Covered bond guarantee

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Hermes Cover

TABLE OF CONTENTS

Covered bond guarantee

With covered bond guarantees, the Federal Government provides protection for creditors of German covered bonds against receivable seizure risks in the case of debtors of the underlying loan receivable who are domiciled in non-EU/EEA countries. Thus, this cover product ensures that the conditions specified under German covered bond legislation (10% threshold under Section 20 (3); formerly Section 20 (2a) of the German Covered Bond Act (Pfandbriefgesetz)) are satisfied, thus allowing German banks holding a permit to issue German covered bonds ("Pfandbriefbanken") to refinance a greater number of export loans in their own covered bond business.

WHO CAN APPLY FOR A COVERED BOND GUARANTEE?

Covered bond guarantees are given for export loans covered by the Federal Government that are to be refinanced via the bank's own covered bond business. The product is exclusively available to banks with a German covered bond permit ("Pfandbriefbanken").

The covered bond guarantee is available only if the bank applying for it has sufficient creditworthiness. Covered bond guarantees are only available in combination with buyer credit guarantees, untied loan guarantees or airbus guarantees.

WHO IS THE BENEFICIARY UNDER A COVERED BOND GUARANTEE?

Only the so-called "Pfandbriefbank with limited business activities", i.e. the entirety of the cover pool for the covered bonds that becomes a separate legal entity in the event of the insolvency of the Pfandbriefbank (Section 30 (1) Sentence 3 of the German Covered Bond Act) is eligible to claim indemnification. The economic beneficiaries are the holders of the German covered bonds in the event of the Pfandbriefbank's insolvency.

WHAT RISK IS COVERED?

The covered bond guarantee is an ancillary cover product that exclusively covers the receivable seizure risk as defined in German covered bond legislation (Section 20 (3); formerly Section 20 (2a) of the Covered Bond Act). This is the risk of an export loan that has been entered in the cover pool register for German covered bonds of a specific German Pfandbriefbank being removed from the cover pool by means of attachment or through an equivalent measure in a non-European country. If the borrower is domiciled in the EU/EEA, there is no need to cover the receivable seizure risk described above as in this case the holders of German covered bonds are protected by the EU Bank Recovery and Resolution Directive in the event of insolvency.

If ECA cover is provided for the receivable seizure risk as described above, the German Pfandbriefbank is in a position to refinance a larger amount of export loans to borrowers in non-EU/EEA countries via their own covered bond business. This heightens their flexibility, thus making an important contribution to securing and supporting export finance.

An example of the covered bond guarantee document can be found on the website **www.exportkreditgarantien.de/en**. It has been prepared and drafted in consultation with the Federal Financial Supervisory Authority (BaFin).

Legally, the covered bond guarantee is not a guarantee but an insurance product to which the General Terms and Conditions for buyer credit guarantees (FKG) apply mutatis mutandis. However, this applies only to the extent that it is consistent with the purpose of the covered bond guarantee and in the absence of anything to the contrary in the guarantee document. Thus, for example, the legal enforceability of the loan receivable (Art. 5 (1) and (2) of the General Terms and Conditions (FKG)) is not a condition for indemnification under the covered bond guarantee if a covered event as defined in Section II.1 of the covered bond guarantee document occurs and debt-discharging payment can no longer be made by the foreign borrower to the policyholder or the Pfandbriefbank with limited business activities (Section 30 (1) Sentence 3 of the German Covered Bond Act) after the receivable has been seized. Furthermore, the provisions in Art. 7 (1) and (2) (netting provisions), Art. 8 (recoveries), Art. 10 and 11 (transfer of rights and claims; litigation) and Art. 12 (debt restructuring arrangements) in the General Terms and Conditions (FKG) do not apply.

FOR WHAT PERIOD IS COVER AVAILABLE?

The cover period under a covered bond guarantee commences upon receipt of the guarantee document and expires upon the debt-discharging receipt of payment by the policyholder/beneficiary (Pfandbriefbank with limited business activities, Section 30 (1) Sentence 3 of the German Covered Bond Act).

WHEN CAN A COVERED BOND GUARANTEE BE ISSUED?

A covered bond guarantee can be issued either together with the main cover product (usually buyer credit cover) or at a later date when the export loan in question is already in the repayment phase.

CAN THE COVERED BOND GUARANTEE AND/ OR THE UNDERLYING LOAN RECEIVABLE BE ASSIGNED?

The claims under the covered bond guarantee and/or the underlying buyer credit receivable may not be assigned to any third parties. However, disposals made by the cover pool administrator of the Pfandbriefbank with limited business activities or a transfer in the form of universal succession are possible. Otherwise, the bank taking out the cover may return the covered bond guarantee at any time (no premium reimbursement) in order to freely dispose of the covered export loan receivable within the limits of the “Supplementary provisions relating to the assignment of Guaranteed Amounts (GC (FAB))” and to make use of other funding options.

WHAT DOES THE COVERED BOND GUARANTEE COST?

