WEMA BANK

With you. All the way.

Credit Products Compendium

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CONSUMER FINANCE PORTFOLIO

The Wema Bank Consumer Finance Product portfolio consist of four products variants that are primarily targeted at individual regular salary earners or salary earners under a group or association as well as the self-employed and small businesses. This portfolio provides a line of income for the bank in terms of loan interest and loan fees. The unique selling points of the products are:

Quick turnaround time, 72hrs guaranteed response on request approval/decline for a Fixed Term Loan, and 48hrs on Overdraft

Competitive interest rates on reducing balance No collateral required

Fixed monthly installment to aid financial planning Low transaction cost – Zero COT, no hidden charges Flexible repayment plans between 12 to 36 months, Top-Up available on Fixed Term Loan after 6 months. No hidden charges.

Personal Loan (Fixed Term Loan)

BRIEF DESCRIPTION

Personal Loan is a loan facility currently available to employees of pre-enlisted companies who operate a Salary Current or Savings Account with Wema Bank.

TARGET MARKET

Formally employed staff of companies/employers pre-approved by Wema Bank

Groups of Salary earners under an association

FEATURES

Available to existing salary account holders, based on salary domiciliation.

New customers, will in addition to salary domiciliation, provide evidence of consistent salary payment for most recent 3 months.

Maximum loan amount is 7 multiples of net monthly salary, subject to a maximum of N2 million

Maximum loan tenor of 36 months.

Loan Top-up available after 6 months of regular monthly down payments.

72 hours loan disbursement.

Available to confirmed staffs only.

BENEFITS

Apply for loans & overdrafts at the convenience of your office

Low turnaround time for loan & overdraft disbursement (72 hours)

Zero COT on the current account.

Access to mobile & Internet Banking services

DOCS. REQUIRED

Duly completed loan application form & executed offer section

Letter of Introduction signed by an authorized signatory of employer

Irrevocable letter of salary domiciliation (duly executed by employer's authorized signatory)

The signatories must be independently verified by a representative of Wema Bank

Proof of income (3 months' pay slip or 3 months account statement)

Proof of address (Physical visitation and report by bank representative)

Proof of identity (Staff ID is acceptable but National ID, International Passport or Driver's License may be required where necessary)

Wema Asset Acquisition Scheme (WAAS)

BRIEF DESCRIPTION

Wema Asset Acquisition Scheme(WAAS) is an asset finance facility available to individuals who wish to acquire and enjoy brand new asset of their choice while repayment is made over a period of time.

TARGET MARKET

Formally employed staff of companies/employers acceptable to Wema Bank

Self-employed individuals with steady income from their business ventures

Groups of Salary earners under an association

FEATURES

Loan facility is as low as =N= 500,000.00

Covers assets like vehicles and mid-size generators only Only brand new assets will be financed

Facility runs from 6 to 48 consecutive months

BENEFITS

Eliminates cash flow burden associated with outright purchase of asset/equipment

Allows beneficiary to own now, use now & pay later through pre-agreed convenient repayments

Enables organizations motivate their staff through the group asset acquisition schemes

Competitive interest rate and fee structure

DOCS. REQUIRED

A. For Salaried Individual with Account Domiciled in Wema Bank

Properly completed WAAS Application Form

Letter of Introduction from employer's HR (Branch verified)

Means of Identification (National Driver's License, International Passport, National ID & office ID Card)

Latest 3 months pay slip

Authenticated & recent 3 months bank Statement

Residential Utility Bill + Customer Visitation Form for KYC

Pro-forma Invoice issued in the name of Wema Bank

Favourable Credit Bureau Report and completed CRMS 100 Form

1 month salary Credit to Wema Bank Salary Account Employer Endorsed Salary Domiciliation Letter

Direct Debit Authorization & Irrevocable Undertaking To Fund Personal Current Account

