fulfillment of stipulated condition in respect of the shipment of goods or services rendered as required by the importer.

The request to open a letter of credit will be made by the importer to its bank detailing all terms and conditions upon fulfillment of which it authorized the bank to release payment to the exporter. The same terms and condition are, in turn, conveyed by the LC opening bank to the negotiating bank (Which in most cases is the exporter’s banker). The negotiating bank notifies the receipt of LC to the exporter. Therefore, a LC is quite different from that of a demand draft (Where payment is released at the discretion of the buyer irrespective of the receipt of goods or not) and documents

received on collection basis (Where the buyer will have to make payment for release of delivery order). Under LC, the seller gets his payment as soon as he is able to show that the goods have been shipped and the conditions of the LC are duly complied with.

Advance Payment: Seller requests cash from buyer in advance of shipment.

Open Payment: Buyer affects payments through some method as per arrangement privately concluded with seller in an agreed future date.

On Consignment: Buyer receives the goods first and makes payment only after sales of goods. In the meantime the ownership of the goods remains with the seller.

Collection Basis: The seller ship goods. Documents covering shipment including a draft (Bill of Exchange) drawn on the buyer for value of shipment through a bank. Buyer presented with the documents and must honor the draft before documents are released to him.

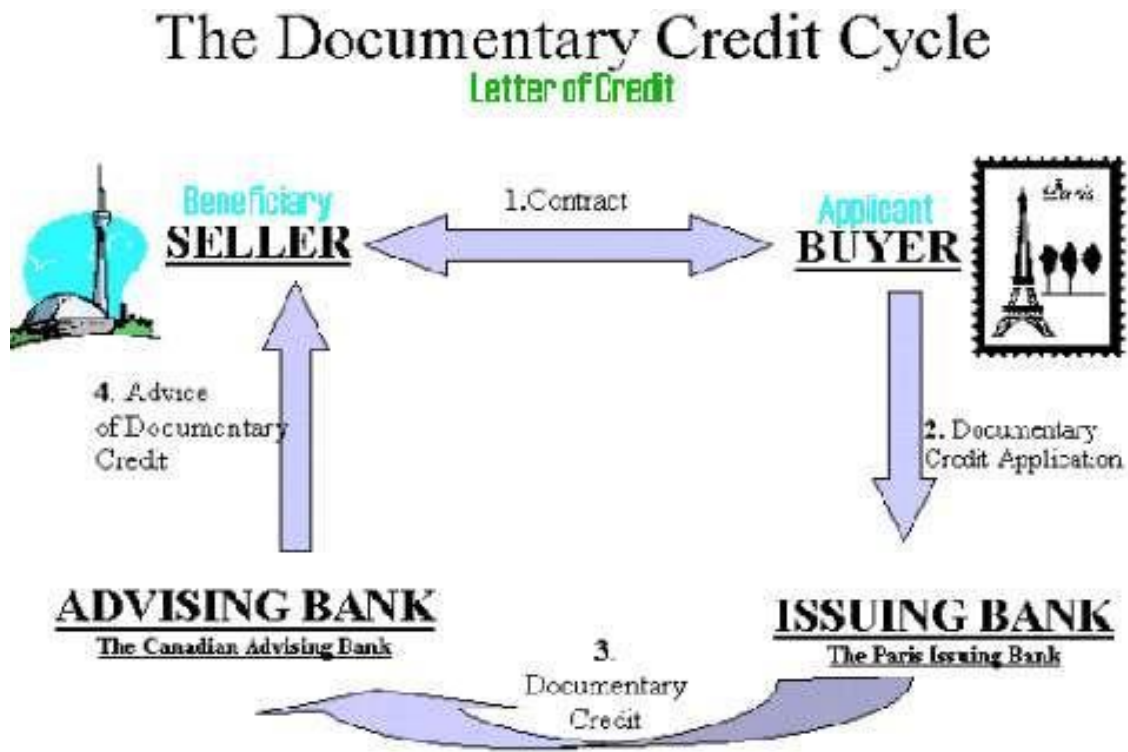
A documentary credit serve four purposes like being instrument for financing, purchase of foreign goods and equipments assist issuing bank to grant finance to the importer and monitor its use, brings confidence and security for commercial parties involved and enables exporters to secure payments provided the clauses and conditions are not needlessly complicated.

2.1.2 Parties Involved in Letter of Credit

There are various parties involved in LC transaction the definition of various parties involved in LC are as mentioned below:

Applicant	Buyer/Importer/Purchaser
Beneficiary	Supplier/Seller/Exporter
Issuing Bank	Applicant's Bank

- Advising Bank Issuing Bank's agent in Beneficiary's place/country
- Confirming Bank Bank which assumes the risk of Issuing Bank
- Reimbursing Bank Bank authorized by the Issuing Bank to reimburse the bank making payment
- Nominated Bank Bank nominated by the Issuing Bank to honor drawings



Applicant: The applicant is the buyer/importer of the goods who ask his bank, the issuing bank, to issue him a "Letter of credit". The applicant is also called the opener. In most of the cases the applicant maintains an account relation with the issuing bank.

Issuing Bank: The bank that issues a letter of credit or guarantee and takes ultimate responsibility for payment of the instrument it provides the document on request of the applicant.

Advising Bank: The bank, normally in the exporter's country through which a letter of credit is transmitted and authenticated the exporter. There is no liability on the part

of the advising bank to honor the letter of credit. The main function of the advising bank is to prove the beneficiary that the letter of credit is genuine. Since the advising bank has to satisfy itself that the letter of credit is properly authenticated by the issuing bank.

Confirming Bank: When a bank "confirms" the letter of credit of another bank, it takes on obligation of the issuing bank. Such bank is known, as confirming bank will only confirm irrevocable credit. The bank, at the request of the Issuing Bank, adds its confirmation to the Letter of Credit. In doing so, the Bank undertakes to make payment to the Exporter upon presentation of documents under the Letter of Credit assuming all terms and conditions of the Letter of Credit have been met.

Beneficiary: The party to whom a letter of credit is addressed and who will benefit from its issuance. Exporter/Supplier/Seller in whose favor a Letter of Credit is opened.

Reimbursing Bank: The bank designated in the Letter of Credit to reimburse the "available with" Bank which submits payment claims under the Letter of Credit. In a broad sense, a commercial letter of credit (hereafter sometimes referred to as a "Credit" or "Commercial Credit") is simply a letter of instructions issued to an exporter by a bank at the request of its customer. In its narrowest sense, it is a specialized and technical instrument used to finance a shipment of goods from one party to another. Whether a Credit is highly specialized or simple is determined usually not by its construction but rather by how well versed its users are in the language and practices of international trade.

In Letter of Credit Normally:

- The supplier is known as the beneficiary.
- The bank that opens a letter of credit is the opening of issuing bank.
- The buyers who asks the bank to issues the credit is the applicant or account.
- The bank in the supplier's country that advises the credit to the beneficiary and checks its authenticity is the advising bank.

- When the advising bank adds conformation on the LC to be advised to the beneficiary it is then known as confirms Bank too.
- When certain terms and conditions of the credit is changed such change is known as amendment.
- The generally adopted set rules for credits is known as the Uniform Customs and Practice for letter of credit issued by the International Chamber of Commerce in their publication dated 2007 numbered 600.
- When an exporter takes the required documents into the banks, he is presenting them, which is known as presentation of the documents.
- If the documents are in order the credit becomes drawn.
- In a letter of credit where payment is to be made after a deferred period, correct for credit conformed documents are taken up.
- Documents that are not in order are referred to as discrepant Letter of Credit is issued in a variety of ways. They come by post from the issuing bank (rarely), by telex and by SWIFT (Society for Worldwide Interbank Financial Telecommunication) network. SWIFT is an industry owned cooperative supplying secure messaging services and interface software to over 7000 financial institutions in over 196 countries. SWIFT messages are preset and referred to by category numbers called MT number.

2.1.3 Types of Letter of Credit

Letters of Credit are classified into various types depending upon the nature and the functions of the credit. Some of them are discussed below:

- **Revocable Letter of Credit:** A Revocable Letter of Credit is the one which can be amended, revoked or cancelled without the Beneficiary's consent and even without prior notice to the Beneficiary. A revocable Letter of Credit gives maximum flexibility to the buyer and exposes the seller to a certain degree of risk. Since UCP does not support a revocable LC, the Bank will also discourage issuance of such LCs. However if a customer approaches for a revocable LC with

proper justifications in support of the situation, such LC can be issued upon prior approval of CEO.

- **Irrevocable Letter of Credit:** An Irrevocable Letter of Credit is converse of Revocable Letter of Credit that cannot be amended, revoked or cancelled without the express consent of all the parties concerned thereto, particularly that of the beneficiary. This Credit gives a definite undertaking that Issuing Bank will effect payment provided that the beneficiary complies with the terms and conditions stipulated in the credit.
- **Sight Letter of Credit:** A Letter of Credit under which payment of the drafts and/or documents drawn under the Letter of Credit is made immediately upon receipt of such drafts and/or documents is called Sight Letter of Credit. In other words; A letter of credit under which payment is made to the beneficiary upon presentation of the draft along with other documents complying terms of credit.
- **Time or Usance Letter of Credit:** When a credit calls for drawing of drafts at a stated Usance (tenor) period requiring acceptance and/or payment by the drawee at the end of such tenor or Usance period, it's known as Usance or Time Letter of Credit. The tenor of payment can be for 30, 60, 90, 120 or 180 days.
- **Deferred Payment Letter of Credit:** A Deferred Payment Letter of Credit generally calls for the presentation of specified documents and provides for payment to be made to the beneficiary a stipulated number of days after presentation of such documents, or after the date of shipment or some other stipulated date(s). A draft is usually not required under a Deferred Payment LC. In this type of LC, banks will issue and deliver to the seller-beneficiary a deferred payment letter of undertaking when compliant documents are tendered.

- **Confirmed Letter of Credit:** A confirmed Letter of Credit is an irrevocable LC in which a second bank confirms the authenticity of issuing bank with an undertaking to take on payment obligation in addition to that of issuing bank.

A prior consent/approval has to be obtained from TD regarding LC advising bank and the confirming bank to be used in a confirmed LC.

- **Unconfirmed Letter of Credit:** A Letter of Credit which bears the obligation of the issuing bank only is known as Unconfirmed Letter of Credit. An unconfirmed irrevocable letter of credit provides a commitment by the issuing bank to pay, accept, or negotiate a letter of credit. An advising bank forwards the letter of credit to the beneficiary without responsibility or undertaking on its part except that it must use reasonable care to check the authenticity of the credit which it advised. It does not provide a commitment from the advising bank to pay, so the beneficiary is reliant upon the undertaking of the overseas bank. The beneficiary is not protected from the credit risk of the issuing bank nor the country risk.

- **Revolving Letter of Credit:** If an Applicant and a Beneficiary agree to ship goods on a continuing basis, it may be more efficient and cost-effective if the Applicant establishes one Documentary Letter of Credit for all shipments, rather than one Documentary Letter of Credit for each shipment. A special Documentary Letter of Credit for handling multiple shipments, renewable over an extended period of time, is a Revolving Letter of Credit.

A Revolving Letter of Credit may operate automatically or by amendment and can be either cumulative or non-cumulative.

Example: An applicant expects to purchase approximately USD 120,000 in merchandise from the same supplier during the next year. Each shipment is not to exceed USD 10,000. Each USD 10,000 shipment covers the purchase of 500 units. The applicant has the following options:

- **Automatic:** The Applicant may arrange for a Letter of Credit for a one-year term in the amount say USD 10,000 providing that the amount available under the Credit is reinstated for future drawings in an aggregate amount not to exceed USD 120,000. If the Letter of Credit reinstates the amount automatically upon each shipment, the total amount of the bank's exposure is USD 120,000.

Automatic Revolving LC's should be discouraged to the extent possible by the Bank. However if a customer approaches for such LC's with proper justifications supporting the situation, specific approval will be required from Credit prior to issuance of LC.

- **By Amendment:** This procedure operates the same as above except that availability is reinstated only upon specific authorization and amendment to the Letter of Credit. If the credit revolves by amendment, the exposure is USD 10,000 upon issuance because the bank must approve each amendment.

Given the above example, the applicant expects to purchase 500 units at a cost of USD 10,000 per month, for a one-year period (a total of 6,000 units for USD 120,000). The transaction could be structured as follows:

- **Cumulative:** The applicant may request an LC to permit the quantity and value of the goods not shipped within any month to be carried forward and added to the quantity and value for the following month. For example, if the beneficiary shipped only 400 units for USD 8,000 in January, when the credit revolved in February the beneficiary could ship 600 units for USD 12,000 (i.e. the February shipment of 500 units plus the 100 units not shipped in January). The bank's exposure is USD 120,000 because all shipments could be deferred to the last month of the credit.

Cumulative Revolving LC's should be discouraged to the extent possible by the Bank. However if a customer approaches for such LC's with proper

justifications, specific approval will be required from Credit prior to issuance of LC.

- **Non-Cumulative:** An LC is a Non-Cumulative Revolving LC if it clearly specifies it's "non-cumulative" or if no indication as regards the type of revolving is specified in it. As such amounts not utilized in any period may not be carried forward to succeeding periods.
- **Advance Payment Letter of Credit:** This type of Letter of Credit contains a clause which permits the Beneficiary to receive certain funds in advance of presenting commercial documents evidencing the shipment of goods. When a Beneficiary must create special order merchandise for which there may be no other buyer, a Beneficiary may instruct an Applicant to request that the Issuing Bank issue an Advance Payment Letter of Credit.
- **Red Clause Letter of Credit:** A Red Clause Letter of Credit is a Credit with a special condition incorporated into it that enables the beneficiary to obtain pre-finance from a bank (as nominated by the issuing bank) as an advance before presentation of documents.

The Red Clause in the credit enables the seller to draw up to 100% of the credit amount as a pre-shipment finance to produce/manufacture or arrange merchandise as desired by the buyer prior to shipments. The documents are tendered to the bank after shipment is made. This clause is called Red Clause because historically, the term was usually printed or typed in red ink.

- **Green Clause Letter of Credit:** An LC which permits advance to the Beneficiary for the purpose of goods storage facilities at the port in addition to the pre-shipment payment to the beneficiary before presentation of the documents.

- **Transferable Letter of Credit:** A Transferable Letter of Credit is an LC under which the beneficiary (first beneficiary) has the right to give instructions to the bank which is authorized by the issuing bank to effect payment, accept drafts or negotiate documents to make the credit available in whole or in part to one or more second beneficiaries.
- **Back-to-Back Letter of Credit:** On occasions a Beneficiary of a non-transferable LC seeks to use it as a basis for requiring a bank to issue a second, parallel irrevocable LC in favor of the manufacturer or supplier of those goods needed for shipment under first LC. In this case, the Beneficiary of the first LC (generally a broker or a middleman) will become Applicant of the second LC utilizing the first as a source of payment to the issuer of the second LC. So an LC issued with the backing or strength of another LC is called Back-to-Back Letter of Credit. The LC playing the source of payment to Back-to-Back LC is said to be Master LC.

As per prevalent NRB regulations, Back-to-Back LC's can be issued for the import of fabrics to be used as raw materials by Nepalese readymade garment industries provided that such industry has received an irrevocable LC in its favor from an overseas buyer for the purpose of importing readymade garments produced by such industry. Further payment of raw material fabrics under a Back-to-Back LC can be made up to maximum of 50% of FOB value of the readymade garments to be exported by such industry.

- **Straight Letter of Credit:** In case of a Straight LC, the undertaking of the Issuing Bank extends directly to the named Beneficiary only. If a bank or other intermediary gives value to the Beneficiary and forwards documents to the Issuing Bank, it does so at its own risk and acquires no rights of its own against the Issuing Bank.

Nepalese banks are not allowed to issue Straight LC's abroad as per NRB directives. All banks are required to route their abroad LC's abroad through their respective correspondent banks only.

- **Stand-by Letter of Credit:** The stand-by Credit is a Letter of Credit or similar arrangement, which represents an obligation on the part of the Issuing Bank to the Beneficiary to:
 - repay money borrowed by the Applicant, or advanced to or for the account of the Applicant;
 - make payment on account of any indebtedness undertaken by the Applicant; or
 - make payment on account of any default by the Applicant in the performance of an obligation.

The Standby Letter of Credit is a guarantee declaration in the broadest sense. It is used mainly in USA because American Banks are prevented by law from providing guarantee to secure advances made to US nationals or companies resident abroad.

- **Third Country Credit:** The issuing bank may request an intermediary bank in one country to confirm or advise its credit to a beneficiary in a third country. This type of credit is issued when the issuing bank does not have a correspondent bank in the beneficiary's country or due to political reasons cannot communicate directly with beneficiary's country. (Kumari Bank Limited, Trade Finance Manual).

2.1.4. Rules and Regulations to be followed while handling Letter of Credit

- **Uniform Customs and Practice for Documentary Credits (UCPDC):** In the course of time, a number of practices, expressions and terms have evolved between banks dealing with Letters of Credit. To ensure uniformity of interpretation in international trade, the International Chamber of Commerce (ICC), Paris, France has worked out the 'Uniform Customs and Practice for Documentary Credits'.

These have been revised and brought up to date several times in the past. They are now applied by the Banks in nearly all countries. The version currently in use is the UCP500 (w.e.f. January 1, 2004) which is to be replaced by the UCP600 which is the latest in the line of revisions and is to come into force from July 1, 2007. The new UCP 600 updates and consolidates the UCP500.

- **Directives/Circulars issued by Nepal Rastra Bank, Foreign Exchange Management Department:** Nepal Rastra Bank, being the central bank of the country has issued several directives relating to Letters of Credit in order for a smooth operation of Letter of credit transactions and to put a check over the irregularities in foreign exchange transactions. All banks in Nepal are bound to adhere to these directives.
- **Laws, Acts and Specific Provisions Made by Government Ministries, Departments, etc.:** Some Government Ministries and Departments have imposed restrictions on import of several items like health hazardous items (narcotic drugs, liquors containing more than 60% alcohol), arms and explosive items (other than licensed by the Government of Nepal), Communication equipments (voice carriers), wireless, walkie-talkie and equipment of similar features (other than licensed by the Government of Nepal), etc.

Similarly some items require prior approval, for example approval from Internal Revenue Department is required for import of alcohol. Likewise prior approval is required from Ministry of Commerce in respect of quantity for the import of Poppy Seed whereas approval of Ministry of Population and Environment is a must for old/used cloths, metal and plastic scraps and second hand equipments for non-industrial imports.

Moreover approval from the Ministry of Finance, Department of Commerce is required to change customs entry point in a Letter of Credit whereas Nepal Ready Garment Association, Nepal Wool and Carpet Development Board, Ministry of

Health, Department of Drug Administration have also got some provisions for imports through Letters of Credit.

Sometimes regulations are also promulgated by the Government through Nepal Gazettes. At the same time some Acts (eg, Industrial Enterprise Act, Company Act, etc) also need to be referred to for correct interpretations of terms included in such regulations or directives.

- **Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR):** The Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR) are the rules that govern all the Reimbursements Authorizations that are issued under Letters of Credit. The version currently in use is the URR, ICC Publication No. 525. They are binding on all parties thereto, unless otherwise expressly stated in the Reimbursement Authorizations.
- **International Standard Banking Practice (ISBP):** International Standard Banking Practice (ISBP) is a set of guidelines documented to draw down international standard banking practices for the examination of documents presented under Letters of Credit. The practices set out in this publication are consistent with the UCP. This document does not amend UCP; rather it explains how the practices articulated in the UCP are to be applied by documentary practitioners.
- **ICC Uniform Rules for Collection (URC):** With a view to maintaining uniformity in transactions relating to collections, ICC has developed a set of rules that is called Uniform Rules for Collection (URC). The version currently in force is the URC, 1995 Revision, ICC Publication No. 522.
- **INCOTERMS:** By the 1920s, commercial traders had developed a set of trade terms to describe their rights and liabilities with regard to the sale and transport of goods. These trade terms consisted of short abbreviations for lengthy contract

provisions. Unfortunately, there was no uniform interpretation of them in all countries, and therefore misunderstandings often arose in cross-border transactions.

