

INTERIM REPORT 2011



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EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

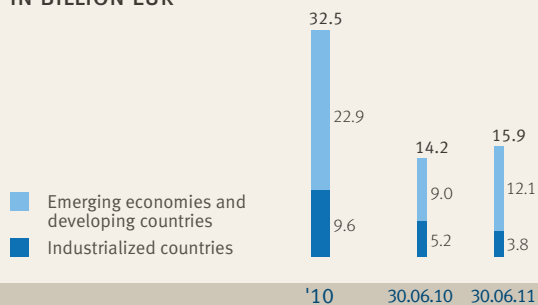
The volume of business covered under the export credit guarantees of the Federal Republic of Germany continued to grow again in the first half of 2011. Turkey, Russia and China are the countries with the highest volumes of cover. As in the preceding years, the export credit guarantee scheme posted a surplus for the first half-year once again, which was transferred to the Federal budget accounts.

DEVELOPMENT OF NEW BUSINESS

The Federal Government assumed cover for export business with a total volume of 15.9 billion euros during the first six months of 2011. The volume thus came in 12.5% higher than the record figure for the same period of the previous year. The volume of new applications decreased by 11.9%, thus returning to normal levels after the economic and financial crisis. The Federal Government continues to make adequate cover available under Hermes Cover. Parliament increased the statutory cover limit for the export credit guarantees from 120 billion euros to 135 billion euros.

Cover volume for the **EMERGING AND DEVELOPING COUNTRIES** went up by 3.1 billion euros to 12.1 billion euros. This group of countries thus accounted unchanged for the largest part of cover, 75.8%. The lion's share of this, 5.9 billion euros, went to European emerging economies, whose cover volume more than doubled due to a major project in Turkey (+113%). The Asian countries remained more or less at the previous year's level with an increase of 3.5% to 3.9 billion euros. Covered exports to the Americas dropped by 12.8% to 1.6 billion euros. Export credit guarantees for business with buyers in African countries were up 17.5%, reaching 0.7 billion euros.

VOLUME OF COVER BY COUNTRY GROUPS
IN BILLION EUR



Cover for exports to the **INDUSTRIALIZED COUNTRIES**¹ accounted for 24.2 % or 3.8 billion euros. In the same period of 2010, the volume for these countries had been 5.2 billion euros, due to a number of major transactions.

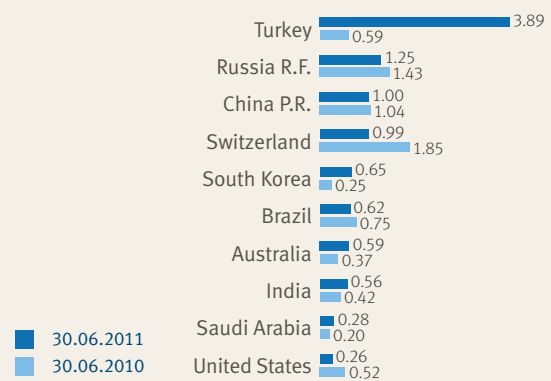
Cover volume in the individual countries is significantly influenced by large-scale projects which frequently require long lead times, such as infrastructure projects. The volume thus depends heavily, among other factors, on the point of time at which the loan contract concerned is signed, as well as the time at which the cover is documented. For this reason, even major fluctuations in the volume of newly granted export credit guarantees for specific countries should not be taken as an indication of general changes in export flows. A series of further major projects is currently at the application stage.

Cover volume for **TURKEY** went up to 3.9 billion euros after 0.6 billion euros during the same period of the previous year. Besides cover for a ship construction transaction the Federal Government assumed guarantees for a gas-fired combined cycle power station, Airbus aircraft and a wind farm.

¹ The group of industrialized countries comprises those in the OECD Premium Category 0, i.e., the OECD high income countries (according to the World Bank definition those with a per capita gross income of more than 12,196 US dollars in 2010), the Euro-zone countries including their affiliated territories and Singapore.

Covered exports to **RUSSIA** were down for the same period year-on-year by 12.4 % to 1.3 billion euros. Export credit guarantees were granted in the plant construction sector as well as for a paper-making machine. Some three quarters of cover volume was on short payment terms. Besides transactions with a bank as guarantor, larger deals on credit terms can also be covered on the basis of corporate risk, i.e. the credit-worthiness of the buyer, provided that financial statements drawn up to international accounting standards are available.