B. For Salaried Individuals where Account Not Domicilled in Wema Bank

Properly completed WAAS Application Form

Letter of Introduction from employer's HR (Branch verified)

Means of Identification(National Driver's License, International Passport, National ID& office ID Card)

Latest 3 months pay slip

Authenticated & recent 3 months bank Statement

Residential Utility Bill + Customer Visitation Form (KYC)

Pro-forma Invoice issued in the name of Wema Bank

Favourable Credit Bureau Report and completed CRMS 100 Form

Irrevocable Standing Order from Client's Bank in favour of Client's Wema Bank Personal Current Account

Direct Debit Authorization & Irrevocable Undertaking To Fund To Fund Personal Current Account.

C. For Self Employed Professional

Completed Application Form

Personal Current Account with Wema Bank

Letter of Introduction duly endorsed by a company director

Means of Identification (Statutory and Official)

Authenticated & recent 12 months bank Statement

Residential Utility Bill + Customer Visitation Form

(KYC) Certificate of Registration/incorporation

Particulars of Directors

Corporate/Company Profile

Pro-forma Invoice issued in the name of Wema Bank

Favourable Credit Bureau Report and completed CRMS 100 Form

Direct Debit Authorization & Irrevocable Undertaking To Fund to Fund Personal Current Account

Cash Flow Lending

BRIEF DESCRIPTION

Cash Flow Lending is an advance facility available to small business owners under the micro, small and medium enterprises segment (MSMEs). It is designed to boost the working capital of existing business in order to aid their growth.

TARGET MARKET

Entrepreneurs, micro, small and medium scale enterprises in all sectors of the economy

Available to business owners that operates a business current account.

Facility amount starts from N100,000 to a maximum of N5 million.

Amount loanable is 50% to 60% of six month average credit turnover in business account

Facility tenor is between 3 to 12 months and renewable after clean-up

BENEFITS

Minimal or no collateral is required for the advance

Easy access to working capital for business growth

Minimal or no collateral required

Flexible loan repayment tied to credit turnover.

Competitive interest rate

Access to all electronic products of the bank

DOCS. REQUIRED

Completed Application Form duly
executed Two passport photographs

Company profile

Executed Personal and/or Corporate Guarantee form by acceptable Guarantor

Statement of net-worth-duly completed by the Guarantor

At least three(3) months bank account statement from Wema Bank and six(6) months from previous/other bank(s)

Other banks' statement must be on letter head and signed by the bank official with stamps

CONSUMER LOAN PRICING

	Fixed Term Loan	Revolving Overdraft	WAAS	Cash Flow Lending
Interest Rate	*PLR +4%	PLR + 7%	PLR +1%	Depends on Credit Evaluator Score** 100% - 80% Score: =2.75% per month 79% - 60% Score: = 3.25% per month
Commitment Fee	1% flat	1% flat	1% flat	1% flat
Management Fee	1% flat	N/A	1% flat	1% flat
Top-up Fee	2% of Top-up amount	N/A	N/A	N/A
Insurance	0.3% of loan amount	N/A	cars & SUVs: 5% p.a of asset cost Minibuses: 6% p.a Generators: 2% p.a	1% of loan amount
Transfer Fee	N/A	N/A	0.5% of Asset Cost, payable with the last Lease Rental	N/A
Early Settlement Fee	N/A	N/A	N/A	N/A
Penalty Fee	1% flat on outstanding after 30 days	1% flat on outstanding after 30 days	1% flat on outstanding after 30 days	1% flat on outstanding after 30 days

**PLR - Prime Lending Ratio of the Bank*

**Each request is subject to the SME Credit Evaluator, a parameterized scoring tool that covers both quantitative and qualitative elements of the clients business. The business analytical tool, when updated scores each item of rating to arrive at a cumulative score.*
60% is the minimum acceptable score and scores are further graded for the purpose of pricing. The higher the clients score, the cheaper the loan pricing.

