CHAPTER 26
GUARANTEES
# GUARANTEES

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26. DEFINITION

Guarantee is a contract to perform the promise or discharge the liability of another person, in the event of default. There are three parties to a contract of guarantee:

i) Principal Debtor
ii) Creditor
iii) Guarantor

In international trade, exporters and importers are required to provide guarantees for various purposes. Different types of guarantees required by them are discussed in brief hereunder:

26.1.1. BID BONDS

For participating in a bid Indian exporter may have to provide guarantee in favour of overseas buyer. Such guarantees are termed as Bid Bonds. If bid is not successful, the bid bond will get cancelled.

26.1.2. PERFORMANCE GUARANTEES

If the bid made by the exporter becomes successful, he will be awarded with export contract. Before the formal release of the contract, the exporter has to provide bank guarantee for due performance. Such guarantees are called Performance Guarantees. Subsequent to issuance of Performance Guarantee relative Bid-Bond issued earlier for the same transaction should be got extinguished. If the exporter fails to arrange for Performance Guarantee as per the terms of the original bid, the Bid Bond issued earlier will be invoked.

26.1.3. ADVANCE PAYMENT GUARANTEE

In the case of commodity exports, the exporters often receive part or full payment in advance. Similarly, in the case of high value International bids, the successful bidders are provided part advance payment. In all such cases, the overseas buyer need to be provided a bank guarantee for advances made to the exporters. These guarantees are called Advance Payment Guarantees. They become operative from the date of actual receipt of advance payment.

26.1.4. GUARANTEES RELATED TO PROJECT/SERVICE EXPORTS

Export of engineering goods on deferred payment, execution of turnkey projects and civil construction contracts are collectively referred to as Project Exports. Contracts for supply of technical know how, management contract, maintenance and operation of plants, buildings etc. preparation of project/feasibility reports, drawings/designs etc. will constitute Service Exports. Exporters desirous of
participating in project/service export bids are required to seek pre-bid clearance from competent authority depending upon the value of project exports.

If the bid is successful the exporter has to obtain post-bid clearance from the same authority who has accorded pre-bid clearance and formal approval from RBI. Such clearance/approval will cover issuance of following types of Guarantees:

i) Performance Guarantee
ii) Advance payment guarantee
iii) Guarantees for overseas borrowing
iv) Retention money guarantee

Subject to the conditions stipulated in post-bid clearance, the above guarantees can be issued.

26.1.5 GUARANTEES ON BEHALF OF NRIs FOR LOAN OUTSIDE INDIA

Authorised dealers may allow their branches/correspondents outside India to grant any type of fund based and/or non-fund based facilities to or in favour of non-resident depositor or to third parties at the request of depositor for bona fide purpose against the security of funds held in the NRE accounts in India and also agree to remittance of the funds from India, if necessary, for liquidation of the outstanding.

26.1.6. Guarantees on behalf of WOSs/JVs abroad-Overseas Investments

(i) An Indian party may have financial commitment to its overseas JV / WOS to the limit, as prescribed by the Reserve bank from time to time, of the net worth of the Indian party as on the date of the last audited balance sheet. The financial commitment may be in the form of

(a) capital contribution and loan to the JV / WOS;

(b) corporate guarantee (only 50 percent value in case of performance guarantee) and / or bank guarantee (which is backed by a counter guarantee / collateral by the Indian party) on behalf of the JV / WOS and

(c) charge on immovable / movable property and other financial assets of the Indian party (including group company) on behalf of JV / WOS.

(ii) An Indian party may offer any form of guarantee on behalf of the JV / WOS [corporate or personal / primary or collateral / guarantee by the promoter company / guarantee by group company, sister concern or associate company in India] provided that:
a. The total financial commitment of the Indian party, including all forms of guarantees, are within the overall ceiling prescribed for overseas direct investment;

b. No guarantee should be 'open ended' i.e. the amount and period of the guarantee should be specified upfront.

c. In the case of performance guarantee, time specified for the completion of the contract shall be the validity period of the related performance guarantee;

d. In cases where invocation of the performance guarantee breaches the specified ceiling for the financial commitment, the Indian party shall seek prior approval of the Reserve Bank before remitting funds from India;

e. All forms of guarantees are required to be reported to the Reserve Bank in Form ODI Part II.