TOP MARKETS FOR NEW GUARANTEES AS AT 30.06.2011 IN BILLION EUR



Total 30.06.11: 15.9 (100%) Subtotal 30.06.11: 10.1 (63.4%)

Covered exports to **CHINA** remained almost constant year-on-year for the same period, dipping slightly by 4 % to 1.0 billion euros. As in preceding years, capital goods business was predominantly (85 %) transacted on near cash terms. This referred to manufacturing industry, mainly in the mechanical engineering and plant construction sectors. Large-scale guarantees were assumed by the Federal Government for the expansion of hot and cold rolling mills.

The volume of export credit guarantees for **SWITZERLAND** almost halved to 992 million euros. The Federal Government granted cover for Phase II of the Nord Stream pipeline through the Baltic Sea (the foreign customer is domiciled in Switzerland) as well as for river cruise ships on long payment terms.

For **SOUTH KOREA**, cover volume posted a steep rise to 653 million euros after 252 million euros in the same period of the previous year due to guarantees for Airbus aircraft.

Export credit guarantees for business with **BRAZIL** were down 17 % to 622 million euros. 81 % of covered exports were financed on short payment terms, for the most part under wholeturnover policies. Cover was also granted for transactions in the mechanical engineering and plant construction sectors as well as for equipment.

Cover for **AUSTRALIA** went up from 367 million euros to 594 million euros due to export credit guarantees for Airbus aircraft and a coal-processing plant.

Export credit guarantees for **INDIA** climbed by a third, from 419 million euros to 562 million euros. The biggest project covered here was the expansion of a steelwork complex, with a volume of 220 million euros.

The volume export credit guarantees for business with **SAUDI ARABIA** went up by 40 % to 284 million euros. Major projects were an aluminium rolling mill and a mineral water bottling plant.

With export credit guarantees for Airbus aircraft as well as for Zeppelin LT airships, cover volume for the **UNITED STATES** reached 260 million euros in the first six months, after 515 million euros in the same period of 2010.

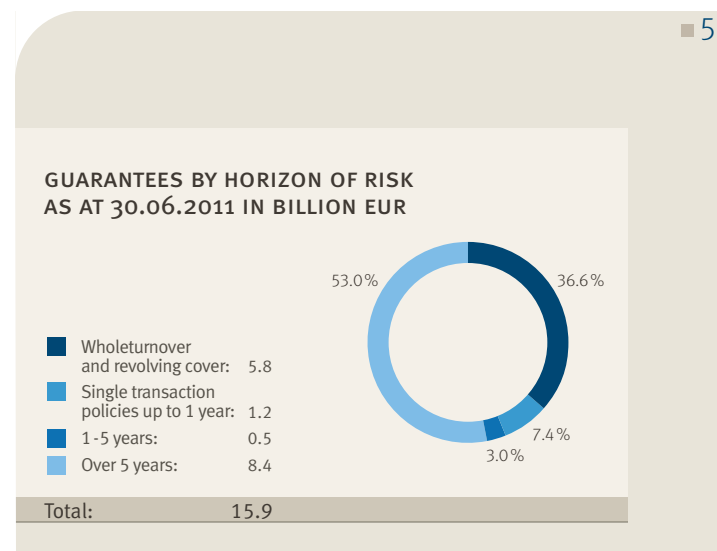
BREAKDOWN OF NEWLY GRANTED COVER BY HORIZON OF RISK AND TYPE OF BUSINESS

MEDIUM AND LONG-TERM GUARANTEES with credit periods exceeding one year went up by 26% in the first half of 2011, reaching 8.9 billion euros (same period 2010: 7.1 billion euros). The volume of export credit guarantees with a credit period exceeding five years here rose from 6.4 billion euros to 8.4 billion euros. The share of medium-and long-term guarantees in total cover increased from 50% in the equivalent period one year before to 56%.

The Federal Government assumed cover for four projects under project finance schemes to a total value of 1.1 billion euros. These are Phase II of the Nord Stream pipeline through the Baltic Sea, a solar power station, a wind farm and a facility for the manufacture of chemicals, used in the mining of precious metals. In addition, applications for projects with a total volume of some 7.0 billion euros are currently being processed, while further projects are at the preparation stage.