CREDIT PRODUCTS

Overdraft

BRIEF DESCRIPTION

This is a loan which allows the borrower to draw, within a specified tenor, usually not exceeding 12 months, certain amounts in excess of the credit balance in the current account with the bank

OR

A facility, usually to finance short term shortages in cash/working capital needs. Typically not exceeding 12 months at a time. It works by allowing the obligor draw funds over and beyond their credit balances but limited to a specified amount.

It is used to finance current assets or meet payments on expenses. An assessment of working capital needs should be carried out.

Overdraft is susceptible to the same risk the business entity is subjected to i.e. inability to complete asset conversion cycle (ACC), business risk, industry risk, production, collection, macro-economic risk, demand, supply and diversion risks.

Overdraft Facility (ODF) vs Temporary Overdraft Facility (TODF)

ODF – Maximum tenor of 12months
TODF – Maximum tenor of 30days

FEATURES

The obligor is permitted to overdraw his current account but not exceeding the approved limit

Maximum tenor of 12months

The bank earns interest income at the agreed interest rate on average daily debit balances

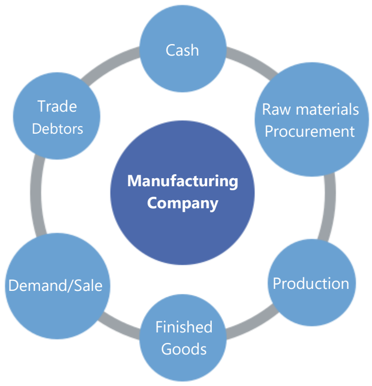
The bank secures its position with adequate collateral

In-built mechanism to achieve occasional swings

Availed to only customers that operate and achieve the required transaction volume i.e. turnover or activity

Overdraft facilities are repayable on demand

Requires rigorous analysis of the borrowers cash conversion cycle and financial statements



CHECKLIST

- Facility request letter
- Minimum of 6 months turnover analysis in Wema bank or other bank(s)
- Account swing analysis for 6 months
- Maximum availment of 100% of average turnover
- Turnover covenant (minimum of 100% of facility amount per month)
- Provision of tangible security with minimum coverage of 150%
- Maximum availment of 50% of average turnover
- Turnover covenant (minimum of *2 of facility amount per month)
- Provision of tangible security with minimum coverage of 150%

LPO Finance Facility

BRIEF DESCRIPTION

LPO – acronym for Local Purchase Order

LPO Finance Facility – loan made available to finance supply of materials or execution of specific supply

Facility is usually short term and self-liquidating i.e. ability to generate adequate cashflow to repay the loan in the shortest possible time

KEY ISSUES !

Genuineness of LPO - Once a PO is presented to the bank for financing, lending officers must first and foremost confirm the genuineness of the PO from its issuer.

Availability of materials/items – if the material to be supplied is not available in the local market, the loan will have a high probability of default

Quality specifications – It is of utmost importance that the quality of the materials to be supplied meets the PO specifications

Diversion of funds – The bank should make payment directly to the supplier of the materials financed upon satisfactory delivery and acceptable by the PO issuer

Obligor's commitment – The bank will require customer to contribute a substantial part of the cost of executing the PO. The risks identified with a particular PO will determine how much equity contribution the borrower may be expected to make towards its execution.

Domiciliation of payment – The bank derives additional comfort when the issuer of the LPO executes domiciliation of payment undertaking in favour of the bank

Secondary market – One of the ways-out is the existence of a secondary market

Delivery time

Profit Margin

Credibility of issuer

CHECKLIST

Confirmation of LPO for genuineness

Pro-forma Invoice for goods to be supplied

Confirmation of Irrevocable Domiciliation of proceeds from LPO issuer

Customer's contribution (30% minimum of cost of execution)

Proposed collateral

Counterparty information (LPO issuer) Profitability Analysis

Terms of payment/track record

Contract Finance Facility

BRIEF DESCRIPTION

Contract Finance Facility – loan made available to finance execution of contract

Facility can short-term or long-term depending on the nature of contract and validity period

