

GUARANTEES / STANDBY LETTERS OF CREDIT (SBLC)

3.1 INTRODUCTION

In international transactions, it is often the case that a third party sees to a bank guarantee, to pay an amount of money to one party if the counterparty defaults, for instance, if it fails to deliver a project within the agreed timeline.

Thus, the Guarantee transfers the creditworthiness of the Applicant to the bank (which acts as the Guarantor).

A Guarantee is an agreement by a bank to effect payment to another party (Beneficiary) if the bank's customer (Principal) defaults in his debt or obligation (usually job contract) to the beneficiary.

Premium Trust Bank will upon receipt of customer's request issue local and foreign Guarantees on behalf of its customers and in favour of a third party provided the conditions of issuance have been met and the text of the guarantee conforms with the bank's requirements and that of the offshore correspondent bank.

The diverse types of Guarantees that can be handled by Premium Trust Bank include the below and many others as acceptable by management:

- ☐ Bid Bond
- ☐ Performance Bond
- ☐ Advance Payment Guarantee
- ☐ Customs Bond

3.2 Issuance of Guarantee

All Premium Trust Bank Guarantees are expected to be issued at the Head Office and branches are required to forward all requests to the responsible Head Office Department for processing. Responsibility for issuance of Bank Guarantees resides with the Legal and Credit Administration Departments. Where Guarantee is to be issued in favour of offshore beneficiaries, they will be passed on to international trade Services for relay via SWIFT to the offshore correspondent bank for further advice to the beneficiary.

However, Foreign Guarantees with underlying trade obligation will be issued by Trade Services upon receipt of relevant credit approvals or provision of cash collateral and Legal concurrence on the guaranteed text.

The usual guarantee covers an agreement by the Bank to effect payment to another party (the beneficiary or obligee) if the Bank's customer (the principal) defaults in his debt or obligation (a job contract, etc.) to the obligee.

A customer requesting for Guarantee to be issued on their behalf will be required to submit a guaranteed application with relevant supporting documents. The completed application / guarantee request form should specify the following:

- I. Type of Guarantee
- II. The name of the company requesting for the guarantee (principal)
- III. The Amount
- IV. The Expiry Date
- V. The underlying Contract
- VI. The name of the Beneficiary/Beneficiary
- VII. Place of Payment
- VIII. Triggers for payment

The guarantee processor reviews submitted documentation for completeness and accuracy before processing.

Note:

- I. Where a customer has provided a guarantee format, it will be referred to the Legal department for review and concurrence before adoption.
- II. All guarantees are subjected to legal review prior to issuance with evidence of Legal review / concurrence provided in the transaction file. Amount and expiry date of the guarantee should not exceed that on the counter guarantee.
- III. Guarantees will be issued only after the required credit approval is obtained or requisite cash collateral is provided in the transaction currency. Similarly, any amendment that increases the original amount of the credit and/or extends the expiry date must be approved

- IV. For Advance Payment Guarantee, a clause will be added domiciling the Advance Payment Guarantee at Premium Trust Bank and to discharge its liability as work progresses.
- V. The Guarantee is transmitted via SWIFT to the offshore correspondent for onward advice to the beneficiary and the following accounting entries passed:

As contingent

- DR Customer's outstanding guarantee a/c
- CR Bank's Outstanding under guaranteed a/c

Cash Margin

- DR Customer's account for cash collateral (where applicable)
- CR Cash Collateral a/c

Commission

- DR Customer's account for commission and applicable fees
- CR Commission account as per banker's tariff

Note:

- I. In case of guarantees issued by the credit team or Legal and passed to International Trade Services for relay or transmission via SWIFT, the relevant contingent entries and commission will be passed by the Credit Admin Department.
- II. Relay of Guarantees via SWIFT must be duly authorized by Head Legal or his / her duly designated officers.
- III. International Trade Services will liaise with Legal or Credit administration for debit account for offshore bank charges where required if this has not been previously provided.
- IV. A copy of the transmitted SWIFT message is forwarded to the applicant for their records and the transaction documents appropriately filed.

3.3 AMENDMENT UNDER A GUARANTEE

Instrument may be received from the customer for amendments such as extension of expiry date, increase in amount, etc. to be made to the guarantee.

Amendments requiring extension of expiry date or increase in guaranteed amount must be supported by relevant credit approval and or cash collateral

3.4 CLAIMS UNDER A GUARANTEE

Payments under guarantees require receipt of prior / written complying demand from the beneficiary / correspondent bank and full credit approval.

Receipt of Claims must be notified to Legal / Credit Administration and their approval obtained before honoring the claim where they initially approved the guarantee issue.

Where original instrument was issued, the Relationship Manager and the customer are informed, while customer's account is debited for claim settlement. The following entries are passed for claim settlement:

- DR: Outstanding Under Guarantee a/c
- CR: Customer's Outstanding Guarantees a/c
- DR: Cash collateral or Customer for claim
- CR: The Beneficiary / Nostro

3.5 RELEASE UNDER A GUARANTEE OR SBLC

Guarantee register will always be reviewed to from time to time to monitor expired ones. When a guarantee expires, the following will be done.

- (i) Relationship Manager /Customer to have the original instrument returned to the bank.

- (ii) Where it is not practicable for the original guarantee to be returned, a letter / SWIFT message from the beneficiary/agency discharging the bank of its liability will be obtained.

Release under a guarantee /SBLC may also occur prior to expiry at the instance of the beneficiary / correspondent bank. The release will be supported by the return of the original guarantee by the obligee (where practicable) or by other appropriate SWIFT message / evidence of the release.

- (iii) On receipt of the original guarantee/letter/SWIFT message the guarantee officer will do the following:

- ☐ DR: Outstanding Guarantee Unutilised a/c
- ☐ CR: Customer's Outstanding a/c
- ☐ DR: Cash Collateral (applicable)
- ☐ CR: Customer

Mark file and other documents cancelled and update the guarantee register

A monthly proof of outstanding guarantee to be prepared and contingent liabilities that remain outstanding after expiry will be escalated for determination and liquidation.