

# Guarantee against loss on production and loss on claim

Combined for exporter and bank

## *Guarantee holder: **exporter** for Guarantee against loss on production **bank** for Guarantee against loss on claim*

The combined guarantee against loss on production and loss on claim has both the exporter and the bank as guarantee holders. For the exporter, it covers accumulated costs that cannot be invoiced due to the buyer having cancelled the contract. For the bank, it covers the risk of a foreign borrower failing to pay amounts due under the loan agreement. The guarantee protects against events that occur from the date on which both the lender and the exporter enters into binding contracts.

With this EKN guarantee, the exporting company receives compensation for its production costs if the contract is cancelled, and the lender receives compensation if the borrower fails to repay granted credits.

### **TRANSACTIONS THAT CAN BE GUARANTEED**

The guarantee can be used for different types of cross-border transactions: export of goods and export of services. EKN can guarantee both small and large transactions with this guarantee.

A prerequisite for EKN's participation is that the transaction promotes Swedish interests and is connected to Swedish export. This means the export transaction will normally relate to Swedish products. It could also be a transaction that indirectly leads to Swedish exports.

In order for EKN to be able to guarantee a transaction, there must be a legally binding written agreement between buyer and seller and between borrower and lender. EKN's guarantee never covers more than what has been agreed between you and your counterparty, as described in your guarantee application to EKN.

Due to EU regulations, the guarantee against loss on production and loss on claim cannot be used for transactions with a risk period of less than 24 months with Australia, EU countries, Iceland, Japan, Canada, Norway, New Zealand, Switzerland and USA.

### **RISKS COVERED BY THE GUARANTEE**

The guarantee provides cover when the buyer cancels the contract or when the borrower fails to repay granted

credits. You can choose either insurance against political events only or insurance against both political and commercial events.

### **HOW DOES THE GUARANTEE WORK?**

The guarantee normally covers 95 per cent of amounts incurred during the period of production and 95 per cent of the claim under the loan agreement. This means the excess is five per cent in both guarantees. You can also opt for a higher excess, which will lower the premium for the guarantee.

The excess does not necessarily mean you will incur a definite loss in the event of a claim. Any recoveries by EKN are shared pro rata between you and EKN.

EKN will only indemnify you for non-payment of a conclusively established and due claim. "Conclusively established" means your customer has not contested the claim. If the buyer cancels the contract, EKN compensates the exporter for production costs.

### **WHAT ARE THE FEES?**

EKN charges a premium, which reflects the risk and the structure of the transaction. The premium is expressed as a percentage of the guaranteed amount.

The premium is normally paid in advance when EKN issues the guarantee. This always applies with guarantee for loss on production. As lender, you normally pay 15 per cent of the premium when EKN issues the guarantee and the rest at the first disbursement under the loan. As lender, you can also opt to pay part of the premium in arrears, at the same time as interest payments under the guaranteed loan.

You can get an idea of the premium for a loss on claim guarantee on EKN's web site at [www.ekn.se](http://www.ekn.se) using "Calculate premium".

There is no fee for applying for a guarantee and receiving an offer. Our offer is valid for six months. After this period, you can extend the offer for periods of three months in return for a fee. If the offer results in a guarantee, the extension fee will be returned.

#### **WHEN DOES EKN PAY COMPENSATION?**

EKN pays compensation after a three-month waiting period, which begins on the claim's due date. We do not apply a waiting period if the buyer is declared bankrupt. You receive compensation for costs incurred during the production period as soon as the amount has been established.

#### **CURRENCY**

The currency indicated in the loan agreement determines the currency in which EKN issues the guarantee for loss on claim. If the loan agreement currency is Swedish kronor, euros, US dollars, Swiss francs or Japanese yen, EKN will issue the guarantee, invoice the premium and pay compensation in this currency. For other contract currencies, EKN issues the guarantee, invoices the premium and pays compensation in Swedish kronor.

The guarantee for the production period is issued in Swedish kronor.

#### **PAYMENT TERMS IN THE EXPORT TRANSACTION**

There are international rules, which set out transaction payment terms, in order for official export credit agencies like EKN to be able to provide guarantees for export financing. These include terms and conditions for advance payments and credit periods.

In export transactions with a credit period of 24 months or more, the buyer must make a minimum advance payment of 15 per cent of the contract amount no later than at the starting point of credit. In this guarantee, normally five per cent units of the advance payment must be paid at signing of the contract. The repayment in the loan agreement must normally be in equal instalments with maximum half-yearly intervals, but in some transactions a more flexible repayment structure may be applied.

#### **LOCAL COSTS**

Local costs are the costs for the purchase of products or services in the importing country. In a transaction with a credit period of two years or more, the proportion of financed local costs may not exceed 30 per cent of the export value (the exporter's contract amount minus local costs).

#### **PAYMENT SECURITY**

EKN does not have any general requirements regarding provision of security. However, in certain cases, it is a prerequisite for the issuance of our guarantee for a transaction.

Examples of security include payment guarantees provided by a third party and pledged equipment.

#### **CORPORATE RESPONSIBILITY IN THE ISSUING OF GUARANTEES**

EKN promotes corporate responsibility. In its guarantee operation EKN's considerations include the environment, human rights and labour rights, anti-corruption and the promotion of sustainable lending to poor countries.

#### **EKN'S GENERAL CONDITIONS**

The guarantee is governed by EKN's General Conditions for Export Credit Guarantees (October 1996) and subsequent Supplements.

#### **HOW TO OBTAIN A GUARANTEE**

The lender and the exporter send separate applications to EKN.

All the relevant forms can be found at [www.ekn.se](http://www.ekn.se).

#### **Apply**

Send your application well in advance before the purchase contract and the loan agreement are unconditional.

EKN orders a credit report on the buyer. As lender, you will normally need to provide supplementary information on the buyer such as an annual report.

EKN makes a risk assessment, and if the result is satisfactory, we make an offer to the exporter for loss on production and an offer to the bank for loss on claim.

#### **Notify us**

Both the exporter and the lender must send a notification requesting the guarantee to be issued. When both the purchase contract and the loan agreement have become unconditional, you have 30 days in which to send a notification for each to EKN. Use the form 2.01e. If you as the lender choose to pay the premium in arrears, you must state this when requesting the guarantee to be issued.

#### **Payment of premium**

EKN will send you a premium invoice with your respective guarantee. The premium must be paid within 30 days of the invoice date.



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