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UFK-Guarantees of the Federal Republic of Germany

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UFK-GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Untied Loan Finance**

► UFK-Guarantees of the Federal Republic of Germany

UNTIED LOAN GUARANTEES

The Federal Republic of Germany (Federal Government) will, on request, issue guarantees for outstanding amounts under untied loans provided that the purpose of the loan is to finance an eligible foreign project or such loan is in the particular sovereign interest of the Federal Republic of Germany. Possible borrowers can be both private foreign debtors and states, regional authorities or similar institutions abroad.

Untied loans are loans which are granted for a given commercial project abroad (principle of project specific use) and not tied to German exports and services or given in discharge of obligations in respect of national or foreign supply and service transactions (rescheduling).

The respective guarantee agreement and the General Terms and Conditions for Untied Loan Guarantees as amended are the legally binding basis for the individual Untied Loan Guarantee.

ELIGIBLE APPLICANTS

Banks domiciled in Germany, branches of foreign banks established in Germany and, under certain circumstances, foreign banks are eligible to apply for cover.

OBJECT OF COVER

The covered obligation under the Untied Loan Guarantee is the policyholder's repayment claim against the foreign debtor as agreed in the loan contract. The loan can be denominated in euros or in any foreign currency. Any interest agreed on in the loan contract is also covered by the Untied Loan Guarantee insofar as it accrues up to the agreed maturities of the respective loan instalments.

SCOPE OF COVER

An Untied Loan Guarantee provides cover against the loss of the guaranteed accounts receivable due to

- **insolvency** of the borrower
(in the case of private foreign debtors)
- **non-payment** within one month after maturity
(protracted default)
- **legislative or administrative measures**
as well as **war and warlike events**
- **impossibility of converting or transferring**
local currency amounts

On application, the scope of cover can be limited to political risks. The Federal Government may exclude or limit the scope of cover for certain risks when deciding on issuing an Untied Loan Guarantee. Further information on the covered risks is available in the current version of the General Terms and Conditions for Untied Loan Guarantees.

PREREQUISITES FOR THE GRANTING OF A GUARANTEE

Untied Loan Guarantees may be granted for loans given to **finance projects abroad which are eligible for cover** or that are **in the particular sovereign interest** of the Federal Republic of Germany.

Projects are particularly considered to be eligible for cover if they increase the security of supply of raw materials to the Federal Republic of Germany (**eligibility for cover in the light of raw materials supply considerations**). A prerequisite in this context is that German offtakers receive raw materials on the basis of a long-term offtake agreement and that the provision of these raw materials is of a macroeconomic interest.

Only loans given to finance technically and commercially mature projects qualify for the granting of an Untied Loan Guarantee. Besides, the total funding of the individual project must be ensured. The credit period should correspond to the commercial nature of the project. With regard to the project's environmental impact, internationally accepted standards must be met.

In addition, the granting of an Untied Loan Guarantee must be **justifiable in view of the risk** involved for the Federal Government, i.e. considering the borrower's creditworthiness and the political risks relating to the loan granted, it should be reasonable to expect a loss-free loan repayment.

In connection with **project finance**, a form of financing quite frequent in connection with Untied Loan Guarantees, justifiability of the risk requires, among other things, that the project risks are shared in an appropriate way between the project stakeholders, the project is provided with sufficient equity and a security package typical for project finance schemes is in place.

APPLICATION AND APPROVAL PROCESS

Untied Loan Guarantees are only issued on **application**. Contact with the Federal Government is established via Euler Hermes Aktiengesellschaft (Euler Hermes), Hamburg, which has been commissioned to conclude and handle the guarantee agreement.

The **decision** on whether an Untied Loan Guarantee will be granted is taken by the Federal Ministry for Economic Affairs and Climate Action with the approval of the Federal Ministry of Finance and in agreement with the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development in an Interministerial Committee for Untied Loan Guarantees (UFK-IMC).

An Untied Loan Guarantee is granted by the Federal Government in a **multi-stage procedure**:

In the early phase of a project, following a corresponding inquiry, the Federal Government is prepared to give a **first non-binding indication** whether the financing of a project is, in principle, suitable for an Untied Loan Guarantee. In addition to information about the debtor and the terms and conditions of the loan the enquiry should contain information about the project (project description, investment volume, stakeholders) as well as its financing structure (including the security concept). In the case of natural resources projects the enquiry should state the expected contribution of the project to an increase of the resources supply of the Federal Republic of Germany (names of German offtakers/envisaged conditions of the offtake agreement). Such an enquiry can be informal and is free of charge for the applicant.

