



# EXPORT CREDIT FINANCING WITH A GERMAN EXPORT CREDIT GUARANTEE

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Euler Hermes Aktiengesellschaft



# WHO WE ARE

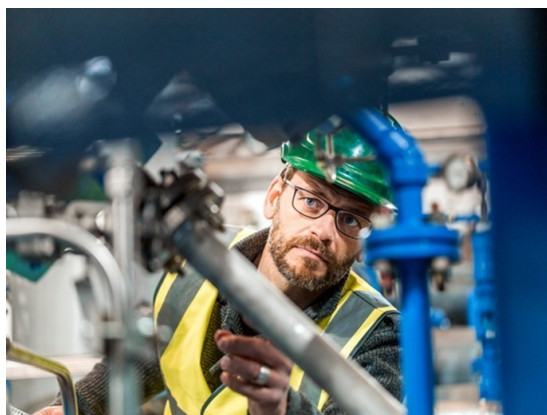
Snapshot of the German ECA

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FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

# Who we are

## In Figures



Active on behalf of the Federal Government since 1949, combining the expertise of 400 employees.

Current portfolio EUR 88 bn is fully underwritten by the Federal Republic of Germany with AAA Rating.



Overall volume of cover EUR 20,7 bn (2016).

Short-term EUR 11,4 bn, thereof EUR 4,7 bn in MENA region.

Long-term EUR 9,2 bn, thereof EUR 3,3 bn in MENA region.



Doing business with 1600 exporters and banks.

Serial winner of “Best ECA” awards, both globally and regionally.

# Who we are

## Internationally Recognised

Trade Finance Magazine + + + Trade Finance Review + + + Global Trade Review + + + Trade & Export Finance



Awards for Excellence 2014

BEST GLOBAL ECA

Euler Hermes



2008 -12



Trade Finance Magazine + + + Trade Finance Review + + + Global Trade Review + + + Trade & Export Finance

## Deals of the Year in MENA region (past 10 years)



- 2008 BNP Paribas, Jordania
- 2009 SabaFon – Islamic ECA financing telephone project, Yemen
- 2010 Société Générale S.A., Wind farm, Azerbaidshan
- 2010 Citi / HSBC / Calyon, Dubai Electricity and Water Authority (DEWA), Dubai, VAE
- 2010 Calyon S.A. / Emirates Aluminium Company Ltd. PJSC, Abu Dhabi, VAE
- 2010 Calyon – Credit Agricole CIB, London, SATORP Jubail, Saudi Arabia
- 2012 SMS Meer GmbH / Société Générale S.A., Gulf United Steel Holding Company, Bahrain / Yamato Kogyo, Japan
- 2013 KfW- IPEX Bank GmbH, Petrochemical Complex, Sadara Chemical Company LLC, Al Jubail, Saudi Arabia
- 2014 ABB AG / Commerzbank AG, KAR Power Iraq, Iraq
- 2015 Republic of Egypt, Ministry of Defense Kairo, Egypt
- 2016 Orpic Plastics/ Natixis, Liwa Plastics Industries Complex, Oman