To improve this aspect of international trade and to make it as clear as possible, the ICC developed INCOTERMS (*International Commercial Terms*), which is a set of uniform rules for the interpretation of international commercial terms that exactly define the costs, risks and obligations of both buyers and sellers in international transactions.

First published in 1936, these rules have been periodically revised to account for changing modes of transport and documents delivery. The current version is Incoterms 2000 and has been preceded by six versions.

INCOTERMS 2000

Chart of Responsibility

When negotiating an international sales contract, both parties need to pay as much attention to the terms of sale as to the sales price. To make it as clear as possible, an international set of trade terms (INCOTERMS) has been adopted by most countries that defines exactly the responsibilities and risks of both the buyer and seller including while the merchandise is in transit.

The following chart summarizes the responsibilities of both the buyer and seller for each of the current 13 INCOTERMS. In addition, a definition for each term is included at the bottom of the page.

For a more complete description of each of the INCOTERMS, *The IBT Guide to INCOTERMS 2000* book published by International Business Training fully and clearly defines each of the new INCOTERMS that became effective January 1, 2000,

and includes a number of case studies that demonstrate the use of the different terms in real-life situations.

	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAF	DES	DEQ	DDU	DDP
SERVICES	Ex Works	Free Carrier	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered At Frontier	Delivered Ex Ship	Delivered Ex Quay Duty Unpaid	Delivered Duty Unpaid	Delivered Duty Paid
Warehouse Storage	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse Labor	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland Freight	Buyer	Buyer/ Seller*	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarder's Fees	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading On Vessel	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air Freight	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Charges On Arrival At Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Buyer	Buyer	Seller	Seller	Seller
Delivery To Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller

* There are actually two FCA terms: FCA Seller's Premises where the seller is responsible only for loading the goods and not responsible for inland freight; and FCA Named Place (International Carrier) where the seller *is* responsible for inland freight.

The 13 INCOTERMS:

Origin Terms

EXW: Ex-Works, named place where shipment is available to the buyer, not loaded.

The seller will not contract for any transportation.

International Carriage NOT Paid by Seller

FCA: Free Carrier, unloaded at the seller's dock OR a named place where shipment is available to the international carrier or agent, not loaded.

This term can be used for any mode of transport.

FAS: Free Alongside Ship, named ocean port of shipment.

Ocean shipments that are NOT containerized.

FOB: Free On Board vessel, named ocean port of shipment.

This term is used for ocean shipments only where it is important that the goods pass the ship's rail.

International Carriage Paid by the Seller

CFR: Cost and Freight, Named ocean port of destination.

This term is used for ocean shipments that are not containerized.

CIF: Cost, Insurance and Freight, named ocean port of destination.

This term is used for ocean shipments that are not containerized.

CPT: Carriage Paid To, named place or port of destination.

This term is used for air or ocean containerized and roll-on roll-off shipments.

CIP: Carriage and Insurance Paid To, named place or port of destination.

This term is used for air or ocean containerized and roll-on roll-off shipments.

Arrival At Stated Destination

DAF: Delivered At Frontier, named place of destination, by land, not unloaded.

This term is used for any mode of transportation but must be delivered by land.

DES: Delivered Ex-Ship, named port of destination, not unloaded.

This term is used for ocean shipments only.

DEQ: Delivered Ex-Quay, named port of destination, unloaded, not cleared.

This term is used for ocean shipments only.

DDU: Delivered Duty Unpaid, named place of destination, not unloaded, not cleared.

This term is used for any mode of transportation.

DDP: Delivered Duty Paid, named place of destination, not unloaded, cleared.

This

INCOTERMS can be quite useful, but their use has limitations. If you use them incorrectly, your contract may be ambiguous, if not impossible to perform. So it is important for LC staffs to understand the scope and purpose of INCOTERMS when and why you might use them before you rely on them to define such important terms as mode of delivery, customs clearance, transfer of risks, and passage of title during the course of transit.

- **Other Internal and External Policies and Laws as they may come into picture during the course of Letters of Credit Transactions:** So it is the responsibility of all the staff working in LC department to ensure that they are fairly aware of the changes in the abovementioned rules and regulations as well as enactment or promulgation of any new laws that may have direct impact over Letters of Credit transactions and that they are duly complied with at all times.

2.1.5. GLOSSARY

This section will provide practical definitions of various terms used while dealing with Letters of Credit.

Applicant: Buyer/Importer who arranges for the credit to be opened. Also referred to as Accountee.

Acceptance: The act of placing the word “accepted” across the face of a draft, followed by the date and signature of the acceptor.

Advising Bank: The bank, usually in the Beneficiary’s country, which informs the Beneficiary that a Letter of Credit has been opened in its favor by another bank (Issuing Bank).

Airway Bill: A document that evidences air carrier’s receipt of the goods, but does not represent the title to the goods and is therefore not a negotiable instrument. It’s a

contract of carriage for air transportation between and air carrier and a shipper, or an air carrier and an air freight forwarder.

Airway Bills are issued only on a consigned or straight non-negotiable basis; they are not issued to order. Unless the transaction is otherwise properly secured, or the customer is entitled to unsecured credit, the issuing will require that Airway Bill be consigned to the Bank for the account of the customer.

Airway Bill, House: Airway Bill issued by a freight forwarder, acting as a carrier, clearly showing the contract between the freight forwarder and the exporter to carry goods by air.

Amendment: Any change to the terms and conditions of a Letter of Credit.

Application: The agreement between the Applicant and the Issuing Bank describing the terms and conditions to be included in Letter of Credit and the arrangements for the Applicant to reimburse the Issuing Bank.

AR4/AR4A: See *Nepal Invoice*.

Assignment of Proceeds: Agreement of the Beneficiary to pay all or a portion of the proceeds of a drawing under a Letter of Credit to a third party (Assignee) to be acknowledged by the Paying Bank.

At Sight: A term indicating that an instrument is to be paid upon the bank's determination that the documents comply with the terms and conditions of the LC.

BBN 3 Form: A reporting tool developed by Nepal Rastra Bank showing details of Letters of credit issued by banks wherein payment is to be made in convertible currencies to the foreign beneficiaries. All the banks in Nepal must compulsorily send

this form to Nepal Rastra Bank and the concerned Customs Points immediately after Letters of credit are established, amended or cancelled. This report plays a crucial part in control and monitoring of Foreign Exchange.

BBN 4 Form: A reporting tool developed by Nepal Rastra Bank which shows the details of payment made in convertible currencies by the banks in Nepal as well as the amount of goods entered into Nepal against payment in foreign currencies.

Beneficiary: Exporter/Supplier/Seller in whose favor a Letter of Credit is opened.

Bilateral Key Exchange: Bilateral Key Exchange is an encryption scheme utilized by SWIFT. A Bilateral Key allows secure communication across the SWIFT Network. To have an exchange of authenticate SWIFT message between two or more banks, BKE will be required. The messages exchanged between banks without having BKE arrangement do not bear authenticity.

Bill of Exchange: A written conditional order issued by a party (maker or drawer) ordering another (payer) to pay a certain amount to a third party (payee) at a predetermined future date. Also called *Demand Draft*.

Bill of Export for Duty Free Goods: A Document to be prepared and provided by the Beneficiary/supplier in case of Indian FCY LC's in the format as prescribed by Indian Government/Central Excise Authority which is a mandatory requirement for remitting payment in FCY in absence of which, payment has to be made in Indian Rupees.

Bill of Export for Goods under Claim for Duty Drawback: See *Bill of Export for Duty Free Goods*.

Bill of Lading: A document that establishes the terms of contract between a shipper and a carrier under which freight is to be moved between specified points for a

specified charge, generally issued by a carrier to a shipper. It basically serves a threefold purpose:

- Receipt for the goods delivered to the carrier for shipment.
- A contract of carriage of the goods from the place of receipt to the place of delivery listed in the bill of lading.
- Evidence of title to the goods.

This document is usually required in order for the buyer to take possession of the shipment. A BL may be negotiable or non-negotiable.

Bill of Lading, Bearer: This BL states that delivery shall be made to whosoever holds the BL. Such BL may be created explicitly or it is an *Order BL* that fails to nominate the consignee whether in its original form or through an endorsement in blank. A Bearer BL can be negotiated by physical delivery.

Bill of Lading, Blank Back: In a Blank Back BL, the terms and conditions of carriage on the reverse (back) of the BL are omitted, instead they are listed on a document other than BL. Also called *Short Form Bill of Lading*.

Bill of Lading, Charter Party: A Charter Party BL is a BL issued under a charter party. A Charter Party BL is signed by the owner of the ship or his agent, or by the master or his agent, or a charterer or his agent. More often than not, the charterer is not as financially responsible as the owner of the ship, nor as responsive in the event of a problem concerning the shipment. As a consequence, the Charter Party BL is not as acceptable as one issued by a known steamship company and, unless specifically authorized in the LC, will be rejected by the Issuing Bank.

If a customer requests for a Charter Party BL to be asked in the LC, considering the risk involved in this BL, specific approval will be required from the authority who has the capacity to approve the total credit exposure to that customer by virtue of his/her delegated lending authority.

Bill of Lading, Clean: A BL which bears an indication that the goods were received without damages, irregularities or short shipment, usually the words, “apparent good order and condition”, “clean on board” or the like are indicated on the BL. It bears no clause or notation which expressly declares a defective condition of the goods and/or the packaging.

Bill of Lading, Combined Transport: A Bill of Lading which covers transport of cargo from one point to another – even though this may involve road, rail or other forms of transport as well as shipment by sea. Also called Multimodal Bill of Lading or Through Bill of Lading.

Bill of Lading, Freight Forwarder’s: See *Bill of Lading, House*.

Bill of Lading, House: Freight Forwarders are permitted to group various compatible consignments from different consigner together and to dispatch the cargoes as one containerized consignment. When goods are dispatched in such arrangement, the freight forwarders, who are actually acting as carriers, issue House BL to individual shippers as proof of acceptance of consignment and obtain one Master BL from the shipping company. A House BL clearly shows the contract between the freight forwarder and the exporter to carry goods by sea. Also known as *Freight Forwarder’s Bill of Lading*.

Bill of Lading, Inland Waterway: A BL evidencing shipment of goods through a waterway from a port to another inside the same country.

Bill of Lading, Liner: A Liner BL is issued by shipping companies in respect of goods carried on regular line vessels with scheduled runs and reserved berths at destination. Such means of transport have possible advantages over tramp vessels. Shipping lines serving the same route or destination may form conferences. Within

this, agreements may be made for similar terms and conditions, freight rates, sailing times etc.

Bill of Lading, Marine: A BL evidencing carriage by sea that covers a ‘port-to-port’ shipment.

Unless otherwise stated in the LC, A Marine BL must;

- must appear on its face to indicate the name of the carrier and to have been signed or otherwise authenticated;
- indicate that the goods have been dispatched, taken in charge or loaded on board;
- indicate the place of taking in charge stipulated in the LC;
- appear to contain the terms and conditions of carriage;
- contain no indication that it is subject to a charter party and/or
- no indication that the carrying vessel is propelled by sail only.

Bill of Lading, Multimodal: *See* Bill of Lading, Combined Transport.

Bill of Lading, On Board: A BL indicating that the goods have been loaded ‘on board’ a specified vessel. Also known as ‘Shipped Bill of Lading’ and is the most satisfactory type of BL.

Bill of Lading, Order: A BL that is made out to the order of the foreign importer or its bank, or the order of the export firm, its bank, or another designated party. In Order BL, title to goods being shipped is given by possession of the BL that bears the consigner’s or exporter’s endorsement. Often, this endorsement is in blank, thus giving ownership of the goods to the person possessing the bill, and therefore making the bill negotiable.

Bill of Lading, Short Form: *See* Bill of Lading, Blank Back.

Bill of Lading, Stale: A BL presented to the consignee or his bank beyond the period of 21 days from the date of issuance thereof or after arrival of the goods. Late arrival of this important document will have undesirable consequences such as non-acceptance of the document by the consignee or his bankers, unnecessary warehouse rent, etc.

Bill of Lading, Through: *See* Bill of Lading, Combined Transport.

Bill of Lading, Straight: A BL wherein goods are consigned to a specific person and the word 'To Order' is omitted. The designated consignee takes possession of the goods without presenting the BL. This type of BL is not preferred, as it does not offer any protection against non-payment because shipper loses control over the goods when they are delivered to the carrier.

Unlike *Order BL*, the straight BL does not have to be surrendered to the carrier in order for the importer to obtain possession of the goods.

Bill of Lading, Tanker: A Tanker BL is a form of or similar to the nature of Charter Party BL. Usually its use has been observed in case of transport of petroleum products or oils in bulk.

Business Credibility Information Report (BCI): A Report that shows the credibility position (e.g. current performance, standing, profitability, conduct of account, etc.) of business entities usually provided by internationally accredited Credit Rating Agencies (e.g. Dun & Bradstreet) or their branches in Nepal and banks which have been dealing with such entities directly.

As per prevalent NRB regulations, a BCI Report of the exporting foreign firms, company, or organizations must be obtained by LC Issuing Banks in respect of LC's (sight only) exceeding USD 50,000 or equivalent. BCI report is also required in case

of negotiation or purchase of discrepant documents by the Banks against export LC's issued in favor of the local exporters.

Cargo: Material that is being shipped.

Carrier: Any person or entity who, in a contract of carriage, undertakes to perform or to produce the performance of carriage by rail, road, sea, air, inland waterway or by a combination of such modes.

Certificate of Origin: A certificate of origin is a signed statement providing evidence of the origin of the merchandise. Because of preferential tariff (duties, taxes) rates between some countries, the buyer may require a certificate of origin to certify that the goods purchased have been manufactured in the seller's country, and not another country which may not have preferential tariff arrangements with the buyer's country.

The certificate of origin must be issued or signed by an independent official organization, such as a chamber of commerce, ministry of industry etc. However buyer may agree to have this certificate issued by the supplier or the beneficiary itself.

Charter Party: A Charter Party is a contract for the hiring of a ship, or part of a ship, for a given voyage, or a given period of time to carry cargo.

Claim: See *Reimbursement Claim*.

Claiming Bank: The bank that pays and presents a reimbursement claim to the Reimbursing Bank.

Collection: A method of payment for goods. The act of handling documents on instructions received by banks in order to obtain acceptance or, as the case may be, payment from a drawee.

Collecting Bank: The bank to which the remitting bank sends a draft and/or documents for collection.

Combined Transport Document: Where the through movement of goods involves a transfer of the goods from one mode of transport to another, as from ship to truck, it is referred to as a combined transport and the goods are said to be transshipped.

Under the combined transport document the contract of carriage is for a combined transport from the place of receipt to the place of delivery. The document evidences that the goods have been 'taken in charge' for through carriage from the place of acceptance or receipt to the place of delivery instead of being loaded on board a named vessel.

The document may be issued by an operator that does not necessarily own the vessel used to transport the goods. Also known as *Multimodal Transport Document*.

Commercial Invoice: A bill provided by the seller, addressed to the buyer, giving a description of the goods or services, price, charges, etc.

Commingling: Mixing together or causing to mix together. Normally in the context of shipment of oil in large quantity where the consignee instructs the shipper to mix the oil on the same tanker but such mixing must be of similar grade of oil.

Conference: In export contexts, a 'conference' is an agreement between ship owners which rationalizes sailing schedules and stabilizes freight rates.

Confirmation: Additional definite undertaking given by a bank apart from that of LC Issuing Bank to a Letter of Credit to pay the Beneficiary provided that the terms and conditions of the DC are complied with.

Confirming Bank: The Nominated Bank which, at the request or with the consent of the Issuing Bank, adds its own undertaking in addition to that of the Issuing Bank.

Consignment: A method of sending of goods to another person (i.e. consignee) without transferring the ownership to the consignee, but requiring consignee to effect sales thereof.

Container Vessel: A vessel designed to carry ISO (International Standards Organization) containers. These are generally 40ft (12m) or 20ft (6m) long and may be refrigerated, depending upon the type of cargo to be carried.

Correspondent Bank: A bank which is a depository for another bank and which performs various banking services for it.

Country of Origin: The country where goods are produced or manufactured.

Cover Note: A cover note is a document which is issued in advance of an insurance policy to grant provisional cover pending issuance of the complete policy.

Credit Facility/Appraisal Report: The Relationship Manager(s) having analyzed various aspects of the client decide to provide various services and facilities at certain charges/fees up to a specific sum or limit for a certain period of time. The document listing the facilities provide and charges to be levied for the same is known as the Credit Facility/Appraisal Report.

Delivery Order: A Delivery Order is issued by the bank in order to facilitate the Applicant to release the goods from the customs office or port. As the goods are consigned in the name of the bank it is also the transfer of ownership of the goods. The DO is addressed to the transport company/carrier to deliver the goods mentioned

in the deliver order, to a particular person named therein or to his order or to the bearer of the same.

Delivery Terms: The terms stated in abbreviated form which clearly specify where the seller's responsibility for the merchandise ends and where the buyer's begins during the course of transportation. Some examples of delivery terms are FOB, CIF, CFR etc. Also known as 'Shipping Terms'.

Demand Draft: See *Bill of Exchange*.

Demurrage: A charge levied on a vessel or cargo for delay or detention or for exceeding the free time allowed for loading or unloading at a pier or freight terminal.

Disbursement Sheet: A statement that reflects the credit facilities approved by the Bank in the name of a client and utilization made by the client as of a particular date indicating the request made by the client to use the particular approved line.

Discrepancy: A deviation from the LC terms and conditions.

Dishonor: Refusal on the part of the Drawee to accept a Draft or to pay it when due.

Drawback: The repayment of customs duties paid on merchandise that later is exported either "as is" or as part of a finished product.

Drawer: The party who issues a Bill of Exchange.

Drawee: The party who is directed to pay in a Bill of Exchange.

Endorsement: A signature on the back of a negotiable instrument made primarily for the purpose of transferring the rights of the holder to another person.

Force Majeure: A standard clause in contracts which stipulates that an event outside the control of the parties involved to the contract makes the contract void.

Forward Contract: An agreement between a bank and a customer in which the bank agrees to a fixed exchange rate for the future buying from or selling to that customer of a fixed amount of foreign currency. Forward contracts must be backed by a Letter of Credit and is valid only up to the life of the LC.

Forwarder's Certificate of Receipt: A document issued by the freight forwarder confirming receipt of the consignment described therein with the irrevocable instruction to deliver it to the named consignee, or to make it available to a third party.

Forwarding Agent: An agent who looks after all the freight matters on behalf of the exporter.

Freight: A transportation term meaning either goods being transported, and/or charges incurred for such transport.

Freight Forwarder: The party that arranges shipments for exporters or other shippers for a fee. Its tasks may include preparing documents, booking cargo space, warehousing, pier delivery and export clearance.

Freight Payable or Freight to Pay: A clause usually placed on the face of a transport document which connotes that the entire cost of transportation of a consignment (from the place of loading up to the place of discharge or destination) is to be paid by the consignee before taking delivery of the consignment at the destination.

Freight Prepaid: A clause usually placed on the face of a transport document which connotes that the entire cost of transportation of a consignment (from the place of

loading up to the place of discharge or destination) has already been paid by the consigner before dispatch of the consignment.

Harmonic Code No.: Universally accepted standard code number of the goods that bears the applicable percentage of duties.

Holder: Any person entitled in his own name to the possession thereof and to receive or recover the amount due therein from the parties thereto.

Holder in Due Course: A holder who takes a negotiable instrument in good faith for value before it is due and without any notice of defect in the title of the person who transferred it to him.

Invoice: Bill written by a seller of goods or services and submitted to a purchaser for payment.

