

E.I.D PARRY LIMITED

TREASURY DEPARTMENT – BANK GUARANTEE PROCESS

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1. Meaning of Bank Guarantee

A bank guarantee is a promise from a financial institution, issued on behalf of one of BG Applicant. A bank guarantee guarantees a sum of money to a beneficiary if the BG Applicant does not fulfill the stipulated obligations under the contract. This can be used to essentially ensure a buyer or seller from loss or damage due to non-performance by the BG Applicant. BG can be issued as a Performance or as a Financial Guarantee.

2. Objectives & Scope

Easy understanding of the Process of BG from its issuance to its Closure in a step by step process.

3. Abbreviations and Definitions

BG Applicant

BG Applicant is normally the person who is liable to pay when the obligation is not fulfilled as per the contract and BG Applicant is the party who initiates the request to Bank to issue a BG on its behalf.

BG Beneficiary

BG Beneficiary is normally the person who receives the Original BG from Guarantor Bank and has the power to invoke the BG when the obligation is not fulfilled as per the contract.

Applicant Bank / Guarantor

Applicant bank / Guarantor is the bank that adds its own undertaking to pay the BG beneficiary if all terms and conditions of the contract are not complied by the BG Applicant.

BG Expiry Date / Validity

BG Expiry date or Validity date is the date till that the BG is valid. i.e., Breaching of the contract within this period alone can be invoked.

BG Claim Expiry Date

BG Claim Expiry date (One year from the date of BG Expiry Date) is the date till that the BG can be invoked. i.e., Breaching of the contract within BG Expiry date can be invoked till the expiry of BG Claim Expiry Date.

BG Guaranteed Amount

BG Amount is the total guaranteed amount upto which the Beneficiary can claim/invoke the BG. The claim amount can be full or part but not more than the BG guaranteed amount when consolidating the invoked/invoking amount.

BG Draft

The embryo of BG is the BG draft. This contains the details like Applicant name and address, Beneficiary name and Address, Bank name address, Guarantee Amount, BG Expiry date, Claim expiry date, Contract or Underlying document reference Number, which/what is considered as breach of contract.

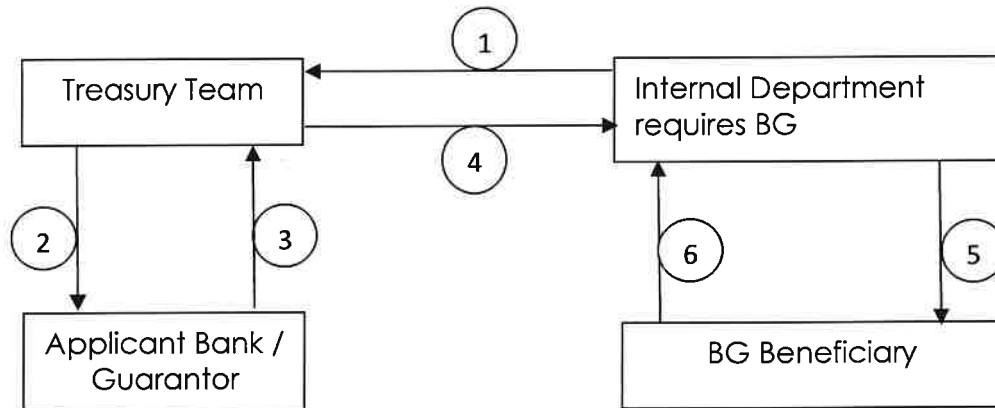
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4. BG Issuance

Stage 1: BG draft Finalization



Step 1: The respective department which requires BG approaches the Treasury team for issuance of BG with required documents (Request for BG, BG Draft and Contract Copy). Treasury team verifies the basic details like BG Amount, Validity of the BG and claim expiry of the BG. The Underlying Document (Contract/Notification) clearly stipulates about the BG Amount, Validity of the BG and claim expiry of the BG and the purpose for the BG.

Step 2: After verification Treasury team sends the BG draft and underlying documents soft copy to bank for their confirmation on BG Conditions.

Step 3: Applicant bank / Guarantor replies with their correction in BG draft as per their Legal team advice.

Step 4: Treasury team resends the corrected draft to the respective department which requested BG to get it confirmed by the BG Beneficiary.

Step 5: The respective department which requires BG resends the corrected draft to the Beneficiary to get it confirmed by them.

