

INTERIM REPORT 2010

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EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

DEVELOPMENT OF NEW BUSINESS

2 ■

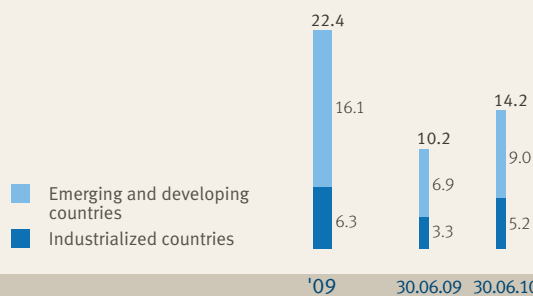
The Federal Government export credit guarantees posted extraordinary growth in the first half-year 2010. Switzerland, Russia, China and Brazil are the countries with the highest volumes of cover. As in previous years, the export credit guarantee scheme ended the first half-year with a surplus again, which was transferred to the Federal budget accounts.

The Federal Government assumed cover for export business with an order volume of 14.2 billion euros during the first six months of the year. The volume is thus 39.2% up year-on-year, already reaching in mid-year 63% of the cover volume for the entire year 2009.

The increase of 4.0 billion euros is due to an export credit guarantee for a major project to the tune of 1.8 billion euros (Baltic Sea Pipeline) as well as to the steep rise by 2.5 billion euros in exports covered under whole-turnover policies. The volume of new applications for cover, in contrast, declined by 18.2%, after demand for cover had grown by 45.9% against the background of the financial and economic crisis in the first half of the previous year. The Federal Government continues to make adequate funds available for Hermes Cover and raised the statutory cover limit from 117 billion euros to 120 billion euros. In addition the Federal Government has prolonged the option of reducing the un-insured percentage in connection with supplier credit cover, originally only planned till the end of 2010 (www.agaportal.de).

The lion's share of cover, with 63.1% or 8.9 billion euros, was accounted for by the **EMERGING AND DEVELOPING COUNTRIES**, so that there was no change here. The largest share of this, 3.8 billion euros (+18.5% in comparison to the same period of the preceding year) went to the Asian countries, followed by the European countries with 2.8 billion euros (+41.6%). Covered exports to the Americas went up by 51.9% to 1.8 billion euros. Business with buyers in African countries was covered to the tune of 0.6 billion euros (+5.0%).

VOLUME OF COVER BY COUNTRY GROUPS
IN BILLION EUR



Cover for exports to **INDUSTRIALIZED COUNTRIES**¹ accounted for 36.9 % or 5.2 billion euros. In the same period of 2009, export credit guarantees for 3.3 billion euros had been granted for these. The rise of 59.4% is due to cover for the Baltic Sea Pipeline, which is being built by Nord Stream AG, domiciled in Switzerland.

The cover volume in the individual countries is largely determined by large-scale projects which frequently require long lead times, e.g. infrastructure projects. A consequence of this is that the volume is heavily dependent on the point of time at which the deal in question is signed, as well as the time at which the cover comes into effect. Major fluctuations in the volume of newly granted export credit guarantees for specific countries should not, therefore, be taken as an indication of general changes in export flows. A series of further projects is currently at the preparation stage.

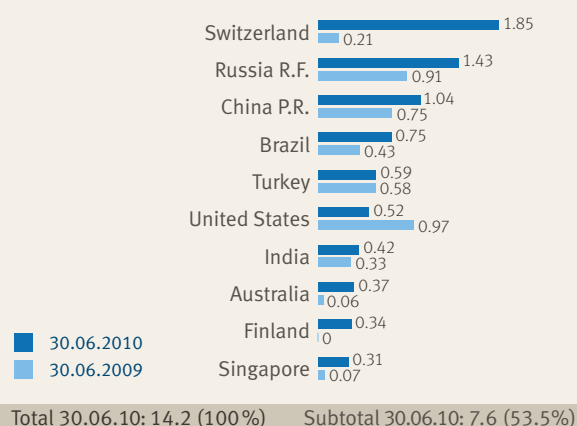
The largest single guarantee (1.8 billion euros) was granted for **SWITZERLAND**, which also heads the league table of the countries with the highest volumes of newly granted export credit guarantees. This export credit guarantee covers the first construction phase of the Baltic Sea Pipeline on long payment terms. On top of this, cover was granted for short-term export credits to Swiss buyers for a total volume of 24 million euros.