Insurance: A contract (policy) in which an individual or entity receives financial protection, or reimbursement, against losses from an insurance company, which pools client's risks to make payments more affordable, in exchange for a premium.

Insurance Policy: A contract detailing an insurance policy and outlining what risks are insured, what insurance premiums are to be paid by the policyholder, what deductibles prevail, and all the details associated with a policy.

Issuing Bank: The Applicant's Bank that issues its undertaking to the Beneficiary in the form of a Letter of Credit.

Late Presentation: A presentation not made within the time permitted after issuance of the transport document. The period is 21 days after the issuance date unless otherwise specified.

Latest Date for Presentation: Latest date by which complying documents may be presented to the bank nominated in the LC.

Latest Shipment Date: Latest date on which goods may be shipped as evidenced by the transport documents.

Lorry Receipt: See *Truck Receipt*

Manifest: A list of the cargo loaded on a carrying vessel.

Maturity Date: The date upon which a draft or acceptance becomes due for payment.

Multimodal Transport: Transportation of goods by more than one mode, for instance, truck, rail, ship, etc

Multimodal Transport Document: See Combined Transport Document.

Negotiable: A term placed on an instrument (draft or other document) which allows title to be transferred from owner to owner by endorsement, usually evidenced by the use of the words 'order of' or 'to order'.

Negotiation: Negotiation means the giving of value of Draft(s) and/or other document(s) by the bank authorized to negotiate. Mere examination of the documents without giving value does not constitute a negotiation.

Negotiating Bank: A Nominated Bank authorized to give value by negotiating the Beneficiary's draft drawn on another, typically the Issuing Bank.

Nepal Invoice (AR4/AR4A): A Document to be prepared and provided by the Beneficiary/supplier in case of Indian FCY LC's in the format as prescribed by Indian

Government/Central Excise Authority which must be enclosed along with BBN 4 at the time of issuance of DO.

Nominated Bank: A bank named in or otherwise permitted by the terms and conditions of the credit to receive a presentation of documents and, if it complies, to give value to the Beneficiary for the presentation against a right to obtain reimbursement from the Issuing bank.

Nostro Account: Operative Account of a bank maintained in another bank.

Notify Party: Party that the carrier is to contact upon arrival of goods at destination.

Open Cover or Policy: A “blanket” insurance policy, which covers all consignments, shipped by the insured within the terms of the open cover. Individual shipments are declared against the open cover as and when they are made.

Packing List: In the event the shipment includes one or more cases containing identical goods, separate packing lists are not required. The packing list enables the buyer or seller to locate a particular item if there are several packages with different contents.

Payee: The party to whom a draft or other negotiable instrument is made payable.

Paying Bank: A Nominated Bank authorized to give value by paying the Beneficiary’s presentation of documents. Customarily, a bank nominated to pay is also authorized reimburse itself in advance of sending documents.

Port of Discharge: The port at which merchandise is offloaded from the vessel.

Port of Loading: The port at which merchandise is loaded aboard a vessel.

Presentation: The delivery of one or more documents to the Issuing Bank or Nominated Bank for payment, acceptance or negotiation under a Letter of Credit.

Presentation Period: The time facility provided to the Beneficiary in an LC for presentation of documents at its bank's counter after shipment is effected for the purpose of acceptance, payment or negotiation. If no such period of time is stipulated, documents must be presented not later than 21 days after the date of shipment, however prior to the expiry of the LC.

Proforma Invoice: A contract between the Buyer (Applicant) and the Seller (Beneficiary) to carry out purchase or sale of a specified quantity of goods for a certain price within a specified period of time.

Railway Receipt: A Railway Receipt (also known as Railway Consignment Note) serves as proof of shipment and acknowledgement of receipt of the goods. It's a contract of carriage between and railway operator and a shipper or the supplier.

Recourse: The right to demand payment to the issuer of a commercial document (check, bill of exchange, etc.).

Reimbursing Bank: The bank with whom the nostro account of the Issuing Bank is maintained and which is authorized by the LC Issuing Bank to honor the claim that can be made directly by the Negotiating Bank after negotiation of documents in strict compliance with LC terms. To accommodate the claim(s), a debit authority is placed with the Reimbursing Bank by the Issuing Bank to debit its nostro account as soon as the claim is lodged.

Reimbursement Authorization: Instruction issued by the Issuing Bank to a Reimbursing Bank to reimburse a claiming bank.

Reimbursement Claim: The request for reimbursement made by the claiming bank to the reimbursing bank within the time as stipulated in the LC, if any.

Usually value date of a claim falls due 3-5 days after the lodgment of the claim which should be clearly indicated in the LC.

Reimbursement Undertaking: A separate irrevocable undertaking by the Reimbursing Bank, issued upon the authorization or request of the Issuing Bank, to the Claiming Bank to honor that bank's reimbursement claim.

Road Consignment Note: A document that evidences road carrier's or transporter's receipt of the goods, but does not represent the title to the goods and is therefore not a negotiable instrument. It's a contract of carriage for road transportation between and road carrier/transport company and a shipper.

Shipper's Load and Count: The phrase "Shipper's Load and Count" means cargo moving under a BL where the carrier acts as a transport contractor without responsibility for loading or unloading. The carrier marks this phrase on the BL if it does not supervise the loading or unloading of the cargo, which is the typical case in a full container load shipment.

The carrier often adds the words "said to contain" or "said by shipper to contain" before the number of units of a commodity, for example, "3 40-FT, CONTAINERS SAID TO CONTAIN 4095 CARTONS RUBBER SHOES".

Shipping Guarantee: Shipping guarantee is a guarantee that enables the Applicant to take delivery of the goods before the receipt of the original bill of lading. When goods shipped under an LC arrives at the *Port of Discharge*, and documents along with original B/L have not arrived either due to delay or lost in transit, the carrier or customs or the port authority will not hand over the goods to the consignee without

presentation of BL. However they may agree to release the delivery of goods upon presentation of a shipping guarantee to cover risks for damages in event of claim for title of goods from the person/party holding the original B/L.

As Shipping Guarantee enables the customer to clear goods before the arrival of the documents of title, it must be issued in respect of LC's issued by *the Bank* itself with prior approval of CEO. A shipping guarantee must be issued for upto 100% of value of the underlying B/L and should normally not be outstanding for more than a month.

Shipping Terms: See *Delivery Terms (Incoterms)*

Tanker: A tanker is a bulk carrier designed to transport liquid cargo, most often petroleum products. Oil tankers vary in size from small coastal vessels of 1500 tons through medium-sized ship of 60,000 tons, to the giant VLCCs (Very Large Crude Carriers).

Tariff: A general term for any listing of rates or charges.

Tenor: The length of time a draft is drawn to run before presentation for payment.

Transshipment: Unloading and reloading from one vessel to another vessel during the course of a carriage.

Truck Receipt: A document that evidences road carrier's or transporter's receipt of the goods, but does not represent the title to the goods and is therefore not a negotiable instrument. It's a contract of carriage for road transportation between and road carrier/transport Company and a shipper.

Trust Receipt: A document given by an importer customer to this banker in which he undertakes to take delivery of the documents, collect and store the goods imported in

the bank's name; take the goods for processing into semi-finished or finished goods, returning these goods for storage in the bank's name and/or taking delivery of the goods for the purpose of selling them and to pay all sale proceeds to the bank within the agreed time period.

Trust Receipt Loan: A loan facility granted against the security of a 'Trust Receipt'. Usually a Trust Receipt loan facility is complimentary to a letter of credit. Sometimes it is granted as a separate facility to finance other import bills not under letters of credit.

Underlying Transaction: The transaction underlying the LC, usually a reference to the commercial or financial transaction between the Applicant and the Beneficiary.

Waiver: A Waiver is the relaxation or relinquishment to an established condition or a specified rule or a known right or privilege. Waivers are usually given to standard tariff rates as prescribed by SSC, established rules of the Bank, discrepancies (by the Applicant) etc.

With Recourse: A term used on an instrument or endorsement to indicate that the drawer or endorser is liable to subsequent holders for payment at maturity.

Without Recourse: A term used on an instrument or endorsement to indicate that the drawer or endorser is not liable to subsequent holders for payment at maturity.

Working Day: The day when all normal banking transactions are carried out in the Bank.

2.1.6. Reasons for Using Letter of Credit

LC is used in national and international trade for number of reasons. Some of which are discussed below.

- **New Trading Relationship:** It may often be advisable to use LC in new trading relationship as the security is given to the both parties, i.e. for applicant and beneficiary. The beneficiary known that he/she will get paid if he complies precisely with the LC and the importer can ensure that he/she requests the entire document required by the contract of sales and purchase and known that the beneficiary will not be paid unless he complies with LC term.
- **Letter of Credit Required by the Credit Insures:** Credit insurer will specify the need for the seller to trade on LC terms to buyers in certain market. When exporter required trading on irrevocable LC, the underwriter will be risk in the event that documents are presented to the advising bank in compliance with the terms of LC.
- **Legal Reason:** Some countries insist the imports are paid for under LC to help manager exchange control regulation.
- **Strategic Decision Made by the Exporter:** The strategy of exporter as to how to sell to certain buyers in specific market should be flexible to adapt to the changing risk profile of the both country and the buyers. A strategic approach to the risk management will allow the exporter greater flexibility in protecting the payment risks and will inevitably lead to reduce bank costs because the most effective solution will be adapted.

2.1.7. Documents under Letter of Credit

In the transaction of the letter of credit documents are very important elements to execution of order of export and it helps the bank to transact properly. The transaction of the letter of credit is done through documents, so it is called documentary credit also. Therefore both the parties specially the exporters carefully prepare the documents for the letter of credit. The principal documents required for letter of credits are as mentioned below:

- **Financial Document**
 - **Bill of Exchange:** For a sight letter of credit a Bill of Exchange is not

required but Usance LC it is compulsion. It is also commonly known as Draft. “A bill of exchange is an instrument in writing containing unconditional order, signed by the maker, directing a certain person/to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument” (Kuchhal, 2005 : 350). A Bill of Exchange is a negotiable instruments required when the beneficiary would like to negotiate documents under LC. It is called a negotiable instrument because it is document, which by endorsement and delivery passes on the full title to the instrument to the transferee. It may be a sight draft or time draft maturing on date it falls due. A sight draft matures on the third day after the day on which it is expressed to be payable. A time draft payment is calculated and determined by excluding the day from which the time is to begin and by including the day of payment.

- **Commercial Document**

- **Performa Invoice:** Basically, it is a form of quotation by the seller to a potential buyer. Normally, it shows the terms of trade and prices in additions to the description of the goods so that once the applicant has accepted the order, there is a firm contract to be performed as per terms and condition mentioned in it. Normally, it forms the bank for all transaction.
- **Commercial Invoice:** This is the accounting document by which the seller charges the goods to the buyer. It is prepared on the basis of the sales contract and in accordance with credit stipulation. A commercial invoice normally includes:
 - Invoice number and date.
 - Name and address of buyer, seller and issuing bank.
 - Order or contract number, quantity and description of goods, unit price and the total price.
 - Weight of the goods, number of packages, shipping marks and numbers.
 - Terms of delivery and Payment.

- Shipment details.
- Harmonic Code number.

- **Packing List:** This contain information of packing details e.g. total number of pieces, number of cartoons and number of each package. It will also state name and address of beneficiary and account besides the LC number.

- **Certificate of Origin:** This is a signed statement providing evidence of the origin of goods. Normally certificate is authenticated by an independent official organization such as Chamber of Commerce. The certificates are usually in a mandatory form and manner. The certificate contains detail of the shipment to which it relates, states the origin of goods and bear the signature and the seal of the certifying body.

- **Inspection Certificate:** This is basically a certificate issued by internationally reputed inspection company or appointed parties or person acceptable to the importer. This authority checks and inspects the goods to be shipped under the letter of credit and issue a certificate that shows goods have been inspected and examined and found to be according to the requirements of the order.

- **Transport Documents:** This is one of the most important documents in documentary letter of credit operation. The transport document is the document that certifies and authenticates the movement of goods from the seller to the buyer destination.

The common mode of transportation and document thereof are as follows:

- Marine bill of lading
- Combined transport bill of lading/transport document
- Airway bill
- Truck receipt
- Railway receipt

- Post parcel receipt
- **Marine bills of Lading:** This is a type of transport document normally applicable to a carriage of goods solely by sea. Unless otherwise stipulated in the credit this document must indicate that the goods have been loaded on board or shipped on a named vessel. “A bill of lading is a document issued by the shipper or by the master or captain of the ship or other agent in exchange of Mate’s receipt after the goods have been placed on board the ship for being carried to a specific destination” (Kuchhal, 2005:3547).
- **Combined transport bill of Lading:** This is the type of transport document normally applicable to a carriage of goods by at least two modes of transport unless otherwise stipulated in the credit this document may indicate either dispatch or taking in charge of goods or loading on board as the case may be and undertakes liability from the place of receipt up to the place of delivery.
- **Combined transport Document:** Where several modes of transports are to be employed such as ocean going vessel, In-land water ways, barge and trucks then a combined transport document or through BL are used.
- **Airway Bill:** The receipt issued by an airline or its agent for the carriage of goods through air is called airway bill or air consignment note.
- **Truck Receipt:** It is a transport document certifying dispatch of goods by truck when consignment is to be made from a landlocked country and for local delivery mostly a truck receipt is used.
- **Post Parcel Receipt:** Goods dispatched through the postal system and documents specifying the dispatch of goods through this mode are known as post parcel receipt.

Details of Transport Documents;

- Should indicate that it has been issued by a named carrier or his agent.
 - A description of the goods in general terms not inconsistent with that in the credit.
 - Identifying marks and numbers (If any).
 - Name of the carrying vessel or the name of the intended carrying vessel in case of a combined transport bill of lading including sea transport.
 - An indication of dispatch or taking in charge of the goods or loading on board as the case may be.
 - An indication of the place of such dispatch or taking in charge or loading on board and the place of final destination.
 - The name of shipper consignee (If not made out of order) and the name and address of any notifies party.
 - If freight has been paid or is still to be paid.
 - The number of originals issued to the consignor if used in more than one original.
 - Date of issuance of the transport document.
-
- **Insurance Certificate/Policy:** Insurance is obtaining financial protection against happening of an accidental events or loss. Sending goods from one place to another entails risk and to manage and safeguard the interest of commercial parties and transactions insurance are done.

Insurance is an agreement whereby the insure indemnifies the assured in the manner and to the extent thereby agreed against loss.

Open Policy: It is a type of insurance covering goods notice of which is not stated but has to be proven in the event of loss accruing.

Cover Note: A cover is document, which is issued in advance of the policy to grant provisional cover pending issuance of the policy. (NRB Directives)

Specific Policy: The policy granted to cover a single shipment or consignment.

Special Policy: This is issued for a period of twelve months and suitable for traders whose shipments are in regular manner. It is in the favor of the owner of the goods and the banks interest will be recorded in the policy.

An insurance policy can be for up to 300% of total consignment value and not less than for 100% Value. In banking practices it should be for minimum of 110% of CIF value of shipment, date operating CIF value of shipment, date appearing on the policy is not later than the date appearing on the B/L be in negotiable form i.e., countersigned and endorsed and be in complete form with original and duplicate.

Unless otherwise stipulated in the credit documents must be issued and signed by insurance companies or underwriters or their agents be dated on or before the date of shipment evidenced by transport document and be for an amount at least equal to CIF value of the goods plus 10% in currency of the credit.

2.1.8. Pre-requisites for Opening of Letter of Credit

While opening letter of credit, applicant has to submit various important documents. NRB has directed that applicant have to submit various document related to the import trade. Those documents are given as follows:

- Income Tax renewed certificate.
- Firm Registration Certificate (duly renewed).
- Should have income certificate, PAN certificate and VAT certificate.
- The customer should be current account holder.
- The photocopies of the Proprietor/Partner/Director.

- The Proprietor/Partner/Directors name should not be registered in blacklist or defaulter list.
- Limit approval or review period bank should collect the copy of firm's financial documents, CIB report or Board minutes.
- Customer should be creditworthiness in the market.
- Permission is required from the NRB in case of applicant is an individual or non registered firm.
- In case of Private limited, minute must be presented, among those Articles of Association (AOA) and Memorandum of Association (MOA) is submitted.
- Performa Invoice/Indent/Sales Contract issued by beneficiary/indenter:
There must be following indication details.
 - Name of Goods, Model/Brand
 - Quantity, Rate Per Unit and Total Price
 - At least 8 digits Harmonic Code
 - Country of Origin
 - Delivery Terms (in accordance with INCOTERMS 2000)
 - Tenor of LC e.g., Sight/Usance (no. of days)/deferred payment (no. of days)
 - Should not contain clauses like "All discrepancies acceptable" (As per NRB circular No. 381)
 - From..... and To.....
 - Custom points if any
- LC applicant duly filled up signed & stamped by opener/Account/ Applicant.
- Bi. Bi. Ni. 3 (not required for LC opened in IRS & NRS)
- Garment of Association Recommendation's letter (To import fabric for India only)
- Trade and Export Promotion Committee (To import wool only)
- Insurance Policy in case of LC opened on FOB, CFR & C&F Basis.

2.1.9. Advantage of Letter of Credit

“A letter of credit is advantage to the seller in that by the terms of the contract he is given a reliable pay master generally in his own country whom he can sue and of advantage to the buyer in that he can make arrangement with his bankers for the provision of the necessary funds” (*Cari, 2008 : 182-183*). The advantage of letter of credit can be classified from two points of view that are from Buyer & Seller point of view.

To the Buyer

- Assurance his bank will refuse payment to seller unless terms and condition given by him to his bank as stipulated in the credit are met.
- Extended terms of payments, which in any other form of payment means wouldn't be available.
- Refinance of goods until they are marketed.

To the Seller

- Relies more on credit extending bank then the buyer.
- Less apprehensive that payment for goods might be delayed or jeopardize by political acts or other problems in the buyer's country.
- Enable to obtain loan from banks to prepare goods for shipment prior to making a shipment of just after making shipment.

Some More Advantage of Letter of Credit

The beneficiary is assured of payment as long as it complies with the terms and conditions of the letter of credit. The letter of credit identifies which documents must be presented and the data content of those documents. The credit risk is transferred from the applicant to the issuing bank.

The beneficiary can enjoy the advantage of mitigating the issuing bank's country risk by requiring that a bank in its own country confirm the letter of credit. That bank then takes on the country and commercial risk of the issuing bank and protects the beneficiary.

The beneficiary minimizes collection time as the letter of credit accelerates payment of the receivables. The beneficiary's foreign exchange risk is eliminated with a letter of credit issued in the currency of the beneficiary's country.

CHAPTER- III

RESEARCH METHODOLOGY

Methodology may be defined as a systematic process that is adapted by the researcher in studying problem with certain objectives in view. In other words research methodology describes the method and process applied in the entire aspects of thesis. “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (*Clair, Seltiz and others, 1962:22*).

The basic objective of this thesis is to analyze theory and practice of LC to enhance Letter of Credit theory and practice in Nepal for the improvement of business transaction. Thus in the chapter focus have been made on different law regarding letter of credit, documents require for letter of credit, rolled played by NRB for monitoring LC as well as NRB Act and Commercial Bank Act 2031 has been examined meticulously. The internationally accepted UCP 600 and ISBP 2007 for LC transaction has been taken as reference along with various circular issued by NRB and directives of NRB for LC Transaction have been consider as key factor for Letter of Credit transaction.

3.1 Research Design

Research Design helps to collect quantum of accurate data economically but there is various type of research design. Here, is applied descriptive and analytical research design as it deals with the descriptive of the situation and Interpretation of data.

3.2 Source of Data

There are two methods of collecting the source of data:

- **Primary Data**
- **Secondary Data**

- **Primary Data**

Those types of data, which is collected by own intellectual power, field observation, questioning etc. Primary data's are not collected and mentioned in my study.