KEY ISSUES

- Contract Authenticity
- Company's experience/Track record
- Diversion of funds
- Obligor's stake
- Domiciliation of payment
- Validity period
- Profit Margin
- Credibility of Contractee

CHECKLIST

- Contract award & agreement
- Contract Confirmation
- Detailed work schedule/BOQ
- Confirmation of Irrevocable Domiciliation of Contract proceeds from Contractee
- Customer's contribution (20% minimum of cost of execution)
- Proposed collateral
- Counterparty information (Contractee)
- Profitability Analysis
- Terms of payment/track record

Invoice Discounting/Receivable Finance Facility

BRIEF DESCRIPTION

Loan granted to refinance or discount properly documented and acknowledged account receivables or supply invoices certified for payment

This occurs when a contractor has executed LPO or Contract with own funds but would wait for a certain period before payment is made

Due to the deferred terms of payment of LPO or contract, the contractor has tied up capital in receivables

KEY ISSUES

Genuineness of receivable/invoice(s)
Creditworthiness of customer

Domiciliation of receivable/invoice(s) proceeds Encumbrance

Security (where applicable)

CHECKLIST

Confirmation of invoice(s)

Confirmation of Irrevocable Domiciliation of invoice proceeds or tripartite domiciliation agreement

Maximum disbursement of 70% of invoice value
Terms of payment/track record (evidence)

Collateral (where applicable)

Import Finance Facility

BRIEF DESCRIPTION

Loan granted to finance importation of raw materials or finished goods.

An Advance facility offered specifically to facilitate the importation of current/working assets.

Import Finance Facility may be availed via BA's, CP's or ODF in non-checking accounts.

Associated risk includes new or unforeseen regulatory maneuverings, supply, demand, unpredictable fluctuations in FX rates, improper (over/under) invoicing

Modes of Payment In International Trade

1. **Open account –** seller dispatches goods to the buyer (without payment) with an agreement to make payment within a specified period
2. **Bills for collection –** seller dispatches goods to the buyer with an agreement that the buyer makes payment within a specified period but underlying document delivered to its banker
3. **Advance payment –** buyer pays the seller before goods are dispatched
4. **Letter of credit –** debt instrument issued by a bank on behalf of its customer to make payment to third party against certain stipulated documents

Letter of Credit

Governed by Uniform Customs and Practice for Documentary Credits (UCP 600)

Applicant – buyer

Issuing bank – buyer's bank (resident in buyer's country) Advising bank – seller's bank (resident in seller's country) Beneficiary – seller

Modes of LC Payment

Sight payment

Deferred payment

Acceptance

Negotiation

KEY ISSUES

Company's trade cycle

Experience/track record

Terms of payment (Confirmed or Unconfirmed LC/Sight or deferred payment)

Nature of goods (Prohibited or not/Perishable or not) Customer's contribution

Demand deficiency/Marketability

FX fluctuation

TRANSACTION DETAILS

Equity contribution by customer

Documents required for establishment of LC submitted

Independent verification of price & marketability to avoid over/under invoicing

Consignment of goods to the order of the bank/warehousing arrangement, integrity/capacity of company to pay on arrival of shipping documents

Independent security etc.

CHECKLIST

Proforma invoice from supplier/Form 'M'

Customer's stock level

Contribution (minimum of 30% of Landing Cost – CIF+ Custom duty+ Clearing Charges)

Documentary evidence of previous importation Profitability Analysis

Security

Bills for Collection

BRIEF DESCRIPTION

Collection means the handling by banks of documents (financial and/or commercial documents) in accordance with instructions received, in order to:

a. Obtain payment and/or acceptance; or
b. Deliver documents against payment and/or against acceptance; or
c. Deliver documents on other terms and conditions.

There are 2 types of Collection namely (a) Clean Collection and (b) Documentary Collection.

