LLOYDS BANK

COMMERCIAL BANKING

INTERNATIONAL TRADE

UK Export Finance Bond Support Scheme

BACKGROUND

The Bond Support Scheme is one of four UK Export Finance (UKEF) products announced on 9th February 2011.

Under this current scheme, UKEF will provide guarantees to participating banks under a master bond support agreement in respect of UK exports. Where a bank issues a contract bond (or procures its issue by an overseas bank) in respect of a UK export contract, UKEF (subject to certain eligibility criteria) has the ability to provide a guarantee of up to 80% of the value of the bond.

BENEFITS FOR EXPORTERS

For the larger exporter, this scheme aims to provide additional capacity to the banking market to increase its ability to meet demand for contract bonds.

- The guaranteed bank is able to issue the bond (or procure its issue by an overseas bank) without incurring the full risk.
- The bank receives a guarantee from UKEF to cover the percentage of the amount due to it if the exporter fails to reimburse the bank following a call being made on the bond by the buyer.
- The bank can, for the duration of the guarantee, increase its risk appetite for the exporter.
- For advance payment and progress payment bonds, the bank can increase the amount of working capital available to the exporter.

KEY FEATURES

- UKEF provides a guarantee to the bank issuing the contract bond or indemnifying an overseas issuing bank.
- UKEF's guarantee can provide coverage of up to 80% of the credit risk on the exporter. For advance payment bonds, performance bonds, warranty bonds and progress payment bonds, this guarantee is provided to enable the Bank to release cash collateral against suitable evidence of expenditure from exporters.
- Security or collateral in respect of the particular bonding facility will be shared pro-rata between the participating bank and UKEF. There is no requirement for the bank to share with UKEF any fixed and floating charges or other security it may hold in respect of other facilities.
- UKEF's guarantee is triggered in the event of a demand for payment being made by the buyer on the underlying contract and the UK exporter failing to reimburse its bank as contractually required.
- In the past, the bond support scheme with UKEF was intended for bonding requirements over £1 million, but UKEF has now removed this requirement and is prepared to accept applications for support of any value.
- A credit assessment will be made by both the participating bank and UKEF.

ELIGIBILITY

The following criteria must be met:

- The exporter must be carrying on business in the UK.
- The export contract must have a minimum of 20% UK content.

HOW DOES IT WORK?

UKEF

- Lloyds Bank pays UKEF a guarantee fee.
- UKEF partial guarantee.
- Bond issued in favour of overseas buyer.

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Overseas Buyer

- The UK exporter pays a fee for the issue of the bond and, under a counter-indemnity given to the bank, agrees to reimburse the bank in the event of a call on the bond.
- Payment for goods and services.
- Supply of goods and services.

HOW DOES IT WORK IF A LOCAL BANK IS REQUIRED TO ISSUE BONDS?

UKEF

- UKEF partial guarantee.
- Lloyds Bank pays UKEF a guarantee fee.
- Counter-indemnity given by the exporter's bank to the local bank to issue the bonds.
- Bond issued in favour of overseas buyer.

Overseas Buyer

Local Bank in Buyer's Country

Lloyds Bank

- The UK exporter pays a fee for the issue of the bond and, under a counter-indemnity given to the bank, agrees to reimburse the bank in the event of a call on the bond.
- Payment for goods and services.
- Supply of goods and services.

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