- **Secondary Data**

The data which are collected by the help of other peoples, professors, students, books, library, thesis, articles, report, journal, directives and circulars etc. Economic Performance, This study is based on descriptive, as the directives of NRB on LC this thesis is performed. The secondary sources of data directly collected from its Central Foreign Department of Kumari Bank Limited and bank's web sites.

CHAPTER- IV

DATA PRESENTATION & ANALYSIS

4.1. Letter of Credit Opening Procedure

This section lays down the guidelines or practice in respect of Issuance, Amendment and Cancellation of Letters of Credit.

It will be the responsibility of LC Assistant to ensure fulfillment of all the steps spelt out in this section unless the context specifically requires otherwise.

LC Assistant must ensure that the Applicant has maintained an account with the Bank prior to issuance of an LC all transactions relating to an LC shall be performed only through the account opened in the name of the concerned firm or company. However this requirement shall not be applicable to Government owned corporation or public limited company in which case, only the authorization letter certified by the authorized officer would be sufficient.

4.1.1. LC Assistant shall receive LC Application Form from the Client, affix Time stamp on the form and scrutinize it ensuring that all relevant documents as mentioned below are duly enclosed:

4.1.1.1 Proforma Invoice/Sales Contract/Indent indicating name of the Supplier/Beneficiary, description of goods, brand and model number of the goods if required, unit price, total quantity, total amount, country of origin, eight-digit Harmonic Code No., Tenor of LC (this must correspond with what is mentioned in Application form), Delivery Terms and preferred Advising Bank, if any.

4.1.1.2 B.B.Ni. Form No. 3 (Only for convertible Foreign Currency LC's issued outside Nepal).

Users' Notes:

a. B.B.Ni. Form No.3 is not applicable for Indian/Nepalese Rupees LC's.

- b. The FCY LC's issued favoring a Nepalese Beneficiary (ies) inside Nepal will not require a B.B.Ni. Form No. 3.
- 4.1.1.3 Updated and renewed Firm/Company Registration Certificate and PAN certificate, if applicable.
- 4.1.1.4 Written undertaking/indemnity from the authorizing person of the firm that s/he shall be fully responsible for the acts done by the designated persons to carry out LC transactions with the Bank on behalf of the firm/company have to be obtained.
- 4.1.1.5 If LC transaction is being done for the first time with a firm/company, detail information as to firm's financial standing, standing, experience, address, phone no., fax no., as well as confidentiality of the owners has to be obtained.
- 4.1.1.6 Certificate from Nepal Wool and Carpet Development Board for import of wool.
- 4.1.1.7 Certificate from Nepal Readymade Garment Association to import fabrics from India against convertible FCY.
- 4.1.1.8 BCI Report of the Beneficiary (if applicable i.e., as per NRB circular, should have to be obtained more than USD 50,000/- at sight LC only).
- 4.1.1.9 Insurance Policy/Certificate in case where transit insurance is to be arranged by the Applicant.

Users' Note:

Please refer to the Sub-clause no. 4.1.2.12 for details of risks to be covered in an insurance policy.

- 4.1.1.10 Approval from Department of Drug Administration in case of import of medicine through LC for a pharmaceutical unit.
- 4.1.1.11 Approval from Ministry of Information and Communications in case of communication equipments (other than licensed by GON).
- 4.1.1.12 Approval from Ministry of Population and Environment for old/used cloths, metal and plastic scraps and second hand equipments for non-industrial imports.

4.1.1.13 Any specific approval from any other governmental authority/body or NRB, if required.

4.1.2 LC Assistant will make sure that Application Form along with B.B.Ni. 3 and attachment(s) containing additional terms of the LC are completely, correctly and consistently filled in showing the details as mentioned below:

4.1.2.1. Name and address of Applicant along with PAN no.

Eligibility of Importer/Applicant

- L/C outstanding should not be more than 20 times of the registered capital if the applicant is not a limited company. (*as per NRB circular No. 381*)
- Up-to-date firm/company registration certificate and PAN certificate.

Eligibility of Importer for import from India in FCY

- a. Must be a manufacturing industry.
- b. Must be an Energy-based industry having capacity of up to 5 Mega Watts.
- c. Holder of FCY account opened in the name of Donor Agencies.
- d. Diplomatic Mission holding FCY accounts.
- e. Foreign Nationals and Foreign Institutions holding FCY accounts.
- f. Nepali and foreign contractors who are awarded contract under the Global Tender and are holding FCY accounts, however, submission of recommendation letter from the concerned agency of Government of Nepal (Ministry, Department or Project) that such imported merchandises are meant for the purpose of the project is compulsory.

4.1.2.2 Name and complete address of Beneficiary along with Tel. No., Fax No. etc.

4.1.2.3 Tenor of LC.

4.1.2.4 Currency and Value of LC stated in both figures and words.

4.1.2.5 Mode of communication/transmission (by mail, SWIFT etc).

4.1.2.6 Latest shipment date, expiry date, number of days for presentation of documents, tenor of Draft.

4.1.2.7 Place of Loading and place of Delivery/Discharge including final destination in Nepal (i.e. shipment details).

4.1.2.8 Customs entry point in Nepal.

4.1.2.9 Bearer of bank charges outside Nepal.

4.1.2.10 Description of Goods.

Users' Notes:

- Make sure goods to be imported is in compliance with NRB regulations and harmonic code(s) tally with the Customs Tariff Manual issued by Department of Customs.
- Make sure approval from Nepal Rastra Bank or any other government authorities, as the case may be, is duly in place for the forbidden goods.

4.1.2.11 Name Documents along with the respective issuers' name, if applicable. Avoid, to the extent possible, ambiguous terms as regards issuers of documents e.g. 'first-class', 'independent' etc.

4.1.2.12 Insurance terms if it is to be arranged by the Beneficiary:

- Percentage of risk coverage (should be at least 110% of Invoice value)
- Details of risks to be covered

In case of Sea Transportation

Institute Cargo Clause (ICC) 'A', Institute Strike Clauses cargo, Institute War Clauses Cargo, TPND, all risks up to a named place in favor of *the Bank* or blank endorsed.

Users' Note:

If insurance is not up to final destination in Nepal, additional insurance policy for risk coverage from the named place up to the final destination in Nepal is required to be submitted by the Applicant not later than the date of retirement of Import bills under the LC.

In case of Air Transportation

Institute Cargo Clause (ICC) 'A' Air Cargo, Institute Strike Clauses Air Cargo, Institute War Clauses Air Cargo, TPND, all risks up to a named place in favor of *the Bank* or blank endorsed.

Users' Note:

If insurance is not up to final destination in Nepal, additional insurance policy for risk coverage from the named place up to the final destination in Nepal is required to be submitted by the Applicant not later than the date of retirement of Import bills under the LC.

In case of Road Transportation

Inland Transit Clause (ITC) 'A', Institute Strike Clauses Cargo, TPND, Risk of Terrorism, Road Risks up to a named place in favor of the Bank or blank endorsed.

Users' Notes:

- In case of insurance to be arranged by the Applicant, same risks shall be covered in the Insurance policy/certificate to be submitted by the Applicant not later than the date of retirement of Import bills under the LC.
- Any waiver in Insurance risk coverage will be governed by Credit Policy Guidelines 2006.

For the purpose of this article, open Insurance policies are acceptable provided that the declaration endorsement/statement is in the Bank's name for up to the value of the LC together with the premium payment receipt has been attached with the open policy.

4.1.2.13 Authority to debit account, attestation of alterations if any.

4.1.2.14 Applicant's agreement to Bank's terms and conditions (usually printed on the reverse of the Application Form).

Users' Note:

Applicant's signature on the face of the LC application form will deem to be their agreement to all the conditions laid down in the reverse side of LC application form.

- 4.1.2.15 Additional Conditions of the Applicant if any. Controversial clauses like 'All discrepancies are acceptable' are forbidden by Nepal Rastra Bank and shall therefore remove from the LC.
- 4.1.2.16 In case of LC of Trading firms where direct TT reimbursement facility has been allowed in the LC, 10% additional margin apart from the customary margin shall be collected and a NRB Cheque shall be issued for such amount which shall be given to the client at the time of retirement of documents.
- 4.1.2.17 Check whether or not Advising Bank's name and address has been mentioned in the Application.

Users' Notes:

- a. Ensure that it falls under the approved correspondents' list provided by Correspondent Banking Department.
- b. If not, decision as to selection of a bank to advise LC will depend on the domicile of the beneficiary provided that the bank selected falls under list of approved correspondents for handling LCs. If the selected bank does not happen to be the same as requested by the Applicant, the bank appearing in LC Application form may be designated as the second Advising Bank.
- c. In places where approved correspondents are not available, a bank that functions as the global trade service unit and is able to advise LC globally can be designated as the Advising Bank with concurrence of CBD ensuring BKE is established with that bank.
- d. LCs opened at the request of Nepalese Importer(s) shall be sent to the foreign beneficiary (ies) through a correspondent bank only.

- e. Try as far as possible to nominate the bank itself as the Advising Bank in case of local LC's (both LCY and FCY). If Applicant requests to designate any other local bank, CFT shall do so as requested.
- 4.1.2.18 Check whether or not confirmation has been asked in the LC. If yes, the consent of TD or CBD must be obtained regarding confirmation as well as the bank to be used for confirmation.
- 4.1.2.19 LC Assistant should also ensure that:
- Documents which beneficiary cannot obtain or provide are not called for in the LC.
 - LC does not require a document to contain details which are not within the issuer's knowledge.
 - LC does not state conditions or events whose observance cannot be ascertained from the face of the documents. A certificate as to performance of such conditions or events can be asked in the LC as a supportive document.
- 4.1.3 Verify Signature(s) through the system. The staff doing so shall affix a "signature verified" stamp and put his/her initial.
- 4.1.4. Prepare Disbursement Sheet.
- A Disbursement Sheet must be prepared for both regular as well as new clients.
- For regular clients, while preparing Disbursement Sheet, the LC staff must include all the credit facilities/limits approved by the Bank in favor of the customer together with the customer's outstanding position as of date and raise any discrepancies or irregularities either in the financial status or the terms and conditions of the requested LC.
- For new customers or for a customer who does not have a regular LC facility approved by the Bank, disbursement sheet will be raised by the LC Assistant showing the position of credit facilities enjoyed by the client, if any, or otherwise showing just the amount of the requested LC along with discrepancies/deviations if any.

Procedures for preparing Disbursement Sheet are as follows:

- Refer to the latest CFR/CAR/DN to find out the amount of regular or one-off limits sanctioned to the customer and show it in the respective rows/columns of the Disbursement Sheet.
- Generate customer's Customer Liability Report (CLR) as well as Outstanding LCs' list from the system. These reports give full details of the customer's total outstanding position as of a particular date. Show these details in the respective rows/columns of the Disbursement Sheet.
- Check whether or not all outstanding figures are within the prescribed limit and the current account/overdraft balance is sufficient to cover the charges and margin required.
- Show the one-off or ad-hoc limits and outstanding under them separately and distinctly from the regular limits.
- Disclose the following information too in the Disbursement Sheet:
 - Expiry Date of credit facilities, if applicable. If LC limit for the requested LC is not a regular limit or is a one-off limit, mark 'One-off' or 'Ad-Hoc' as the expiry of the limit.
 - Requested LC Amount in FCY and LCY including tolerance, if any.
 - Beneficiary's name and address (in brief).
 - Name of Goods to be imported (in brief).
 - Rate of Margin and Commission (ensures if any change has been made in the existing margin or commission rate).
 - Any discount or waiver in communication charges or commission.
 - Authorized capital of the Applicant if it's not a limited company.
- If there are any special conditions or deviations in the requested LC such as incorporation of Charter Party/Blank Back/Tanker/Short Form Bill of Lading instead of a usual Master Bill of Lading, non-submission of insurance policy by the Applicant if LC requires so, absence of authorized signature or non-verification of signature(s) in application form, past dues outstanding, credit limit overstepping, credit rating of the beneficiary not

specified or rating being higher than average credit risk in BCI report, account overdrawn, expired credit facilities, BLC outstanding, non-matching of request with the terms of Credit Appraisal Report or any deficiencies in terms of completeness of the Application, etc. such deviations must be brought to the attention of the appropriate authority through Relationship Managers and approved from Chief Executive Officer or the appropriate lending authority(ies).

- The expired credit facilities, overstepping of any limit, utilization of a credit limit by marking lien or blocking another credit limit or adjustments in limits will also require clearance from Credit Administration and Control Department apart from the approval from the requisite lending authorities.
- In normal circumstances when no deviation is found and the requested LC falls within the approved limit, LC Supervisor shall approve the transaction requested in a Disbursement Sheet.

4.1.5 Prepare LC open Checklist and ensure whether the requested LC goes well with all the requirements of Checklist. Get it approved by the department Officer/Branch Manager or the appropriate authority (ies).

Users' Notes:

- In case of Branch Customers, the LC Assistant of the concerned branch shall follow the procedure as spelt out in Clauses no. 4.1.1 up to 4.1.5 above.
- After ensuring compliance to Clause no. 4.1.1 up to 4.1.5 as stipulated above, concerned LC Assistant to forward the application and LC checklist to CFT through Fax or Email (scanned copies) or any other expeditious means for further processing.
- Ensure that the CFR/CAR/DN is valid and the L/C falls within approved limit. Follow up with Credit department for necessary approvals, if required.

Procedures to be followed at CFT after receipt of LC Application from branches

- Upon receipt of Application forwarded by Branch, LC Assistant will put the date and time of receipt of application form at the front/back side of the application.
- LC Assistant will check the Application along with other attachments as well as LC Checklist and Disbursement Sheet thoroughly.
- LC Assistant will check for any irregularities and ensure approval in that respect if required.
- LC Supervisor will authorize LC checklist to ensure that all requirements have been fulfilled by the branch.
- After authorization of LC Checklist from LC Supervisor, LC Assistant to proceed further for the remaining steps.

4.1.6 After ensuring compliance to the Clauses no. 4.1.1 up to 4.1.5 above, LC Assistant at CFT will provide a reference number and issue date to the LC.

The registers for LC numbers are to be maintained in CFT as per the following manner:

- NPR and INR LC's are to be registered under the same sequential order.
- Separate sequential/serial numbers are to be allocated for FCY LC's.

4.1.7 Input the LC in Trade Finance module in system as per the requirements of various fields and prepare the debit advice to be given to the customer for the charges and margin to be collected.

4.1.8 Prepare LC work card after inputting of data in the system and fill up the details of charges and margin along with contingent liability (both FCY and LCY) and other information as applicable. Affix it in the concerned LC file.

4.1.9 LC Supervisor will authorize LC in the system ensuring that charges and margin are collected accurately.

After authorization, the system auto-generates entries and also maintains the LC History.

4.1.10 LC Assistant will prepare LC text taking into account the mode of transmission/dispatch. The mode of transmission can be SWIFT or postal courier service.

Users' Note:

- MT700 is the valid message format for an amendment message through SWIFT, unless the context requires otherwise.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.1.11 After preparing the text, the Assistant preparing the text shall review the text at least once to ensure that all terms and conditions as per Application form have been incorporated and errors and omissions have been rectified wherever required and mark his/her signature on the LC text.

4.1.12 Forward the LC text to the LC Supervisor for further verification/scrutiny.

4.1.13 After due verification/scrutiny of text,

- Get a final copy of the text in 2-ply paper in case of SWIFT transmission.

OR

- Have a print-out in bank's Letter Head in case of LC to be dispatched through postal/courier service and mark bank's stamp, watermark and protectograph (cheque-writer) wherever required.

LC Supervisor shall sign in the text and have another signature(s) in it as per *the Bank's* policy in respect of requirement of signature for a financial transaction.

4.1.14 After proper authorization/signing of LC text, LC Assistant will

- Forward the duly signed copy (preparer, checker and authorizer) of LC text to the SWIFT department for transmission and keep a copy in the concerned file and in case of branch LC, provide the final copy of LC text to the concerned branch vide email or fax,

OR

- Arrange for the dispatch of the LC through postal/courier service/hand delivery, whichever is applicable, and keep a copy in the concerned file and in case of branch LC, provide the final copy of LC text to the concerned branch vide email or fax.

4.1.15 After transmission of the LC through SWIFT, LC Assistant will re-check the dispatched text with the file copy, confirm his/her action by putting his/her initial on the message and file in the concerned file. Send a copy of the transmitted copy to the concerned branch and hand over a copy to the Applicant for record.

4.1.16 In the cases where LC allows direct TT reimbursement facility, it is necessary that *the Bank's* correspondent, with whom Bank's nostro account is held, be availed of an authority to debit our account with themselves to honor the claim of the negotiating bank or any other nominated bank. So LC Assistant will ensure Reimbursement Authority is sent immediately after LC is transmitted /dispatched.

The following procedures shall be followed for reimbursement LC's:

4.1.16.1 Prepare Reimbursement Authority(ies) (RA) taking into account the mode of transmission/dispatch. The mode of transmission can be SWIFT or any other pre-defined format, as applicable.

Users' Notes:

- MT740 is the valid message format for a reimbursement authorization under SWIFT, unless the context requires otherwise.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.1.16.2 Collect charges as applicable and update work card.

4.1.16.3 Clauses no. 4.1.11 up to 4.1.15 shall be followed for other steps relating to processing and finalization of RA text and its subsequent verification after dispatch.

- 4.1.17 Usually if straightforward confirmation instruction is incorporated in the LC, a direct TT reimbursement facility shall also be provided in the LC. However if confirmation instruction is conditional or it's not clear from confirmation instruction that the beneficiary is really desiring LC confirmation, LC Supervisor will decide whether or not to provide direct TT reimbursement facility in the LC, however, in consultation with the Applicant.
- 4.1.18 Any open-ended or back-dated LC's are strictly prohibited.
- 4.1.19 Any request of the customer to provide LC number before it is opened should be declined.
- 4.1.20 LC Assistant to ensure that *the Bank's* panel of approved Clearing Agents is updated from time to time. All transactions relating to clearing goods from Indian customs, forwarding and transporting shall be done through such enlisted agent or companies. Approval from MO or above will be required for empanelment of a new clearing agent.

4.2. Letter of Credit Amendment Procedure

Any change to the existing terms and conditions of a Letter of Credit is termed as Amendment. If the Beneficiary believes that it will be unable to meet any term or condition, it asks the Applicant for an amendment to the LC. Any term and condition in an LC can be amended if the relevant parties viz. applicant, issuing bank, confirming bank, if any, and the beneficiary. Amendment is normally initiated by the Applicant.

The amendment must be routed through the advising bank with whom the LC had been initially advised.

Following steps shall be followed while carrying out an amendment to a Letter of Credit:

- 4.2.1. Receive the Amendment Application from the Applicant, affix "Receipt" stamp on the form and scrutinize it ensuring that all relevant documents as mentioned below are duly enclosed:

- 4.2.1.1 BBN Form No. 3 (For convertible FCY LC's issued outside Nepal).
- 4.2.1.2 If amendment is being made on description of goods, brand and model number of the goods, unit price, total quantity, total amount, country of origin, Harmonic Code No., Tenor of LC or Delivery Terms, Revised Proforma Invoice/Sales Contract/Indent shall be obtained.
- 4.2.1.3 Business Credibility Report of the Beneficiary (if LC value will exceed USD 50,000.00 by virtue of the requested amendment).
- 4.2.1.4 Insurance Policy/Certificate, if the requested amendment requires insurance to be arranged by Applicant.

Users' Note:

Please refer to the Sub-clause no. 4.1.2.12 for details of risks to be covered in an insurance policy.

- 4.2.2 Verify Signature(s) through the system. The staff doing so shall affix a "signature verified" stamp and put his/her initial.
- 4.2.3 Prepare Disbursement Sheet if there is any deviations in the request and/or if the requested amendment is for increase in the value of LC.

Other Procedures will be same as in Clause no. 4.1.4 above for preparing Disbursement Sheet.