# Who we are

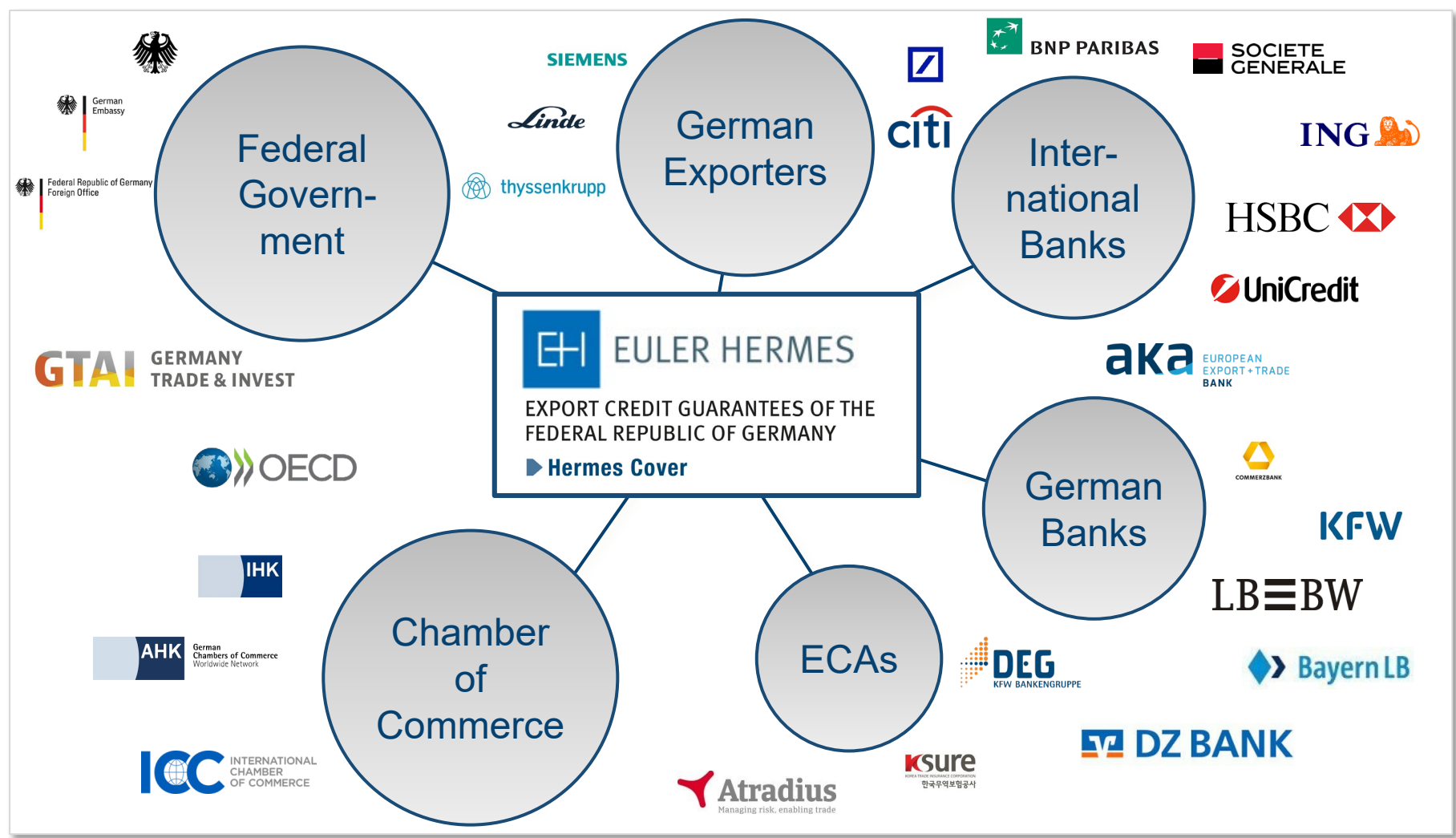
partner of German Suppliers



German suppliers offer a diverse range of goods and services – we support (almost) all industries, sectors and/or structures.

# Who we are

point of Contact in the German Trade Ecosystem





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# How we Can Help you

With Hermes Cover

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► **Hermes Cover**

# How we can help you to effectively finance your imports



We offer third-party credit support to German exporters and their banks by virtue of comprehensive insurances and/or guarantees.

We enable banks to benefit from the AAA-credit rating of the federal republic of Germany, limiting banks' capital requirements and thus freeing up lines to YOU.

We enable but also require (at least partial) German sourcing as a core prerequisite to access our product suit.



# How we can help you

## How German Export Finance Compares

Objective	Syndicated Loans	Bonds	German Export Finance
<b>Tenor</b>	- Potentially shorter maturity and average life relative to other alternative	+ Longer tenors and average life relative to bank market available, tenors depend on liquidity of market/ borrower	+ <b>Typically longer tenors</b> than the bank market + Hermes support may allow access to loans with door-to-door tenors in excess of <b>10 years</b> (for various sectors more like in project finance 14y or for renewables 18y)
<b>Costs</b>	○ Depending on underlying credit and syndicate liquidity + No negative carry (small commitment fee only)	○ Depending on underlying credit and market liquidity - Negative carry	+ Due to longer-term view on credits and markets as well as partial deviations from commercial credit ratings, the <b>all-in cost</b> of an ECA facility can be <b>more competitive</b> than other alternatives + <b>No negative carry</b> (small commitment fee only)
<b>Pricing</b>	○ Difficult for long tenors, large volumes, subject to borrower and bank sentiment/liquidity	○ Subject to borrower and volatile market sentiment/liquidity	+ <b>Lower pricing volatility</b> , relatively stable pricing, also in times of crises, due to AAA-Sovereign risk anchor and long-term credit policy view taken by the German ECA
<b>Flexibility (Setup)</b>	+ Relatively standardized documentation + Drawdown flexibility / long availability periods	+ Simple execution based on highly standardized documentation	- Relatively seen <b>more complex</b> in terms documentation / execution + <b>Drawdown flexibility</b> / long availability periods + Whilst a commitment fee is charged, the <b>cost is still significantly lower</b> than paying interest from day 1 following a bullet drawdown
<b>Flexibility (Structure)</b>	+ Relatively flexible in terms of covenants, waivers, amendments	○ Structural flexibility given (security, covenants, etc.) but waivers, amendments etc. hard to implement	○ Structural flexibility generally given but more constrained than outright commercial borrowing
<b>Prepayment</b>	+ Prepayment flexibility typically given	- Less flexibility for prepayments / penalties	+ <b>Prepayment flexibility</b> typically given
<b>Borrowing lines</b>	- Usage of borrower's overall bank credit lines	+ Typically large funding pools available	+ Very <b>limit/and RWA/Capital light for funding banks (AAA-wrap)</b> + Does <b>require/ or only require</b> very limited domestic borrowing lines
<b>Funding base</b>	+ No public rating required ○ Relative to bonds tighter investor base	- Ratings requirement from at least two rating agencies + Deep/diversified investor base	+ <b>No public rating required</b> per se + <b>True additional liquidity source</b> + Potentially <b>larger market capacity</b> + Can <b>open the door to international investors</b>

