



Bank Guarantees

What are they?

A written commitment from the bank to support an obligation you have given to a third party. The obligation you have given may be financial or non-financial (such as an agreement to perform work or deliver goods under a contract). Bank guarantees are generally issued as default commitments, where the bank is required to pay a certain amount in the event that it is claimed that you have not honoured your obligation to the third party. The bank guarantee may also take the form of a standby letter of credit, if that is preferred.

When are they used?

A guarantee may be needed when one of your counterparties requires you to provide a bank guarantee to support a commitment you are giving. Bank guarantees may be used to cover a wide range of purposes, but some common examples are:

- to guarantee to a buyer that you will provide services or deliver goods under a contract
- to guarantee a buyer that you will provide support during a warranty period for goods provided
- to a supplier to cover non-payment by you for goods/services you are ordering
- to HMRC to cover non-payment under duty deferment or transit arrangements
- to an overseas bank in support of your local operation's banking arrangements.

How does it work?

1. A bank credit facility will be needed to enable Santander to issue bank guarantees on your behalf. You may be required to provide security to cover this facility.
2. Once you have an agreed credit facility in place for Santander to issue bank guarantees and one of your counterparties requires you to provide a guarantee, you can request Santander to issue the guarantee as detailed in the facility agreement.
3. Santander issues the guarantee and sends this to your client directly, via a correspondent bank or back to yourself, as directed by you in the request.
4. During the life of the guarantee, Santander's guarantee fee will be invoiced and charged periodically according to the agreed facility terms.

5. In the unlikely event that your client makes a demand under the guarantee, Santander will check that the claim complies with the terms of the guarantee and pays the amount due to your client, claiming reimbursement from you for the amount paid.
6. Upon expiry or cancellation, once Santander is satisfied it has been released from its commitment under the guarantee, you will be released from your obligation to reimburse accordingly and guarantee fees will no longer accrue.

Benefits

- By providing a counterparty with a bank guarantee it may allow you to obtain contracts or services, or to agree better terms, which might not otherwise be achievable.
- For your client, it will provide them with additional assurance and risk mitigation that if you are unable to fulfil your commitments and they make a valid claim, Santander will pay them an amount up to the guarantee value to cover the default.

Considerations

- For us to issue a bank guarantee, you need to have an approved credit facility in place with Santander. You may be required to provide security to cover this facility.
- Bank guarantees are typically payable "on demand" meaning 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 related to that bank's services and a delay in us being able to cancel our exposure beyond the expiry date on the bank guarantee.

What does it cost?

A guarantee fee will be charged according to your risk profile as part of our approval process.

There will also be an arrangement fee for establishing the credit facility and charges related to any additional expenses in connection with issuance of the bank guarantee, such as postage or courier costs. If your counterparty requires the bank guarantee to be issued to them by one of our correspondent banks to them locally, there may also be the costs of the correspondent bank's charges to consider. Full details will be provided by your Relationship or Trade & Supplier Finance Director.

Next steps

If you would like to discuss bank guarantees in more detail, speak to your Relationship Director or one of our dedicated Trade & Supplier Finance Directors to discuss your specific requirements and how bank guarantees can support you.

Or visit santander.co.uk/solutions/finance/specialised-finance/trade-finance

All lending is subject to status and our lending criteria. The right to decline any application is reserved.