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FAQ – LIQUIDITY GUARANTEE FOR SMEs

EKF Denmark's Export Credit Agency

Contents

Purpose and coverage

What is a Liquidity Guarantee?	A liquidity guarantee can be used by financial institutions granting new **lines of credit, loans or guarantee facilities** to export companies that have experienced or expect to experience a decline in turnover of at least 30% as a result of the COVID-19 (coronavirus) pandemic.
Who can apply for a Liquidity Guarantee?	Banks, leasing companies and guarantee institutions, etc. (*"financial institutions"*), registered for EKF's Working Capital Guarantee scheme. Contact EKF if your institution has not yet registered for the scheme.
What does a Liquidity Guarantee for an SME cover?	Liquidity Guarantees cover 80% of any **loss** incurred by the financial institution on a line of credit, loan or guarantee facility granted to the export company.
What is an SME?	An enterprise with: Fewer than 250 employees (FTEs) and/or turnover of less than DKK 372 million and a balance sheet total of less than DKK 320 million. The size of an SME is determined in accordance with Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC).
What is an export company?	An export company is a business in which 10% of annual turnover in 2019 was generated by export trade. Export trade includes direct exports, sales to Danish exporters and turnover from foreign tourists in Denmark.
Are there any sectors/industries not covered by the Liquidity Guarantee scheme?	Yes. EKF is not permitted to issue guarantees for businesses within primary production, e.g. within agriculture, fishing, aquaculture, horticulture, etc. The Liquidity Guarantee can be used for companies that process foods, such as slaughterhouses, etc.
When is the closing date for applying for a Liquidity Guarantee?	Applications for a Liquidity Guarantee must be submitted to EKF by 15 January 2021.

Terms

<table>
<tr><td>Is there a cap on the size of the guarantee?</td><td>
EKF can guarantee no more than an amount corresponding to the company's actual and forecasted loss of turnover in the period from 1 March 2020 to 30 January 2021.

The maximum Liquidity Guarantee may, however, be reduced to the highest of the following three amounts if it is lower than the decline in turnover:

1) the company's <u>maximum</u> liquidity requirement, including investment requirement, in the period from the application date and 18 months onwards as recorded in the company's cash flow forecast or
2) double the company's annual payroll expenses for 2019 or most recently available year, or, for new businesses, the payroll expenses estimate for the first two years of operation, or
3) 25% of the company's total turnover in 2019

Please note that there is no requirement for all three bulleted items to be calculated if not warranted. This means, for instance, that there is no requirement for determination of the company's liquidity requirement if it can already be concluded from a calculation of 25% of the company's 2019 turnover that this amount corresponds to or exceeds the loss of turnover.

When determining the loss of turnover to be calculated for the purpose of applying for a Liquidity Guarantee, the financial institution and the company are required to deduct received/and or anticipated compensation for coverage received under other state relief measures, insurance policies or the like.