(iii) An Indian party may extend corporate guarantee on behalf of the first generation step down operating subsidiary under the Automatic Route within the prevailing limit for the overseas direct investments.

(iv) An Indian party may issue corporate guarantee on behalf of second generation or subsequent generation step down operating subsidiaries with prior approval from the Reserve Bank, provided the Indian party indirectly holds 51 percent or more stake in the overseas subsidiary for which such guarantee is intended to be issued.

(v) The bank guarantee issued by a resident bank on behalf of an overseas JV / WOS of the Indian party, which is backed by a counter guarantee / collateral by the Indian party, shall be reckoned for computation of the financial commitment of the Indian party for overseas direct investments. The bank guarantee to be issued would be subject to the prudential norms issued by the Reserve Bank (DBOD) from time to time.

Banks, including overseas branches / subsidiaries of Indian banks, shall not issue standby letters of credit / guarantees / letter of comforts etc. on behalf of overseas JV / WOS / Wholly Owned Step Down Subsidiaries (WoSDS) of Indian companies for the purpose of raising loans / advances of any kind from other entities except in connection with the ordinary course of overseas business. Further while extending fund / non-fund based credit facilities to overseas JV / WOS / WoSDS of Indian companies in connection with their business, either through branches in India or through branches / subsidiaries abroad,
banks should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

26.1.7. DEFERRED PAYMENT GUARANTEE

- Where a guarantee covered under this rule contains a definite provision for its possible redemption, even though at beneficiary's option, at a particular time or date or on completion of a certain portion of the repayment prior to the expiry of the full period of the guarantee, the period up to the possible redemption may be considered as the initial validity period for which the commission should initially be recovered. In the event the guarantee is not redeemed at the end of that period, the balance period may be considered as an extension of the initial period and commission should then be recovered for the balance period.

- However, for the purpose of considering whether the commission may be collected in installments as above, the total commission must be taken to be that amount payable for the initial validity period only. If a guarantee qualifies for that concession and if the concession is granted for the initial validity period, the same concession may also be granted for the extended period irrespective of the total quantum of commission payable for the latter period.

- Branches should make efforts to obtain an early return of cancelled guarantees. They should also ensure that all guarantee include a specific clause stating the exact period within which claims must be made under a guarantee after its validity has expired.

- Where the entire commission is collected upfront the rate of commission and exchange rate prevailing as on the date of issuance will be applicable. No further adjustments arising out of future revision, if any, in the guarantee commission shall be carried out.

- Where commission is recovered on instalment basis, the rate of commission and exchange rate prevailing as on the date of recovery of each instalment shall be applicable.

26.1.8. GUARANTEES FOR TRADE CREDITS

AD banks are permitted to issue Letters of Credit / guarantees / Letter of Undertaking (LOU) / Letters of Comfort (LOC) in favour of overseas supplier, bank and financial institution;

- Up to USD 20 million per transaction
For a period up to one year for import of all non-capital goods permissible under Foreign Trade Policy (except gold, palladium, etc.). Up to three year for import of capital goods. Subject to prudential guidelines issued by the Reserve Bank of India from time to time.

Period of such Letters of credit / guarantees / LOU / LOC has to be co-terminus with the period of credit, reckoned from the date of shipment.

26.1.9. OTHER TYPES OF FOREX RELATED GUARANTEES

♦ Performance guarantee in favour of customs authorities to enable customers to obtain clearance of imported goods without presenting import licence at the time of clearance, against an Undertaking to produce a valid import licence within a specified time.

♦ Performance guarantee in favour of customs authorities to obtain clearance of goods on payment of provisional customs duty against undertaking to pay balance upon demand i.e. upon finally determining the rate of customs duty.