1. Clean Collection means collection of financial documents not accompanied by commercial documents.
2. Documentary Collection means collection of:
    a) Financial documents accompanied by commercial documents;
    b) Commercial documents not accompanied by financial documents.

Under a Documentary Collection, the seller ships the goods to the buyer in the importing country and hands over to his own bank financial and commercial and transport documents relating to the goods and their shipment. In the case of Clean Collection, only financial documents are handed over to the bank.

Cheque Discounting Facility/ Direct Credit Facility/Next Day Value

BRIEF DESCRIPTION

Cheque Discounting Facility

Loan granted to a customer which allows up to 80% of the face value of a cheque/draft in clearing

Direct Credit Facility

Loan granted to a customer which allows immediate withdrawal of 100% of face value of a cheque/draft presented

Next Day Value

Loan granted to a customer which allows withdrawal of up to 100% of face value of a cheque/draft on the second day

CHECKLIST

Confirmation of cheque/draft from authorised signatories of the issuing institution

Number of returned cheque in the last 6 months

Finance Lease Facility

BRIEF DESCRIPTION

Loan granted to finance acquisition of asset i.e. Motor vehicles, Generating set etc

Leasing refers to a mode of financing which allows the use of equipment in return for agreed lease payments.

This is a financing option for the acquisition or use of an asset. Two major types of leasing exist namely: Finance and Operating Lease.

Lessor – owner of equipment/asset

Lessee – user of equipment/asset

Long term financing of fixed assets. Typically asset financed should be generic assets that can be easily realized in the event of default

An agreement between the lessor and the lessee by which the former permits the latter the use of the equipment (asset) for an agreed period of time, in return for lease rentals which the lessee pays to the lessor.

Associated risk includes Technology, Factory defect, competition, diversion.

TYPES OF LEASE

Finance lease – the lessor (Wema bank) transfers to the lessee (customer) substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred (purchase option/residual value)

Operating lease - the lessor does not necessarily transfer all the risks and benefits of asset ownership to the lessee. It share the characteristics of usage agreement

TRANSACTION DETAILS

Determine source/mode of payment,
Rentals in line with sales receipts
Moratorium period where applicable.

CHECKLIST

Pro-forma Invoice of asset being financed
Minimum of 30% contribution (security deposit)
Regular and verifiable cashflow
Projected cashflow (where applicable)

Term Loan

BRIEF DESCRIPTION

Facility granted to augment long term financing needs, may also be used for specific expansionary purpose or clearly identifiable cash outlay of specific amounts.

Issues to consider - Determine source/mode of payment, installments in line with obligor's capacity/turnover etc

Project Finance

Project Finance refers to loans in which the primary revenues generated from it act as both the source of repayment and security for the exposure. This type of financing is usually for large, complex and expensive installations.

It is principally a form of 'Non-recourse' or 'Limited Recourse' financing, where the bank base its credit decision solely or primarily on the cashflows of the project, with respect to repayment of the project debts.

These Projects might include:

1. A power generation project
2. A mass transit project
3. A telecommunication local services, long distance and valueadded project
4. A power transmission or distribution project by laying a network of new transmission or distribution lines
5. A petroleum extraction, refinery, pipeline project;

Associated risk includes Cost overrun, over/under estimation of cash flows, repayment typically hinged on the success of the project

KEY ISSUES

Moratorium period where applicable, a thorough feasibility study need to be carried out, disbursement patterns, monitoring, use of qualified project manager, experienced business managers etc

Mortgage loan

Mortgage loan is a loan secured by real property through the use of a document which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan

Margin loan

Margin loan is a loan that allows the customer to finance against shares. The term margin refers to the difference between the market value of the shares and the cost of shares. The primary and secondary sources of repayment are from the sale of the securities purchased.

Object Finance

Object Finance is a method of funding the acquisition of physical assets (e.g. ships, aircraft, satellites, railcars, and fleets etc) where the repayment of the exposure is dependent on the cash flows generated by the specific assets that have been financed and pledged or assigned to the lender.