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## Financing for Buyers

How it works

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► **Hermes Cover**

# Financing for Buyers

## Buyer Credit in the Hermes Cover Framework

### Manufacturing Risk Cover

Insurance of production costs in event of buyer insolvency or contract termination

### Supplier Credit Cover

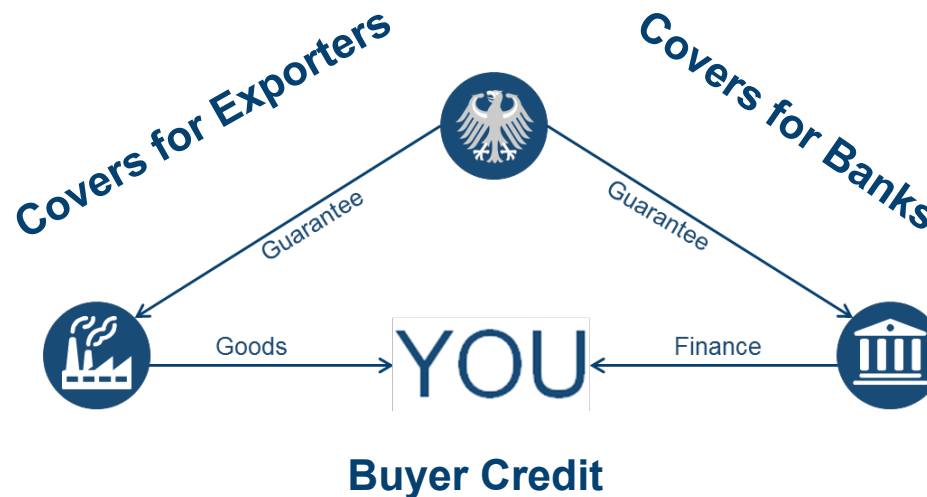
Whole turnover policy (light), revolving cover and single transaction cover, insurance of costs of buyer default and insolvency

### Cover for Specific Risks

Cover for service providers, leasing cover or cover for constructional work

### Supplementary Cover

Insurance against confiscation risk



Loan facility to buyer / borrower covered by Hermes, typically large value contracts for capital goods and services, cross-border deliveries to corporate or public buyers

### Buyer Credit Cover

Cover in the event of borrowers default on loans extended to finance procurement of goods; revolving buyer credit cover and framework credit cover