Users' Notes:

- In case of Branch Customers, the LC Assistant of the concerned branch shall follow the procedure as spelt out in Clauses no. 4.2.1 up to 4.2.3 above.
- After ensuring compliance to Clause no. 4.2.1 up to 4.2.3 above as stipulated above, concerned LC Assistant of the branch to forward the application to CFT through Fax or Email (scanned copies) for further processing.

Procedures to be followed at CFT after receipt of Amendment Application from branches;

Upon receipt of Application forwarded by Branch, LC Assistant will put the date and time of receipt of application form at the front/back side of the application.

- Check the Application thoroughly along with other attachments, if any, as well as LC Checklist and Disbursement Sheet.
- LC Assistant will check for any irregularities and ensure approval in that respect if required.
- LC Supervisor will authorize LC checklist to ensure that all requirements have been fulfilled by the branch.
- After authorization of LC Checklist from LC Supervisor, LC Assistant to proceed further for the remaining steps.

4.2.4. Input the Amendment using Amendment option under Trade Finance module in the system and prepare the debit advice to be given to the customer for the charges and margin, if any, to be collected.

4.2.5 Update work card after inputting data in the system.

4.2.6 Have the Amendment checked/authorized in system by LC Supervisor.

4.2.7 Prepare LC Amendment text taking into account the mode of transmission/dispatch for LC Issuance. Amendment text for mail LC's shall be prepared in mail format.

Users' Note:

- MT707 is the valid message format for an amendment message through SWIFT, unless the context requires otherwise.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.2.8. After preparing the text, the Assistant preparing the text shall review the text at least once to ensure that all terms and conditions as per Application

form have been incorporated and errors and omissions have been rectified wherever required and mark his/her signature on the Amendment text.

4.2.9. Forward the LC Amendment text to the LC Supervisor for further verification/scrutiny.

4.2.10. After due verification/scrutiny of text,

- get a final copy of the text in 2-ply paper in case of SWIFT transmission

OR

- have a print-out in bank's Letter Head in case of LC Amendment to be dispatched through postal/courier service and mark bank's stamp and protectograph (checkwriter) wherever required.

LC Supervisor shall sign in the text and have another signature(s) in it as per *the Bank's* policy in respect of requirement of signature for a financial transaction.

4.2.11 After proper authorization/signing of LC text, LC Assistant will

- forward the duly signed copy (preparer, checker and authorizer) of LC Amendment text to the SWIFT department for transmission and keep a copy in the concerned file and in case of branch LC, provide the final copy of LC amendment text to the concerned branch vide email or fax,

OR

- arrange for the dispatch of the LC Amendment through postal/courier service/hand delivery, whichever is applicable and keep a copy in the concerned file and in case of branch LC, provide the final copy of LC Amendment text to the concerned branch vide email or fax

4.2.12 After transmission of the LC Amendment through SWIFT, LC Assistant will re-check the dispatched text against the file copy, confirm his/her action by putting his/her initial on the message and file in the concerned file.

4.2.13 If reimbursement clause is to be incorporated in the LC through Amendment, then follow Sub-clause no. 4.1.16 as mentioned above.

- 4.2.14 If reimbursement authorization has already been issued and it also needs to be amended by virtue of affecting the requested LC Amendment, prepare Amendment to Reimbursement Authorization as per the requisite format under SWIFT and follow the steps as spelt out in Clause no. 3.1.16 of this manual.
- 4.2.15 Letters of credit once expired cannot be amended.

4.3. Letter of Credit Cancellation Procedure

Letters of Credit are cancelled when all the parties involved are no more willing to utilize the same. If the Applicant wishes to cancel the LC before the expiry of the credit then beneficiary's consent for doing so must be obtained through the Advising Bank.

Following steps shall be followed while canceling a Letter of Credit:

- 4.3.1 Receive Cancellation request along with BBN Form No. 3 (only for convertible FCY LC's issued outside Nepal) and affix Receipt stamp.
- 4.3.2 Verify Signature(s) through the System. The staff doing so shall affix "signature verified" stamp and his/her initial immediately on the application form.

Users' Notes:

- In case of Branch Customers, the LC Assistant of the concerned branch shall follow the steps as mentioned in Clauses no. 4.3.1 up to 4.3.2 above.
- After ensuring compliance to Clauses no. 4.3.1 up to 4.3.2 above, LC Assistant of the branch to forward the application to CFT through Fax or Email (scanned copies) for further processing.

Procedures to be followed at CFT after receipt of Cancellation Application from branches

- Upon receipt of Application forwarded by Branch, LC Assistant will put the date and time of receipt of application form at the front/back side of the application.
- Check the Application thoroughly along with other attachments, if any.
- After ensuring that everything is in order, LC Assistant to proceed further for remaining steps.

4.3.3 LC Assistant, before moving further, must confirm that Import Bills relating to the LC have not arrived yet.

4.3.4 After ensuring observance of Clause no. 4.3.3, LC Assistant will prepare LC Cancellation text taking into account the mode of communication. The mode of communication can be SWIFT or postal courier service.

Users' Notes:

- MT799 is the valid message format for sending a cancellation message through SWIFT, unless the context requires otherwise.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.3.4.1 Collect SWIFT/postal/courier charges for cancellation message from the Applicant as per SSC and update work card. Entries relating to reversal of contingent liability and collection of cancellation commission should be done only after receipt of subsequent confirmation of cancellation.

4.3.4.2 After preparing the text, the staff preparing the text shall review the text to ensure that request for cancellation has been clearly mentioned in the text and errors and omissions, if any, have been rectified wherever required and mark his/her signature on the cancellation text.

4.3.4.3 Forward the LC Cancellation text to the LC Supervisor for further verification/scrutiny.

4.3.5 After due verification/scrutiny of text,

- get a final copy of the text in 2-ply paper in case of SWIFT transmission.

OR

- have a print-out in bank's Letter Head in case of LC Cancellation to be dispatched through postal/courier service.

LC Supervisor shall sign in the text and have another signature(s) in it as per the Bank's policy in respect of requirement of signature for a financial transaction.

4.3.6 After proper authorization/signing of LC Cancellation text,

- forward the duly signed copy (preparer, checker and authorizer) of LC cancellation text to the SWIFT department for transmission, keep a copy in the concerned file and provide the final copy of LC cancellation text to the concerned branch vide email or fax in case of branch LC,

OR

- arrange for the dispatch of the LC cancellation through postal/courier service/hand delivery, whichever is applicable and keep a copy in the concerned file and in case of branch LC, provide the final copy of LC cancellation text to the concerned branch vide email or fax

4.3.7 After transmission of the LC cancellation text through SWIFT, LC Assistant will re-check the dispatched text against the file copy, confirm his/her action by putting his/her initial on the message and file in the concerned file.

4.3.8 If reimbursement clause has been incorporated in the LC, arrange for sending a cancellation message to the Reimbursing Bank immediately using MT792 in case of SWIFT, unless the context requires otherwise, as per Sub-clauses no. 4.1.16.1 to 4.1.16.3 above.

4.3.9 Upon receipt of confirmation for cancellation, input the same in the system using LC Cancellation/Close option under Trade Finance module in system

collecting the cancellation commission as per SSC and refunding the LC Margin to the client and update LC work card.

4.3.10 LC Supervisor will authorize the cancellation entries in the system.

4.3.11 Any charges which the LC Advising/Confirming Bank(s) are unable to collect from the beneficiary will remain an obligation on the part of LC Issuing Bank. So if any such charges remain unpaid at the time of cancellation, Applicant must either pay the charges or produce a proof that the charges have been paid by the beneficiary before the cancellation of LC is executed.

4.4. Examination and Lodgment of Documents and Issuance of Arrivals Notice to the Customers

Following steps shall be followed while handling documents:

4.4.1 As soon as documents are delivered to CFT by Administration Department, concerned LC Assistant shall affix Timer Stamp on the face/back of the documents along with his/her initial signature immediately after receipt.

4.4.2 Identify the LC number under which the documents are presented.

4.4.3 Take out the related LC file and check the LC, its subsequent amendments arranging all of them in chronological order and go through them so that a broad idea of terms and conditions of credit is formed. In case where Delivery Order is already issued against the copy documents, tally copy documents with the original documents in respect of major terms and conditions.

4.4.4 Register the Documents in the Import Bills Register.

4.4.5 Now examine the documents against the terms and conditions of respective LC and its subsequent Amendments to ensure compliance. Document checklist shall be used while checking the documents and should be signed by the checker and reviewed/approved by the LC Supervisor.

Users' Note:

The issuing bank's responsibility to ensure that whether or not documents under LC comply with the LC terms does not end even after the applicant pays the value of the documents. If, after payment, the applicant finds discrepancies that have not been advised to him, he is entitled to claim repayment from the Bank. It is, therefore, necessary that the documents are examined with due care and diligence and the applicant is advised of all discrepancies observed.

- 4.4.6 To ensure timely examination, the examination work should be completed latest by the following working day of receipt of documents.
- 4.4.7 Lodge the examined documents in 'Drawings-Lodgment' module of system and have it authorized by the designated officer(s). This process is linked with the history of the LC under which the document is presented and value of the LC is reduced for the amount of Import Bill after its settlement/utilization.
- 4.4.8 Upon completion of examination and lodgment of the documents in the system, issue Arrival Notice to the applicant, in the Bank's format, get it signed by the LC Supervisor and ensure that it is dispatched to the customer or the branch (in case of branch LC) through available quickest mode of communication (fax, email, hand delivery, courier service, etc) on the same day of issuance of Arrival Notice.
- 4.4.9 The Arrival Notice as per clause no. 4.4.8 must clearly state that Applicant must provide acceptance of the documents or state reasons for non-acceptance/non-payment within 3 working days.
- 4.4.10 After intimation of the Arrival Notice to the Applicant, if no instruction and/or acceptance of discrepancies is received from the Applicant within 3 days of issuance of Arrival Notice, LC Assistant to send a reminder to the Applicant directly or through the concerned RM.

4.4.11 In case of clean documents, if no instruction is received from the Applicant within stipulated time period as defined by UCP, such documents must be settled by booking into BLC on the last day of such defined period.

4.5 Discrepancy Handling in Case of Discrepant Documents

4.5.1 Once documents have been examined, it's responsibility of CFT to determine whether or not they appear on their face to be in compliance with the terms and conditions of the LC.

4.5.2 If CFT determines that the documents do not comply, it has two options. First it can refuse the documents and provide notice to refusal to the presenting bank. Second it may seek the Applicant's waiver of the discrepancies.

4.5.3 CFT, on its own, can refuse to take up an Import Bill if it contains discrepancies that are against the statutory regulations, whether or not CFT requests the Applicant for such waiver and nor it's important for the Bank whether or not Applicant conveys its waiver of the discrepancies. The mere fact that an Applicant waives the discrepancies does not obligate the Bank to waive the discrepancies. Such documents cannot be treated as accepted.

4.5.4 After examination and lodgment of documents and subsequent issuance of Arrival Notice to the Applicant, LC Assistant to ensure that a refusal notice or discrepancy intimation is sent to the negotiating/presenting bank through quickest mode of communication on the same day of issuance of Arrival Notice. This notice or intimation must include:

- All the discrepancies observed.
- Information that the applicant has been asked for waiver to the discrepancies,
- Confirmation that the documents are strictly held at the risk and disposal of the negotiating/presenting bank.

Users Note:

This provision will not be applicable where DO has already been issued against copy documents.

- 4.5.5 If the Applicant does not convey its acceptance or rejection of the documents till 10th working day from the date of issuance of Arrival Notice, CFT shall raise an internal memorandum or email on 11th working day to concerned RM or LC Assistant of the branch (in case of branch LC) mentioning details of the documents. Head-Corporate Credit or the concerned BM will take decision and instruct CFT either to hold the documents for certain number of days or to process for returning of the documents.
- 4.5.6 Upon receipt of instruction from the Head-Corporate Credit or the concerned BM to return the documents or after elapse of holding days, CFT will seek disposal instruction from presenting bank stating that the documents are rejected by the Applicant on the ground of discrepancy(ies) and documents may be disposed off as per authenticated disposal instruction received from presenting bank.
- 4.5.7 In case of refusal of the documents by the Applicant on the ground of discrepancy(ies), such refusal must be brought to the notice of the presenting bank without delay vide fastest available means of communication. A deadline may be given to the presenting bank in the message to send response, if required. The documents should be returned back or disposed off as per authenticated disposal instruction received from presenting bank or after elapse of deadline specified in the message, if any, with a request for payment of the charges that have been incurred by the Bank for handling those documents.
- 4.5.8 If the Applicant conveys its acceptance to the discrepancies but fails to deposit sufficient fund in order to retire the documents, payment for such documents should not be effected until the Applicant arranges for

settlement of the bill which should also be informed to the concerned RM or LC Assistant of the branch through an internal memorandum or email.

4.5.9 If LC allows direct TT reimbursement facility wherein a reimbursement authorization has already been placed at the reimbursing bank and if CFT finds discrepancies on the documents against which negotiating/presenting bank has already lodged a reimbursement claim at the reimbursing bank and debit to our Nostro is yet to take place, following additional actions will have to be taken:

4.5.9.1 Immediately after examination of documents, a refusal message must be sent to the negotiating/presenting bank above together with a request to withdraw the claim as well. This message should also mention that the Bank reserves the right to claim document amount together with applicable interest in case the Applicant does not give waiver to the discrepancies.

4.5.9.2 A message shall also be sent to the reimbursing bank not to honor the reimbursement claim made for that particular set(s) of documents or to cancel the reimbursement authorization for that particular LC, whichever is deemed necessary.

4.5.9.3 If the Applicant gives its waiver to the discrepancies after dispatch of claim withdrawal requests as per clause no. 4.5.9.1 and 4.5.9.2 above and debit has yet not taken place at Nostro account, separate messages should be sent to negotiating/presenting bank stating that it is now authorized to lodge its claim deducting our fees, as applicable, and to reimbursing bank that it's authorized to honor the claim of negotiating/presenting bank deducting the fees of the Bank, as applicable, from the proceeds.

4.5.10 In case where the claim has already been honored by the reimbursing bank and debit has already taken place in our nostro account by the time the documents arrive at our counter and if CFT finds discrepancies on the documents against which claim has been made, following steps will be followed after examination and lodgment of documents:

- 4.5.10.1 Immediately after examination of documents, a refusal message must be sent to the negotiating/presenting bank. This message should also mention that bank reserves the right to claim document amount together with applicable interest in case Applicant does not give its waiver to discrepancies.
- 4.5.10.2 If acceptance of the Applicant comes to the Bank within 10 days of issuance of Arrival Notice, negotiating/presenting bank must also be requested to refund the discrepancy commission and other applicable fees to the Bank.
- 4.5.10.3 If the discrepancies are not waived by the applicant within 10 days of issuance of Arrival Notice, the negotiating/presenting bank must be asked to refund entire bill amount with good value and with applicable interest plus other out of pocket expenses incurred.
- 4.5.11 When CFT receives a message from the negotiating bank requesting an authority to pay/negotiate a bill under Letter of Credit owing to discrepancies appeared there under, CFT must reply and communicate the Applicant's clear intent or instruction to the negotiating/presenting bank in consultation with the Applicant.
 - 4.5.11.1 If Applicant gives his acceptance to the discrepancies pointed out by the negotiating bank within 3 working days, CFT shall convey this acceptance to the negotiating bank immediately asking them to lodge their claim deducting our discrepancy fee and other charges, as applicable and forward documents at the soonest possible.
 - 4.5.11.2 If the Applicant determines that the discrepancies pointed out by the negotiating bank are not acceptable to them, CFT shall convey their intent to the negotiating bank accordingly.
 - 4.5.11.3 If Applicant does not give his instructions within 3 working days after receipt of message, a reminder should be sent to the Applicant/branch in this respect stating that if no instruction is received by the Bank within

another 2 working days, it would be construed as their refusal and negotiating bank will be advised accordingly.

4.6 Settlement of Import Bills

4.6.1 Settlement of Import Bills under Sight LC

After ensuring completion of procedures as spelt out in above, the following steps will be followed for settlement of Import Bills under a sight LC:

- 4.6.1.1 Receive Document Retirement Application cum Indemnity Letter together with Indemnity for Trust Receipt Loan, if required, from the Applicant which should be correctly, completely and consistently filled in. Make sure that waiver or acceptance to the discrepancies (in case of discrepant documents) as pointed out in Arrival Notice is clearly given in the Document Retirement Application.
- 4.6.1.2 Affix Timer Stamp on the Application Form.
- 4.6.1.3 Verify signature(s) appearing in application form and Indemnity form(s) through the system. The staff doing so shall affix a 'signature verified' stamp and his/her initial.
- 4.6.1.4 Take out the related LC file and obtain exchange rate of the Currency from the TD.
- 4.6.1.5 Prepare Disbursement Sheet.
- 4.6.1.6 Prepare DO addressed to the Carrier along with BBN 4 and NRB Cheque (if required) addressed to the respective customs office marking protectograph wherever required and registers them in the appropriate register(s).
- 4.6.1.7 Pass the needful transactions in the system through Drawings module in system including booking of loan accounts (TR, DL or any other loan as per credit arrangements), if required, and disbursing the same to the customer. Ensure all charges relating to settlement of bills and payment are collected.

- 4.6.1.8 In case of currencies other than NPR or INR, the amount of the documents shall be held in respective nostro account through whom payment is being made. In case of NPR or INR where payment is made through a Demand Draft or Manager's Cheque, the proceeds of the documents will be held in Inter Department Ticket (IDT) account or any other internal office account as seems suitable for the transaction.
- 4.6.1.9 Hold requisite margin if the customer does not require an NRB cheque.
- 4.6.1.10 Collect interest for applicable number of days if debit has already taken place at nostro in case of reimbursement LC's.
- 4.6.1.11 Update LC work card and have the transaction authorized.
- 4.6.1.12 Prepare advices and have them signed by the LC Supervisor.
- 4.6.1.13 Have the documents along with BBN 4 and NRB Cheque stamped and signed by LC Supervisor or an authorized signatory. If the goods are to be released from Indian port, endorse on the backside of the original Bill of Lading.
- 4.6.1.14 Handover the complete set of documents in sealed envelope(s) to the authorized representative of the Applicant keeping one set (copy) in the concerned file.
- 4.6.1.15 Prepare pay-order in the prescribed format (e.g. MT202 in case of SWIFT transmission) incorporating at least the following information:
- LC No.
 - Negotiating / Presenting Bank's ref. No. and/or Bill ref. No.
 - Currency, value date and amount to be remitted (after deductions, if any)
 - Name of the Intermediary, if any,
 - Name of the Beneficiary Bank and its account no., if any
 - Bearer of charges relating to the subject pay order
 - Details of deductions if any
 - Any other reference, if required
- An advice of payment may also be sent to the negotiating/presenting bank as an intimation of payment.

Users' Note:

- MT202 is the valid format for a pay order under SWIFT, unless the context requires otherwise. Sometimes debit instruction can also be sent through MT199 or MT299 if our account has been maintained in the negotiating/presenting bank.
- MT799 is the valid format for sending an advice of payment under SWIFT, unless the context requires otherwise. However MT999 can also be used where we don't have BKE arrangement with the negotiating/presenting bank.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.6.1.16 In case of ACU arrangement, payorder should be made in bank's letter head and after due verification, LC Supervisor shall sign in the payorder and have another signature(s) in it as per the Bank's policy. After having requisite signature(s), LC Assistant will send the payorder to NRB through hand delivery keeping a copy in the concerned file.

4.6.1.17 LC Assistant to monitor the concerned nostro statement on the next working day to look out for whether the debit has taken place as per payorder sent.

In case of ACU payment, follow up with NRB for advice or statement showing the payment details and update file.

4.6.1.18 A prior intimation shall be given to TD before 2 working days when settlement is being made in excess of USD 100K and/or INR 5M and/or NPR 10M. Any transaction relating to currencies other than NPR, INR and USD shall also be informed to TD before 2 working days of transaction taking place.

4.6.1.19 CFT should also ensure that any transaction relating to ACU Dollar is intimated to TD at least one day before the transaction takes place.

