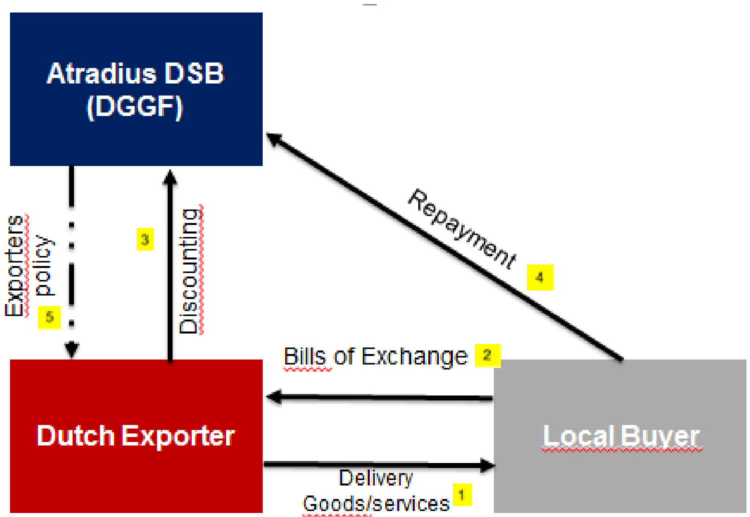
Bills of Exchange Discounting

Atradius DSB is able to offer exporters financing from the Dutch Good Growth Fund (DGGF) by paying them an advance on their bills of exchange. This is known as bills of exchange discounting. Bills of exchange may be discounted under this facility:

- up to a maximum of EUR 5 million;
- only if the exporter's house bank or other banks are unable or unwilling to discount the bills of exchange.

We will be able to discount the bills of exchange if we have underwritten the credit risk on the buyer. We will issue an insurance policy to the exporter covering this credit risk, for which the same premium will be charged as for credit insurance under our regular export credit insurance facility. Please find an explanation of the discounting procedure below.



The diagram above represents an export transaction whereby an exporter discounts bills of exchange with his bank. One of the criteria is that 15% of the contract value must be paid down. The exporter may offer supplier credit for the remaining 85% of the contract value by having his client (the buyer) accept a set of bills of exchange.

The procedure:
The exporter delivers his goods/services [1]. Instead of cash, he receives a set of bills of exchange [2]. The exporter can discount these bills of exchange with Atradius DSB after having delivered all the goods and/or performed all the services as agreed in the export contract [3]. This means that the exporter can offer his client credit but doesn't need to wait for payment. He will be paid in cash for the bills of exchange (although a discount will apply). The buyer will pay Atradius the nominal value of each bill of exchange on the bill's due date [4]. The exporter will also receive a supplier credit insurance policy which covers manufacturing risk [5].

In order to discount a set of bills of exchange we will need the following information:

- the date the set of bills of exchange is to be discounted. This date will usually be shortly after the delivery date.
- for each bill of exchange:
  - the due date

The first bill must be due six months after the date of delivery and the remaining bills at six-month intervals.

- o the currency (often euros or US dollars) and total value of the bill. This will often include interest as well as principal.
  The principal will represent 85% of the contract value (as 15% of the contract value must always be paid down).

Atradius will subsequently determine the net present value of the set of bills of exchange. This is the amount the exporter will receive when he discounts the bills of exchange with us. This amount depends on:
- the discount rate
- the total repayment period; for example: for a set of six bills of exchange payable at semi-annual intervals this would be three years.
The discount rate is the OECD Commercial Interest Reference Rate (CIRR) valid on the date of discounting, which can be found at www.oecd.org/tad/xcred/cirrs.pdf. The discount rate will depend on the currency.

For example, for a set of bills of exchange:

- with a total nominal value (principal+ interest) of EUR 1,552,500.00
- to be discounted on 01-01-2016
- at a rate of: 0.84%, being the CIRR on 01-01-2016

Please refer to the table below:

Bill of exchange number	Discounting Date	Due Date of Bill of Exchange	Nominal Value of Bill of Exchange	Number of Days to Maturity	Discount Rate	Amount the Exporter will receive from the DGGF
1	1-1-2016	30-06-2016	265,000.00	181	0.9958	263,887.83
2	1-1-2016	31-12-2016	262,500.00	365	0.9916	260,283.13
3	1-1-2016	30-06-2017	260,000.00	546	0.9874	256,722.27
4	1-1-2016	31-12-2017	257,500.00	730	0.9832	253,169.07
5	1-1-2016	30-06-2018	255,000.00	911	0.9791	249,658.92
6	1-1-2016	31-12-2018	252,500.00	1095	0.9749	246,156.61
			1,552,500.00			1,529,877.83
					Difference (costs)	22,622.17
					% of total	1.46%

The CIRR (EUR) is 0.84%. We then calculate the discount rate for each bill of exchange as follows:
$[1/(1+CIRR)]^{\text{(number of days from discounting date to bill of exchange maturity date / 360)}}$
For the first bill of exchange this is $[1/(1+0.0084)]^{(181 / 360)}$
For the second bill of exchange this is $[1/(1+0.0084)]^{(365 / 360)}$
etc.
The rate is then calculated for each bill of exchange (see table above).

In the example above the exporter will receive EUR 1,529,887.83 on 1 January 2016 for his set of bills of exchange with a total nominal value of EUR 1,552,500 (for which he would otherwise receive payment over a period of three years.)
The “discounting costs” total EUR 22,622.17, representing 1.46% of the total nominal value of the set of bills of exchange.

The net present value of the set of bills of exchange would change if:

- the discount rate (CIRR) were higher: the net present value of the set of bills of exchange would then be lower.
- the bills of exchange had longer maturities (=longer financing period): the net present value of the set of bills of exchange would then also be lower.

The method of calculation for discounting bills of exchange will be the same in all cases. The net present value of a set of bills of exchange will depend on the financing terms (“supplier credit by means of bills of exchange”) agreed in the export contract such as:

- the number of bills of exchange issued
- the intervals at which the bills of exchange mature (how often a bill of exchange will be payable; this is usually every six months)
- the discount rate
- the maturity dates of the bills of exchange

Please contact Atradius to verify whether your contract is eligible for the DGGF bills of exchange discounting facility. For more information please see: https://www.atradiusdutchstatebusiness.nl/en/products/dutch-good-growth-fund. There you will also find a quick scan form which you can complete and send to info.dsb@atradius.com. If you have any questions about the method of calculation or about your particular contract, please contact Atradius or your Atradius account manager.