

PRODUCT INFORMATION

JULY 2020



Shopping line cover

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

► Shopping line cover

Shopping line cover allows German exporters to gain access to large foreign customers' procurement programmes. It combines multiple transactions on the part of various German exporters to form one or more credit tranches, each with a uniform repayment profile. The financing bank can obtain cover from the Federal Government for the credit facility drawn upon for this purpose.

WHAT IS COVERED?

The shopping line cover offers protection from payment defaults if

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

The loan may be disbursed in euros or US dollars; the currency of the shopping line cover is the same as the credit line's contract currency. It is not necessary for the currency of the loan to match that of the export contract. The interest specified in the loan agreement will be included in the cover up to the scheduled maturity of each instalment without any additional premium being charged.

WHO CAN APPLY FOR SHOPPING LINE COVER?

Shopping line cover is available to all German banks, to the branch offices of foreign banks in Germany and (subject to certain conditions being met) also to foreign banks.

WHAT ARE THE MAIN DIFFERENCES COMPARED WITH CONVENTIONAL BUYER CREDIT COVER?

With shopping line cover, banks can make use of their experience with the Federal Government's buyer credit cover (FKG). However, in comparison to this it offers numerous advantages that simplify the execution of the transactions in particular. For this purpose, the General Terms and Conditions (FKG) are modified through the addition of Special Conditions.

At the request of the foreign buyer or bank that will be providing the credit facility later on, it is possible for a letter of interest (LOI) to be issued at an early stage. Among other things, it can be used to obtain a legally non-binding indication of the amount of the credit facility eligible for cover.

The Federal Government's shopping line cover is for amounts owed as a result of drawing on a credit facility which the bank grants to a foreign buyer that satisfies certain minimum requirements with regard to creditworthiness (see box on page 5 for details). This foreign buyer can then place procurement orders with various German exporters. After they have been executed and paid for in full, the export transactions eligible for cover are pooled in tranches with a uniform starting point and repayment profile for refinancing purposes and reported to the Federal Government for inclusion in the shopping line cover. All parties benefit from the reduced administrative requirements. The main advantage for the bank is that only a single set of credit documentation is required, while the Federal Government issues only one guarantee document and one invoice.

The bank specifies the individual transactions to be included in the tranche by means of call-down lists (based on the information provided by the foreign buyer). The Federal Government uses this as a basis for deciding which transactions can be included in the shopping line cover in the light of their eligibility. Foreign-sourced goods and services (including local costs) are only permissible up to a rate of 49%. This percentage refers to the total order value within a given tranche. This means that individual transactions may have a greater proportion of foreign content provided that this is offset by a higher German proportion in the other transactions included in this tranche. The rules of the OECD Consensus concerning the inclusion of local costs (a maximum of 23% of the total order value at the tranche level) continue to apply in full.

The following conveniences (**special small-ticket rules**) apply to individual transactions with an order value of less than EUR 5 million:

- These special rules only apply if the German exporter operates corresponding production facilities in Germany; this is determined by the Federal Government in a plausibility test. If this is the case, the exporter does not have to provide any further information on the proportion of foreign content in the specific individual transaction.

- ▶ Only the foreign importer must submit a statement confirming, among other things, due and proper performance and payment of the contracts and the absence of any corruption in the lead-up to the transaction. In this way, numerous special declarations (e.g. letter of undertaking, anti-bribery declaration) on the part of each individual exporter can be dispensed with.
- ▶ The special small-ticket rules can be utilised only a maximum of four times per exporter and credit facility. In the case of groups of companies, all affiliated companies are viewed as a single entity and classified as one exporter.

One important possible advantage is that transactions for which contracts have already been signed and which have already been executed in full can also be included in individual cases (“**reach back**”). In this way, scaling viable for structuring the transactions can be achieved by simultaneously including existing and new transactions.

The environmental, social and human rights (ESHR) audit follows international guidelines, particularly those of the OECD. The fact that certain elements of the audit that may be necessary can be completed at an earlier date (audit of the buyer when the LOI is signed or cover provided for the credit facility) and the results of such audits can be taken into account in an assessment of the specific individual transactions results in a simplification of the procedure.

WHAT HORIZON OF RISK IS COVERED?

Cover takes effect when and to the extent that the loan is disbursed in tranches and ends with the full payment of the covered amount owing. Liability is not accepted for amounts that have been allocated but not yet disbursed.

CAN THE BANK RECEIVING THE COVER USE IT FOR REFINANCING?

The claims arising under shopping line cover may – together **with the claim to repayment of the loan** – be assigned to other banks. It is also possible for the bank to use the shopping line cover for refinancing through its own covered bond business by taking out additional covered bond cover. Furthermore, a Securitisation Guarantee can enhance the conditions of shopping line cover in favour of the assignee providing the funding, so that the bank can raise funding at a more favourable interest rate (see product information on **Covered Bond Guarantees** and **Securitisation Guarantees**).

HOW MUCH DOES SHOPPING LINE COVER COST?

The costs consist of the processing fees and the cover premium. The premium is calculated as a percentage of the **loan amount to be covered (i.e. the credit facility)** excluding interest. The premium level is mainly determined by the buyer’s credit rating, the country risk and the length of credit. In this connection, the utilisation period (period in which it is possible to draw on the tranches) and the credit period have a full effect on the premium payable. The premium paid on the amount of the credit facility that has not been drawn on at the end of the utilisation period is reimbursed subject to a possible deduction of a non-utilisation fee.

Insurance tax is not payable.

To give you an estimate of the premium applicable in your specific case, an interactive premium calculator is available on the Internet. Further details are given in the information leaflet **Fees and premium rates**.

