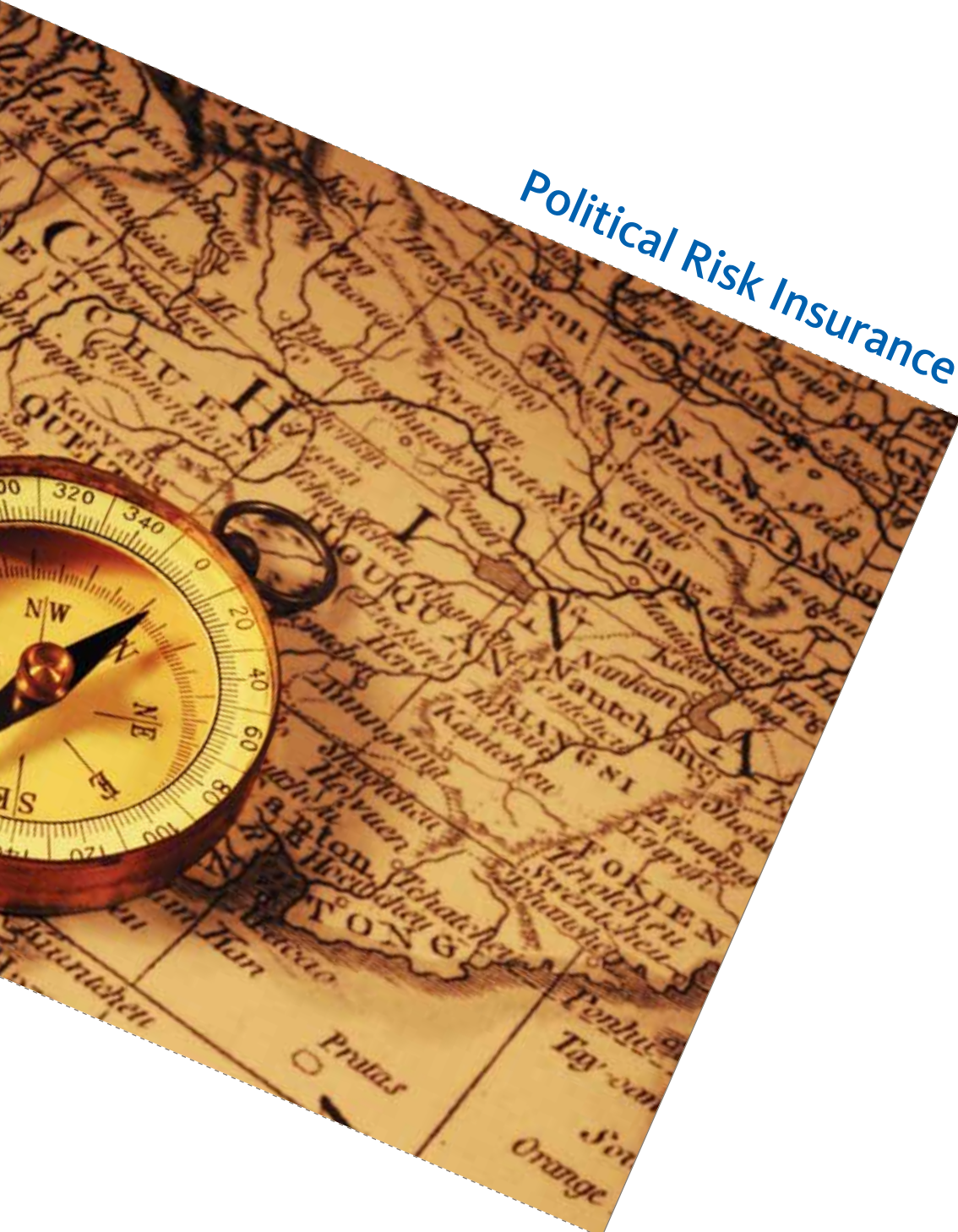


Political Risk Insurance





Political Risk Insurance helps investors, financial institutions and corporate clients protect their investments in overseas markets against unpredictable losses due to specified political risk perils. A foreign government's action, or inaction, can result in a client's loss of property, income or financial assets. The Political Risk division of Chartis has the ability to provide global political risk coverage to help clients mitigate these losses.

