



# Letter of Guarantee Practices

EXPERIENCE FROM MIDDLE EAST

# Issues related to Letters of Guarantee Conditions

*Most of the Guarantees in the Middle East are issued in favor of Government Entities and therefore the terms and conditions are influenced by the them.*

*Few powerful applicants or beneficiaries also dictate conditions. Finally some of the languages are added by banks. The following slides will cover some of the languages used.*

# Demand Clauses – example of Private Beneficiary and Applicant – demand condition and form

## Guarantee Demand Condition

- A) In consideration of the Beneficiary agreeing to accept this Bond, upon receiving a Demand on or before the Expiry Date, the Bank irrevocably and unconditionally (but subject to the remaining provisions of this Bond) guarantees and undertakes to pay the amounts specified in the Demand(s) to the Beneficiary on or before the [fifth] Business Day after receipt by the Bank of the Demand(s) under this Bond notwithstanding any objection made by the Seller and without any right of set-off or counterclaim. The Bank acknowledges that the Beneficiary is entitled to make multiple Demands under this Bond.

# Demand Clauses – example of Private Beneficiary and Applicant -

- **B) Demand Form** - (addressed to the guarantee issuing bank)
- **Irrevocable Letter of Credit No. [●] dated [●] (the “Bond”)**
- We refer to the above Bond issued by the Bank. This is a Demand. Terms defined in the Bond shall have the same meanings in this Demand.
- The total amount payable under the Bond is USD. XXXXXX of which Demands in respect of [*insert amount, if any, previously paid by Bank*] have previously been paid by you.
- Accordingly, we demand payment of [*insert amount*] no later than [*five*] Business Days from your receipt (in accordance with Clause 6 of the Bond) of this Demand.
- Payment shall be made by transfer to the [*insert account details*].
- The Expiry Date has not occurred.

## Demand Clause – guarantee in favor of Government Entity – (no demand form)

- The guarantor shall forthwith on demand made by you in writing and notwithstanding any objection by the Contractor pay you such amount by or amounts as you shall require not exceeding in aggregate the above-mentioned amount of ..... by transfer to an account in your name at such bank in..... as you shall stipulate or in such other manner as shall be acceptable to you.



# Customs Guarantee Text

We unconditionally and irrevocably guarantee:

- To pay you upon your request .....
- To extend this warranty upon your request with no recourse to our guaranteed client and notwithstanding any objection thereby, according to its term and amount, for equal or shorter periods, such as no extension shall be more than 365 days from the original expiry date of the warranty or any extension thereof.
- **To pay you the amount of this Warranty in full without recourse to guarantee client and notwithstanding any objection thereby crediting your account with Central Bank immediately on the following day after the expiry date of the Warranty or any extension thereof, if a request of extension is not received by us during the effective term of this Warranty.**
- This warranty shall remain in full force and effect until the end 5of ..... Month ..... year.

## Expiry and Extend or Pay Clause

- This guarantee shall remain valid and in full force and effect up to the end of the ..... Day of ..... of the year ..... provided that it is a condition of this guarantee that, in the event you give the guarantor on or prior to the said expiry date of this guarantee (or any subsequent extension of that expiry date in accordance with this proviso) signed written notification requesting an extension, the Guarantor will (a) automatically extend this guarantee for such period (not exceeding 365 days) from the expiry date or extension as you may specify in the notification or (b) pay the amount of the guarantee.

## Bid Bond – Expiry and Extend or Pay Clause

- This bond shall remain valid and effective until the end of Day ..... of the Month ..... Year .....
- **We will immediately respond to your request for extending the duration of this bond if the works have been awarded** and you provided us with a signed and written notification of extending the duration of the bond on or prior to the aforesaid expiry date of the bond (or of any subsequent extension). We will, accordingly: (i) extend this bond automatically for the requested period, (provided that it shall not exceed 365 days) of the expiry date of the bond or the expiry date of the subsequent extensions, as indicated in the extension request; or (ii) pay the bond value.