### Bank Guarantee Cover

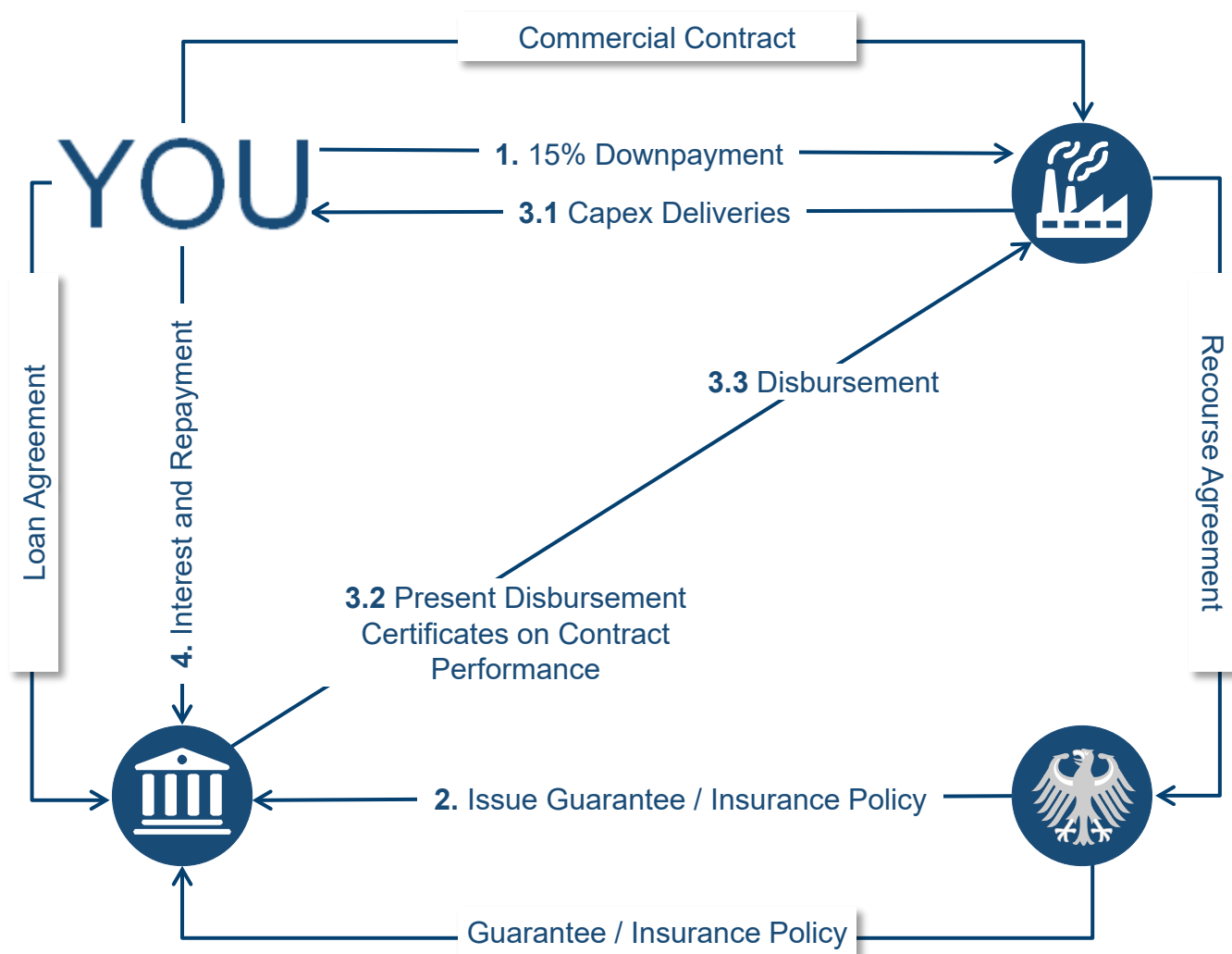
Cover in the event the exporter fails to indemnify the bank on bid bonds, counter guarantees, securitization guarantees

### LC Cover

Cover in the event of loss from LC confirmation

# Financing for Buyers

typical Hermes covered Financing Structure (Buyer Credit)



**1.** Exporter & buyer enter into a Commercial Contract, buyer pays 15% Downpayment; bank & buyer enter into a Loan Agreement

**2.** Hermes issues its insurance or guarantee for the benefit of the bank, Hermes enters into a Recourse Agreement with the exporter

**3.** As and when the Exporter delivers the goods & services and/or achieves milestones under the commercial Contract/ Loan Agreement, the Bank disburses funds

**4.** Upon completion of the project/mean delivery period, the buyer starts making repayments of principal amount and interest to the bank as per the Loan Agreement

# Financing for buyers

## OECD Rules

**Drawdown Period:** Inline with payment clauses in commercial contract

- 15% Downpayment
- Usually paid by Buyer/Borrower upfront
- At latest at the Starting Point of Credit

- 85% ECA Loan
- Per the contract payment terms (date, milestone, delivery)

**Starting Point of Credit:** Determined by physical deliveries under commercial contract

- Single delivery
  - At delivery (e.g. aircraft)
- Multiple deliveries
  - At mean (weighted) delivery (e.g. 200 locomotives)
- Project equipment
  - At commissioning (hot test for e.g. power plant, steel mill))

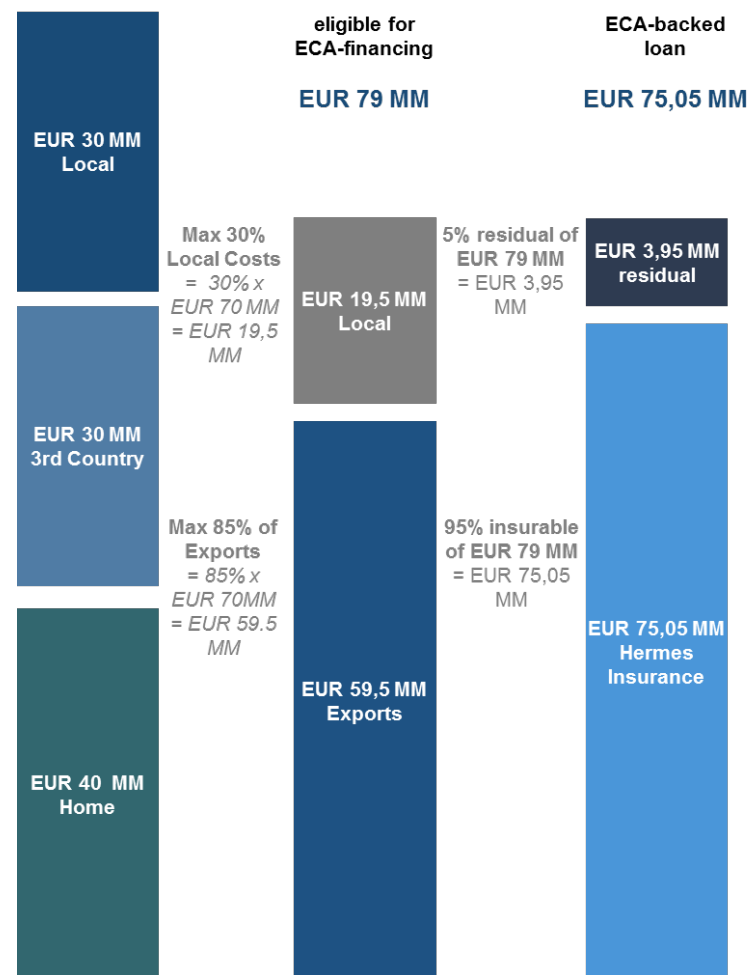
**Grace Period:** Determined by physical deliveries under commercial contract