♦ Performance guarantee in favour of excise authorities for removal of goods meant for export from the excise warehouse without payment of excise duties against the undertaking to produce proof of related exports within the prescribed time.

♦ Guarantee favouring shipping companies seeking delivery of goods imported, without presenting relative negotiable copy of BL.

♦ Deferred Payment Guarantee for importing plant & machinery involving payment in agreed instalments over a period of time.

♦ Guarantees favouring Export Promotion Councils, Commodity Boards etc.

26.1.10. INWARD GUARANTEES

Often overseas banks request our branches to issue guarantees favouring Indian entities against their counter guarantees. Following are the main purposes for which such guarantees are issued

i) To cover advance payment to be made towards imports into India.

ii) Bid Bond/Tender Bond for participating in global tenders covering import of goods or services for projects in India.

iii) Performance Guarantees covering import of goods into India or service projects in India.
iv) To secure various types of borrowings in India by resident Indians or
delayed payment exports etc.

26.10.1. FEMA REGULATIONS

RBI has granted general permission to ADs to issue guarantees in favour of Indian
entities in respect of genuine transactions involving debt, obligation or liability of
persons resident outside India or for the purpose of their participating in bids,
securing performance etc. Such guarantees are to be issued against counter
guarantees of overseas banks. If invoked, bank can settle the claim in Indian
Rupees and simultaneously seek reimbursement from overseas bank who has issued
counter guarantee. Cases where reimbursements are not received should be
reported to RBI, indicating steps taken for recovery. Branches can also issue
guarantees with a condition that payment will be made only on receipt of
reimbursement from overseas bank. But such condition is to be clearly spelt out in
the guarantee bond itself.

26.10.2. PROCEDURE

If branches receive request from overseas banks for issue of guarantees following
procedure is to be adopted:

i) Entertain only requests received from correspondent banks with whom we
have active and satisfactory reciprocal arrangements.

ii) Ensure that the request is received in the form of duly tested telex message
or authenticated SWIFT message.

iii) The draft of the guarantee to be issued should be acceptable, contains
limitation clause and does not have any onerous clauses.

iv) Duly tested counter guarantee for adequate amount and sufficiently long
validity period (minimum 15 days beyond the validity period of guarantee) is
to be received to facilitate lodgment of claim on overseas bank.

v) Refer the request to IBD, C.O., for approval. No guarantee is to be
issued without the written sanction from IBD.

vi) On receipt of sanction from IBD, issue the guarantee on stamp paper of
adequate value as applicable to the respective state. Guarantee is to be
serially numbered, signed by two authorised officials, entered in the
Guarantee Register and thereafter delivered to the beneficiary against
acknowledgement. A copy of the guarantee is to be forwarded to overseas
bank.

vii) Guarantees issued in India on behalf of overseas banks are governed by
Indian Courts. However, the counter guarantee issued by overseas bank is
subjected to jurisdiction of courts overseas.

viii) Pass contra entry (FE 512) and diarise for due date.
26.2. ISSUE OF GUARANTEES

Guarantees favouring overseas beneficiary are normally not issued directly. If guarantees are issued directly, such guarantees will fall within the jurisdiction of Indian Courts, which may not be acceptable to overseas beneficiaries. To obviate these difficulties, such guarantees are issued by overseas correspondents of our Bank, against counter guarantee to be issued by us.

26.3. FEMA REGULATIONS

- ADs can issue bid bonds, performance bonds and guarantees including those in lieu of Earnest Money Deposit, in favour of overseas buyers on behalf of Indian exporters. No prior approval of RBI is necessary. ADs should however be satisfied about the bonafides of the applicant and his ability to perform the export contract. The terms agreed between the exporter and the importer should be in conformity with FEMA regulations. ADs must ensure that the value of the guarantees which they issue, as a percentage of the value of tender or contract, is reasonable and is according to normal practice in the trade. Request for guarantees from exporters placed under caution list should be referred to RBI for prior approval.

