PRODUCT INFORMATION

JULY 2017

Contract bond cover

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Hermes Cover

► Contract bond cover

By taking out contract bond cover, a German exporter may insure himself against politically occasioned or unfair calling of a bond required by the buyer to ensure the exporter's satisfactory performance of the contract.

WHAT RISKS ARE COVERED?

A Contract Bond Guarantee offers protection against the loss of the guaranteed amount in cases of

- fair calling of the bond by the foreign buyer because the German exporter has failed to fulfil his obligations due to political events abroad;
- fair calling of the bond by the foreign buyer because contract performance has become impossible due to embargo measures taken by the Federal Republic of Germany;
- unfair calling of the bond due to political events abroad;
- unfair calling of the bond due to other circumstances which make the claim to reimbursement of the guaranteed amount unenforceable for political or commercial reasons.

WHO CAN APPLY FOR CONTRACT BOND COVER?

Contract bond cover is available to **every German exporter**. Foreign business enterprises may also take out contract bond cover for the export business conducted by their German branch offices, which must, however, be listed in the German Companies' Register.

WHAT IS CONTRACT BOND COVER?

In the course of an export transaction, an exporter often has to furnish contract bonds to ensure his satisfactory performance of the contract. The most common types of contract bonds are the advance payment, the performance and the maintenance bond. The bid bond should also be mentioned in this context, although at the time of its validity a contract does not yet exist; the risks covered are modified accordingly.

A contract bond is normally issued by the German exporter's company bank in the form of an "unconditional on-demand bond". Thus the buyer has the certainty that he will receive the guaranteed amount immediately, i.e. on first demand, in the event of a breach of contract on the part of the German exporter.

For the exporter this undoubtedly legitimate interest of the buyer involves the risk that the contract bond may be called even if the exporter is not responsible for the breach of contract. It is as protection against this risk that the Federal Government offers contract bond cover.

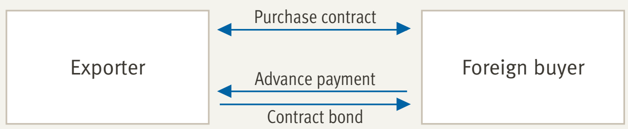
CAN OR MUST CONTRACT BOND COVER BE COMBINED WITH OTHER TYPES OF COVER?

A Contract Bond Guarantee can be issued only in combination with manufacturing risk cover (see Product Information **Manufacturing risk cover**) or supplier credit cover (see Product Information **Supplier credit cover**). Only for bid bonds an isolated Contract Bond Guarantee can be issued if the exporter applies for it; in that case only the risks of unfair calling are covered.

WHAT HORIZON OF RISK IS COVERED?

Cover takes effect with the issuance of the contract bond and ends with its expiry or, in the case of unfair calling by the foreign buyer due to other circumstances, with the full reimbursement of the guaranteed sum.

CONTRACTUAL RELATIONSHIP AS ILLUSTRATED BY THE EXAMPLE OF THE ADVANCE PAYMENT GUARANTEE



HOW MUCH DOES CONTRACT BOND COVER COST?

A certain percentage of the guaranteed sum is charged as premium for cover.

An exception to this rule are advance payment bonds which automatically expire at the rate at which the related deliveries or services are performed. In the case of this type of contract bonds for which the horizon of risk is limited to the manufacturing period, the bond amount has already been included in the prime costs calculated for manufacturing risk cover. As a result, the premium for the contract bond is already included in the premium charged for manufacturing risk cover.

Separate processing fees for this type of cover are charged only in those special cases where isolated contract bond cover is provided (e.g. separate cover for bid bonds). They depend on the amount guaranteed. Further details are given in the information leaflet Fees and premium rates.

WHEN AND HOW IS A CLAIM PAID?

Before a claim can be filed, a covered event of loss must have occurred.

In the case of advance payment bonds which automatically expire at the rate at which the related deliveries or services are performed and which consequently are included in manufacturing risk cover, the conditions for indemnification follow those valid for manufacturing risk cover. This means that the related export contract must also be valid.

When all the necessary documents have been submitted to the Federal Government, the claim will be processed within two months' time. Claims payment will be effected within the space of one further month.

The exporter participates in the loss up to the level of the uninsured portion, which normally is 5 for all risks.

HOW CAN YOU APPLY FOR COVER?

Contact with the Federal Government is established via 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 and application forms (the application forms for supplier credit cover must be used to apply for contract bond cover) are also available for study and download at www.exportkreditgarantien.de/en, partly only in German.

Main features of the contract bond cover at a glance:

Eligible policyholders:	German exporters and foreign trading companies for export transactions of their German branches which are entered in the German Companies' Register
Object of cover:	Amount of the bond provided by the German exporter
Covered risks:	Loss of the guaranteed amount in consequence of the bond having been called for political reasons, as well as unenforceability of claim to reimbursement of the guaranteed amount following unfair calling, provided that the validity of the claim to reimbursement has been established by an impartial party
Examples of application:	▸ Bid bonds ▸ Advance payment bonds ▸ Performance bonds ▸ Maintenance bonds ▸ Customs guarantees ▸ Retention guarantees
Uninsured portion:	5% for all risks
Application fee:	None, if manufacturing risk or supplier credit cover are also being applied for
Premium:	A certain percentage of the bond amount (Exception: advance payment bonds which expire proportionately to delivery or service)

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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