- Interest
  - Exceptionally, may be capitalised up to SPoC
- Principal
  - First repayment 3 or 6 months after SPoC

**Repayment Profile:** Typically equal instalments, other profiles can be considered

- Term: Category I
  - Max 8.5y prior consult if >5y
- Term: Category II
  - Max 10y for most capital goods; except
  - Max 12y for (i) conventional power plants, (ii) aircraft, (iii) ships
  - Max 18y for (i) renewable energy, (ii) water projects

**Sourcing Structure:**



# Financing for buyers

## Cost of a Hermes Cover

### HERMES Cover Cost Elements



#### Transparent and Predictable Premium Rates

- Based on OECD Arrangement Minimum Premium Rates for country risk categories 0-7 and buyer risk assessment by Hermes
- Generally for cover in EUR, surcharge applies for cover in USD / currencies pegged to the USD or hard currency basket (10%)
- Typically payable as a coupon to first drawdown
- Normally charged to borrower, but 100% of premium can be financed as part of the ECA loan

#### Fees

- Small processing fees for application, issuance

### Typical Bank Cost Elements



#### Interest Rates

- Typically paid semi-annually in arrears and on the basis of a straight-line amortization

#### Fees

- Commitment fee payable to lender quarterly or semi-annually in arrears
- Agency fee payable to facility agent annually in advance, typically as a set amount not a rate
- Coordination and/or arranger fees typically payable up-front as a percentage of the loan amount

### UAE Example HERMES Cover Costs

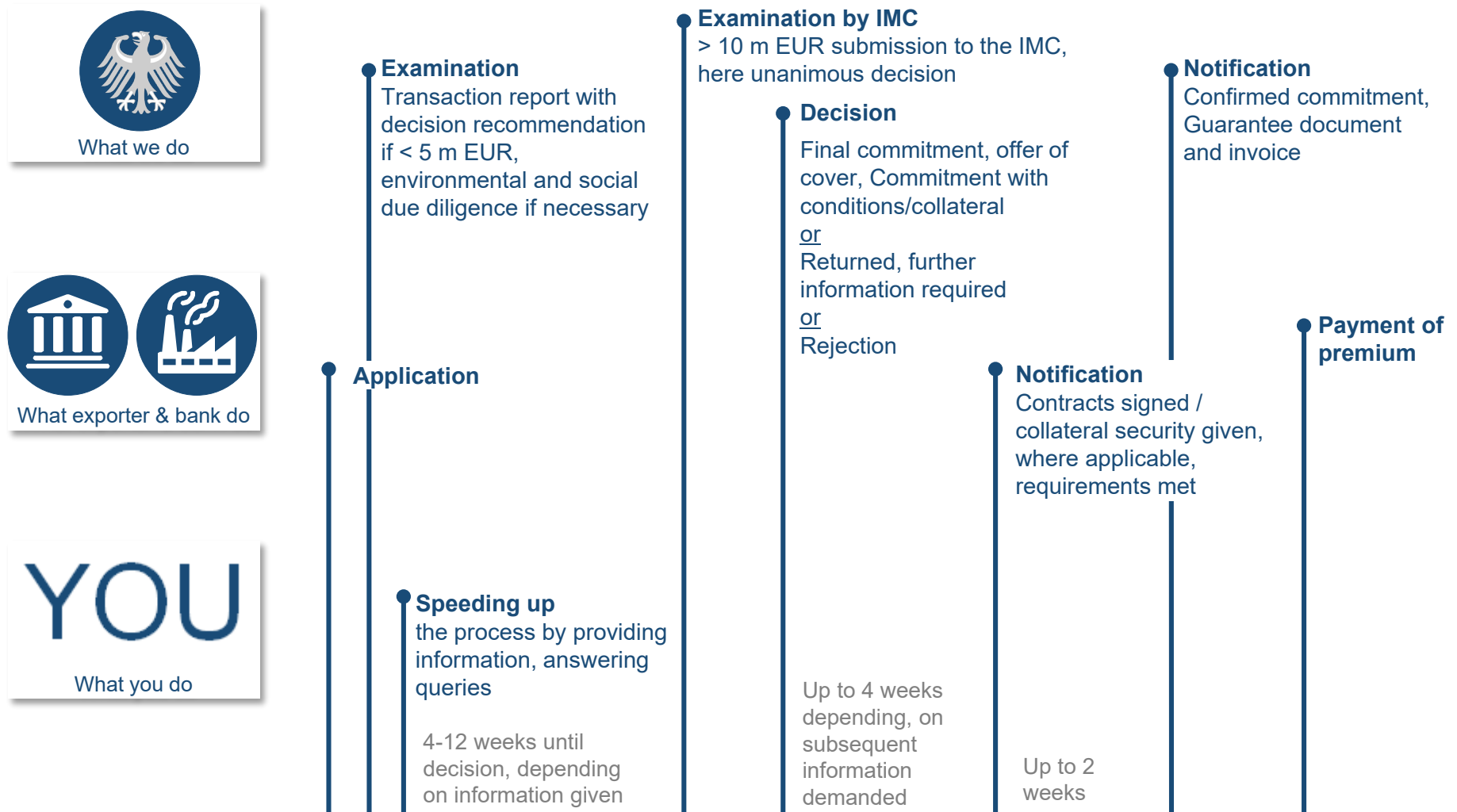
Country Risk Category: 2, Buyer Risk Category: SOV/CC0  
6 months drawing, 5 years repayment (EUR and USD)