- Authorised Dealers can also issue counter guarantees in favour of their correspondent banks abroad to cover guarantee required to be issued by the latter on behalf of Indian exporters.

26.4. PROCEDURE

Guarantee is a non-fund based facility. Issuance of guarantees creates contingent liability. Bank’s liability will crystallise in the event of default of the customer on whose behalf guarantees are issued. In other words, guarantees have a potential to crystallise into fund based liability. Therefore, proposal involving issuance of guarantees is to be processed on similar lines of fund based limit application. Following steps are to be taken for issuance of guarantee.

- Only AD branches are authorised to issue export/import related guarantees in foreign currency. ‘C’ category branches have therefore to approach nearest dealing branch for issue of such guarantees on behalf of their customers.

- Request letter from the customer for issuing bank guarantee together with underlying contract/documentary evidence is to be obtained. The underlying contract/documentary evidence has to be scrutinised to ensure that there are no onerous clauses.
♦ The format (draft) guarantee to be issued is to be obtained. Normally, the format of guarantee in favour of government departments is prescribed by the department concerned. The formats of other guarantees are liable to differ to suit the requirements of each beneficiary. As far as the Bank is concerned, the format has to be scrutinised to ensure that bank's liability is restricted to a certain amount and remains valid for a definite period of time. The model bank guarantee prescribed by Government of India provides for such limitations as to amount and validity period (Ann. No.26 (1)).

♦ In certain cases, beneficiary may require LG in their own format different from the Model Form of Bank Guarantee Bond. In such cases the guarantee should be vetted by Bank's legal officer or penal advocate ensuring that there is no onerous clause including obligation of interest payment on guarantee amount, even it is backed by 100 % margin. The legal opinion should be held on record till the reversal of guarantee. These guarantees must be permitted by sanctioning authority not below Regional Head.

♦ Normally liability under the performance guarantee should be reduced proportionately upon execution of obligation or contracts. Suitable clause should be incorporated for reducing liability, wherever possible, in order to avoid excess claims.

♦ In case bank guarantee is to be issued in ACU Dollar, it is advisable to state in the bank guarantee that settlement of claim will be done as per ACU mechanism.

♦ Issuance of guarantee is subject to prior sanction by competent authority as per delegated powers of lending.

♦ AD branches have to select overseas correspondent bank with whom sufficient credit lines, testing arrangements etc. have been arranged by IBD. Thereafter tested request for issuance of bank guarantee is to be drafted. Among others, format of guarantee to be issued is to be furnished to correspondent bank. Besides, counter guarantee for the value of guarantee for a period extending 15 days beyond expiry date of the guarantee is to be issued in the same tested message. Branches should note that counter guarantees issued by us are subject to jurisdiction of Indian Courts. Any deviation needs approval of Controlling Office. Details of commission payable are to be called for and amount remitted thereafter to the debit of party's account.

♦ Every guarantee to be issued must be entered in a serial order in the L/G Register and this serial number must be shown on every page of the guarantee bond. Each page must also bear rubber stamp showing the name of the Bank and the branch. Full particulars of the guarantee including commission collected should be entered in the LG Register.
♦ Full commission on guarantee must be recovered according to guidelines, before delivering the guarantee to the customers/transmitting the message to correspondent bank, except in those cases where recovery of commission in instalments is permitted.

♦ Duly stamped counter indemnity, properly executed by the customer should be obtained along with other documents prescribed in the sanction advice (FE 570) (Ann. No. 26(2)).

♦ Cash margin/other securities stipulated are to be obtained before hand. Entries are to be made in Margin Register (partywise).

♦ All guarantees must be controlled by passing the following voucher (FE 512)

Dr. Customers liability for acceptances Bank Guarantee
Cr. Liability for acceptance - Bank Guarantee

♦ The voucher should also be posted in the customer's account in the partywise Guarantee Liability Ledger.

♦ Separate vouchers to be passed for guarantees issued on behalf customers in India and outside India.

♦ Guarantees have to be balanced at monthly intervals, both guarantee wise and partywise.