The runner-up is **RUSSIA** with 1.4 billion euros and an increase of 57.9 % over the same period year-on-year. Besides further cover for plant construction, the Federal Government granted the second highest export credit

¹ new country classification as of 2009.

The group of industrial countries comprises the countries with the OECD premium category 0; to these belong the OECD High Income Countries (according to the World Bank definition, these are countries with a gross per capita income exceeding 11,906 US dollars in 2009), the countries of the European Monetary Union including their associated territories and Singapore

TOP MARKETS FOR NEW GUARANTEES AS AT 30.06.2010 IN BILLION EUR



guarantee in the first half of 2010 (445.4 million euros) for the building of a propylene production facility. Something like two thirds of cover volume referred to medium and long-term credit periods. Alongside business secured by bank guarantees, larger deals on credit terms can also be covered on the basis of corporate risk, i.e. the creditworthiness of the buyer, provided that financial statements drawn up to international accounting standards are available.

Export credit guarantees for business with **CHINA** went up year-on-year for the same period by 39.4% to just under 1.0 billion euros. As in preceding years, applications for cover for capital goods business were almost exclusively (98%) on short payment terms. Major deals were for the paper industry and the expansion and modernization of steelworks.

Cover for **BRAZIL** rose by three quarters to reach 751 million euros. 61% of covered exports were financed on short payment terms – predominantly under whole-turnover guarantees. The largest projects included Airbus aircraft as well as equipment and services for a mobile telephone network.

The volume of export credit guarantees for business with buyers in **TURKEY**, at 589 million euros, was slightly up on the previous year's figure. The Federal Government here mainly insured short-term trade receivables, but a quarter also comprised exports of machinery and equipment on extended credit terms. High volumes of cover were granted for the establishment of a wind farm and for plant construction.

Export credit guarantees for Airbus aircraft and for projects in plant construction generated a cover volume of 515 million euros for the **USA** in the first six months of the year after 972 million euros one year earlier.

Covered exports to **INDIA** climbed by a quarter from 331 million euros to 419 million euros. German exporters also mostly (91%) agreed short payment terms for capital goods business with Indian buyers.

Export credit guarantees for Airbus aircraft and a fertilizer factory pushed up the cover volume of state-insured exports to **AUSTRALIA** from 56 million euros to 367 million euros.

Cover for **FINLAND** was granted for Airbus aircraft and ferries to the tune of 338 million euros.

The increase in cover volume for **SINGAPORE** from 68 million euros in the same period of 2009 to 309 million euros was also largely attributable to Airbus aircraft.

BREAKDOWN OF NEWLY GRANTED COVER BY HORIZON OF RISK AND TYPE OF BUSINESS

MEDIUM AND LONG-TERM GUARANTEES with credit periods exceeding one year more than tripled in the first half of 2010 and reached 7.1 billion euros (same period 2009: 2.2 billion euros). The volume of export credit guarantees with a credit horizon of more than five years rose here from 1.7 billion euros to 6.4 billion euros. The share of medium-and long-term guarantees in total cover went up from 22% in the equivalent period of the previous year to 50 %.

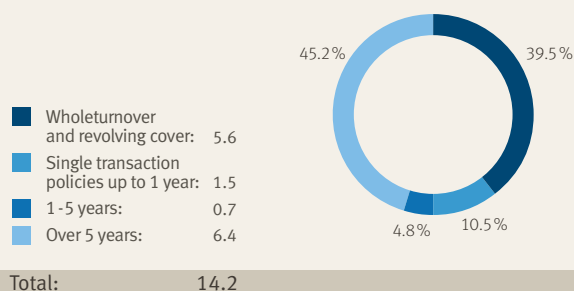
The Federal Government granted two guarantees for project finance or structured finance schemes in the first half of 2010 for a total of 1.9 billion euros (the Baltic Sea Pipeline as well as a steelworks project in India). On top of this, applications with a total volume of 4.4 billion euros are currently being processed, while further projects are at the preparation stage.