Overview

- Coverage can be tailored to cover an extensive range of overseas business including:
 - > Equity investments
 - > Physical assets
 - > Cross-border loans
 - > Contracts for goods and services
- Coverage is designed to protect clients against losses that can result from various political perils including:
 - > Confiscation, expropriation or nationalization
 - > Currency inconvertibility and non-transfer
 - > Political violence (includes terrorism and war)
 - > Contract frustration due to political events
 - > Sovereign payment default
 - > Wrongful calling of on-demand contract guarantees and bonds

- Non-cancelable policy terms are available for 15 years, or 10 years for wrongful calling of bonds
- Policy limits of up to \$120,000,000 are available for any one risk
 - > Limits may be expressed in Euro, Pound or Yen
 - > Higher limits are available through coinsurance or reinsurance arrangements

Target Markets

- Investors
 - > Multinational companies with considerable investments in overseas subsidiaries or joint ventures run the risk of facing unpredictable changes in government or government policy, placing its physical assets and investments at risk
 - > Repatriation of profits, intra-company fees or dividends often requires the approval of the local country's central bank which may be difficult to receive if the local economic priorities change

- Capital Markets and Financial Institutions

- › Those seeking higher margins associated with emerging market transactions face significant levels of country risk linked to trade finance, project and asset backed loans, working capital loans and bank inter-branch lending

- Importers and Exporters

- › Companies doing business with clients and foreign governments overseas encounter a number of potential risks including the inability to convert and transfer currency during trading
- › The performance of private counterparties is vulnerable to unforeseen political perils in the local country such as confiscation, political violence or license cancellation
- › If the local government is the counterparty in the transaction, a company's political risk increases for non-payment and contract repudiation

- Contractors

- › Contractors working overseas have large financial exposures due to the specialized mobile assets and equipment required on site locations
- › Local governments can seize a contractor's assets, assets can be damaged by political violence or equipment can be left behind if a contractor is forced to evacuate a country in peril
- › In each of these cases, a contractor's income and physical assets are at risk

Advantages

- We have more than 25 years of experience underwriting Political Risk Insurance
- We have dedicated underwriters located in New York, Chicago, San Francisco, Toronto, London, Sydney, Tokyo and Singapore to provide clients with global underwriting and service capabilities
- Our local underwriting and policy servicing capabilities are supported by our owned network of operations serving customers in over 160 countries and jurisdictions
- Chartis is a member of the Berne Union, the International Union of Credit and Investment Insurers
 - › Based in London, the Berne Union is a global association of export credit agencies and investment insurers
 - › The mission of the Berne Union is to work toward world acceptance of sound principles of export credit and investment insurance

Financial Institutions and Capital Markets

Chartis provides financial institutions and investors the flexibility to structure coverage to meet their unique exposures. Financial institutions can secure coverage for their own loans, or on behalf of other banks, in order to facilitate loan syndication or risk distribution of investors while designating a financial institution or trustee as the insured, co-insured or loss payee as dictated by the transaction structure.

Covered Risks

- Transactions with Private Sector Obligors and State-Owned Enterprises
 - › Confiscation, expropriation and nationalization: government acts that cause the interruption of scheduled loan payments or deprive lenders of fundamental creditor rights following a missed payment
 - › Currency inconvertibility or non-transfer: government controls that prevent the purchase or transfer of hard currency for loan repayment
 - › Political violence: politically motivated acts of violence, including terrorism, war and civil war that result in the interruption of scheduled payments
- Transactions with Public Sector Obligors and State-Owned Enterprises
 - › Non-honoring of a promissory note or a sovereign guarantee: failure of a sovereign entity to honor payment obligations under a promissory note, bond, sovereign loan or sovereign guarantee
 - › Non-honoring of a letter of credit: failure of a sovereign entity to honor payment obligations under a letter of credit

Substantial Capacity

- Private Sector Obligors
 - › Lenders can be indemnified for up to \$120 million per transaction with terms of up to 15 years
 - › Coverage is available for up to 100% of each transaction

Public Sector Obligors

- › Lenders can be indemnified for up to \$120 million per transaction
- › Lenders can be insured for up to 15 years
- › Coverage is available for up to 95% of each transaction

Insured Transactions

- Asset-based loans or securitizations
- Bond issues
- Hedge facilities
- Leases
- Letters of credit
- Limited recourse project finance loans
- Merger, acquisition or expansion loans
- Mortgages
- Parent/subsidiary or branch funding loans
- Refinancing
- Structured finance transactions
- Trade finance or working capital loans
- Vendor/buyer finance

Case Scenario

- A global financial institution won the mandate to arrange a syndicated working capital facility for a food processor overseas. Faced with country limit constraints and costly provisioning requirements, the arranger is in need of financial support for itself and its syndicates. Chartis is able to issue insurance coverage that provides sufficient risk capacity that is acceptable to the lenders at a cost affordable to the borrower, making disbursement of the loan possible.