WHEN AND HOW IS CLAIMS PAYMENT MADE?

Before a claim can be filed, the legally valid and matured claim to payment of the amount owing must have become uncollectable due to the occurrence of a covered risks. When all 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 5 bank working days.

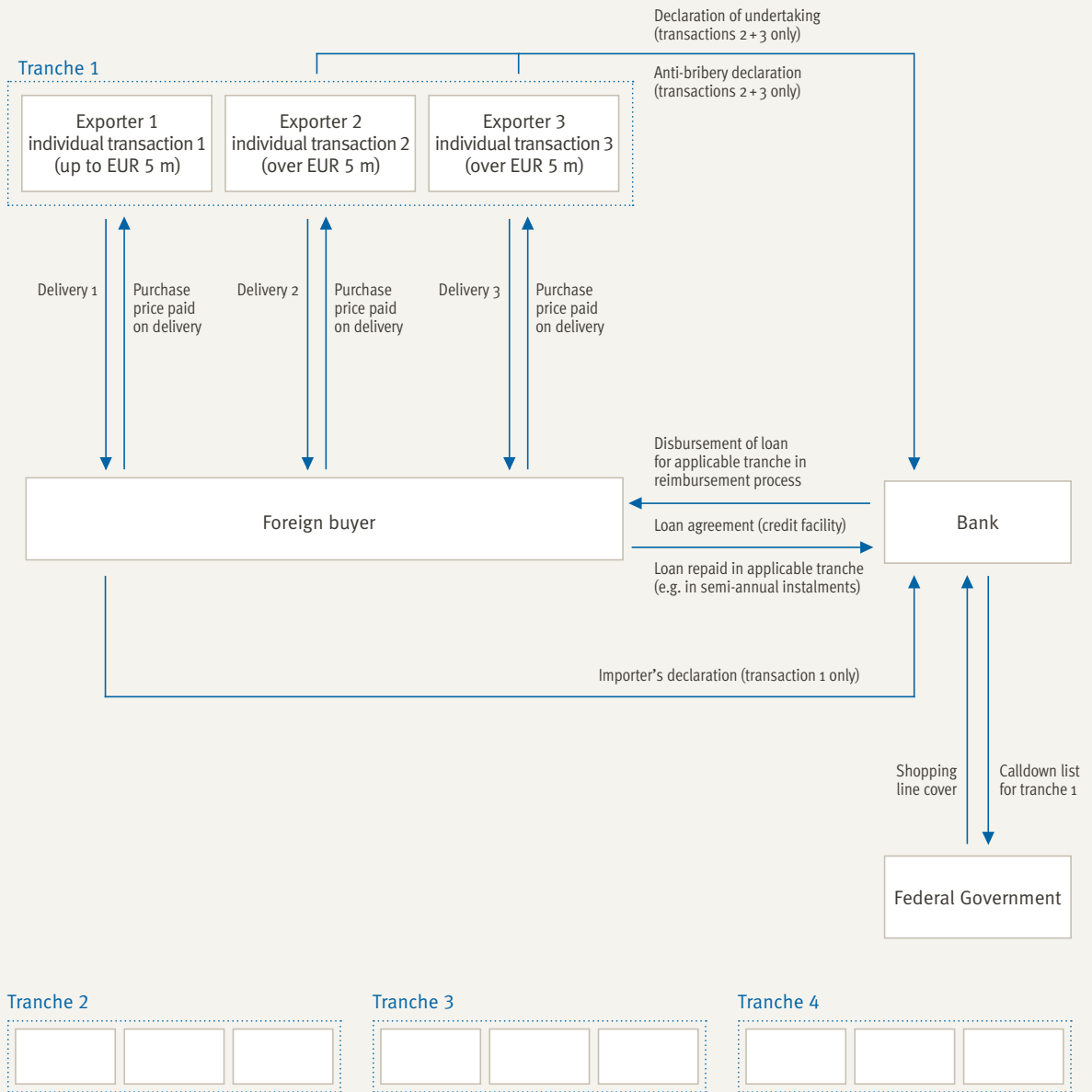
The policyholder participates in every loss with an **uninsured percentage** of 5%.

HOW CAN YOU APPLY FOR COVER?

Contact with the Federal Government is established through **Euler Hermes Aktiengesellschaft**.

The company’s head office in Hamburg as well as its numerous branch offices in Germany offer competent 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.exporkreditgarantien.de/en**, partly in German only.

EXAMPLE OF THE STRUCTURE OF SHOPPING LINE COVER (SLG)



Main features of shopping line cover at a glance:

Eligible policyholders:	German banks, certain foreign banks and all German branches of foreign banks
Object of cover:	Credit facilities drawn on (all repayment claims arising from loan amounts paid to foreign borrowers per tranche plus interest)
Borrowers eligible for cover:	Foreign buyers classified in buyer category CC0, CC1, SOV, SOV-, SOV+
Covered risks:	Borrower's failure to make payment within one month after due date (protracted default), other commercial risks (e.g. insolvency) as well as political risks (e.g. warlike events)
Eligible countries:	In principle: all countries Exception: Exports with repayment terms not exceeding two years to EU and OECD core countries (i.e. EU member states, Australia, Iceland, Japan, Canada, New Zealand, Norway, Switzerland, the United States and the United Kingdom)
Uninsured percentage:	5% for all risks
Processing fees:	Application fees and prolongation and issuing fees (where applicable) depending on the loan amount
Premium:	A certain percentage of the credit facility covered (see premium calculator at 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 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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