

# Bank Guarantees



## What's a bank guarantee?

A bank guarantee is a written commitment from the bank to support an obligation you have to a third party. This could be financial or non-financial, such as an agreement to perform work or deliver goods.

The bank will generally guarantee to pay a certain amount if you've not kept to your obligation. The bank guarantee could also be a standby letter of credit if that's preferred.

## When are bank guarantees used?

You might need a bank guarantee to support a commitment you're giving to someone you're doing business with. They can be used for a wide range of purposes, such as:

- To guarantee to a buyer that you'll provide services or deliver goods under a contract.
- To guarantee to a buyer that you'll provide support during a warranty period for goods provided.
- To a supplier to cover non-payment by you for goods or services you're ordering.
- To HMRC to cover non-payment under duty deferment or transit arrangements.
- To an overseas bank to support your local banking arrangements.

## How does a bank guarantee work?

1. You'll first need to set up a trade finance facility with us, so we can issue bank guarantees on your behalf. You might need to provide security to cover this facility.
2. Once you have a trade finance facility in place, if one of your counterparties needs you to provide a guarantee, you can ask us to issue the guarantee in accordance with the terms in the Trade Finance facility agreement.
3. We'll issue the guarantee and send it to your client directly, through a correspondent bank or back to you, so you can send it to your client.
4. During the life of the guarantee, you'll need to pay a fee. This will be set out in the facility terms.

5. If your client makes a demand under the guarantee, we'll check that the claim complies with the terms of the guarantee and pay the amount due to your client. We'll then claim reimbursement from you for the amount paid.

6. When the guarantee expires or is cancelled, and once we've been released from our commitment under the guarantee, you'll be released from your obligation to reimburse us accordingly and guarantee fees will no longer accrue.

## How much does it cost?

We'll charge a risk fee of non-payment, as well as administration charges, costs, or expenses.

There could be other expenses in connection with issuing the bank guarantee, such as postage or courier costs. If the other party needs the bank guarantee to be issued to them locally by one of our correspondent banks, there may also be charges from the correspondent bank to consider.

You will need to pay an arrangement fee for setting up a bank guarantee facility. Full cost details will be provided by your Relationship or Trade & Supplier Finance Director.

We'll also provide a copy of the Trade Service Pricing Tariff, which will detail the Trade Service fees and how they are charged.

## Things to think about

Any bank guarantee facility with us will be arranged by your Relationship Director. This is subject to status and our credit criteria. We reserve the right to decline any application.

Bank Guarantees are typically 'on demand'. This means that if your counterparty submits a claim to us and it complies with the bank guarantee terms, we have to pay the claim without considering external factors.

If your counterparty requires the bank guarantee to be issued by one of our local correspondent banks in their own country, there may be additional costs and a delay in us being able to cancel our exposure beyond the expiry date on the guarantee.

**For more details, please contact your Relationship Director or Trade & Supplier Finance Director.**