Example:
<table>
<tr><td>Loss of turnover</td><td>4.000.000</td></tr>
<tr><td>- wage compensation</td><td><u>1.000.000</u></td></tr>
<tr><td>Maximum loan amount</td><td><u>3.000.000</u></td></tr>
<tr><td></td><td></td></tr>
<tr><td>Payroll expenses in 2019 x 2</td><td>8.000.000</td></tr>
<tr><td>25% of 2019 turnover</td><td>10.000.000</td></tr>
<tr><td>Maximum liquidity facility needed for the next 18 months</td><td>15.000.000</td></tr>
</table>
Since the amounts to cover total payroll expenses x 2 and 25% of 2019 turnover and the maximum liquidity requirement for the next 18 months all exceed the calculated maximum loan amount, a Liquidity Guarantee can be issued for a line of credit/loan or guarantee of DKK 3,000,000.
</td></tr>
<tr><td>How are payroll expenses for personally-owned companies calculated?</td><td>For sole proprietorships registered for Danish corporate taxation, the proprietor's “salary” is calculated as the company's profit less any capital amassed in the company in 2019. The amount will thus always be maximised to the profit in 2019. For sole proprietorships not subject to corporate taxation, the only figure considered is the company's profit for 2019, as this equates to the proprietor's salary.</td></tr>
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Can a Liquidity Guarantee be granted on the basis of turnover loss at group level?	The company can opt to calculate the borrower's turnover and verify the borrower's compliance with other amount caps, etc. at either group level or individual entity level. The same loss of turnover cannot be covered several times over for multiple entities within a group.
How is the company's loss of turnover calculated?	Loss of turnover is determined as the difference between the company's actual and forecasted turnover for the period upon which a guarantee application is based, and turnover in the same period in 2019. *Example:* In the period 1 March 2019 to 1 April 2019, a company's turnover was DKK 10,000,000. The company's actual and forecasted turnover in the period from 1 March 2020 to 1 April 2020 is DKK 5,000,000. The company's loss of turnover is 50%.
For what period is the company required to document loss of turnover?	The company must be able to substantiate that it has suffered or expects to suffer a decline in turnover of **at least 30%** as a result of the COVID-19 pandemic **for the entire or part** of the period from 1 March 2020 until 30 January 2021. The period in which the loss is claimed as suffered must be at least 14 days in duration. The period upon which the company has based its loss of turnover must be specified when applying for a Liquidity Guarantee. The loss of turnover must be documentable for the period taken as the basis for calculation of the loan amount. Applications may be made for a period ending before 15 January 2021, as this will then be the period for which substantiation of turnover must be submitted. It is also possible to submit multiple applications, but a guarantee cannot be obtained for the same period twice.
How is turnover determined for companies that budgeted for substantial growth or for which no financial statements are available for the corresponding period in 2019?	Where turnover in the relevant period in 2019 does not provide a true and fair impression of the turnover that the company was likely to have realised after 1 March 2020, the financial institution should calculate the company's loss of turnover on a discretionary basis informed by the company's budgeted turnover.

	Examples: **1)** In the period 1 March 2019 to 30 September 2019, a company had zero turnover, as its projects had been postponed. For the period 1 March 2020 to 30 September 2020 it budgeted for turnover of DKK 10,000,000 based on booked orders. However, those orders were deferred due to the pandemic, so the company's turnover for the period is expected to be reduced to DKK 2,000,000. The loss of turnover is more than 30% of the budgeted turnover. **2)** The company was established on 1 October 2019. The loss of turnover in the period 1 March 2020 to 30 September is expected to be more than 30% of the budgeted turnover.
Will EKF cancel the guarantee if the actual loss of turnover turns out to be lower than 30% or if any of the other criteria for determining the size of the Liquidity Guarantee turn out not to have been met?	If the financial institution has provided inaccurate or misleading (bad faith) information in support of a Liquidity Guarantee application, EKF may decide that the guarantee is to be revoked in its entirety. EKF follows up on information provided within 12 months of a Liquidity Guarantee being issued.
Is it permissible to use any proceeds of a loan secured by a Liquidity Guarantee to reduce a temporary increase in a credit limit granted before the loan covered by a Liquidity Guarantee was secured?	Yes. However, it is condition that the temporary increase was granted after 1 March 2020, since only expenses after that date could have been covered by a loan secured by a Liquidity Guarantee.
Can a Liquidity Guarantee be issued for loans to Danish-owned subsidiaries abroad?	No. The applicant company must be registered in the Danish Central Business Register (hold a Danish CVR no.)
If the financial institution does not hold the entire customer account, can a loan be taken out with multiple banks under a Liquidity Guarantee?	Yes, but not for the same turnover loss period.
Can the scheme be combined with other COVID-19 relief measures from the Danish state, e.g. a COVID-19 guarantee from Vaekstfonden, the Danish state's investment fund?	When determining the loss of turnover to be calculated for the purpose of applying for a Liquidity Guarantee, the financial institution and the company are required to deduct received/and or anticipated compensation for coverage received under other state relief measures, insurance policies or the like. If the financial institution has received a COVID-19 guarantee from Vaekstfonden for the company, then EKF's Liquidity Guarantee cannot be used for that same company.

