SQUIRE PATTON BOGGS

UniCredit v Celestial

Implications for Trade Finance Under UK Sanctions

26 March 2026

On 25 March 2026, the UK's Supreme Court delivered a unanimous judgment in *UniCredit Bank GmbH v Celestial Aviation Services Ltd,* holding that UK sanctions against the Russian Federation (Russia) prohibited a confirming bank from making payments under standby letters of credit issued as security for civilian aircraft leases to Russian airlines, notwithstanding that both the leases and the letters of credit predated the sanctions, and the leases had been terminated before payment fell due.[1]

The ruling, which upheld the Court of Appeal and reversed the High Court, resolves a question of acute commercial significance for trade finance, aviation leasing and the broader financial services industry. By affirming that the phrase "in connection with", an arrangement requires only a factual nexus, not a causal link, to prohibited activity, the Court has confirmed that UK sanctions legislation is to be construed broadly, with the licensing regime serving as the principal mechanism for mitigating unintended consequences. The ruling affects any institution holding payment obligations under financial instruments connected, however indirectly, to arrangements involving restricted goods, technology and persons connected with Russia.

Legal Development

The case arose from 12 standby letters of credit issued between 2017 and 2020 by Sberbank, a Russian state-owned bank, and confirmed by the London branch of UniCredit Bank GmbH, a German institution. The letters of credit secured lease obligations owed by Russian carriers, including AirBridge Cargo and Aurora Airlines, to three Irish-incorporated aircraft lessors: Celestial Aviation Services Ltd (a subsidiary of AerCap Holdings NV, the world's largest aircraft leasing company) and two entities within the Aircastle group, including Constitution Aircraft Leasing (Ireland) 3 Ltd. (Constitution). The leases themselves had been entered into between 2005 and 2014. The principal sums at issue were approximately US$45.8 million for Celestial, and US$23.5 million for Constitution. Following Russia's invasion of Ukraine, the UK government amended Regulation 28(3)(c) of the Russia (Sanctions) (EU Exit) Regulations 2019 (the Regulations), with effect from 1 March 2022, extending the prohibition on providing financial services or funds from military goods to "restricted goods", a category that encompasses critical-industry goods, including civilian aircraft.[2] The lessors demanded payment under the letters of credit in March 2022. UniCredit declined, asserting that the amended sanctions prohibited payment absent a license. It applied promptly to HM Treasury's Office of Financial Sanctions Implementation (OFSI) and the Export Control Joint Unit, obtaining the requisite licenses in October 2022, after which the principal sums were paid. The residual dispute concerned interest and costs for the intervening period.

The Court's Reasoning

The Supreme Court addressed two issues. The first was whether regulation 28(3)(c) prohibited UniCredit from paying under the letters of credit. The appellants contended that the prohibition required a causal connection between the provision of funds and the prohibited supply of aircraft, and that no such connection existed: the aircraft remained in Russia solely because of the Russian airlines' breach of the terminated leases, not because of any act of the bank. Lord Stephens, giving the sole judgment, rejected that interpretation. The statutory language, he held, requires only a factual connection between the provision of financial services or funds, and an "arrangement" whose object or effect is making restricted goods available to persons connected with Russia. The phrase "in connection with" is deliberately broader than "in pursuance of"; read together, the two phrases capture anything that factually connects the provision of funds to the relevant arrangement.[3] The Court endorsed what it described as a deliberately broad prohibitory structure, in which the sanctions regime casts a wide net and the licensing system operates as a safety valve, administered by public authorities who are the proper arbiters of the competing interests involved.[4]

The Court also rejected three subsidiary arguments advanced by the appellants: that the leases were not "arrangements" within the regulation because they predated the sanctions; that termination of the leases extinguished their status as relevant arrangements and that there must be temporal coincidence between the provision of funds and the existence of the arrangement. On each point, Lord Stephens held that the object of the leases, namely making aircraft available to Russian airlines, was determined when the leases were made and was not altered by subsequent termination.[5]

1 UniCredit Bank GmbH, London Branch (Respondent) v Constitution Aircraft Leasing (Ireland) 3 Ltd and another (Appellants); UniCredit Bank GmbH, London Branch (Respondent) v Celestial Aviation Services Ltd (Appellant) [2026] UKSC 10, judgment of 25 March 2026.

2 Russia (Sanctions) (EU Exit) Regulations 2019, SI 2019/855, reg. 28(3)(c), as amended by the Russia (Sanctions) (EU Exit) (Amendment) (No. 3) Regulations 2022, SI 2022/195, with effect from 1 March 2022.

3 [2026] UKSC 10 at [80].

4 [2026] UKSC 10 at [76]-77; [2024] EWCA Civ 628 at [66].

5 [2026] UKSC 10 at [86]-88.