Export credit guarantees for aircraft have more than doubled, increasing to 2.4 billion euros (same period 2009: 970 million euros). The volume of shipping guarantees, in contrast, fell from 2.1 billion euros one year before to 502 million euros.

SHORT-TERM COVER dropped by 10.7 % to 7.1 billion euros (same period 2009: 7.9 billion euros). Its share of new business was thus down to 50 % after 78 % a year before.

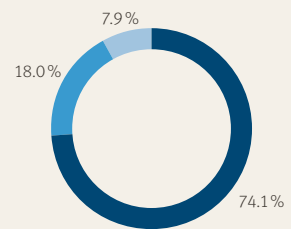
Short-term single transaction policies went down from 4.8 billion euros to 1.5 billion euros (-69 %). In the year-ago period several major transactions had been insured on short payment terms. Spread cover, almost exclusively under wholeturnover policies, on the other hand, surged by 78.5% to reach 5.6 billion euros. This is due to the granting of cover for business with countries previously classed as marketable risks, which is possible again for a limited period up to the end of 2010 following a decision by the EU Commission.

GUARANTEES BY HORIZON OF RISK AS AT 30.06.2010 IN BILLION EUR



REVENUES AS AT 30.06.2010 IN MILLION EUR

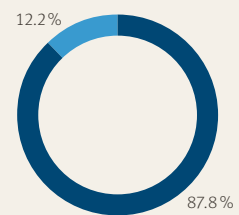
Amortisation and recoveries:	95.5
Premium/fees earned:	392.5
Interest received:	41.9



Total: 529.9

CLAIMS PAYMENTS AS AT 30.06.2010 IN MILLION EUR

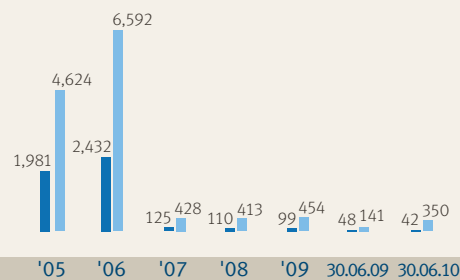
Commercial risk claims:	93.3
Political risk claims:	13.0



Total: 106.3

FINANCIAL RESULT AS AT 30.06.2010 IN MILLION EUR

Interest received	
Annual result excluding interest	



OUTSTANDING RISK

The maximum **OUTSTANDING RISK FOR THE FEDERAL GOVERNMENT** under all types of cover including interest rose by 13.8 % up to 30.06.2010, reaching an all-time high of 70.1 billion euros (same period 2009: 61.6 billion euros).

REVENUES

The revenues from **PREMIUMS AND FEES** increased year-on-year for the same period of 2009 by 130.9 % to 392.5 million euros.

RECOVERIES under already indemnified claims for commercial losses went up by 86.8 % to 60.7 million euros (same period 2009: 32.5 million euros). The highest recoveries were from Canada (17.9 million euros), Indonesia (10.1 million euros) and Russia (7.1 million euros).

Recoveries in respect of political claims and **REPAYMENT OF CAPITAL UNDER RESCHEDULING AGREEMENTS** were down by a quarter to 34.7 million euros. The Ukraine, with 14.6 million euros, accounted for the largest share again, followed by Pakistan with 2.3 million euros.

INTEREST INCOME fell by 12.3 % to 41.9 million euros after 47.8 million euros a year before. The highest payments were made by Egypt with 11.7 million euros, followed by Serbia (8.9 million euros) and Pakistan (6.0 million euros).

EXPENSES

Payments for **POLITICAL CLAIMS** decreased by 4.1 % to 12.9 million euros after 13.5 million euros in the year-ago period. Payments were in respect of business with Argentina with 12.6 million euros and Kyrgyzstan (0.3 million euros).

Indemnification for **COMMERCIAL CLAIMS** went up by 40.4 % to 93.3 million euros (same period 2009: 66.5 million euros), but remained all in all at a moderate level. The highest payments were for losses in Russia (22.6 million euros), Kazakhstan (16.1 million euros) and Indonesia (10.5 million euros) as well as the Ukraine (9.0 million euros).