Credit rating

Is a company that was in financial difficulty as at 31 December 2019 eligible for a Liquidity Guarantee?	No.
What counts as a company in financial difficulty?	A company is defined as being in financial difficulty if the company is unable, by its own financial means or such means as it might obtain from its proprietor/shareholders and creditors, to halt the losses, which, without the intervention of public authorities, would almost certainly result in the business being discontinued in the short or medium-term. *An SME will be deemed to be in financial difficulty in the following cases:* The SME is a company with limited liability (except for an SME that has existed for less than three years) and more than half of the company's subscribed capital has disappeared as a result of accumulated losses[1] ***or*** The SME is a company in which at least some of the partners have unlimited liability for the company's debts (typically a general partnership or a limited partnership) and more than half of the company's capital as recognised in the company's financial statements has disappeared as a result of accumulated losses ***or*** if the SME is under bankruptcy proceedings or, under the national rules, meets the criteria for the institution of bankruptcy proceedings in response to creditor claims. It is the business (registered with the Danish Central Business Register) for which the Liquidity Guarantee is issued that is subject to assessment. If the parent company/group is liable for the credit facility covered by the Liquidity Guarantee, assessment may be made at group level. The definition of what constitutes financial difficulty is in accordance with Commission Recommendation No. 651/2014, which refers to the guideline provision for state aid to firms in difficulty (2004/C 244 02). See also Annex 1.
How is borrower creditworthiness determined? **Is it all borrowers for which there is no objective indication of value/credit impairment?**	Creditworthy borrowers are generally borrowers to which the financial institution is willing to offer or extend an existing loan facility, and which the financial institution thus rates as being a financially viable undertaking over the long term.

[1]This is the case when, by deducting accumulated losses from provisions (and all other items

customarily regarded as part of the entity's equity, such as subordinated loans ranking after bank financing) a negative accumulated result is obtained for more than half of the subscribed capital.

	A customer's creditworthiness is thus not based on objective indication of value/credit impairment.
Is a borrower who has an objective indication of value/credit impairment eligible for a Liquidity Guarantee?	Yes. The only requirement at the time of application is that the financial institution is willing to increase that customer's credit facility. Please note, however, that prospective borrowers will under no circumstances be eligible for a Liquidity Guarantee if they were already in **financial difficulty as at 31 December 2019**.
Is a borrower who has an objective indication of value/credit impairment as at 31 December 2019 eligible for a loan secured by a Liquidity Guarantee?	Yes, the critical factor is not whether the borrower had an objective indication of value/credit impairment as at 31 December 2019, but whether the borrower was in financial difficulty as at that date.
If a company is not in financial difficulty as at 31 December 2019 but subsequently suffers financial difficulty, is that company eligible for a Liquidity Guarantee?	Yes.
Is it permissible for the financial institution or the company to cover the 20% of the risk entailed by the credit facility/loan, which the Liquidity Guarantee does not cover?	No. A Liquidity Guarantee covers 80% of the bank's loss after any marketable collateral, etc. has been realised if the company becomes insolvent.
Does EKF require any specific collateral for the credit/loan?	No.
Is the financial institution permitted to establish new collateral for its existing commitment concurrently with and/or after the date on which a new loan is granted under a Liquidity Guarantee?	Yes.

Price and debt servicing

What does a Liquidity Guarantee cost?	EKF charges a premium of 1% per annum. The premium is payable annually in advance.
How must the debt covered by the Liquidity Guarantee loan be serviced?	A Liquidity Guarantee is provided for a term of no more than 6 years. A Liquidity Guarantee amount does not have to be reduced for up to 12 months. After the initial twelve months, the Liquidity Guarantee is written down continuously over a term of up to 5 years, where after the write-down conforms to the financial institution's repayment schedule.