4.6.2 Acceptance of Import Bills under Time or Usance and Deferred Payment LC's

The following procedure shall be followed for carrying out acceptance of import bills under a Time or Usance and Deferred Payment LC:

- 4.6.2.1 Receive Document Retirement Application cum Indemnity Letter from the Applicant to pay on a specific maturity from the Applicant which should be correctly, completely and consistently filled in. Make sure that waiver or acceptance to the discrepancies (in case of discrepant documents) as pointed out in Arrival Notice is clearly given in the Document Retirement Application.
- 4.6.2.2 Affix Timer Stamp on the Application Form.
- 4.6.2.3 Verify signature(s) appearing in application form and Indemnity form(s) through the system. The staff doing so shall affix a 'signature verified' stamp and his/her initial.
- 4.6.2.4 Take out the related LC file and prepare Disbursement Sheet.
- 4.6.2.5 Pass the entries through Drawings-Acceptance module in System incorporating the maturity of the acceptance clearly.
- 4.6.2.6 Collect acceptance commission and other charges including acceptance margin if applicable.
- 4.6.2.7 After authorization of entries in System, generate advices and update LC work card marking maturity of the bill on its face.
- 4.6.2.8 Prepare message pertaining to acceptance of bills in the applicable format confirming the due date to be sent to the negotiating/presenting bank. The mode of transmission can be SWIFT or postal courier service.

Users' Note:

- MT199, MT299 and MT799 are the valid message formats for sending an acceptance message through SWIFT. However if BKE is not available with the negotiating/presenting bank MT999 can be used.
- SWIFT manual/guidelines can be referred to while preparing text in SWIFT format.

4.6.2.9 All Time or Usance and Deferred Payment Bills, which are received in compliance with terms of LC, must be accepted by the Applicant within stipulated time as defined by UCP. If the Applicant fails to accept the documents within such period, the Bank shall confirm/communicate the maturity date to the negotiating/presenting bank on its own on the final day of that stipulated period.

Users' Note:

Acceptance commission and other charges including acceptance margin, if applicable, should also be collected on the same day of sending message confirming the maturity date to the negotiating/presenting bank, whether or not sufficient balance is available in the customer's account.

4.6.3 Payment or Settlement of Acceptance under Time or Usance and Deferred Payment LC's

By nature, payment of an Acceptance Bill has to be made on the due date that has been set and agreed by the Applicant at the time of booking of acceptance and has also been advised to the presenting/negotiating bank.

LC Assistant shall keep track of all the maturing acceptance bills (including those of branches) on daily basis and ensure payment on the every date of respective maturity of such acceptances irrespective of whether or not the Applicant is willing to pay or has sufficient balance in its account.

4.7 External Reporting

This section will discuss the nature and frequency of reports to be sent by CFT to NRB and other various entities outside the Bank.

4.7.1 Details of FCY LC's outside Nepal (issuance, amendment and cancellation) (as per BBN 3) to be sent to NRB electronically through modem.

Frequency: Daily

4.7.2 Hard copies of BBN 3 (issuance, amendment and cancellation) to be sent to NRB-FOREX Department vide postal/courier service.

- Frequency: Daily
- 4.7.3 Copies of BBN 3 must also be sent to respective Customs Offices.
Frequency: Daily
- 4.7.4 Hardcopies and soft copy reporting of BBN 4 to be sent to NRB-FOREX Department.
Frequency: Daily
- 4.7.5 Hardcopies reporting of BBN4 (GHA) relating to payment of FCY Time LC's to be sent to NRB-FOREX Department.
Frequency: Daily
- 4.7.6 Details of transport document received 45 days after its issuance date to be sent to NRB-FOREX Department.
Frequency: Monthly
- 4.7.7 Details of FCY LC's outside Nepal established where cash margin is held more than 50% to be sent to NRB-FOREX Department.
Frequency: Monthly
- 4.7.8 Details of all unreturned BBN4 within 90 days after issuance date to be sent to NRB-FOREX Department.
Frequency: Within 7 days after elapse of deadline
- Users' Note:***
- The reporting deadline for unreturned BBN4 under reimbursement LC's has been set at 120 days.
- 4.7.9 Details of non-encashment of NRB cheques issued at the time of retirement of documents or issuance of reimbursement LC's for a trading unit to be sent to NRB-FOREX Department.
Frequency: Within 15 days after elapse of deadline
- 4.7.10 Reporting of non-receipt of original Documents after 45 days of issuance of BBN4 under copy documents for import of MS Billets to be sent to NRB-FOREX Department.
Frequency: On case to case basis

- 4.7.11 Non-importation of full quantity as specified in LC for import of Chemical Fertilizer within expiry of LC to be sent to NRB-FOREX Department.
Frequency: Within 7 days after LC expiry
- 4.7.12 Reporting of inconsistency of copy documents with their corresponding original documents under LC for import of MS Billets to be sent to NRB-FOREX Department.
Frequency: On case to case basis
- 4.7.13 Copy of LC's issued for import of Chemical Fertilizer to be sent to Ministry of Agriculture and Cooperative, Chemical Fertilizer Unit, Singhdurbar, Kathmandu.
Frequency: On case to case basis
- 4.7.14 Details of LC issued for import of Gold and payment made for such import to be sent to NRB, FOREX Department.
Frequency: Regular
- 4.7.15 Any other reporting as applicable.

4.8 Internal Reporting

This section will discuss the nature and frequency of reports to be prepared and circulated inside the Bank.

4.8.1 Exhibits

- 4.8.1.1 Outstanding position of LC (currency wise and branch wise)
Frequency: Monthly (as at the end of every month as per Nepalese calendar)
- 4.8.1.2 Outstanding position of LC Margin (currency wise and branch wise)
Frequency: Monthly (as at the end of every month as per Nepalese calendar)
- 4.8.1.3 Outstanding position of Acceptance LC (currency wise and branch wise)
Frequency: Monthly (as of the end of every month as per Nepalese calendar)
- 4.8.1.4 Outstanding position of Acceptance LC Margin (currency wise and branch wise)
Frequency: Monthly (as of the end of every month as per Nepalese calendar)

4.8.1.5 LC Reporting Checklist

Frequency: Monthly (as of the end of every month as per Nepalese calendar)

4.8.1.6 Nostro Payable (Currency wise)

Frequency: Monthly (as of the end of every month as per Nepalese calendar)

4.8.1.7 2% LC Margin

Frequency: Monthly (as of the end of every month as per Nepalese calendar)

4.8.1.8 Unreturned BBN 4 (Customs Office wise)

Frequency Monthly (as of the end of every month as per Nepalese calendar)

4.8.1.9 List of Confirmed LC's issued during the month

Frequency - Monthly

4.8.1.10 List of Customers who are registered under Bonded Warehouse facility and have provided renewed certificates to the Bank.

4.8.1.11 Any other exhibit as required by CFT from time to time.

4.8.2 Other

4.8.2.1 Reconciliation of NRB Margin Payable

Frequency: Fortnightly

4.8.2.2 Balancing of all Registers relating to LC

Frequency: Monthly

4.8.2.3 If BBN4 and/or Pragyapan Patra is not submitted back to the Bank even after 1 month of its deadline (i.e. 90 days of issuance date of BBN4), escalate the matter to the concerned RO. CFT may also have a separate inquiry with the Applicant and/or concerned customs office directly, if required.

4.9 Accounting Entries

4.9.1 Accounting Entries Relating to Issuance

- Entries relating to Contingent Liability:

Dr. Contra Contingent Liability for LC value

Cr. Bank's Contingent Liability for LC value

- Entries relating to Margin:
 - Dr. Customer's Current Account
 - Cr. Customer's LC Margin Account
- Entries relating to Commission and charges:
 - Dr. Customer's Current Account
 - Cr. LC Commission/Postage/ SWIFT

4.9.2 Accounting Entries Relating to Amendment

4.9.2.1 If amendment is related with increase in LC value:

- Entries relating to Contingent Liability:
 - Dr. Contra Contingent for incremental LC value
 - Cr. Contingent Liability for incremental LC value
- Entries relating to Margin:
 - Dr. Customer's Current Account
 - Cr. Customer's LC Margin Account

Users' Note:

Margin is to be collected for applicable percentage of incremental LC value only.

- Entries relating to Commission and charges:
 - Dr. Customer's Current Account
 - Cr. LC Commission/Postage/ SWIFT

Users' Note:

LC Commission is to be collected for applicable percentage of incremental LC value or as per STC.

4.9.2.2 If amendment is related with decrease in LC value:

- Entries relating to Contingent Liability:
 - Dr. Bank's Contingent Liability for decreased LC value

Cr. Contra Contingent Liability for decreased LC value

- Entries relating to Margin:

Dr. Customer's LC Margin Account

Cr. Customer's Current Account

Users' Note:

Margin is to be refunded for applicable percentage of decreased LC value only.

- Entries relating to Commission and charges:

Dr. Customer's Current Account

Cr. LC Commission/Postage/ SWIFT

Users' Note:

Minimum amendment Commission is to be collected.

4.9.2.3 If amendment is being made in conditions other than LC value:

Dr. Customer's Current Account

Cr. LC Commission/Postage/ SWIFT

Users' Note:

STC shall be followed for correct application of commission.

4.9.3 Accounting Entries Relating to Cancellation

- Entries relating to Contingent Liability:

Dr. Bank's Contingent Liability for LC value

Cr. Contra Contingent Liability for LC value

- Entries relating to Margin:

Dr. Customer's LC Margin Account

Cr. Customer's Current Account

- Entries relating to Commission:

Dr. Customer's Current Account

Cr. LC Cancellation Commission

- Entries relating to postal/ SWIFT charges if applicable:

Dr. Customer's Current Account

Cr. Postage/ SWIFT

4.9.4 Accounting Entries Relating to Acceptance

- Entries relating to Booking of Acceptance:
 - Booking of Acceptance Liability
 - Dr. Customers Acceptance Liability Account
 - Cr. Contra Acceptance Outstanding
 - Reversal of Contingent Liability
 - Dr. Bank's Contingent Liability
 - Cr. Contra Contingent Liability
 - Collection of Statutory NRB Margin/2% LC Margin
 - Dr. Customer's Current Account
 - Cr. NRB Margin Payable OR 2% LC Margin
 - Collection of commissions/charges, if any
 - Dr. Customer's Current Account
 - Cr. Commission/Postage/SWIFT
- Entries relating to Maturity of Acceptance:
 - Reversal of Acceptance Liability
 - Dr. Contra Acceptance Outstanding
 - Cr. Customers Acceptance Liability Account
 - Reversal of Margin, if held at the time of acceptance booking
 - Dr. Customer's Margin Account
 - Cr. Customer's Current Account
 - Collection of Payment from the customer
 - Dr. Customer's Current/Loan Account
 - Cr. Nostro or any other Internal Settlement Account
 - Collection of commissions/charges, if any

Dr. Customer's Current Account
Cr. Commission/Postage/SWIFT

4.9.5 Accounting Entries Relating to Payment of Sight Documents

- Reversal of Contingent Liability
 - Dr. Bank's Contingent Liability
 - Cr. Contra Contingent Liability

- Reversal of Margin, if held at the time of acceptance booking
 - Dr. Customer's Margin Account
 - Cr. Customer's Current Account

- Collection of Payment from the customer
 - Dr. Customer's Current/Loan Account
 - Cr. Nostro or any other Internal Settlement Account

- Collection of Statutory NRB Margin/2% LC Margin
 - Dr. Customer's Current Account
 - Cr. NRB Margin Payable OR 2% LC Margin

- Collection of commissions/charges, if any
 - Dr. Customer's Current Account
 - Cr. Commission/Postage/SWIFT

4.9.6 Refund of 2% Statutory NRB Margin

Dr. 2% LC Margin
Cr. Customer's Current Account

4.10 Analysis of Export LC

In the present globalization market, the exporter (beneficiary) exports different products from own (inside) country to foreign (outside) country. In this circumstance, the beneficiary concern with advising bank for export LC. That mean, export LC is opened by the exporter in his/her own country for safe payment.

The actual amount of export LC may deviate because the final amount varies according to quantity of goods actually exported by the exporter because of the clauses in LC like "partial shipment allowed". Since Kumari Bank Ltd. has not kept the record of actual amount of goods exported finally by the exporter or beneficiary; this analysis is based on the record of document value maintained by the bank. Even though the total amount of LC and the number of LC opened are not exactly dependent variables to each other, both of these variables are presented on the same chart for comparison.

4.10.1 Export LC in Nepali Currency

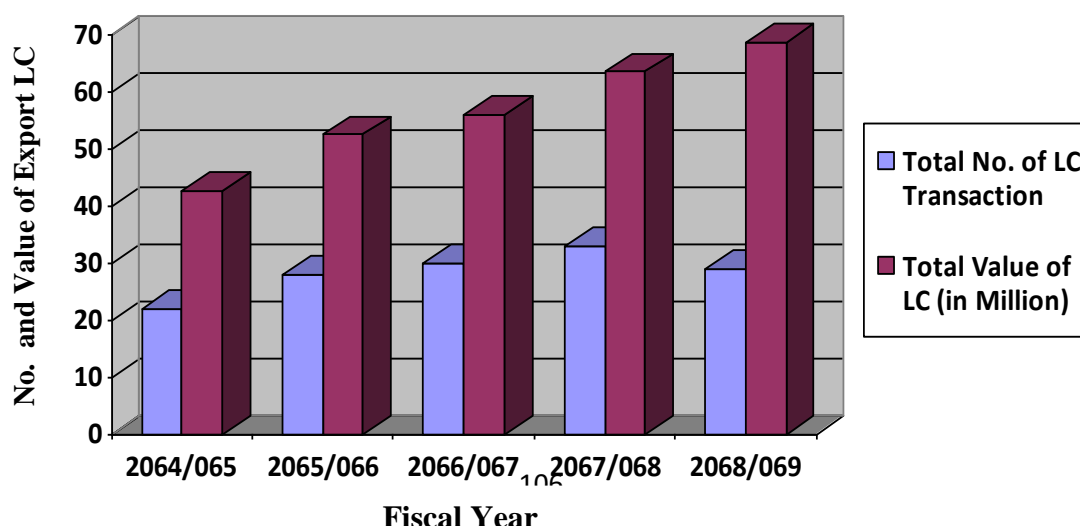
Table: 4.1
Export LC in Nepali currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	22	42.57
2065/066	28	52.46
2066/067	30	55.88
2067/068	33	63.41
2068/069	29	68.67

(Source: Kumari Bank Limited)

Figure: 4.1

No. and total value of Export LC transaction in Nepalese currency



The above table and figure 4.1 show that the total number of export LC open and total transaction value of export LC in Nepalese currency from fiscal year 2064/065 to 2068/069. Total number of export L/C has been opened in Nepalese currency is in increasing trend except in the last fiscal year, i.e. fiscal year 2068/069. They are 22, 28, 30, 33 and 29 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. Similarly, total transaction value of export LC in Nepalese currency is also in continuously increasing trend till to the last year of study period. They are NPR 42.57 million in the fiscal year 2064/065, NPR 52.46 million in the fiscal year 2065/066, NPR 55.88 million in the fiscal year 2066/067, NPR 63.41 million in the fiscal year 2067/068 and NPR 68.67 million in the fiscal year 2068/069 respectively.

In 2068/069, total transaction value of export LC in Nepalese currency has been increased; however, the total number of export LC open in Nepalese currency has been declined as compared to previous fiscal year due to inconsistency situation of the country as well as in industrial sector.

4.10.2 Export LC in US Dollar

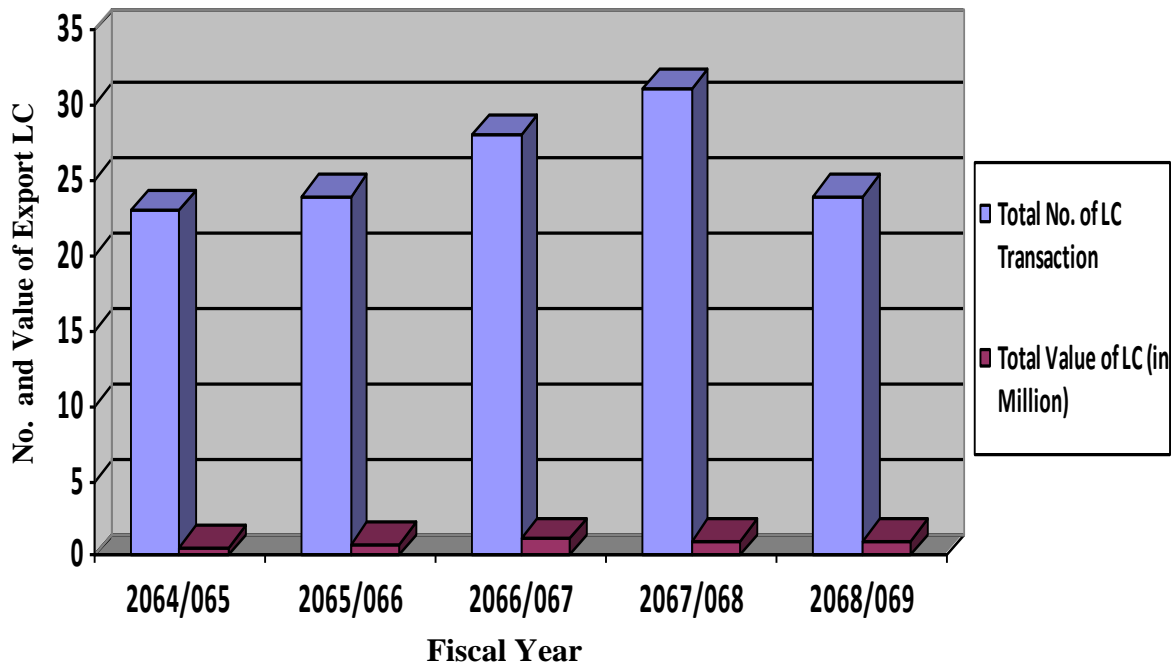
Table: 4.2
Export LC in US Dollar

Fiscal Years	Total No. of LC Transaction	Total Value of LC Transaction (In Million)
2064/065	23	0.65
2065/066	24	0.85
2066/067	28	1.11
2067/068	31	1.05
2068/069	24	1.01

(Source: Kumari Bank Limited)

Figure: 4.2

No. and total value of Export LC transaction in US Dollar



The above table and figure 4.2 show that the total number of export LC open in US dollar and total transaction value of export LC in US dollar from fiscal year 2064/065 to 2068/069. Total number of export LC has been opened in US dollar is in increasing trend except in the last year of study period over the five years of study period. They are 23, 24, 28, 31 and 24 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. Similarly, total transaction value of export LC in US dollar is in increasing trend till to fiscal year 2066/067. But then after, transaction value of export LC in US dollar is continuously in decreasing trend until to the last year of study period. They are, USD 0.65 million in the fiscal year 2064/065, USD 0.85 million in the fiscal year 2065/066, USD 1.11 million in the fiscal year 2066/067, USD 1.05 million in the fiscal year 2067/068 and USD 1.01 million in the fiscal year 2068/069 respectively.

4.11 Analysis of Import LC

The importer (applicant) imports different products from outside of the country. In

this condition, the importer or applicant open import LC for safe payment. Kumari Bank Limited has not kept the record of actual amount of goods imported by the applicant so this analysis is based on the record of document valued maintained by Kumari Bank Limited. Here, the total amount of LC and number of LC issued are taken as two variables for comparison.