♦ Guarantees contain an undertaking to pay on a mere demand without delay or demur. When such a demand is received by the issuing branch within the validity period of the guarantee, payment has to be made immediately. Any indulgence shown to the customer may lead to Bank being restrained from making payment through a court order, injunction customer brought by customers which will in turn lead to legal complications and also may tarnish the image of the Bank.

♦ In case margin held is insufficient to honour the claim, payment is to be made to the debit of 'Payment Under Invoked Guarantee' account (subsidiary Ledger Code No.544051). A formal notice should be sent to the customer claiming reimbursement together with interest. A suitable report is also to be sent to the Regional Office. While no additional security documents are needed, branch officials should bear in mind that Law of Limitation (3 years) relating to legal action for recovery, operates from the date of payment of claim amount. In case repayment of the amount paid is rescheduled or converted to a loan account entailing repayment in instalments, separate security documents have to be obtained.
If the branch is unable to honour the claim due to its late receipt or on account of receipt of restraint order from the court, reasons for non-payment are to be intimated to the beneficiary and details passed on to the Regional Office.

Branch should diarise expiry dates of all guarantees for calling back the original guarantee bond and for reversal of liability. In case guarantees have expired, customer should be advised to obtain back the original guarantee bonds duly discharged or obtain a separate letter of discharge confirming that Bank stands discharged from all liabilities under the guarantee. In the case of forex related guarantees the liability can be reversed on receipt of confirmation from overseas correspondent bank to the effect that relative guarantee bond has been surrendered to them duly discharged.

If the customer is unable to return the guarantee or obtain a letter of discharge from the beneficiary, branch should obtain a letter from the customer

i) Confirming that he has completed all obligations under the contract,
ii) That there are no disputes between him and the beneficiary,
iii) Requesting the Bank to cancel the guarantee from its current records,
iv) Undertaking that he continues to be liable to the bank till such time bank procures return of the original bond or letter of discharge.

On receipt of above letter, branch should write to the beneficiary by registered AD for returning original guarantee or to send a letter of discharge (Ann. No.26(3)). If there is no response to the letter within 30 days from the date of receipt of postal acknowledgement card, branch may reverse relative liability in its books. Following entry is to be passed for reversal of liability on obtaining back of original bond or letter of discharge.

Dr. Liability for Acceptance of Bank Guarantee  
Cr. Customer’s liability for acceptance of Bank Guarantee

Guarantee can be extended on receipt of a letter of request from customer and beneficiary giving valid reasons for such extension. Commission for the extended period is to be collected in advance. Tested message for extending validity is to be sent to overseas bank.

26.5. REVERSAL OF LIABILITY

On expiry of the guarantee, the original bond duly cancelled or letter of discharge is to be obtained and liability is to be reversed. If beneficiary fails to return the original bond or issue letter of discharge, procedure explained under outward guarantees is to be followed. On reversal, IBD must be informed about the same immediately.
26.6. COMMISSION AND CHARGES FOR GUARANTEES

The charges shall be collected on the specified period of liability of the guarantee. The specified period of liability shall mean the actual validity period of the guarantee plus the additional period during which claims can be made on the bank under the guarantee.

The scale of charges shall be as under:

<table>
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<th>TYPE OF TRANSACTIONS</th>
<th>SLABS</th>
<th>CHARGES (S. Tax extra)</th>
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<tr>
<td>1. Where the amount of guarantee exceeds Rs 4.00 Cr</td>
<td>i. Up to Rs 4.00 Cr.</td>
<td>100 % of the rates specified against each type of guarantee</td>
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<td>(or in equivalent foreign curr)</td>
<td>ii. Above Rs 4.00 Cr. &amp; up to Rs 8.00 Cr.</td>
<td>50 % of the normal comm. for the value in excess of Rs 4.00 cr.</td>
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<td>iii. Above Rs 8.00 Cr.</td>
<td>25 % of the normal comm. for the value in excess of Rs 8.00 cr.</td>
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<td>2. In case of guarantees (other than those issued for Project exports)</td>
<td>1. Against 100% counter guarantees of the Govt. of India</td>
<td>25 % of the normal comm.</td>
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<td></td>
<td>ii. Against 100 % cash deposit as margin</td>
<td>25 % of the normal comm.</td>
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<td></td>
<td>iii. Against 75 % cash margin</td>
<td>50 % of applicable comm.</td>
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### 3. Guarantees issued in favour of local parties against counter guarantee of our correspondent banks (subject to prior approval of IBD)