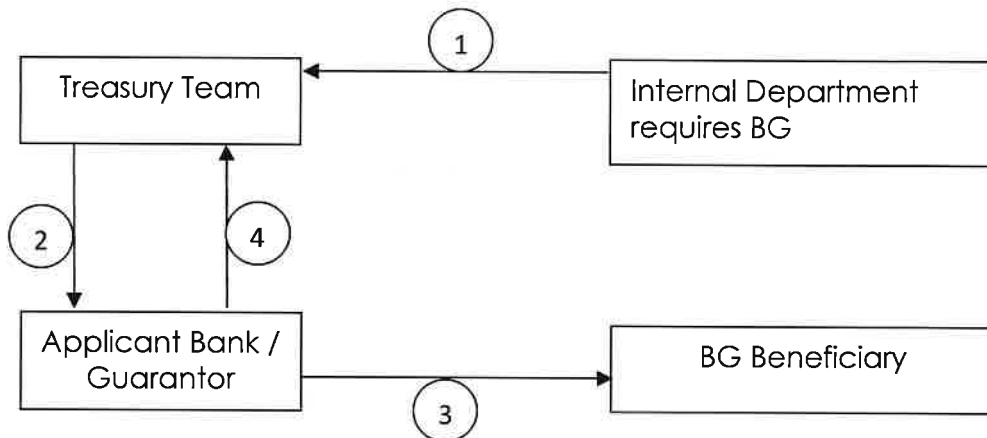
Step 6: After checking of the corrections in the draft, beneficiary confirms or give modifications in the draft BG. In case of Confirmation proceed with BG issuance or proceed with Stage-I again until the draft is confirmed by bank and the Beneficiary.

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Stage 2: Issuing BG:



Step 1: After getting confirmation from the Beneficiary the respective department which requested for BG confirms the same to Treasury team to proceed for BG Issuance.

Step 2: The Treasury team prepares and submit the duly signed BG Request letter, Underlying document and BG draft to the Applicant bank / Guarantor.

Step 3: Applicant Bank issues the BG to the Beneficiary by keeping them as a guarantor for the payment in case of any breach in the underlying document.

Step 4: Applicant bank debits the charges from applicant bank account for the BG Issuance and also provides a copy of BG for the reference. Treasury team records the BG details and Bank charges details in the MIS report for their record and references. In case beneficiary requests for BG Confirmation from the Guarantor, co-ordinate between the Guarantor and the Beneficiary.

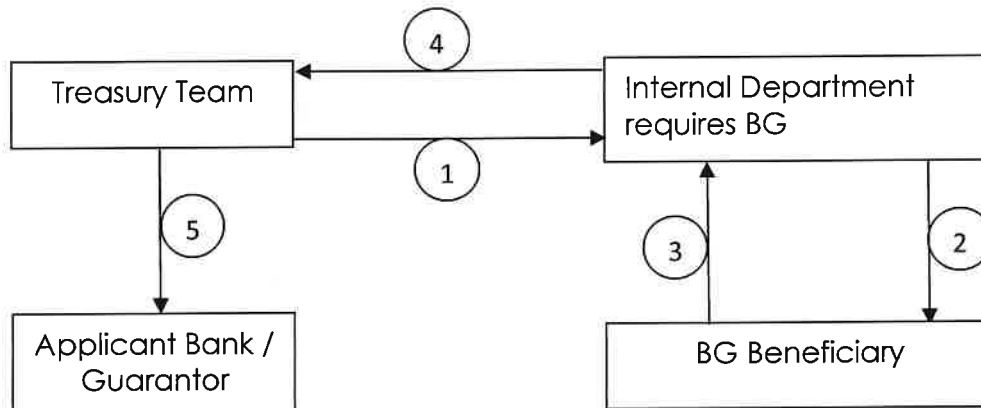
With refers to the provisions of Section 28 of Indian Contracts Act (ICA) BG will be live for further period of one year (after the expiry of claim period mentioned in BG) and company's liability on BG gets extended for an additional one year. Bank charges for the same will be charged upfront. However, if the discharge letter and/ or duly cancelled original BG is returned to Bank by the Beneficiary, the liability will cease to exist and BG charges shall be reversed.

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5. BG Surrender / Closure



Step 1: One month before the time of Expiry of the BG, Treasury team intimates the respective department or units about the BG expiry.

Step 2: One month before the time of Expiry of the BG, the respective department or Unit inform the same to Beneficiary and also begins the process for surrendering of the BG.

Step 3: Along with a covering letter to Bank for BG Surrender, Beneficiary returns the Original BG (and its amendment/s) to respective department. The beneficiary can also return the BG before the elapse of BG expiry date or the BG claim expiry date when the purpose of the BG is resolved or served.

Step 4: The respective department or unit returns the Original BG (and its amendment/s) and beneficiary's covering letter to Treasury team.

Step 5: Treasury team records the BG details in the MIS report and surrender the BG to Applicant bank / Guarantor along with the Beneficiary's letter and their request letter mentioning the BG details and inform the Bank to release the company from all the liabilities related to the BG.