4.11.1 Import LC in Nepali currency

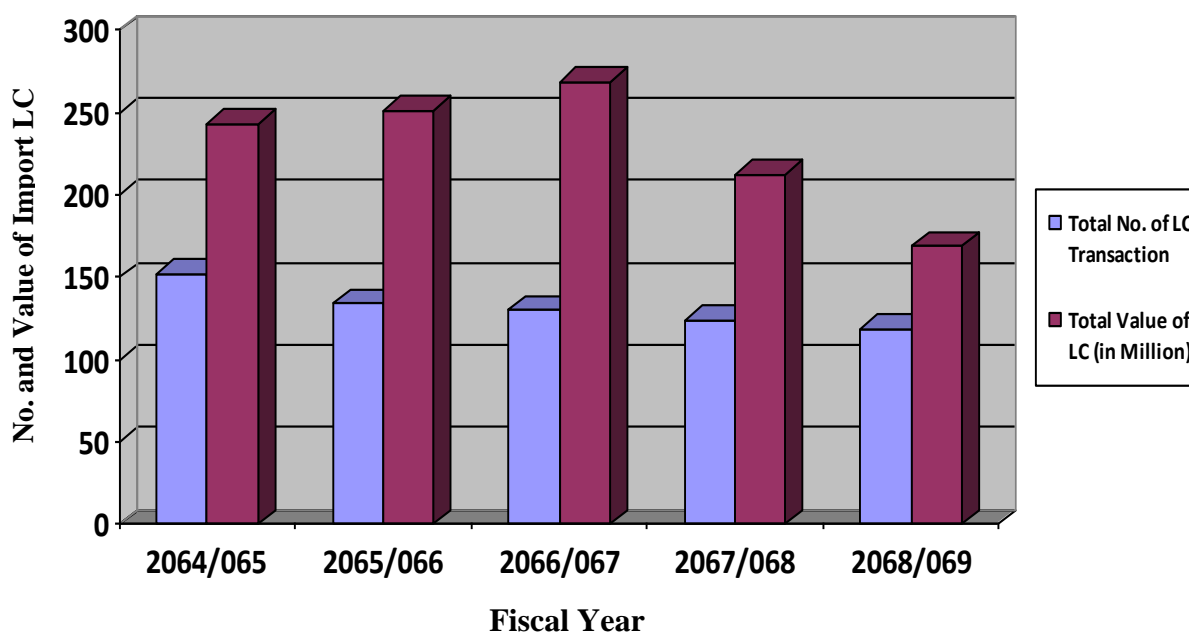
Table: 4.3
Import LC in Nepali currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	152	242.57
2065/066	134	251.35
2066/067	130	267.98
2067/068	124	212.12
2068/069	119	168.67

(Source: Kumari Bank Limited)

Figure: 4.3

No. and total value of Import LC transaction in Nepalese currency



The above table and figure 4.3 show that the total number of import LC open in Nepalese currency and total transaction value of import LC in Nepalese currency from fiscal year 2064/065 to 2068/069. Total number of import LC has been opened in Nepalese currency is in continuously decreasing trend over the five years of study period. They are 152, 134, 130, 124 and 119 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. Similarly, total transaction value of import LC in Nepalese currency is in increasing trend till to fiscal year 2066/067. But then after, transaction value of import LC in Nepalese currency is continuously in decreasing trend until to the last year of study period. They are NPR 242.57 million in the fiscal year 2064/065, NPR 251.35 million in the fiscal year 2065/066, NPR 267.98 million in the fiscal year 2066/067, NPR 212.12 million in the fiscal year 2067/068 and NPR 168.67 million in the fiscal year 2068/069 respectively.

From fiscal year 2067/068, both, total transaction value of import L/C as well as total number of import LC open in Nepalese currency has been declined as compared to previous fiscal years due to inconsistency situation of the country.

4.11.2 Import LC in Indian currency

Table: 4.4

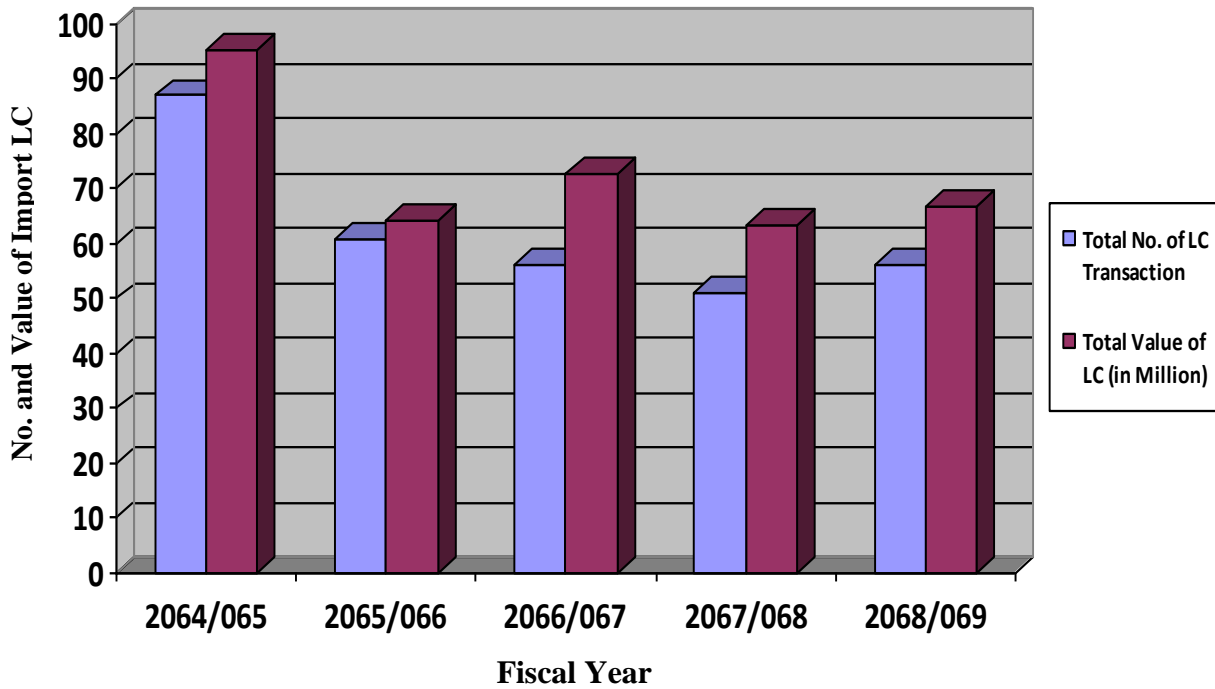
Import LC in Indian currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	87	95.44
2065/066	61	64.31
2066/067	56	72.89
2067/068	51	63.55
2068/069	56	66.86

(Source: Kumari Bank Limited)

Figure: 4.4

No. and total value of Import L/C transaction in Indian currency



The above Table and figure 4.4 represent that the total number of import LC open in Indian currency and total transaction value of import LC in Indian currency from fiscal year 2064/065 to 2068/069. Total number of import LC has been opened in Indian currency is in continuously decreasing trend over the five years of study period except the last fiscal year. They are 87, 61, 56, 51 and 56 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. But, total transaction value of import LC in Indian currency is in fluctuating trend, i.e. first decrease, then increase, then decrease and again increase trend over the study period. They are INR 95.44 million in the fiscal year 2064/065, INR 64.31 million in the fiscal year 2065/066, INR 72.89 million in the fiscal year 2066/067, INR 63.55 million in the fiscal year 2067/068 and INR 66.86 million in the fiscal year 2068/069 respectively.

Even the total number of import LC open in Indian currency is declined; total transaction value of import LC in Indian currency is in fluctuating trend, in an

aggregate, in decline trend as compare to previous fiscal years.

4.11.3 Import LC in US Dollar

Table: 4.5

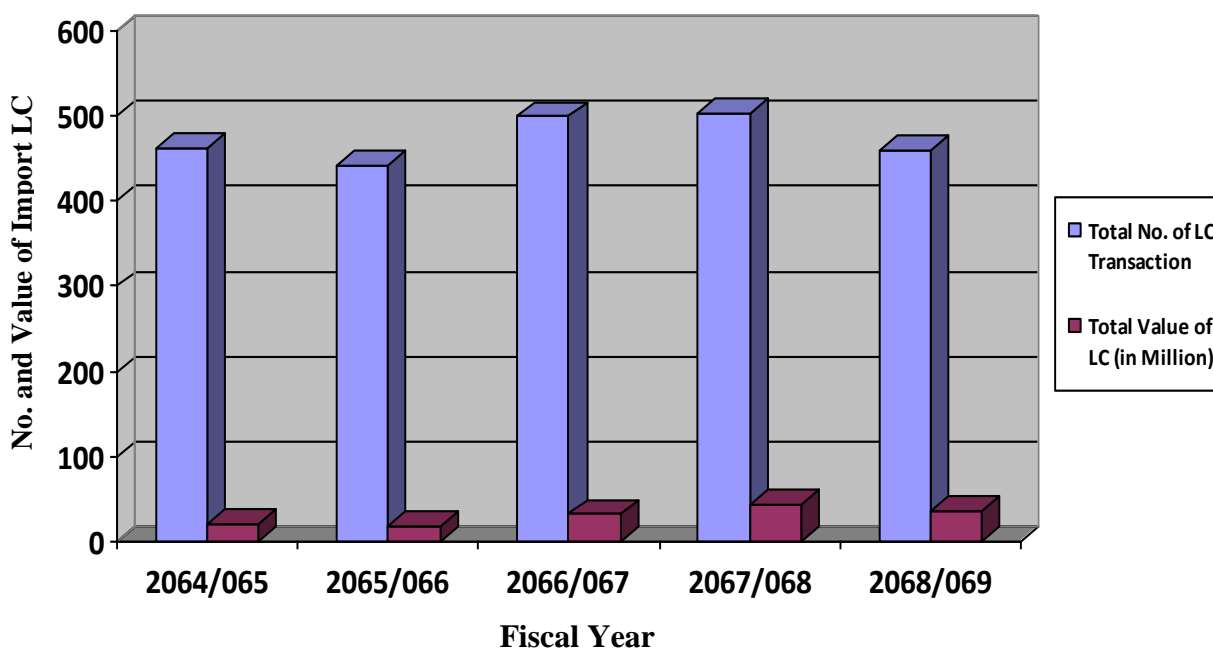
Import LC in US Dollar

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	462	20.90
2065/066	442	18.39
2066/067	499	32.12
2067/068	503	43.56
2068/069	459	36.92

(Source: Kumari Bank Limited)

Figure: 4.5

No. and total value of Import LC transaction in US Dollar



The above table and figure 4.5 represent that the total number of import LC open in US dollar and total transaction value of import LC in US dollar from fiscal year 2064/065 to 2068/069. Total number of import LC has been opened in US dollar is in increasing trend except the fiscal year 2065/066 and 2068/069 over the five years of study period. They are 462, 442, 499, 503 and 459 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. Likewise, total transaction value of import LC in US dollar is in fluctuating trend, i.e. first decrease, then increase and again decrease trend over the study period. They are USD 20.90 million in the fiscal year 2064/065, USD 18.39 million in the fiscal year 2065/066, USD 32.12 million in the fiscal year 2066/067, USD 43.56 million in the fiscal year 2067/068 and USD 36.92 million in the fiscal year 2068/069 respectively.

Here, total number of import LC open in US dollar and total transaction value of import LC in US dollar is fluctuating by trend as compare to previous fiscal years.

4.11.4 Import LC in Euro currency

Table: 4.6

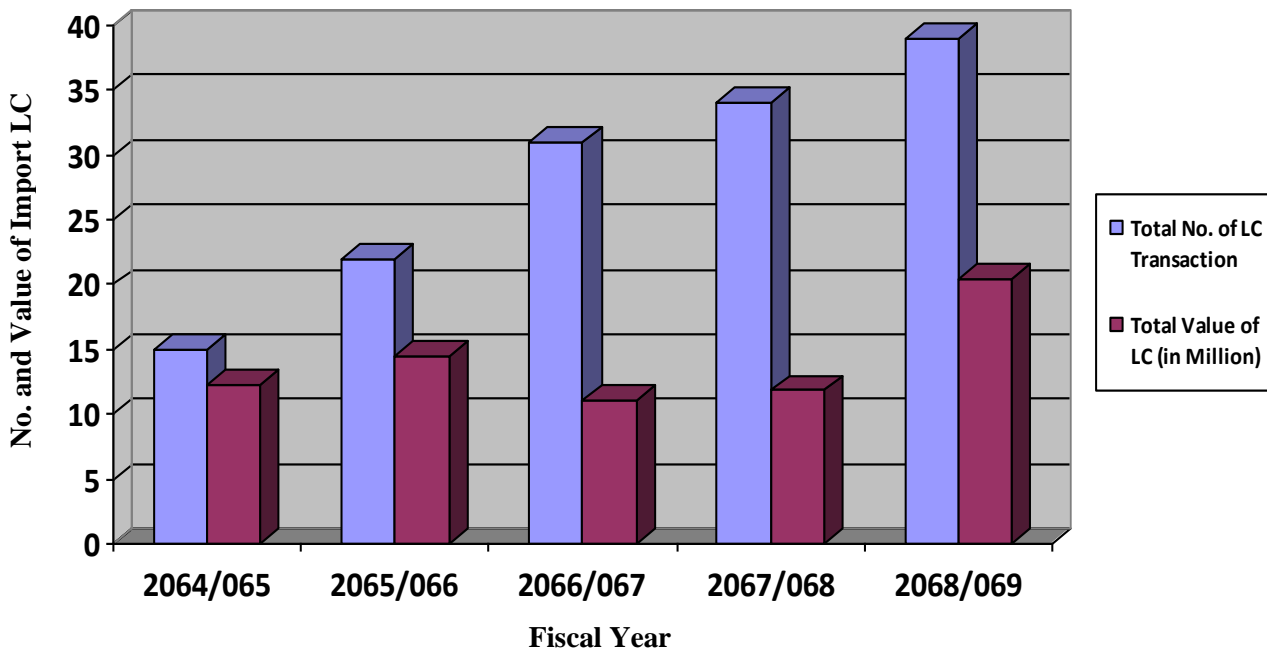
Import LC in Euro Currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	15	12.21
2065/066	22	14.41
2066/067	31	11.06
2067/068	34	11.84
2068/069	39	20.45

(Source: Kumari Bank Limited)

Figure: 4.6

No. and total value of Import LC transaction in Euro currency



The above table and figure 4.6 show that the total number of import LC open in Euro currency and total transaction value of import LC in Euro currency from fiscal year 2064/065 to 2068/069. Total number of import LC has been opened in Euro currency is continuously in increasing trend over the five years of study period. They are 15, 22, 31, 34 and 39 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. But, total transaction value of import LC in Euro currency is in fluctuating trend, i.e. first increase, then decrease and again increase trend over the study period. They are EURO 12.21 million in the fiscal year 2064/065, EURO 14.41 million in the fiscal year 2065/066, EURO 11.06 million in the fiscal year 2066/067, EURO 11.84 million in the fiscal year 2067/068 and EURO 20.45 million in the fiscal year 2068/069 respectively.

Even the total number of import LC open in Euro currency is increased; total transaction value of import LC in Euro currency is in highly fluctuating trend as compare to previous fiscal years.

4.11.5 Import LC in Japanese Yen

Table: 4.7

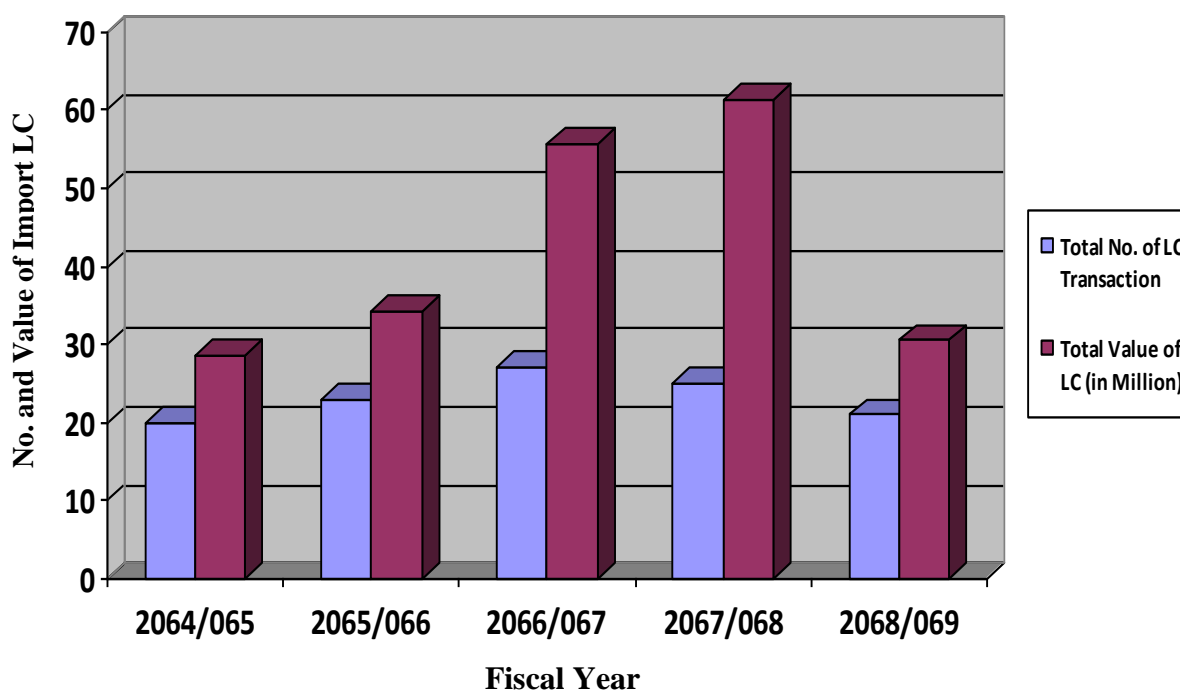
Import LC in Japanese Yen

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	20	28.67
2065/066	23	34.31
2066/067	27	55.60
2067/068	25	61.34
2068/069	21	30.52

(Source: Kumari Bank Limited)

Figure: 4.7

No. and total value of Import LC transaction in Japanese Yen



The above Table and figure 4.7 show that the total number of import LC open in Japanese Yen and total transaction value of import LC in Japanese Yen from fiscal year 2064/065 to 2068/069. Total number of import LC has been open in Japanese Yen is in first increasing trend till to the fiscal year 2066/067 and then in decreasing trend till to the last year of study period. They are 20, 23, 27, 25 and 21 in the fiscal year 2064/065, 2065/066, 2066/067, 2067/068 and 2068/069 respectively. But, total transaction value of import LC in Japanese Yen is continuously in increasing trend except in the last year of study period. They are JPY 28.67 million in the fiscal year 2064/065, JPY 34.31 million in the fiscal year 2065/066, JPY 55.60 million in the fiscal year 2066/067, JPY 61.34 million in the fiscal year 2067/068 and JPY 30.52 million in the fiscal year 2068/069 respectively.

Even the total number of import LC open in Japanese Yen is declined; total transaction value of import LC in Japanese Yen is in increasing trend as compared to previous fiscal years.