Real Estate Loan

Real Estate Loan also known as "Income producing real estate" is a loan provided for funding of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset.

Commercial Real Estate Loan

Commercial Real Estate Loan also known as "High-volatility commercial real estate" is the financing of commercial real estate that exhibits higher loss rate volatility (i.e. higher asset correlation) compared to other types of specialized lending.

Agricultural Finance Facility

a. Agricultural Finance refers to facilities granted for the following purposes:

(i) Agricultural Production Loans for inputs like seeds, fertilizers, pesticides, etc. Production Loans also include working capital finance to meet expenses of various natures attributable to farming.

(ii) Farm Development Finance for improvement of agricultural land, orchards, nurseries, agro allied industries, bakeries, animal husbandry, horticulture etc.) and construction of storage facilities, etc. for storage of seed, raw agriculture/farm produce.

(iii) Agricultural Finance Lease for the purchase of agricultural machinery and equipment like tractors, threshers, etc.

(iv) Non-fund based facility (e.g. letters of credit) for procurement/import of agricultural supplies etc by corporate & non corporate farmers.

(b) Non-farm credit includes financing for livestock such as dairy, poultry and fisheries etc.

Agriculture Financing shall not include loans to traders and intermediaries engaged in trading/processing of agriculture commodities. Such lending would be covered under Prudential Guidelines for Corporate/ Commercial Banking or SME Financing.

However, agricultural financing can be extended to entities (including corporate farms, partnerships and individuals) engaged in farming activity as well as processing, packaging and marketing of mainly their own agricultural produce, provided 75% of the agriculture produce being processed, packaged and marketed should be produced by the above-mentioned entities themselves.

Bankers Acceptance

Financial instrument or bill used in financing short term trade obligations or asset based self-liquidating credits whose tenor must not exceed 180 days.

To finance underlying trade transactions (local or foreign).

Associated risk includes Primary obligor, improper matching of repayment to maturity.

Issues to consider - Identify the underlying transaction with title being held as collateral by the bank, acceptance must be by physical instrument in form of draft supported by signed agreements, investors should know the issuers of the draft.

Commercial Paper

A financing structure that allows the bank to directly match a surplus entity to a deficit entity. Unlike the BA, this creates only a secondary obligation on the part of the bank if guaranteed

Off Balance Sheet Facilities

BRIEF DESCRIPTION

Contingent Liabilities are off balance sheet facilities

They are used to substitute the banks credit worthiness with that of the obligor/customer

1. **Bid/Tender Bond**

   A tender bond also called a bid bond or a tender guarantee — is an undertaking by a bond issuer (Wema bank) on behalf of its customer to pay a sum of money to the Contractee if he (customer) wins the tender but fail to enter into the contract.

   A bid bond is issued as part of a bidding process by the Surety (Bank) to the Project Owner (Principal), to guarantee that the Bidder (Customer) will undertake the contract under the terms at which they bid, if he wins the Bid.

   The cash deposit is subject to full or partial forfeiture if the winning contractor fails to either execute the contract or provide the required performance and/or payment bonds. The bid bond assures and guarantees that should the bidder be successful, the bidder will execute the contract and provide the required surety bonds.

   This would be mitigated by an adequate analysis of customer's track record of prior successfully executed jobs; analysis of technical partners' (if any) competence.

A Bid Bond is purchased when a contractor, or the “principal”, is bidding on a tendered contract.

