



# Bank Guarantees

## Product Description Sheet

Exporters seeking to win overseas contracts that are put out to tender may have to provide Bid and/or Performance Guarantees as part of the tendering process. In other circumstances Exporters may have to provide Advance Payment Guarantees to secure an Importer who has prepaid part of a sales contract.

### PRODUCT DESCRIPTION

Usually these Guarantees are payable on demand and will relate to the circumstance for which the Guarantee was originally issued. Bid Guarantees will be used to reimburse the Importer in cases where the Exporter's bid is accepted but the Exporter then fails to sign the contract. Performance Guarantees will reimburse the Importer if the Exporter fails to fulfil their obligations under the contract. An Advance Payment Guarantee will reimburse the Importer for any advance made to the Exporter when the Exporter has failed to fulfil the contract.

### PRODUCT BENEFITS

- ✓ Bank Guarantees facilitate Exporters in securing overseas contracts that are put out to tender
- ✓ The Exporter's bank can arrange the issuance of a local bank Guarantee. Importers, in certain countries, may only be permitted to accept local bank Guarantees
- ✓ The Exporter's bank will provide advice on structuring Guarantees to protect the Exporter's interests.

Please see below and overleaf for further information on:

- Bid/Tender Guarantees
- Performance Guarantees
- Advance Payment Guarantees.

### BID/TENDER GUARANTEES

Usually issued for between 2% and 5% of the contract value as an indication to the Buyer that the tender is a serious offer and that the party submitting it (the Seller) will sign the contract if their tender is accepted.

It is important to note that the issue of this type of Guarantee is also an indication that if subsequent guarantees are required under the contract, covering Performance and/or Advance Payment, they will be forthcoming.

### PERFORMANCE GUARANTEES

Usually issued for between 5% and 10% of the contract value and becoming effective on expiry or release of the Tender Guarantee. Performance Guarantees, as their name suggests, are an assurance that the Seller performs in accordance with his contractual obligations.



## ADVANCE GUARANTEES

Usually issued for between 10% and 20% of the contract value when an Advance Payment has been offered by the Buyer to the Seller to meet their mobilisation or other initial costs. This type of Guarantee is normally required as security for money released and therefore should be issued in a form which renders it inoperative until receipt by the Seller of the agreed Advance Payment.

## RESTRICTIONS/DISADVANTAGES

It is necessary for the Applicant of the Guarantee to have a line of credit with a bank before the bank is able to issue a Guarantee.

The decision to pay is with the issuing bank and not with the customer.

Claims cannot be contested.

## KEY FEATURES OF BANK GUARANTEES

The essential features of bank guarantees are that they are payable, in the case of simple Guarantees on first demand and, in the case of conditional Guarantees on first demand supported by such documents as may be specified in the terms of the Guarantee.

The nature of the Bank's obligation does not involve the examination of the question whether the respective contractual obligations of the Seller or the Buyer have or have not been performed.

The Bank must pay according to the terms of its Guarantee, which is a legal undertaking quite separate from the contract between the Buyer and Seller.

For further information please contact your Relationship Manager or our Trade Finance Team



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