| i. For guarantees of value up to USD5/-lacs (or equivalent) | 1.8 % p.a. Min USD 200/- (part month to be taken as full month) |
| ii. For guarantees of value exceeding USD5/-lacs (or equivalent) on the excess amt up to USD 2 mn | 0.60 % p.a. Min USD 9000/- (part month to be taken as full month) |
| iii. Guarantees exceeding USD 2 mn | 0.40 % p.a. Min USD 18000/- (part month to be taken as full month) |

### 4. Guarantees in favour of shipping Companies/Agencies for clearance of goods pending production of Bill of lading (Missing BL guarantees):

- There will not be any expiry period for missing BL grtees. Hence branches should diaries and follow up with the parties after the expiry of one month of the date of issuance of grtee for submission of original BL & return of the grtee.

| i. Relating to imports under L/Cs opened by our bank | Rs 1000/- per quarter |
| ii. Others not covered by (a) above. | 0.25 % per quarter of the underlying bill / invoice amt |

### 5. Guarantee for project exports

<p>| i. Bid Bonds/ Bonds for earnest money/ Finan Perf/ Advance Payment |
| ii. Guarantees for advance payment made by Foreign buyers to Indian exporters/contractors |
| a. In the case of guarantees covered by ECGC counter guarantee | i. Cover up to 75 %--0.45 % pa+ ECGC premium |
| | ii. Cover up to 90 %--0.35 % pa+ ECGC premium |
| b. In case of guarantee covered by counter guarantees of the Govt. of India | 0.40 % p.a. Min Rs 1000/- |
| c. 100 % cash/deposit margin | 0.25 % p.a. Min Rs 1000/- |
| d. In case of guarantees which are not covered by cash | Comm. @ 1.0% p.a. Min Rs 1000/- |</p>
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<tr>
<th>Deposits or ECGC/ Govt. of India counter guarantees</th>
<th>(In case of early redemption of gtee by return of original gtee or authenticated confirmation to that effect)</th>
<th>(50 % of the commission for the unexpired period less 3 months)</th>
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<tr>
<td>e. Commission for issuing Bid Bonds for supply to projects carried out abroad (if the bid gets frustrated there will not be no refund of that part of the commission collected)</td>
<td>50 % of the comm. applicable in a, b, c &amp; d as the case may be at the time of issuance of the gtee. (Min Rs 1000/-) and balance to be collected only upon materialization of the contract.</td>
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<td>6. Export Performance Guarantees issued in favour of customs towards export obligation under EPCG/ Advance Licence etc &amp; export performance guarantees/bid bonds connected with deemed exports.</td>
<td>1.00 % p.a. Min one quarter or Rs 1000/- whichever is higher. (50 % of normal comm. In case backed by ECGC gtee with min Rs 1000/-)</td>
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<td>Note: For issuing bid bonds for Supplies connected with deemed exports/direct exports other than project export.</td>
<td>50 % of the comm. Applicable in para 6 above with Min Rs 1000/- at the time of issuance of the gtee and balance to be collected only upon materialization of the contract.</td>
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<tr>
<td>7. Deferred Payment Guarantees covering imports of goods into India.</td>
<td>50 % of the comm. Applicable in para 6 above with Min Rs 1000/- at the time of issuance of the gtee and balance to be collected only upon materialization of the contract.</td>
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<tr>
<td>i. Where the entire deferred payment guarantee commission is collected upfront.</td>
<td>if the bid gets frustrated, there will not be refund of that part of the commission collected.</td>
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<tr>
<td>ii. Where the deferred payment</td>
<td>The rate of commission and the rate of Exchange (TT selling) prevailing as the date of the issuance of the DPG shall be applied. No further adjustment of commission arising out of future revisions in the exchange rate shall be made.</td>
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<td>The rate of commission and the rate of Exchange (TT selling)</td>
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<th>guarantee commission is recovered on installment basis.</th>
<th>prevailing as the date of recovery of each installment shall be applied.</th>
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<td>iii. In the event of early redemption of DPG</td>
<td>50% Commission for the unexpired period of guarantee may be refunded subject to original gtee being returned for cancelling or confirmation of no claims against gtee.</td>
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<tr>
<td>iv. In the event of default in payment of instalment</td>
<td>Interest to be recovered at the commercial rate of interest as prescribed by RBI from time to time from the date of default to the date of payment.</td>
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v. Where a DPG has been issued by an Authorised Dealer, but the relative instalment payment is remitted through another AD. | The latter shall compensate the A.D. Which had issued the guarantee @ 0.125% commission in lieu of exchange on the amount of remittance or to be recovered from the customer. |
|8. Letter of comfort / guarantee for repayment of foreign currency loan under ECB/ short term loan for imports, wherever applicable | 3.00% p.a. Min Rs 1500/- (Min for 1 qtr) |