Covered Loan Amount  
Premium Amount **unfinanced**  
Covered Loan Amount  
Premium Amount **financed**

EUR 10.00 million	USD 10.00 million
EUR 139,000	USD 152,900
EUR 10.14 million	USD 10.16 million
EUR 140,960	USD 155,275

# Financing For Buyers

## SeQuence of events



**Door-to-Door: 6-14 weeks** (Time to Decision 4-12 weeks, Time to Policy 2 weeks)

# Case study (1/3)

## Power Egypt - 4,800 MW Beni Suef CCGT

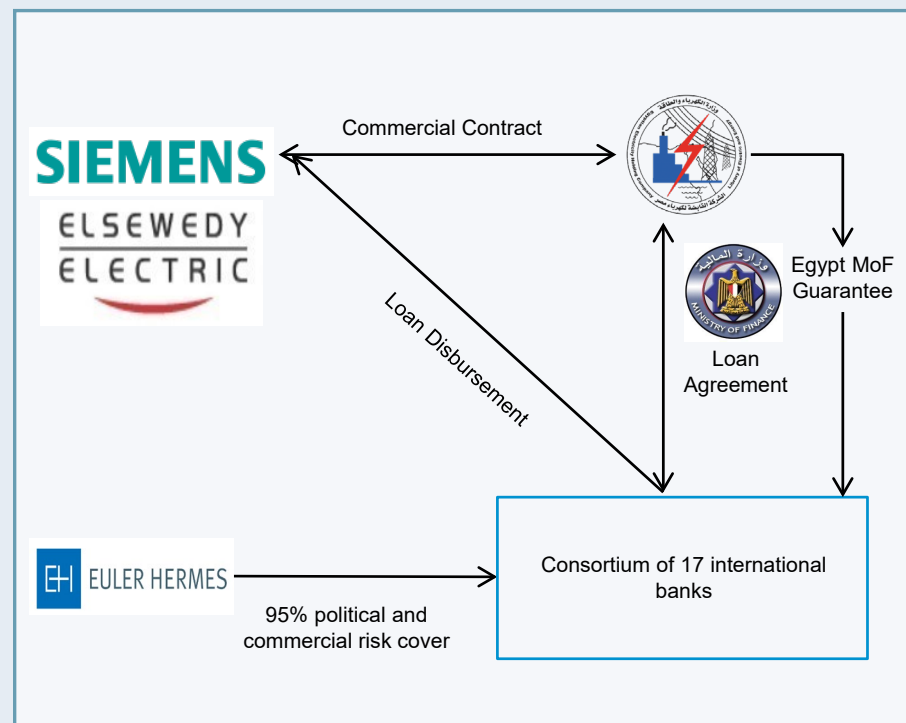
- ▶ Egyptian energy sector suffers from chronic **energy deficit**
- ▶ Economic growths projections require corresponding **capacity additions** and rehabilitation of existing plants



- ▶ EPC contract by consortium of Siemens and Elsewedy for supply, construction and commissioning of **Beni Suef**
- ▶ Beni Suef will be the **largest combined cycle power plant in the world** and will add about 15% power generation capacity in Egypt
- ▶ Total **project cost** is approximately **EUR 2.0 bn** including Siemens' scope of approximately EUR 1.2 bn
- ▶ First power to be delivered in summer 2017