4.11 Commission from LC

Table: 4.8

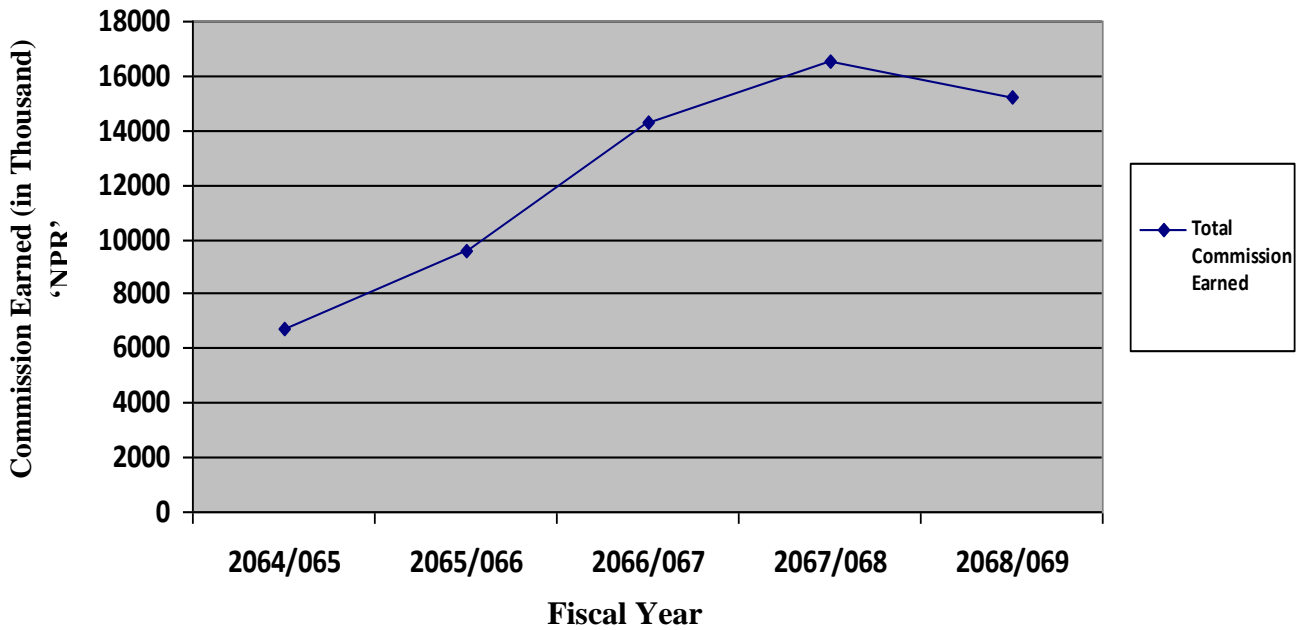
Total Commission Earned by Kumari Bank Limited from LC Operation

Fiscal Years	Total Commission Earned (In Thousand) 'NPR'	Annual Growth Rate (%)
2064/065	6,720	0.00
2065/066	9,567	42.37
2066/067	14,327	49.75
2067/068	16,525	15.34
2068/069	15,221	-7.89

(Source: Kumari Bank Limited)

Figure: 4.8

Total Commission Earned by Kumari Bank Limited from LC Operation



The above table and figure 4.8 show that the total commission earn by Kumari Bank Limited from its LC operation over the five years of study period, i.e. from 2064/065 to 2068/069. Kumari Bank Limited is able to earn NPR 6,720 thousands in 2064/065, NPR 9,567 thousand in 2065/066, NPR 14,327 thousand in 2066/067, NPR 16,525 thousand in 2067/068 and NPR 15,221 thousand in 2068/069 as commission charge from LC transaction. Except in the last fiscal year, i.e. in 2068/069, remaining fiscal year has significant growth rate in commission earn by Kumari Bank Limited over the five years of study period. However, due to decline in import LC and export LC, commission earn by Kumari Bank Limited is also in decline in last year of study period.

4.13 Sector wise Loan Classification

Table: 4.9

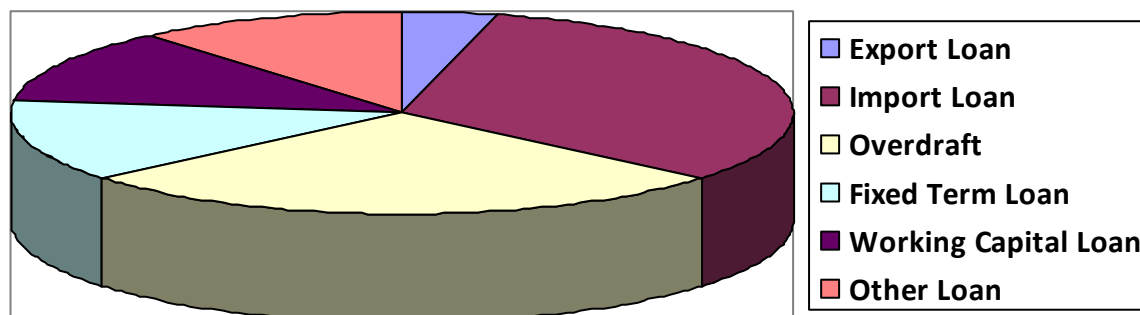
Sector wise loan classification by Kumari Bank Limited

Types of Loan	Loan Classification (%)	Rank
Export Loan	4	VI
Import Loan	32	II
Overdraft	28	I
Fixed Term Loan	13	III
Working Capital Loan	12	IV
Other Loan	11	V

(Source: Kumari Bank Limited)

Figure: 4.9

Sector wise loan classification by Kumari Bank Limited



The above table and figure 4.9 show the sector wise loan classification by Kumari Bank Limited during the last year of study period, i.e. in 2068/069. According to loan department of Kumari Bank Limited, it segregates highest percentage of its loan in import loan rather than other sectors because of low risk and its types of lending for short period. Similarly, second highest separation area of its loan is in overdrafts. Likewise, third area is in fixed term loan. Then after, working capital loan, other loan and export loan come as fourth, fifth and sixth position respectively according to the

loan classification by Kumari Bank Limited.

Kumari Bank Limited provides 'Trust Receipt Loan' to the importers against document under letter of credit, which is less risky loan of its kind because loan will be settled as soon as the consignments are sold. Besides that, bank benefits from foreign exchange transactions while reimbursing the payment under documentary credit. Negotiating bank is the banker of beneficiary or exporter. Bank provides 'Pre-shipment Loan' to the exporters against documentary credit, which is also less risky loan of its kind because the loan will be settled on negotiation of documents as soon as the shipment is made. Here is the chart of contribution of import and export loan under documentary credit to the total loan composition of bank.

4.14 Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only. In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable (*Shrestha, 2051: 31*). It is calculated as:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

Where,

r = Correlation coefficient between X and Y

$N \Sigma XY$ = Number of product observation and sum of product X and Y

$\Sigma X \Sigma Y$ = Sum of product X and sum of product Y

PROBABLE ERROR (P.E.):

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P. E. = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

Here, researcher has been calculating the correlation coefficient between total transaction value of import LC in Nepalese currency and total transaction value of export LC in Nepalese currency as well as total transaction value of import LC in US dollar and total transaction value of export LC in US dollar to know the relationship of these variables. This relationship result helps the management for policy formulation in the coming days.

4.14.1 Computation of Correlation Coefficient between total transactions value of Import LC in Nepalese currency (X) and total transaction value of Export LC in Nepalese currency (Y) of Kumari Bank Limited

Correlation coefficient between Import (X) and Export (Y) LC of Nepalese currency

(NPR in Millions)

Fiscal Year	X	Y	X²	Y²	XY
2064/065	242.57	42.57	58,840.20	1,812.20	10,326.20
2065/066	251.35	52.46	63,176.82	2,752.05	13,185.82
2066/067	267.98	55.88	71,813.28	2,752.05	13,185.82
2067/068	212.12	63.41	44,994.89	4,020.83	13,450.53
2068/069	168.67	68.67	28,449.57	3,122.57	11,582.57
Total	1,142.69	282.99	267,274.80	16,423.23	63,519.85

Where,

X = Value of Import LC in Nepalese currency

Y = Value of Export LC in Nepalese currency

$\Sigma X = 1,142.69$, $\Sigma Y = 282.99$, $\Sigma X^2 = 267,274.80$, $\Sigma Y^2 = 16,423.23$,

$\Sigma XY = 63,519.85$ and $N = 5$

$$\text{Now, Correlation coefficient (r)} = \frac{N \Sigma XY - (\Sigma X) (\Sigma Y)}{\sqrt{[N \Sigma X^2 - (\Sigma X)^2]} \sqrt{[N \Sigma Y^2 - (\Sigma Y)^2]}}$$

$$= \frac{5 \times 63,519.85 - 1,142.69 \times 282.99}{\sqrt{5 \times 267,274.80 - (1,142.69)^2} \sqrt{5 \times 16,423.23 - (282.99)^2}}$$

$$= -0.7313$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-(-0.7313)^2}{\sqrt{5}}$$

$$= 0.1403$$

$$6 \text{ times P.E.} = 6 \times 0.1403$$

$$= 0.8420$$

Summarization Table

Coefficient Correlation (r)	Relationship	Probable Error (P.E.)	6 x P.E.	Significant or Insignificant
-0.7313	Negative Correlation	0.1403	0.8420	Insignificant

The above calculation of correlation coefficient between total transaction value of import LC in Nepalese currency and total transaction value of export LC in Nepalese currency of Kumari Bank Limited is '-0.7313'. That means there is negative correlation between these two variables. And the computation of probable error shows that there is insignificant relationship between these two variable. It means if one variable is increased that obviously decreased another variable in terms of 0.7313% and vice versa but not significant at all time.

4.14.2 Computation of Correlation coefficient between total transaction value of import LC in US dollar (X) and total transaction value of export LC in US Dollar (Y) of Kumari Bank Limited

**Correlation coefficient between Import (X) and Export (Y) LC of US Dollar
(USD in Millions)**

Fiscal Year	X	Y	X²	Y²	XY
2064/065	20.90	0.65	436.81	0.42	13.59
2065/066	18.39	0.85	338.19	0.72	15.63
2066/067	32.12	1.11	1,031.69	1.23	35.65
2067/068	43.56	1.05	1,897.47	1.10	45.74
2068/069	36.92	1.01	1,363.09	1.02	37.29
Total	151.89	4.67	5,067.25	4.50	147.90

Where,

X = Value of Import LC in US Dollar

Y = Value of Export LC in US Dollar

$\sum X = 151.89$, $\sum Y = 4.67$, $\sum X^2 = 5,067.25$, $\sum Y^2 = 4.50$, $\sum XY = 147.90$ and

N = 5

$$\text{Now, Correlation coefficient (r) = } \frac{N \sum XY - (\sum X) (\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= \frac{5 \times 147.90 - 151.89 \times 4.67}{\sqrt{5 \times 5,067.25 - (151.89)^2} \sqrt{5 \times 4.50 - (4.67)^2}}$$

$$= 0.6452$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1 - (0.6452)^2}{\sqrt{5}}$$

$$= 0.1761$$

$$6 \text{ times P.E.} = 6 \times 0.1761$$

$$= 1.0565$$

Summarization Table

Coefficient Correlation (r)	Relationship	Probable Error (P.E.)	6 x P.E.	Significant or Insignificant
0.6452	Positive Correlation	0.1761	1.0565	Insignificant

The above table of correlation coefficient between total transactions value of import LC in US dollar and total transaction value of export LC in US dollar of Kumari Bank Limited is '0.6452'. That means there is positive correlation between these two variables. And the computation of probable error shows that there is insignificant relationship between these two variables. It means if one variable is increased that obviously decreased another variable in terms of 0.6452% and vice versa but not significant at all time.

4.15 Major Findings of the Study

- Kumari Bank Limited has total number and total transaction value of export LC open in Nepalese currency is continuously in increasing trend except the total number of export LC open in Nepalese currency is declined in last year of study period.
- Total number and total transaction value of export LC open in US dollar is in increasing trend till to the fiscal year 2066/067, however, total number and total transaction value of export LC open in US dollar is in decreasing trend from the fiscal year 2067/068 due to inconsistency situation of the country.
- Total number of import LC opened in Nepalese currency is continuously in decreasing trend over the study period; however, total transaction value of import LC open in Nepalese currency is in increasing trend till to the fiscal year 2066/067. Then after it is also in decreasing trend with decrease in number of LC open.
- Total number of import LC open in Indian currency is continuously in decreasing trend except in the last year of study period during the five years. However, total transaction value of import LC open in Indian currency is in highly fluctuating trend over the study period.
- Total number of import LC open in US dollar is in highly fluctuating trend during the five years study period. However, total transaction value of import LC open in US dollar is continuously in increasing trend except the last fiscal year over the five years study period.
- Total number of import LC open in Euro currency is continuously in increasing trend during the five years study period. Similarly, total transaction value of import LC open in Euro currency is also in increasing trend except the fiscal year 2066/067 over the five years study period.

- Total number of import LC open in Japanese Yen is in increasing trend except in the fiscal year 2067/068 and 2068/069 over the five years study period. However, total transaction value of import LC open in Japanese Yen is in highly increasing trend except the last year of study period. Except in the last fiscal year, i.e. in 2068/069, remaining fiscal year has significant growth rate in commission earn by Kumari Bank Limited over the five years of study period. However, due to decline in import LC and export LC, commission earn by Kumari Bank Limited is also declined in last year of study period. Because of low risk, Kumari Bank Limited segregates highest percentage of its loan in import loan rather than other sectors.
- The correlation coefficient between total transactions value of import LC in Nepalese currency and total transaction value of export LC in Nepalese currency of Kumari Bank Limited is '-0.7313'. That means there is negative correlation between these two variables. And the computation of probable error shows that there is insignificant relationship between these two variables.
- The correlation coefficient between total transaction value of import LC in US dollar and total transaction value of export LC in US dollar of Kumari Bank Limited is '0.6452'. That means there is positive correlation between these two variables. And the computation of probable error shows that there is insignificant relationship between these two variables.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In the present study, researcher tried to analyze detail concept of letter of credit. To meet the stated objectives of study, researcher followed various research methods. It is clear evident that the selected commercial bank has relatively good position of letter of credit because the respondents showed positive attitude in many cases. On contrary, letter of credit position of the bank was not found in satisfactory level in many other situations. Based on above objectives, an attempt is made in this chapter to make general summary and conclusion of the results.

5.1 Summary

First chapter of the study paper deals about the basic concept and plan of the study. This chapter basically presented research issues, basic objectives, limitations of the study and the brief introduction of the study.

The second chapter deals with literature review helped the researcher to provide knowledge about the development and progress made by the earlier scholars on the concerned field of study. It also helped the research work, undertaken by him. It discussed about some related concept used in this study. It also summarized the findings of previous literature to provide knowledge about the background of work done by earlier research work and to step duplicate of the previous work.

Various research methods to analyze the data related were followed by the researcher in third chapter. Research Methodology basically signifies research design, nature and sources of data, sample and population of survey design, data collection and processing techniques and procedures, and various tools and techniques employed to analyze the data.

Presentation and analysis of data are studied in the fourth chapter. In this chapter, the generated data were presented in tabular form and analyzed it systematically as per requirement. The researcher attempted to analyze the basic concept of letter of credit and its various components. It was also attempted to analyze the problems that should be considered in letter of credit analysis.

5.2 Conclusions

Present study is successful to explore the findings of results designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Primary as well as secondary source of information were used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

- Kumari Bank Limited has increasing trend of total number and total transaction value of export LC opened in Nepalese currency except the total number of transaction of last years of study period.
- The bank has increasing trend of total number and total transaction value of export LC opened in US dollar except the two following years of study period.
- The bank has decreasing trend of total number and increasing trend of total transaction value of import LC opened in Nepalese currency except the following years of study period.
- The bank has decreasing trend of total number and total transaction value of import LC opened in Indian currency except the last years of study period.
- The bank has fluctuating trend of total number and increasing trend of total transaction value of import LC opened in US dollar except the last year of study period.
- The bank has increasing trend of total number and total transaction value of import LC opened in Euro currency during the five years of study period.
- The bank has increasing trend of total number and total transaction value of import

LC opened in Japanese Yen except the two following years of study period.

- The bank has significant growth rate in commission earned by LC operation over the five years of study period except last year.
- Because of low risk, Kumari Bank segregates highest percentage of its loan in import loan rather than other sectors.
- The bank has negative with insignificant relationship between total transactions value of import LC in Nepalese currency and total transaction value of export LC in Nepalese currency.
- The bank has highly positive with insignificant relationship between total transaction value of import LC in US dollar and total transaction value of export LC in US dollar.

So main findings of this study is that even Kumari Bank Limited has in the following years of study period, the bank has decreasing trend of total number and total transaction value of export LC as well as import LC opened in Nepalese currency, US dollar, Indian currency and Japanese Yen due to inconsistency situation of the country. Only the total number and total transaction value of import LC opened in Euro currency was in increasing trend over the study period. However, the bank has significant growth rate in commission earned from LC operation except the last year. Therefore, the management of Kumari Bank Limited must revise the LC policy for better improvement.

5.3 Recommendations

Findings of the study may provide important information for those who are concerned directly or indirectly with letter of credit of commercial bank (with respect to Kumari Bank Limited). On the basis of analysis and findings of the study, following suggestions and recommendations can be outlined:

- Kumari Bank Limited should improve to increase total number of transaction as well as value of export LC open in Nepalese currency in coming year.

- The bank should increase total number and total transaction value of export LC opened in US dollar in coming year.
- The bank has decreasing trend of total number and increasing trend of total transaction value of import LC opened in Nepalese currency except the last two years of study period thus the bank should focus to increase total number and value of import LC open in Nepalese currency.
- Total number of import LC open in Indian currency is continuously in decreasing trend except in the last year of study period during the five years. However, total transaction value of import LC open in Indian currency is in highly fluctuating trend over the study period. The bank should improve both number and value of import LC open in Indian currency.
- Total number of import LC open in US dollar is in highly fluctuating trend during the five years study period. However, total transaction value of import LC open in US dollar is continuously in increasing trend except the last fiscal year over the five years study period. The bank should immediate improve to grow these type of LC to increase business volume.
- Because of low risk, The Bank should be segregate higher percentage of its loan in import loan rather than other sectors.
- Rules laid down by NRB regarding letter of credit transaction are inconsistent with the international practice. This has caused difficulty to the bank for international trade. The difficulty part should be suggested to NRB for their review.
- There should be sound co-ordination between NRB, Kumari Bank Limited and other commercial banks so as to deliver LC service and other supporting services smoothly. So that joint effort can be carried out in making any decision like change in service charges, interest rates, lending criteria, LC terms etc. The bank should maintain sound relation to stakeholder for further betterment.
- There have been some fraud cases in bank by ineffective and inefficient management. Therefore, to prevent further fraud cases in future, the manager should be careful and should follow the directions given by NRB, which is important for successful running of the business.

- Training should be provided to staffs of bank about on letter of credit operation. Right man should be kept in right place according to their capacity and willingness to work. There should be need of defining their job, authority and responsibility so that they may provide quick service to the customers and also able to convince the people that bank is for their benefit rather than profit.
- The new standards should be designed to make the bank management more accountable for LC operation. Besides, it should also be conducted to investigate what are the reasons of LC efficiency or inefficiency.

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APPENDIX

1. Export LC in Nepali currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	22	42.57
2065/066	28	52.46
2066/067	30	55.88
2067/068	33	63.41
2068/069	29	68.67

2. Export LC in US Dollar

Fiscal Years	Total No. of LC Transaction	Total Value of LC Transaction (In Million)
2064/065	23	0.65
2065/066	24	0.85
2066/067	28	1.11
2067/068	31	1.05
2068/069	24	1.01

3. Import LC in Nepali currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	152	242.57
2065/066	134	251.35
2066/067	130	267.98
2067/068	124	212.12
2068/069	119	168.67

Import LC in Indian currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	87	95.44
2065/066	61	64.31
2066/067	56	72.89
2067/068	51	63.55
2068/069	56	66.86

4. Import LC in US Dollar

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	462	20.90
2065/066	442	18.39
2066/067	499	32.12
2067/068	503	43.56
2068/069	459	36.92

5. Import LC in Euro Currency

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	15	12.21
2065/066	22	14.41
2066/067	31	11.06
2067/068	34	11.84
2068/069	39	20.45

6. Import LC in Japanese Yen

Fiscal Years	Total No. of LC Transactions	Total Value of LC Transaction (In Million)
2064/065	20	28.67
2065/066	23	34.31
2066/067	27	55.60
2067/068	25	61.34
2068/069	21	30.52

7. Total Commission Earned by Kumari Bank Limited from LC Operation

Fiscal Years	Total Commission Earned (In Thousand) 'NPR'
2064/065	6,720
2065/066	9,567
2066/067	14,327
2067/068	16,525
2068/069	15,221

8. Sector wise loan classification by Kumari Bank Limited

Types of Loan	Loan Classification (%)
Export Loan	4
Import Loan	32
Overdraft	28
Fixed Term Loan	13
Working Capital Loan	12
Other Loan	11