FINANCIAL RESULT FOR THE FIRST HALF-YEAR

At the end of the first half of 2010 the export credit guarantee scheme posted a surplus of 349.8 million euros (same period 2009: 140.8 million euros).

In addition to this, **INTEREST** amounting to 41.9 million euros (same period 2009: 47.8 million euros), predominantly in respect of rescheduling agreements, was transferred to the Federal budget accounts. For methodical reasons these sums are not included in the result of the scheme however, since the refinancing costs also incurred by the Federal Government in respect of claims payments are likewise not included when calculating the result.

FURTHER DEVELOPMENT OF THE EXPORT CREDIT GUARANTEES

- ▶ The Federal Government has extended the option of **REDUCING THE EXPORTER'S SELF-RETENTION** in supplier credit cover from 15% to 5% in return for an increased premium rate – originally due to run out at the end of 2010 – for three years until the end of 2013.
- ▶ The granting of insurance for so-called **MARKETABLE RISKS** (short-term export business to all EU and OECD core countries) is possible for a limited period up to the end of 2010 provided that the contract has been signed by 31.12.2010 and deliveries take place up to or including 30th June 2011. The EU Commission is currently reviewing the possibility of extending the options for the insurance of marketable risks.
- ▶ The Federal Government has increased the **STATUTORY COVER LIMIT FOR EXPORT CREDIT GUARANTEES** in the Budget Law 2010 to 120 billion euros. An amount of 117 billion euros had previously been available for Hermes Cover.
- ▶ As of 1st July 2010, **INDEMNIFICATION FOR WHOLE-TURNOVER COVER DENOMINATED IN FOREIGN CURRENCIES** can also be made in the covered currency on application from the policyholder. This is always possible for the US dollar, in which a large proportion of trading flows is currently denominated.
- ▶ A conference was held for the fourth time on 24th June 2010 at the Federal Ministry of Economics and Technology in Berlin under the heading “In Dialogue with Industry – the export credit and investment guarantee scheme of the Federal Republic of Germany” attended by some 270 representatives of the

exporting industries, banks and industry associations with the aim of optimizing the underwriting tools of the scheme in a process of dialogue with industry and the banks.

- ▶ The export credit guarantee scheme of the Federal Republic of Germany was voted “Best Export Credit Agency” for the sixth time running by the readers of the British Trade Finance Magazine in the category “Europe”. This demonstrates once again the high quality of the trade promotion scheme. The prize and ten further awards for “Deals of the Year 2009“ insured under Hermes Cover were presented at a ceremony on 29th June 2010 in London.
- ▶ The following OECD country risk categories were changed in the first half-year of 2010:

COUNTRY RISK CATEGORY

	new	previously
Bahrain	3	2
Bolivia	6	7
Estonia	4	3
Indonesia	4	5
Latvia	5	4
Lithuania	4	3
Serbia	6	7
United Arab Emirates	3	2
Yemen	7	6

The leadership function in the Interministerial Committee, which has the underwriting responsibility for Federal Export Credit Guarantees, is exercised by the **FEDERAL MINISTRY OF ECONOMICS AND TECHNOLOGY:**

Bundesministerium für Wirtschaft und Technologie
Referat VC2
Scharnhorststraße 34-37
D-10115 Berlin
www.bmwi.bund.de

The Federal Government has appointed a consortium formed by **EULER HERMES KREDITVERSICHERUNGS-AG**, Hamburg, as lead partner, and **PRICEWATERHOUSE-COOPERS AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT**, Hamburg, to manage the official export credit guarantee scheme. Further details and information may be obtained by contacting the Head Office of Euler Hermes Kreditversicherungs-AG in Hamburg or one of the branch offices. Extensive information material on the official export guarantee scheme, e.g. current editions of the AGA-Report, the General Conditions, information leaflets and application forms as well as the Annual Reports can also be accessed via Internet. You may also request additional information material or raise your questions directly via e-mail.



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Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and the political risks of untied loans relating to projects which are in the overriding national interests of Germany.

The German Government has mandated a consortium formed by Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to manage these promotion schemes.



OUR PARTNERS



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