The second issue analysed was section 44 of the Sanctions and Anti-Money Laundering Act 2018 (SAMLA), which provides that a person is not liable to civil proceedings in respect of an act or omission done in the reasonable belief that it is in compliance with sanctions.[6] Although not necessary to the outcome, the Court addressed the point because of its wider significance. Departing from the Court of Appeal's obiter view, Lord Stephens held that section 44 provides a defence, not a procedural bar, and that it extends to claims for debt, interest and costs where the bank's omission to pay was based on a reasonable belief that payment was indeed prohibited.[7]

Commercial and Compliance Implications

The practical consequences of this judgment are substantial and extend well beyond the aviation leasing sector. First, the ruling confirms that UK sanctions legislation will be construed expansively, and that the phrase "in connection with" an arrangement will be read to capture any factual link between a financial payment and a prohibited arrangement, regardless of causation. Financial institutions cannot rely on a narrow, purposive interpretation to avoid the sanctions' reach, nor can they argue that a payment that does not itself cause or contribute to the prohibited supply falls outside the prohibition. The implications for banks, insurers and other financial intermediaries handling transactions with any nexus to restricted goods or sanctioned jurisdictions are considerable. Although the Supreme Court's judgment was directed specifically at regulation 28(3)(c), the phrase "in connection with" appears in numerous other provisions of the Regulations. It must be assumed that the Court's broad, factual-nexus interpretation applies with equal force to every such instance, significantly widening the practical scope of the ruling beyond the particular prohibition at issue in this case.

More broadly, the Regulations contain several other imprecise formulations (e.g. "making available" and "related to"), which the Supreme Court did not directly address. Nevertheless, the interpretive approach adopted by the Court, favouring breadth over specificity, treating the sanctions regime as a deliberately wide net and relying on the licensing system as the mechanism for relieving unintended hardship, strongly suggests that the courts would apply a similarly expansive reading to those phrases. Prudent compliance practice would therefore treat such terms as carrying a broad, factual meaning rather than a narrow or technical one, and would factor that assumption into risk assessments, transaction structuring and internal screening procedures.

Secondly, the retroactive reach of sanctions upon pre-existing commercial arrangements is now settled at the highest appellate level. Letters of credit, guarantees and other financial instruments that were entirely lawful when issued may be caught by subsequent amendments to sanctions regulations if the underlying arrangement involves goods or services that become restricted. Parties cannot assume that the passage of time, the termination of an underlying contract or the absence of any wrongful intent on their part will insulate connected financial flows from prohibition.

This has direct consequences for the structuring of trade finance facilities, aircraft leases, energy supply contracts and any transaction involving goods at risk of future sanctions designation.

The ruling fundamentally alters the risk allocation in letter of credit transactions. Standby letters of credit are traditionally procured precisely to mitigate credit default risk; the Supreme Court has now confirmed that sanctions-related default risk, the very contingency the instrument was designed to address, may render the instrument itself unenforceable pending a license. The credit default risk caused by sanctions will remain extant notwithstanding the existence of the letter of credit. Lessors and other beneficiaries of such instruments must therefore reckon with the possibility that a confirming bank will be prohibited from paying, and that they will have limited legal recourse during the period of non-payment.[8]

The Court's interpretation of SAMLA's section 44 provides banks with an additional layer of protection. Where a bank withholds payment in the reasonable belief that sanctions prohibit it, the bank is shielded from claims for debt, interest and costs incurred during the period of non-payment. This is so even if the bank's reading of the sanctions is ultimately found to have been mistaken, provided that the belief was reasonably held. The incentive structure is plain: it encourages cautious compliance and prompt licensing applications, but it places the cost of any delay squarely on the beneficiary rather than the bank.

Finally, the judgment underscores the importance of pursuing licensing across all relevant jurisdictions with equal diligence. The Court of Appeal had found that UniCredit could not rely on US sanctions for a six-week period during which it had failed to make reasonable efforts to obtain a license from the Office of Foreign Assets Control; UniCredit did not appeal that finding.[9] Institutions subject to overlapping sanctions regimes must therefore maintain parallel compliance processes and cannot assume that a license from one jurisdiction will cover obligations arising under another.

How We Can Help

As a global law firm with a dedicated international trade and sanctions compliance practice area, we are ideally situated to advise clients on the consequences of this ruling. We regularly assist financial institutions, lessors, insurers and trading companies with the assessment of exposure under the UK, EU and US sanctions regimes; the review of letters of credit, guarantees and other trade finance instruments for sanctions risk; the preparation and submission of license applications to OFSI, the Export Control Joint Unit and equivalent bodies; the revision of internal compliance policies and counterparty screening procedures and the management of disputes arising from sanctions-related payment suspensions, including claims under SAMLA section 44. We would welcome the opportunity to discuss how these developments affect your operations and transaction structures.

6 Sanctions and Anti-Money Laundering Act 2018, s. 44(1)-(3).

7 [2026] UKSC 10 at [91]-93.

8 Rob Harkavy, Sanctions trump letters of credit in Supreme Court setback for lessors, *ICLG*, 25 March 2026.

9 [2024] EWCA Civ 628 at [130].

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