Is the financial institution permitted to determine the interest rate applied to a loan covered by a Liquidity Guarantee?	The financial institution determines its rates for a loan covered by the Liquidity Guarantee, but EKF does expect the value of the Liquidity Guarantee to be reflected in the price.
Is it possible to make instalment payments to reduce pre-existing facilities made available by the financial institution to the borrower if a new loan is granted under a Liquidity Guarantee?	The financial institution's ordinary repayments schedule for servicing existing debts must be suspended minimum 5 months after the Liquidity Guarantee is issued in order that the company may maximise the benefit of the Liquidity Guarantee. This solely includes repayment of the principal, meaning that servicing of ordinary interest falling due for payment in that period is permissible. The above proviso does not apply to leasing and mortgage facilities principals and interest for which repayments during this period are permissible. As regards mortgage amortisation payments, EKF does, however, require that repayment continues only if the beneficiary is another company – based on its CVR no. – than the lender.
Is the financial institution permitted to amend the terms (interest rate, size of instalments, collateral, etc.) of any credit facilities pre-existing the loan covered by the Liquidity Guarantee at a later date?	5 months after the Liquidity Guarantee is issued**,** the financial institution may make any such changes as it would have been permitted to make before the Liquidity Guarantee was granted, since the financial institution after this date and until the Liquidity Guarantee expires has access to make any such customary provisions that do not vary from how it would have acted in the absence of the Liquidity Guarantee.
Can a Liquidity Guarantee be extended if the original coverage period was agreed as four years, and if at a subsequent date after 30 September 2020 there is a need to extend the guarantee period?	There is the option to extend the term of the Liquidity Guarantee after it has been issued, but only up to a maximum of a six years in total, which is the standard coverage period. Any such extension is subject to a special application to EKF.
Is there an option for early release from the Guarantee before it expires?	Yes – early repayment of the loan, which thereby terminates the Liquidity Guarantee, is penalty-free. The annual premium paid in advance of the year in which the Liquidity Guarantee is terminated, will, however, not be refunded either in whole or pro rata.
Can the proceeds of a loan from the credit facility secured by a Liquidity Guarantee be deposited in the company's current overdraft facility?	Yes. However, concurrent write-down of the overdraft facility's maximum is not permissible.
Will EKF require regular financial reporting from the borrower?	No. EKF is not to be kept informed on an ongoing basis. EKF is, however, entitled, in cases provided for in the terms of the Liquidity Guarantee, to request documentation from the borrower regarding certain calculations, and the actual loss of turnover must be calculated not later than 12 months after the Liquidity Guarantee was issued.
Can a Liquidity Guarantee be transferred to another financial institution?	The transfer of a Liquidity Guarantee to a new financial institution is subject to EKF's prior written authorisation.

Application process

How can a company access a Liquidity Guarantee?	The application starts with an email to EKF from the financial institution. Follow this link for a guide to the application process: https://www.ekf.dk/ekf-for-banker/samarbejdet-med-ekf/kautioner- trin-for-trin
What information does the financial institution have to send to EKF?	The financial institution must submit the company declaration signed by the company. EKF may request additional information and documentation as required.
What information does the company have to send to EKF?	The company must sign the company declaration and submit it to the financial institution.
Can a Liquidity Guarantee only be issued for wholly new credit facilities, loans or guarantee limits?	Yes, the Liquidity Guarantee will not be granted to cover increases to pre-existing credit facilities, loans or guarantee limits.
Where can I check the progress of my application?	On EKF-online, users enrolled under a financial institution can look up information about the institution's guarantee applications in progress and already granted guarantees.
Who can apply for a Guarantee?	You must be registered as a user to gain access to applying for a guarantee and signing into EKF-online. Contact EKF or your EKF-intermediary at the bank to gain access.
What is EKF-online?	Through EKF-online, users enrolled under a financial institution can look up information about the institution's guarantee applications in progress and already granted guarantees.

Annex 1 In financial difficulty – SMEs