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PRODUCT INFORMATION

Credit confirmation risk cover

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

TABLE OF CONTENTS

CREDIT CONFIRMATION RISK COVER	3
WHO CAN APPLY FOR CREDIT CONFIRMATION RISK COVER?	3
HOW CAN DOCUMENTARY CREDITS BE USED IN EXPORT BUSINESS?	3
WHAT IS CREDIT CONFIRMATION RISK COVER?	3
WHAT IS THE LINK BETWEEN THE CREDIT CONFIRMATION RISK GUARANTEE AND THE EXPORT TRANSACTION?	4
WHAT HORIZON OF RISK IS COVERED?	4
HOW MUCH DOES CREDIT CONFIRMATION RISK COVER COST?	5
WHEN AND HOW IS A CLAIM PAID?	5
HOW CAN YOU APPLY FOR COVER?	5
MAIN FEATURES OF CREDIT CONFIRMATION RISK COVER AT A GLANCE	6

Credit confirmation risk cover

With buyer credit cover for risks arising from the confirmation of letters of credit (short: credit confirmation risk cover) a bank insures itself against the risk involved in the confirmation of documentary credits, which are granted to finance German export business. This type of cover is available in particular for confirmed letters of credit.

Credit confirmation risk cover offers protection against payment default if

- the issuing bank fails to make payment within one month after due date (protracted default)
- the issuing bank becomes insolvent
- adverse measures are taken by foreign governments or warlike events arise
- local currency amounts are not converted or transferred

WHO CAN APPLY FOR CREDIT CONFIRMATION RISK COVER?

Credit confirmation risk cover is available to all German banks, to the branch offices of foreign banks in Germany and (under certain conditions) also to foreign banks.

HOW CAN DOCUMENTARY CREDITS BE USED IN EXPORT BUSINESS?

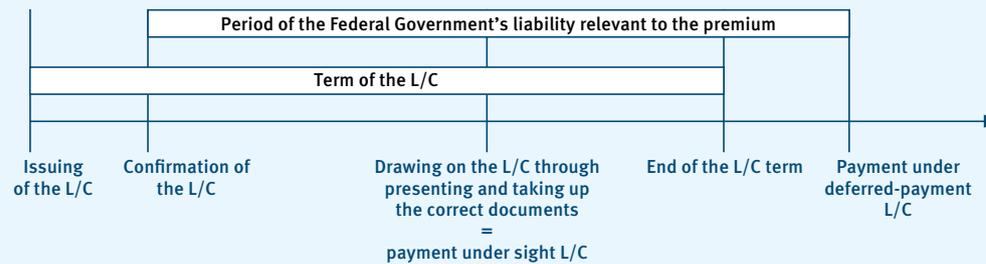
Especially where short-term trade finance is required in foreign business, documentary export credit is frequently used (letter of credit = L/C). Under this specific type of credit agreement a bank undertakes, in accordance with the instructions of its client (i.e. the importer abroad), to make payment to a third party (i.e. the German exporter) or to commission another bank to do so if certain conditions are met (among other things the presentation of specific documents).

For instance, the exporter (beneficiary) agrees with his buyer abroad (importer) that he (as applicant) requests his bank (issuing bank abroad) to open a letter of credit. This bank issues the letter of credit and sends it to the exporter's bank. Thus the exporter knows for sure that he will receive payment from the issuing bank and the importer has always the guarantee that payment will not be made until the documents evidencing the goods/services have been duly presented in compliance with the terms and conditions of the letter of credit. In order to increase the security for the exporter further, his bank can confirm the letter of credit, i.e. assume a bare acknowledgement of debt on request of the issuing bank. If there is no order or authorisation from the issuing bank abroad, the exporter's bank may, however, give an independent, irrevocable undertaking to pay in the form of a silent confirmation.

WHAT IS CREDIT CONFIRMATION RISK COVER?

Occasionally, banks come up against limits when asked to confirm letters of credit because their internal ceilings which, for example, may exist for foreign banks or countries are used up. These ceilings can be raised – thus enabling further exports – with the help of credit confirmation risk cover provided by the Federal Government. Under this type of cover the Federal Government insures the claim to reimbursement that the bank which confirms a letter of credit has against the issuing bank in the amount disbursed under the L/C; the confirming bank only retains a share of 5% for its own account for political and commercial risks which must not be insured elsewhere – as customary with buyer credit cover. It is possible to insure both on demand L/Cs and deferred payment L/Cs as well as “post financing” transactions.

PERIOD OF COVER



Cover will be granted on the basis of the General Terms and Conditions for buyer credit cover which are amended by Special Conditions that take account of the specific features of documentary credit transactions.

Since June 2018 medium-term transactions with credit periods of up to five years handled through confirmed letters of credit can also be covered under a guarantee from the Federal Government.