The charges will be collected on the specified period of liability of the guarantee. The specified period of liability shall mean the actual validity period of the guarantee plus claim period.

**Note:** If the commission on guarantee issued by a branch on behalf of foreign correspondent is subjected to tax in the country of foreign correspondent, branch may increase the amount of commission in such a manner that the amount of commission net of such tax will conform to the rate laid down. Commission charged by foreign banks through whom guarantees are issued and out of the pocket expenses are to be recovered separately.
GUARANTEE BOND

In consideration of the President of India (hereinafter called "the Government") having agreed to exempt _______________________________ [hereinafter called "the said Contractor(s)"] from the demand, under the terms and conditions of an Agreement dated ___________ made between ____________________________ and ____________________________ for ___________ (hereinafter called "the said Agreement"), of security deposit for the due fulfilment by the said Contractor(s) of the terms and conditions contained in the said Agreement, on production of a bank Guarantee for Rs. ___________ (Rupees________________________only) We, ____________________________, (hereinafter referred to as "the Bank") at the request of ____________________________ (indicate the name of the bank) do hereby undertake to pay to the Government an amount not exceeding Rs. ___________ against any loss or damage caused to or suffered or would be caused to or suffered by the Government by reason of any breach by the said Contractor(s) of any of the terms or conditions contained in the said Agreement.

We ____________________________ (indicate the name of the bank) do hereby undertake to pay the amounts due and payable under this guarantee without any demur, merely on a demand from the Government stating that the amount claimed is due by way of loss or damage caused to or would be caused to or suffered by the Government by reason of breach by the said Contractor(s) of any of the terms or conditions contained in the said Agreement or by reason of the Contractor(s)' failure to perform the said Agreement. Any such demand made on the bank shall be conclusive as regards the amount due and payable by the Bank under this guarantee. However, our liability under this guarantee shall be restricted to an amount not exceeding Rs. ___________.

We undertake to pay to the Government any money so demanded notwithstanding any dispute or disputes raised by the Contractor(s)/supplier(s) in any suit or proceeding pending before any Court or Tribunal relating thereto our liability under this present being absolute and unequivocal.

The payment so made by us under this bond shall be a valid discharge of our liability for payment thereunder and the Contractor(s)/supplier(s) shall have no claim against us for making such payment.

We, ____________________________ (indicate the name of bank) further agree that the guarantee herein contained shall remain in full force and effect during the period that would be taken for the performance of the said Agreement and that it shall continue to be enforceable till all the dues of the Government under or by virtue of the said Agreement have been fully paid and its claims satisfied or discharged or till ____________________________ Office/ Department/Ministry of ____________________________ certifies that the terms and conditions of the said Agreement have been fully and properly carried out by the said
contractor(s) and accordingly discharges this guarantee. Unless a demand or claim under this guarantee is made on us in writing on or before the __________________________ we shall be discharged from all liability under this guarantee thereafter.

