**New premium tariff at SERV**

From September 1st 2011, the Swiss Export Risk Insurance ("SERV") has adopted a new premium tariff. The introduction of this new tariff is a consequence of the amendment of the OECD's "Arrangement on officially supported export credits", adopted by SERV and the other European Export Credit Agencies. The main change is a new definition of a minimum premium level for borrowers (and guarantors). Further, partially independent from the OECD arrangement, SERV has also adapted its premium tariff for short term transactions.

Premium for Borrower

For many years, the OECD has regulated the level of premiums by defining the minimum level of premiums for sovereign risks (usually central bank and ministry of finance, possibly other ministries) only. All countries have been allotted a category from 0 (lowest risk / OECD high income and Euro countries, premiums determined by market benchmarking) to 7 (highest risk).

ECAs may themselves define the level of premium for other borrowers (i.e. public institutions, public utilities, private companies); these levels shall however be higher than the premium for sovereign risk. SERV's previous premium tariff comprised five categories for local banks as borrowers and also five categories for other borrowers.

SERV's new premium tariff, following the OECD amendment, is composed of eight borrower categories: SOV+, SOV, and CC0 to CC5 as follows:

- In each country risk category, the category SOV corresponds to the sovereign risk for a sovereign borrower of that category
- The category SOV+ corresponds to a borrower in a country which would have a better rating than the sovereign risk itself
- The categories CC0 to CC5 apply depending on the rating of the borrower; if the borrower does not have any rating, SERV itself shall evaluate the borrower
- SERV's rating can differ from other external ratings.

The table below shows the equivalences between the CC0-CC5 categories and the ratings of Standard and Poors **("S&P"),** in grey:

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| Country Risk Categories | | | | | | |
|---|---|---|---|---|---|---|
| **0/1** | **2** | **3** | **4** | **5** | **6** | **7** |
| SOV+ | SOV+ | SOV+ | SOV+ | SOV+ | SOV+ | SOV+ |
| SOV / CC0 AAA | SOV / CC0 A+ | SOV / CC0 BBB+ | SOV / CC0 BB+ | SOV / CC0 BB- | SOV / CC0 B+ | SOV / CC0 B |
| CC1 AAA to AA- | CC1 A+ to A- | CC1 BBB+ to BBB- | CC1 BB+ to BB | CC1 BB- | CC1 B+ | CC1 B |
| CC2 A+ to A- | CC2 BBB+ to BBB- | CC2 BB+ to BB | CC2 BB- | CC2 B+ | CC2 B | CC2 B- or worse |
| CC3 BBB+ to BBB- | CC3 BB+ to BB | CC3 BB- | CC3 B+ | CC3 B | CC3 B- or worse | |
| CC4 BB+ to BB | CC4 BB- | CC4 B+ | CC4 B | CC4 B- or worse | | |
| CC5 BB- or worse | CC5 B+ or worse | CC5 B or worse | CC5 B- or worse | | | |

As an example, one can note that an S&P rating of BB- in the country category 1 corresponds to an ECA borrower category CC5. The same S&P rating in a country category 2 corresponds to an ECA borrower category CC4, and in a country category 3, to an ECA borrower category CC3.

Further, one can note that, due to the poor rating of a sovereign risk in the country category 7, the OECD defines then only three borrower categories, CC0, CC1 and CC2.

AIL Structured Finance has run some scenarios, comparing the old and new SERV premium tariffs, especially for long term financing. The range of premium with the new tariff is broader than with the previous tariff, as there are now usually seven levels (SOV+, SOV, CC0-CC5) instead of 5 (KK1 (corresponding to SOV) to KK5). The scenarios clearly showed that in particular the premiums for the highest risks within a country category, i.e. the levels CC4 and CC5, are more expensive with the new premium tariff.

Short Term Tariff

The OECD arrangement regulates only long term transactions (repayment term of two years or more). Short-term (up to two years repayment term)

transactions are not regulated by the OECD, and its members, like SERV, can have their own premium tariff in this field.

Until the revision of 2011 SERV had its own tariff. With the recent amendment, SERV decided to adapt to the (non-regulated) OECD tariffs for short and middle term transactions. The reasons for such a change have been:

- Convergence between short term and long term tariffs
- Premium reflecting the risks for the short term sector
- Compliance with the tariffs of other ECAs

Under the old short term tariff, the premiums were particularly low for durations up to one year and then increased more than proportionately. Typically, with the new short term tariff, the premium increases linearly with the duration (in both short / middle and long term cases).

Expense premium

From September 1st, SERV introduced a new expense premium ("Aufwandsprämie"). Instead of charging an expense premium for all applications with regard to "non (quasi-) sovereign risks", with a level depending on the amount of the transaction, SERV will charge expenses for reviewing the transaction only if the efforts exceed 8 hours. Exceeding hours will be charged at CHF 200.00 the hour. Standard transactions are expected to generate less than 8 hours of review work.

## Italy / Stadler – Successful Closing, AIL advises Stadler Rail on the export of narrow-gauge railcars for the Italian train operator Ferrovie Appulo Lucane (FAL)

In September 2011, AIL closed a payment security for a rolling stock transaction in Italy with the regional train operator Ferrovie Appulo Lucane (FAL). AIL acted as financial advisor to the Swiss railway manufacturer Stadler Rail.