Provided that the indication is positive, the further application and approval process for the project is then initiated with a formal **application**. Based on the

project information memorandum (PIM) and a financial model submitted by the applicant, a so-called **preliminary review** is carried out by Euler Hermes. This review primarily includes an investigation of the project concept, the use of the funds and their source(s), the entities involved in the project, the market situation, the economic viability as well as the security package (if already available at this stage).

If, based on the findings of the preliminary review, the Federal Government's assessment of the project is positive, it may request the applicant to commission an **expert opinion** on the economic viability of the project (further information can be found in the brochure **Expert opinions for Project Financing and Structured Finance**).

Once Euler Hermes has received the expert opinion/ the experts of Euler Hermes have assessed the project, it prepares a recommendation for the Federal Government and presents the project for decision.

On the basis of this recommendation for a decision, the Federal Government may give a so-called **preliminary approval (offer of cover)** to the applicant before the project and financing contracts are signed. This comprises the binding confirmation from the Federal Government to make a positive decision on the Untied Loan Guarantee applied for, provided that no changes take place to the material and legal position and as long as the project and financing contracts are concluded within a stipulated period.

INFORMATION AND DOCUMENTS REQUIRED FOR THE APPLICATION'S ASSESSMENT

In order to perform the project due diligence process the Federal Government requires detailed information from the applicant about the commercial, technical and legal arrangement as well as environmental, social and human rights aspects of a project to be financed. In the case of (project) finance schemes these include in particular the following documents and details:

- ▶ Memorandum/feasibility study
- ▶ Revenue and liquidity forecast for the project (financial model drawn up according to best-practice rules)
- ▶ Loan contract/Term Sheet (loan amount, disbursement conditions, repayment modalities, etc.)
- ▶ Information on the security concept (completion and payment guarantee, escrow accounts abroad, other credit security/collateral)
- ▶ Shareholder agreement/Articles of Association of the debtor
- ▶ Offtake contracts
- ▶ Environmental, Social and Human Rights Impact Assessment for assessment of the project's environmental impacts

As applications for an Untied Loan Guarantee are subject to a comprehensive (project) due diligence, additional documents and information may be necessary in individual cases.

A **final, positive decision (final approval)** is not taken until the financing agreement is concluded and all other information relevant for the Untied Loan Guarantee is available. The Federal Government thereby concludes a **guarantee agreement** with the policyholder in accordance with the General Terms and Conditions for Untied Loan Guarantees in their respective valid version.

PERIOD OF COVER

Cover is provided as soon as the loan is being paid out and ends upon full repayment of the covered loan. There is no cover for committed but not yet disbursed loan amounts.

ADMINISTRATIVE FEES AND PREMIUMS

The costs comprise administrative fees and the premium for cover. The administrative fees depend on the loan amount to be covered (plus interest). The premium is charged as a percentage of the loan amount to be covered (excluding interest). The amount of the premium basically depends on the solvency of the debtor or the project's economic stability, the country risk and the risk period. Insurance tax is not applicable. Further information on the calculation, charging and refunding of fees and premiums can be found in the publication **Fees and premium rates for Untied Loan Guarantees** in its respective valid version.

CALCULATION AND PAYMENT OF INDEMNIFICATION

It is a prerequisite for an indemnification that a covered, legally valid and due repayment claim is deemed uncollectable due to one of the covered risks. The Federal Government will calculate the amount to be indemnified within one month of receiving all the documentation required for ascertainment of the claim for indemnification. The amount resulting from this calculation will be paid to the policyholder within five bank days. The policyholder is normally required to retain for his own account a portion of each loss amounting to 10% for all risks. Insurance elsewhere is permissible in principle – with the exception of a retention borne by the policyholder of 5% of the loss.

CONTACT

Contact with the Federal Government is established via Euler Hermes Aktiengesellschaft in Hamburg. For further information, application forms and the General Terms and Conditions for Untied Loan Guarantees please visit our homepage www.ufk-garantien.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 Climate Action

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 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.bmwk.de/en under the heading Promotion of Foreign Trade and Investment.

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