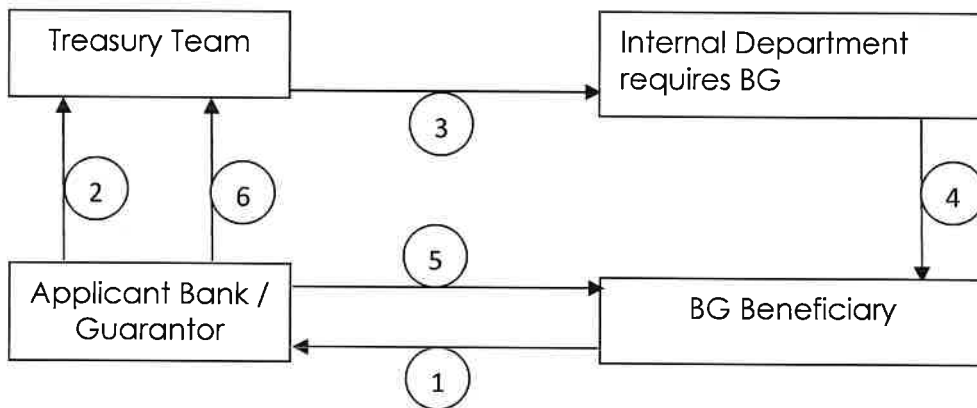
In case the BG is not surrendered by the beneficiary the validity of the BG may be closed but our Limit exposed with the Bank remains for two years or until surrender of closure letter from beneficiary or submission of declaration signed by CEO (based on the bank).

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6. BG Invocation



Step 1: In case of Breach of contract or not obliged as per the conditions of the BG, the beneficiary has sole right to invoke the BG and claim the amount from Guarantor. The beneficiary sends a letter to Guarantor that they are invoking the BG and request the Bank to credit the Full or part of the BG amount to their bank account mentioned in the letter.

Step 2: The Bank has a max time period of 5 Working days (from the date of receipt of Claim letter from Beneficiary, if mentioned in BG) to send the amount to Beneficiary. Guarantor inform the Invocation notification received from the beneficiary to Treasury team.

Step 3: Treasury team inform the same to respective department and ask them to check with the Beneficiary for possibility of revoking the BG Invocation.

Step 4: Respective Department or unit negotiates or request the beneficiary for revoking the BG Invocation. Incase of failure of negotiation or beneficiary rejects the requests, the Invocation is still live and the claim have to be settled by the Guarantor.

Step 5: Guarantor Pays the amount to Beneficiary as per the request given in the Claim letter.

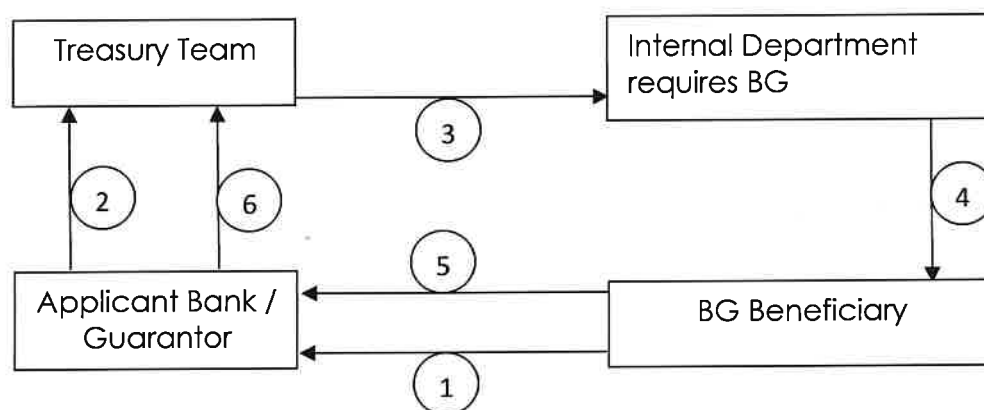
Step 6: Guarantor intimates the claim settlement to BG Applicant and debit the BG Amount from Applicant Account.

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7. Revoking BG Invocation



Step 1 to Step 3 – Follow the BG Invocation process

Step 4: Respective Department or unit negotiates or request the beneficiary for revoking the BG Invocation. If the beneficiary accepts the negotiation or request, the Invocation can be revoked by them by sending a cancellation of BG Invocation letter to Guarantor.

Step 5: Beneficiary sends the cancellation of BG Invocation letter to Guarantor. The letter need to reach the guarantor on or before 5 Working days from the date of receipt of Claim letter from Beneficiary.

Step 6: Guarantor informs the Treasury department that the Invocation has been revoked by the Beneficiary and the BG is active till expiry date.

8. BG Amendment

Sometimes amendment for a BG may also be required. All amendment requests need to be processed in the same way like BG Opening. Amendments cannot be processed without getting a request letter / acceptance from the Beneficiary.

Year End Reporting

By Year End, Get the Balance confirmation from all banks and Provide the details of Outstanding BG liability to Accounts to input the same in Contingent liability head of Annual report.

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9. Documents Involved

BG Issuance

1. Duly Signed Contract or Notification.
2. Duly signed mutually agreed BG draft.
3. Duly signed Request letter to bank.

BG Surrender / Closure

1. Duly Signed Request letter to bank.
2. Duly signed Cancellation letter from Beneficiary.
3. Original BG and its Amendments.

BG Amendment

1. Duly Signed Request letter.
2. Request letter / acceptance from the Beneficiary.

10. Process Flow