WHAT IS THE LINK BETWEEN THE CREDIT CONFIRMATION RISK GUARANTEE AND THE EXPORT TRANSACTION?

The letter of credit which is to be covered must be based on an export transaction that meets the usual standards applicable to Federal export credit guarantees. Credit confirmation risk cover is granted in favour of the bank, separate supplier credit cover in favour of the exporter is not required. The bank has to give an exhaustive description of the underlying export transaction in the application form and submit a specific letter of undertaking and declaration on combating bribery signed by the exporter.

WHAT HORIZON OF RISK IS COVERED?

Cover takes effect when the letter of credit is confirmed and ends with the full payment of the covered amount owing, i.e. the reimbursement of the credit amount through the issuing bank abroad after the documents stipulated in the letter of credit have been taken up or the lending period has expired. In order to effectively protect the confirming bank, the Federal Government waives its right to interfere in the cover in case of a deterioration of the risk – contrary to standard buyer credit cover – already with effect from the confirmation of the L/C. As a rule, the period of time that can be covered is limited to 360 days for the credit confirmation period plus five years for the lending period.

Where medium credit terms (two years or more) are agreed, the requirements of the OECD Consensus (among other things advance payments, equal half-yearly (or quarterly or monthly) instalments) have to be met.

PREMIUM CALCULATION FOR SELECTED EXAMPLES

(ONE-OFF UP-FRONT IN % OF THE L/C AMOUNT COVERED, PLUS FEES PAYABLE; AS FAR AS 2 YEARS OR MORE: HALF-YEARLY REPAYMENT PROFILE)

Horizon of risk in months	1	3	6	12	18	24	60	72
Buyer category CC2								
Country category 1	0.42%	0.47%	0.53%	0.66%	0.79%	0.93%	1.79%	2.08%
Country category 4	1.04%	1.11%	1.22%	1.44%	1.66%	1.88%	4.20%	4.79%
Country category 7	2.45%	2.62%	2.88%	3.41%	3.93%	4.45%	8.48%	9.83%

HOW MUCH DOES CREDIT CONFIRMATION RISK COVER COST?

The costs consist of the processing fees and the cover premium. The processing fees depend on the amount of the credit. A certain percentage of the credit amount to be covered is charged as cover premium. The premium level is mainly determined by the issuing bank’s rating, the country risk and the horizon of risk.

Insurance tax is not payable.

To give you an estimate of the premium payable in your specific case, an interactive premium calculator is available on the internet under www.exportkreditgarantien.de/en. Further details are given in the information leaflet “**Fees and premium rates**”. Due to the validity of credit confirmation risk cover, which is in principle short-term, the premium tables for credit risk cover with credit periods of less than two years are normally applicable. If longer credit periods are agreed (maximum permitted credit period: five years), the premium calculation tables for credit risk cover with horizons of risk of at least two years apply.

WHEN AND HOW IS A CLAIM PAID?

Before a claim can be filed, the legally valid and matured claim to payment of the amount owing must have become uncollectible due to the occurrence of a covered risk. When all the necessary documents have been submitted to the Federal Government, the claim will be processed within one month’s time. Claims payment will then be effected within five bank working days. The policyholder participates in every loss with an uninsured portion of 5% (for all risks).

HOW CAN YOU APPLY FOR COVER?

Contact with the Federal Government is established via **Euler Hermes Aktiengesellschaft**. The company’s head office in Hamburg as well as its numerous branch offices in Germany offer expert advice on general and specific questions. Extensive information material, application forms and the General Terms and Conditions are also available for study and download at www.exportkreditgarantien.de/en, partly only in German.

MAIN FEATURES OF CREDIT CONFIRMATION RISK COVER AT A GLANCE

Eligible policyholders:	German banks, certain foreign banks and all German branch offices of foreign banks
Object of cover:	claim for reimbursement of the confirming bank against the foreign issuing bank in the amount of the documentary credit disbursed
Covered risks:	foreign bank's failure to make payment within 1 month after the due date (protracted default), other commercial risks (e.g. insolvency), as well as political risks (e.g. warlike events)
Possible use:	<ul style="list-style-type: none"> • confirmed letters of credit • silent confirmations • sight L/C • deferred payment L/Cs • sight L/Cs with follow-up financing ("post financing")
Interference in cover:	The Federal Government waives its right to interfere with the cover in case of an increase of the risk with effect from the confirmation of the L/C.
Eligible countries:	as a rule: all countries
Uninsured portion:	5% for all risks
Processing fees:	application and, if necessary, renewal and issuing fees, depending on the amount of the documentary credit
Premium:	a certain percentage of the documentary credit amount covered (see premium calculator available at www.exportkreditgarantien.de/en)
Period of liability relevant to the premium:	as a rule a maximum period of 360 days as from the confirmation of the letter of credit plus a maximum of 5 years as lending period (depending on the type of goods)

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:



Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government 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. 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.

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