Export credit guarantees for aircraft once again posted a steep rise of 19.8% to 2.9 billion euros (same period of 2010: 2.4 billion euros). The volume of cover for ships went up from 502 million euros in the equivalent period one year before to 2.9 billion euros.

SHORT-TERM COVER was slightly down by 1%, almost equalling the previous year's figure and reaching 7.0 billion euros (2010: 7.1 billion euros). Its share of new business nevertheless dropped to 44% after 50% a year before.

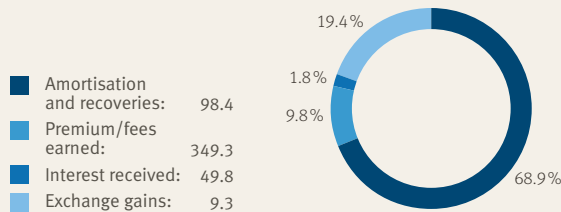


Short-term specific policies fell by 20% to 1.2 billion euros (1.5 billion euros in the first half of the preceding year). Cover under wholeturnover and revolving policies, in contrast, went up again to 5.8 billion euros. As a result of the upturn, nearly all the countries which are eligible for this type of cover posted an increase.

OUTSTANDING RISK

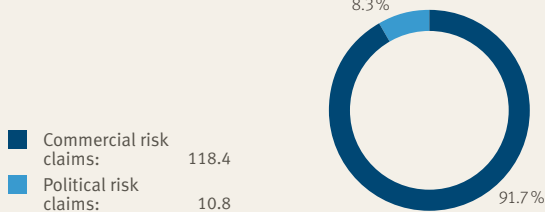
The **OUTSTANDING RISK FOR THE FEDERAL GOVERNMENT** under all cover assumed including interest rose by 15.4% and reached an all-time high of 80.8 billion as per 30.6.2011 (same period of 2010: 70.1 billion euros).

REVENUES AS AT 30.06.2011 IN MILLION EUR



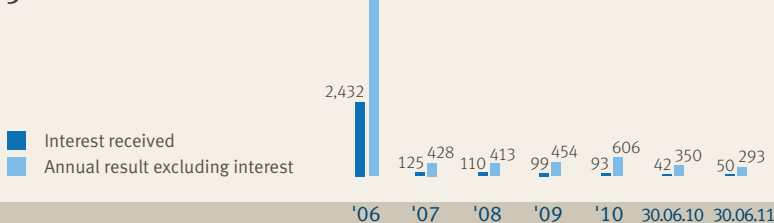
Total: 506.8

CLAIMS PAYMENTS AS AT 30.06.2011 IN MILLION EUR



Total: 129.2

FINANCIAL RESULT AS AT 30.06.2011 IN MILLION EUR



REVENUES

The revenues from **PREMIUMS AND FEES** declined over the first half of 2011 by 11% to reach 349.3 million euros.

RECOVERIES under indemnified claims for commercial losses were down by 8.7% to 55.4 million euros (same period of 2010: 60.7 million euros). The highest recoveries came from Indonesia (10.7 million euros), Canada (6.2 million euros) and South Korea (5.9 million euros).

Recoveries in respect of political claims and repayment of capital under **RESCHEDULING AGREEMENTS** rose by a quarter and came in at 43.0 million euros. Once again the Ukraine, with 14.6 million euros, had the largest share here, followed by Egypt with 12.8 million euros and Gabon with 7.4 million euros.

INTEREST INCOME went up by 18.9% to 49.8 million euros after 41.9 million euros in the same period a year before. The highest payments were made by Egypt with 10.7 million euros, followed by Serbia with 8.4 million euros and Gabon (8.0 million euros).

On top of this, income from **EXCHANGE RATE GAINS** under claims was posted to the tune of 9.3 million euros.

EXPENSES

Payments for **POLITICAL CLAIMS** declined by 16.4% to 10.8 million euros after 12.9 million euros in the equivalent period of the preceding year. Indemnification was paid for business in Argentina, with 9.5 million euros, and Zimbabwe (1.0 million euros).

Payments for **COMMERCIAL CLAIMS** increased by 27.0% to 118.4 million euros (same period of 2010: 93.3 million euros), but in view of the financial crisis which preceded this, still remained at a moderate level. The highest payments made were for claims in Kazakhstan (63.2 million euros) and Bulgaria (11.8 million euros) as well as the Ukraine (11.5 million euros) and Russia (6.0 million euros).