We, ______________________________________________ (indicate the name of bank) further agree with the Government that the Government shall have the fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Agreement or to extend time of performance by the said contractor(s) from time to time or to postpone for any time or from time to time any of the powers exercisable by the Government against the said Contractor(s) and to forbear or enforce any of the terms and conditions relating to the said agreement and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Contractor(s) or for any forbearance, act or omission on the part of the Government or any indulgence by the Government to the said Contractor(s) or by any such matter or thing whatsoever which under the law relating to sureties would, but for this provision, have effect of so relieving us.

This guarantee will not be discharged due to the change in the constitution of the Bank or the Contractor(s)/Supplier(s).

We, ______________________________________________ (indicate the name of bank) lastly undertake not to revoke this guarantee during its currency except with the previous consent of the Government in writing.

Dated the ____________ day of ____________ _____ for __________________________ (indicate the name of the Bank).
7.2. Annexure (2) Counter Indemnity

UNION BANK OF INDIA

Dear Sirs,

In Consideration of your having agreed to execute/countersign, executed/countersigned at my/our request a letter of Guarantee, dated ________________
in favour of ____________________________ in respect of ____________________

I/We hereby undertake and agree to indemnify you, your successors and assigns at all times and from time to time from and against all loss, damage and all actions, suits, proceedings, accounts, claims, expenses, costs and demands whatsoever which you may incur, sustain or be put to by reason or on account of your having given / countersigned the said Guarantee or otherwise howsoever and I/We also hereby undertake and agree to pay to you on demand all sums of money, costs, charges and expenses incurred in respect thereof or otherwise in relation to the premises and also to pay you interest on ail such moneys at your ruling rate.

And I/We further agree that any request made upon you by ____________________________

for payment or any sum or sums of money in pursuance of the said Guarantee shall be a sufficient authority to you to for making any such payment and that notwithstanding anything contained in the said Guarantee executed by you it shall not be incumbent upon you to enquire whether any such amount or amounts is/are in fact due.

Notwithstanding any dispute between us and the said ____________________________ you shall be entitled to act in accordance with the guarantee executed by you and to make payments thereunder without any consent from us and I/We agree that the payment by you under this guarantee is to be conclusive that the claim has arisen and of the amount of such claim.

This counter indemnity will extend to any amendment/s extension/s of the guarantee for which we may be applying from time to time and which you may agree to grant subject to your absolute right and discretion whether to amend/extend the guarantee or not and without casting any obligation on you for amending the said guarantee.

This counter Indemnity shall be binding on me/us and our legal and personal representatives, successors and assigns and our liability hereunder shall remain in force until such time as we procure for you return of discharge of aforesaid guarantee.
"That if or any reason the Bank is prevented by any action initiated by me/us from making payment to the beneficiary, of the guarantied amount, I/We will also be liable to pay the Bank, apart from other amounts payable to Bank, Guarantee commission for the period for which I/We delay, by such action, the payment of discharge of the guarantee."

Yours faithfully,

Place :
Date :
SPECIMEN OF REGD. A.D. NOTICE TO BENEFICIARY

Union Bank of India,  
_______ Branch,  

To,  

(Name and Address of the beneficiary)  

Subject: Guarantee No.___________ Dt. ___________  
for Rs.___________________________  
on behalf of ________________________

The subject guarantee having already expired on _______________ and the period of filing a claim thereunder having also expired on _______________, we request you to return the same to us duly cancelled immediately for our records. Please take notice that so far as the bank is concerned, it has been relieved and discharged of all liabilities under the subject guarantee and no claim shall be entertained thereunder.

In case, you intend to retain the original guarantee for your record, please send us a letter of discharge for our records.

Yours faithfully,  

Branch Manager  

C.C : (Name and address of the customer)