- ▶ **Loan** amount of **EUR 1.17 bn** provided by a consortium of 17 international banks
- ▶ Facility has a 15 years tenor (3+12)
- ▶ Ministry of Finance guarantee
- ▶ Lead banks: Deutsche Bank, HSBC, KfW IPEX-Bank

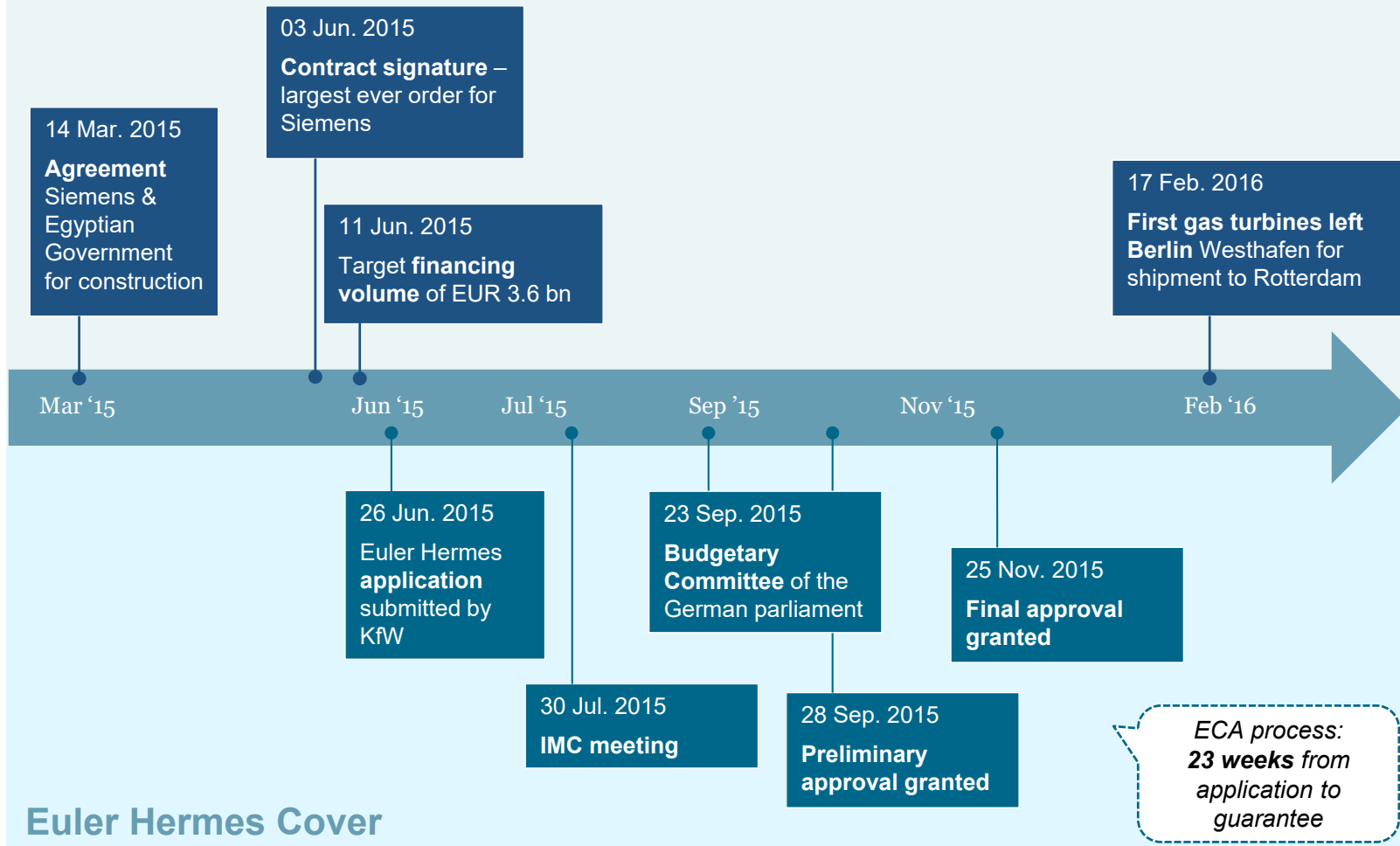




# Case study (2/3)

## Power Egypt - 4,800 MW Beni Suef CCGT

### Transaction Background & Key Milestones

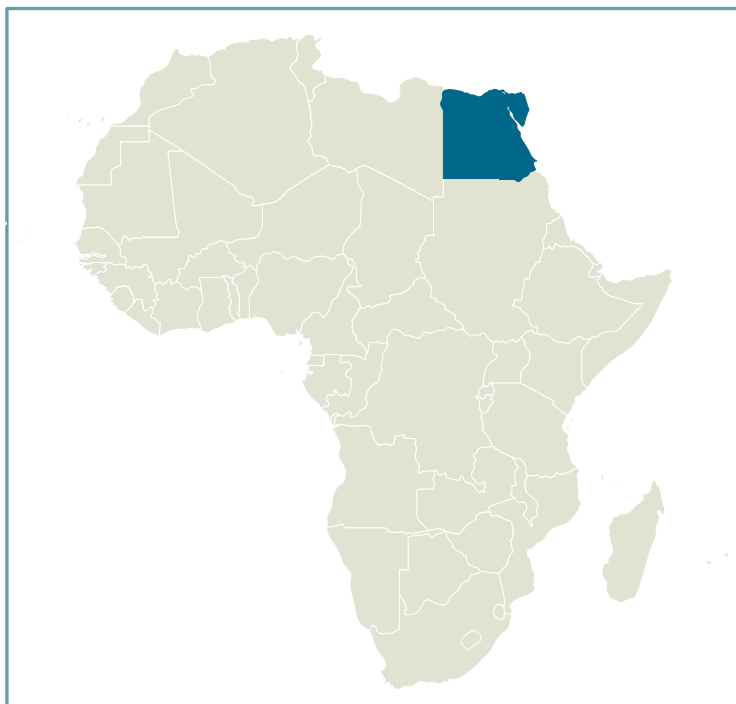


# Case study (3/3)

## Power Egypt - 4,800 MW Beni Suef CCGT

### *Key challenges*

- ▶ **Timing**
- ▶ **Size of project(s)**
- ▶ Debt Capacity and Syndication
- ▶ Environmental and Social Impact Assessment



### *Key success factors*

- ▶ **Strong political commitment** from the German government acting through its ECA to support Egypt on its way into the future
- ▶ **Full commitment of Egyptian Electricity Holding Co.** and strong political support by Egyptian Government
- ▶ **Closely co-ordinated action** between Siemens and the 3 Lead Arrangers Deutsche Bank, HSBC and KfW IPEX Bank throughout the entire process
- ▶ **Well-structured financing** achieved a rapid and strong response in the banking market

# In Short

Euler Hermes is Germany's official export credit agency.

We enable the procurement of products and services from Germany international customers – YOU.

We offer strong credit support to German exporters and their banks, indirectly allowing - YOU - to benefit from Germany's top AAA-credit rating.

We ask for (at least partial) sourcing of German goods and services as a core pre-requisite.



# Contact us

for further information on buyer credits