FINANCIAL RESULT FOR THE HALF-YEAR

The first half of 2011 ended with a positive balance for the export credit guarantee scheme of 292.6 million euros (same period of 2010: 349.8 million euros).

The **INTEREST** received – predominantly in respect of rescheduling agreements – of 49.8 million euros (same period of 2010: 41.9 million euros) was also transferred to the Federal budget accounts. For methodical reasons these sums are not included in the result of the scheme, since the refinancing costs incurred by the Federal Government in respect of claims payments are likewise not included when calculating the result.

NEW DEVELOPMENTS IN THE EXPORT CREDIT GUARANTEE SCHEME

- ▶ Cover for so-called **MARKETABLE RISKS** (short-term business to all EU countries and the core OECD countries) was permissible for a limited period up to the end of 2010. On application of the Federal Government the EU Commission extended the option of Hermes Cover for exports on short credit terms to Bulgaria, Iceland, Latvia, Lithuania and Romania till 31.12.2011. Thus the Federal Government has abandoned this market segment almost entirely after the economic and financial crisis abated.
- ▶ The Federal Government raised the **STATUTORY COVER LIMIT FOR EXPORT CREDIT GUARANTEES** in the Budget Law 2011 to 135 billion euros. In 2010, 120 billion euros had previously been available for Hermes Cover.
- ▶ In order to simplify access to export credit guarantees for SMEs, the Federal Government introduced a fast-track procedure for granting tied buyer credit guarantees in January 2011. Under “**BUYER CREDIT COVER-EXPRESS**” (FKD-express), banks which finance simply structured export business with a small order value up to 5 million euros can be sure to get a decision on Hermes cover within four bank days, either for isolated buyer credit guarantees or buyer credits guarantees which are combined with other forms of cover.

- ▶ The **NEW PREMIUM SYSTEM** for single transaction cover under the export credit guarantee scheme will be introduced as of 1st September 2011, and now stipulates common international minimum premium rates for covered buyer risks. The new system will place unchanged emphasis on the creditworthiness of the buyer when allocating buyers and banks to risk categories, but will take external ratings more into account than before. In addition to buyer creditworthiness, collateral security is also an important aspect to consider when evaluating the risk. It may result in a significantly better rating for a transaction, meaning that a lower premium is payable. During the test phase, starting in July 2011, exporters will receive an allocation to one of the future buyer categories in the new system alongside the calculation of the premium they should pay according to the present system. There will be a transitional ruling for liabilities already earmarked for future cover. This will ensure that the premium payable does not exceed that at the time of issue of the offer of cover.
- ▶ The **NEW VERSION OF THE SECURITISATION GUARANTEE** available from 1st July 2011 is much more attractive for both investors and refinancing institutions, since it considerably facilitates refinancing for export finance with Federal cover. It will henceforth include an independent legal claim of the refinancing institution. Although this presupposes a Federal buyer credit guarantee, the legal claim no longer derives from it. The wording of the guarantee is based on that of the bank guarantees customary in the market. The applicant (the lending bank) receives two documents following a positive decision by the Federal Government. Of these, only the “true” Securitisation Guarantee evidencing the legal claim of the applicant is passed on to the refinancing institution. The crucial feature of the Securitisation Guarantee continues to be the guaranteeholder’s obligation to indemnify, since the export financing bank is in principle liable to pay indemnity to the refinancing institution directly and on first written demand without further notice if and when the latter calls the Securitisation Guarantee.
- ▶ The Interministerial Committee adopted the OECD Country Categories which were revised during the first half-year 2011.
- ▶ The state export credit guarantee scheme of the Federal Republic of Germany was voted “Best Export Credit Agency” for the seventh time by the readers of the British specialist magazine Trade Finance. The trophy, together with awards for nine further projects with Hermes cover as “Deals of the Year 2010“, was presented in London on 29th June 2011.

COUNTRY RISK CATEGORY

	new	old
Bahrein	4	3
Estonia	0	4
Libya	7	5
Mongolia	5	6
Russia	3	4
Syria	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
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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.



Federal Ministry
of Economics
and Technology

OUR PARTNERS



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