The premium rate is 5‰ (0.5%) and is payable on top of the premium for the underlying buyer credit cover (or untied loan guarantee or airbus guarantee). If the covered bond guarantee is issued at a later date, the premium is calculated on a time-proportionate basis, i.e. it is only payable on top of the amount of the premium payable for the buyer credit cover applicable for the period in which the covered bond guarantee applies.

An interactive tool is available on www.exportkredit-garantien.de/en for calculating the premium.

The premium is payable in full upon receipt of the guarantee document.

Premiums are only reimbursed if and to the extent that the premium for the main cover is also reimbursed, e.g. as a result of changes in the amount and repayment period of the covered export loan. If only the covered bond guarantee is returned (e.g. because the loan receivable has not been used for refinancing with German covered bonds), no premium reimbursement is available.

WHEN AND HOW IS CLAIMS PAYMENT MADE?

The claim to indemnification under the covered bond guarantee arises if and when legal measures taken by third parties prevent the foreign debtor from remitting any debt-discharging payment towards the covered export loan entered in the cover pool register to the policyholder or the Pfandbriefbank with limited business activities (Section 30 (1) Sentence 3 of the German Covered Bond Act) following the commencement of insolvency proceedings with respect to the Pfandbriefbank's assets. Indemnification is paid subject to receipt of an application and after the expiry of the waiting, processing and payment periods stipulated in the General Terms and Conditions provided that the covered loan receivable is or was due for payment and has not been paid to the Pfandbriefbank (or, in the event of its insolvency, the Pfandbriefbank with limited business activities) one month after it becomes due for payment as a result of a receivable seizure outside the EU/EEA.

Indemnification for interest receivables will be paid out on the due dates for payment documented in the export loan contract, i.e. normally in semi-annual instalments at the same time as the repayment of the principal.

Once all necessary documents have been submitted to the Federal Government, the claim will be processed within one month's time. The claims payment will then be effected within five bank working days.

The bank retains an uninsured portion of the defaulting receivable. This is the same percentage as that applicable to the underlying main cover. If the covered bond guarantee is combined with buyer credit cover, the uninsured percentage is thus normally 5% of the loan receivable.

WHAT TRANSITIONAL ARRANGEMENTS APPLY WITH RESPECT TO SECURITISATION GUARANTEES?

As of 1 December 2017, only covered bond guarantees are available for covered export loans that are refinanced via a bank's own covered bond business and for the only purpose of addressing the receivable seizure risk. As of this date, the covered bond guarantee replaces the securitisation guarantee which was previously also available to cover the receivable seizure risk.

Securitisation guarantees issued before 1 December 2017 for export loan receivables that are refinanced via the bank's own covered bond business will continue to cover the receivable seizure risk (grandfathering rules). However, in these cases, the Pfandbriefbank may also swap the securitisation guarantee for the new covered bond guarantee free of charge.

MAIN FEATURES OF THE COVERED BOND GUARANTEE AT A GLANCE

Policyholder:	banks holding a German covered bond permit ("Pfandbriefbanken")
Beneficiary:	Pfandbriefbank with limited business activities (entity holding the assets backing the German covered bonds, legally separate from the insolvent Pfandbriefbank)
Covered risk:	the risk of the loan receivable being seized by creditors of the Pfandbriefbank as defined in the German Covered Bond Act
Cover quality:	insurance product (the General Terms and Conditions (FKG) apply mutatis mutandis)
Uninsured portion:	same as for the main cover (normally 5% for buyer credit cover)
Possible combinations:	buyer credit cover, untied loan guarantee, airbus guarantee – the covered bond guarantee is not available on its own
Administrative fees:	None, if issued immediately together with the main cover. If the covered bond guarantee is granted after the main cover, a once-only processing fee of EUR 500 (for a refinanced receivable of up to EUR 5 million) or EUR 1,000 (for a refinanced receivable of more than EUR 5 million) will be charged.
Premium:	5‰ (0.5%) on top of the fee for the main cover provided that the covered bond guarantee is issued for the same period (calculation tool available on www.exportkreditgarantien.de/en).

www.exportkreditgarantien.de/en

Export Credit Guarantees and Untied Loan Guarantees: instruments to promote foreign trade and investment provided by the

Federal Ministry for Economic Affairs and Energy

Commissioned to implement the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees:

EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees as well as effective foreign trade promotion instruments of the Federal Government have been established for decades. Export Credit Guarantees (so-called Hermes Cover) protect German exporters and banks financing exports against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs. The Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at **www.bundeswirtschaftsministerium.de/en** under the heading Promotion of Foreign Trade and Investment.

Euler Hermes Aktiengesellschaft

Postal address:
P.O. Box 500399
22703 Hamburg, Germany

Office address:
Gasstrasse 29
22761 Hamburg, Germany

Phone: +49 40 8834-9000
Fax: +49 40 8834-9175

info@exportkreditgarantien.de
info@ufk-garantien.de
www.exportkreditgarantien.de/en

Branch offices: Berlin, Dortmund, Frankfurt, Stuttgart, Hamburg, Munich, Nuremberg, Rhineland

09 1515e 1225