## 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 (“Hermes Cover”) protect German exporters and the banks financing them 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.

They are managed on behalf of the Federal Republic of Germany by Euler Hermes Aktiengesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at [www.bmwi.de](http://www.bmwi.de) under the search term “Promotion of foreign trade and investment”.



Federal Ministry  
for Economic Affairs  
and Energy

OUR PARTNER



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## Further Information

Appendices

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# Pricing Snapshot

Indicative premium rates for buyer risk credit cover\* (95/95) and for 6 months drawing + 5 year semi-annual repayment

\*"below-standard product": cover for interest during claims waiting period excluded

Country risk category	2			3			4			5			6			7		
Buyer risk category	Comparable rating	upfront	p.a.	Comparable rating	upfront	p.a.	Comparable rating	upfront	p.a.	Comparable rating	upfront	p.a.	Comparable rating	upfront	p.a.	Comparable rating	upfront	p.a.
SOV/CC0	A+ to A-	1,39%	0,48%	BBB+ to BBB-	2,16%	0,75%	BB+ to BB	3,18%	1,12%	BB-	4,56%	1,62%	B+	5,81%	2,10%	B	7,43%	2,72%
CC1	A+ to A-	2,02%	0,70%	BBB+ to BBB-	2,73%	0,96%	BB+ to BB	3,70%	1,31%	BB-	5,07%	1,82%	B+	6,33%	2,29%	B	8,07%	2,97%
CC2	BBB+ to BBB-	2,50%	0,87%	BB+ to BB	3,31%	1,17%	BB-	4,39%	1,56%	B+	5,82%	2,10%	B	7,14%	2,63%	B- or worse	8,82%	3,28%
CC3	BB+ to BB	3,06%	1,08%	BB-	3,81%	1,35%	B+	4,99%	1,79%	B	6,52%	2,37%	B- or worse	8,28%	3,06%	-	.	.
CC4	BB-	3,79%	1,34%	B+	4,72%	1,68%	B	5,97%	2,16%	B- or worse	7,76%	2,85%	-	.	.	-	.	.
CC5	B+ or worse	4,91%	1,76%	B or worse	5,89%	2,12%	B- or worse	7,36%	2,70%	-	.	.	-	.	.	-	.	.

# Hermes cover

## Islamic Financing