FAL, which operates a railway network of 183 kilometers in the Southern Italian regions of Apulia and Basilicata, ordered eleven customized three and two-part narrow-gauge railcars from Stadler Bussnang AG for an amount of approximately EUR 56 million. The vehicles will be built in Bussnang, Switzerland, and delivered during 2013. The trains will be financed by means of the European Regional Development Fund (ERDF), which aims to strengthen economic and social cohesion in the European Union.

AIL advised Stadler Rail on risk management issues and structured a security package, covered by the Swiss Export Credit Agency, SERV. The security package comprises a cover for export risks during the manufacturing period, as well as a security covering the payment by FAL to Stadler Rail.

**MERTEC Engineering AG and AIL Structured Finance AG have concluded a Framework Agreement**

In July 2011 MERTEC Engineering AG and AIL Structured Finance AG concluded a framework agreement concerning advisory services to be provided by AIL Structured Finance in the fields of the analysis and mitigation of risks and the financing of projects.

MERTEC Engineering AG

MERTEC Engineering AG in Ossingen (ZH) is owned by the MERTEC technology group. The MERTEC technology group has been operating in its current structure since 2005 and has been in the market for more than 30 years. The Group delivers to customers in the building material and steel industries, in particular production and process lines and installations, products (plate, tubes tyres), maintenance and engineering.

MERTEC Engineering AG ("MERTEC") is specialized in the engineering and realisation of process and production lines, with a particular focus on providing clients with comprehensive Swiss engineering solutions.

MERTEC offers its customer a full range of services. After defining the technical solution, MERTEC carries out an important engineering phase comprising, for instance, the installation / plant design and the project planning. Based on the engineering, MERTEC and its sub-suppliers manufacture the various components; MERTEC gives particular attention to the interfaces between the different components and modules. Logistics is also a task partially carried out by MERTEC. On site, MERTEC acts as supervisor

responsible for the erection, or may organise the erection itself. After commissioning, executed by MERTEC, the installation / plant is handed over to the customer.

The Framework Agreement

Within the Framework Agreement, AIL Structured Finance will advise MERTEC particularly in the following fields:

- Analysis of manufacturing, commercial and political risks in MERTEC's projects, with suggestions of mitigation of these risks
- Arranging the cover of payment risks with banks and insurances (including SERV as Export Credit Agency)
- Structuring and arranging financing solutions for MERTEC's projects to MERTEC's customers
- Advising on bonding and administration of bonding
- Organising administration of SERV polices

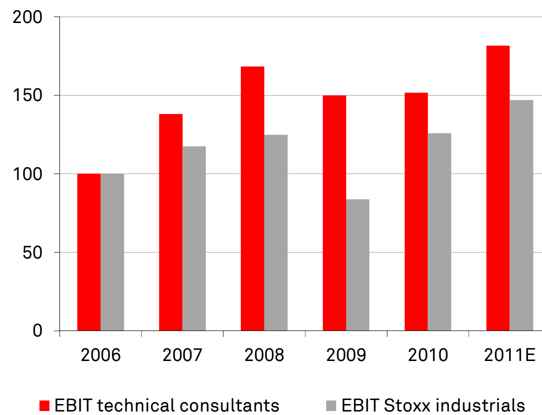
AIL Structured Finance has already secured a commitment in principal at SERV for the financing of a project in Eastern Europe as well as a SERV policy to secure a contract in the Middle East.

**Carnot Capital Ltd: Frosty reminiscence of 2008 - Stock markets anticipate sharp economic downturn**

Carnot Capital AG is an asset management company, established in July 2007, which manages an investment fund open to qualified investors. The fund pursues a value approach and concentrates on companies within the energy sector. Specifically the fund invests in listed companies that create value by enabling a more efficient use of energy. Carnot Capital AG is an associated company of AIL Structured Finance Ltd. For further Information: www.carnotcapital.com

Share prices of industrial companies are sliding across the board. The European sector index Stoxx 600 Industrial Goods & Services has lost almost 30% from its peak in May this year. Facing an unsolved debt crisis and deteriorating early business indicators (Ifo index etc.), investors feel like they are back in early 2008 when the financial crisis escalated and the economy headed into recession. In fact, the current stock market weakness primarily reflects the fears of an economic "double-dip". Profit warnings and other disappointments have been rare so far. Only a few early-cyclical companies have indicated a significant order weakness, in particular component producers for the photovoltaic industry. The impacts of the extraordinarily strong Swiss franc seem to be not too dramatic as far as the stock exchange listed companies are concerned. Typically, they have narrowed their value chain and dislocated most parts of the labor-intensive production outside Switzerland. Smaller, non-listed export companies have been hit much harder. According to our assessment of the situation the slow-down in industrial activity is going to be less accentuated than in the 2008/09 recession because a) industrial output in Europe is still about 10% below the 2007 levels, b)

inventory build-up has been moderate in the current cycle and c) emerging markets with high growth rates have more weight as export markets than four years ago. Nevertheless, we have put more emphasis on stocks and themes that proved to be resilient to the economic slump of 2008/09, for example companies such as the Swedish technical consultants AF AB, which acquired the Swiss Colenco, a former Atel daughter company, in 2007. The technical consultants were able to manage the down-turn with a relatively modest earnings decrease compared to the industrial sector as a whole (see graph).

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