Usually 2% of proposed contract sum (bid amount)

Conditions precedent:

1. Request Letter
2. Accepted offer letter
3. Board resolution
4. Copies of invitation to bid/tender or publication
5. Satisfactory credit checks
6. Payment of up-front fees
7. Provision of Counter Indemnity from Insurance Company Or 100% cash cover Or Legal Mortgage on property (where applicable)

2. Advance Payment Guarantee (APG)

Advance Payment Guarantee or Advance Payment Bond – is an instrument issued by a bank (Wema bank) on behalf of its customer to secure upfront payments to them by third parties for jobs awarded to, but not yet executed by the contractor

An Advance Payment Guarantee is issued to secure release of advance payment (mobilization) received on a contract. It is intended to bind the supplier (our customer) to use the advance payment for the purpose stated in the contract between the customer and the Principal.

The guarantee is payable on demand and contains optional wording for the value of the guarantee to reduce as interim payments are made under the contract. The advance payment guarantee should only become effective once the advance payment has been received.

APG becomes effective upon receipt of funds/mobilisation from the contractee

The bank's maximum liability on APG is limited to actual funds received in its position

Usually 15% of contract sum (public sector)

APG Issuance

Conditions precedent:

1. Request Letter
2. Accepted offer letter

3. Board resolution
4. Copies of contract award
5. Satisfactory credit checks
6. Payment of upfront fees

APG Utilisation

Conditions precedent:

1. Copies of contract agreement
2. Receipt of detailed work schedule/BOQ
3. Appointment of project manager (where applicable)
4. Evidence of similar contract successfully executed in the past

3. Performance Bond

Performance bond is an instrument issued by the bank on behalf of its customer to secure chances of failure in executing contract awarded by third party

A performance bond is a surety bond issued by an insurance company or a bank to guarantee satisfactory completion of a project by a contractor (customer). A job requiring a payment & performance bond will usually require a bid bond, to bid the job. When the job is awarded to the winning bid, a payment and performance bond will then be required as a security to the job completion.

Usually 10% of contract sum (public sector)

Performance risk would be mitigated by an adequate analysis of customer's track record of prior successfully executed jobs; analysis of technical partners' (if any) competence as well as appointment of Project Manager by the Bank

Conditions precedent:

1. Request Letter
2. Accepted offer letter
3. Board resolution

4. Copies of contract award/agreement
5. Satisfactory credit checks
6. Payment of upfront fees
7. Appointment of project manager (where applicable)
8. Evidence of similar contract successfully executed in the past
9. Provision of Counter Indemnity from Insurance Company Or 100% cash cover Or Legal Mortgage on property (where applicable)

4. Bank Guarantee

Bank guarantee is an instrument issued by a bank on behalf of its customer to certain third parties to assure them that the customer will perform its obligation as stated or envisaged in a particular transaction with them

Unlike the other forms of Guarantees above, a Payment Guarantee is issued on behalf of the Contract Employer (Principal, and our customer in this instance). Commitment (usually backed by collaterization of an asset) to pay a debt according to the terms of the original debt agreement. A payment guarantee or bond provides assurance that upon the Principal's default, the contractor will be paid for work performed

This would be mitigated by receipt of cash collateral of the same value as the Payment Guarantee issued; or an adequate analysis of customer's ability to generate cashflow sufficient to meet its repayment obligations under the Payment Guarantee as when due.

Instances

Where goods are to be sold on credit

Where job completion precedes payment

Conditions precedent:

1. Request Letter
2. Accepted offer letter

3. Board resolution
4. Copies of bank guarantee template (where applicable)
5. Satisfactory credit checks
6. Payment of upfront fees
7. Documentary evidence of previous activity (where applicable)
8. Provision of 100% cash cover Or Legal Mortgage on property
9. Copies of contract/agreement or term sheet between the customer and 3rd party (where applicable).

5. Retention Bond

Type of performance bond that protects the Contract Employer after a job or project is finished. It guarantees that the contractor will carry out all necessary work to correct structural and/or other defects discovered immediately after completion of the contract, even if full payment has been made to the contractor. This Bond covers what is known as 'defects liability' period.

Associated risk would be mitigated by an adequate analysis of customer's track record of prior successfully executed jobs; analysis of technical partners' (if any) competence as well as appointment of Project Manager by the Bank.