Equity Investors

Chartis provides coverage for equity investors against the potential loss of overseas assets and investments as a result of specific political perils. With the support of Political Risk Insurance, investors have the ability to realize the full potential of foreign investments while mitigating exposure to often catastrophic and unforeseen political events.

Covered Risks

- Confiscation, expropriation and nationalization: government acts against an enterprise that result in the loss of investments or assets
- Currency inconvertibility or non-transfer: government controls that prevent the purchase or transfer of hard currency for dividend payments, loan repayment or other remittances
- Political violence: politically motivated acts of violence, including terrorism, war and civil war that result in physical damage to property

Program Enhancements

- Forced abandonment or forced divestiture: complete abandonment of a foreign investment as a direct consequence of political violence or permanent divestiture of all, or part of, the insured investment at the direction of the insured's government
- Export or operating license cancellations: cancellation of a valid export or operating license by the host government
- Business Interruption: loss of projected net profit resulting from an act of expropriation or political violence

Substantial Capacity

- Policyholders can be indemnified for up to \$120 million per country, with policy terms of up to 15 years
- Coverage is available for up to 100% of the value of the investment

Insured Transactions

- Equity in overseas subsidiaries or joint ventures
- Loan repayments
- Intra-company fees
- Profit distributions
- Property, inventory or equipment located abroad
- Equipment leased abroad

Case Scenario

- An U.S.-based electronic components manufacturer generates 85% of its income by performing operations overseas. Concerned about losing some investments due to political perils, the manufacturer purchases a Political Risk Insurance policy, protecting itself from potential asset and income losses in the 30 countries in which the manufacturer does business. The 5-year, non-cancellable policy provides the company with long-term security at a pre-determined cost. If exposure fluctuates during the policy period, the company has the ability to allow periodic adjustments to the policy limits.

Projects

When a multinational company is engaged in a long-term project, whether it involves infrastructure, mining, oil and gas or telecommunications, it faces exposure from a variety of political perils, especially when located in high-risk countries. Chartis has the underwriting expertise and insurance capacity to meet the growing demand for Political Risk Insurance needed to support and protect the completion of large project-related transactions.

Covered Risks

- Confiscation, expropriation and nationalization: government seizure of investments, assets or government acts that interrupt loan payments or deprive lenders of fundamental creditor rights following a default
- Currency inconvertibility or non-transfer: government controls that prevent the purchase or transfer of hard-currency for debt repayment, dividends or other remittances
- Political violence: politically motivated acts of violence, including terrorism, war and civil war that result in physical damage to property or interruption of loan payments

Specific Project Risks

- Non-honoring of an arbitration award: default of an arbitration award by a public sector counterparty in its capacity as a contractual partner of the insured or, in the case of a private sector counterparty, action by the host country government that causes that counterparty to default on an arbitration award
- Non-honoring of a guarantee: failure of a sovereign entity to honor its hard-currency or local-currency payment obligations under a guarantee agreement issued in support of a project
- Inability to export because of operating license cancellation: cancellation of a currently valid export or operating license at the direction of the host government

Case Scenarios

- Bank arrangers need to raise approximately US\$1 billion for the privatization of one of Latin America's largest electric utilities. Both public and private insurers become involved in the transaction due to the significant financing needed for this investment. Chartis is able to provide insurance coverage to the U.S.-based lenders on terms which substantially matched those of the competitors, allowing the arrangers to reach a broad universe of lenders and facilitate the document process.
- An U.S.-based mining company with highly productive acreage wants to develop a new mine on one of its overseas locations. Since the investment required in the development of the mine is steep relative to the company's modest capital base, Chartis is able to issue two Political Risk Insurance policies to the client: one to cover the investor's equity interest and a second to cover the bank financing for the project. After the purchase of both policies, the mining company will be able to achieve complete financing of the project.

Contractors

Many construction and engineering companies have large overseas financial exposures that can be affected by various political risks. Chartis has the ability to offer Political Risk Insurance to protect contractors against several political perils that could adversely affect profitability of the contractor's business such as the wrongful calling of guarantees or the loss of a plant or equipment.

Wrongful Calling of Guarantees Insurance

- Protects contractors against unexpected losses which may result from the calling of a bond or guarantee due to no fault of the insured, including:
 - > Arbitrary and unfair calling of a guarantee by a government sector obligor
 - > Legitimate calling of a guarantee due to actions by either the foreign government or the contractor's government
 - > Calling of a guarantee due to the outbreak of war, revolution or insurrection
 - > Non-honoring of an arbitration award, seizure of investments, assets or government acts that interrupt loan payments or deprive lenders of fundamental creditor rights following a default

Losses of Plant and Equipment

- Comprehensive Contractors Plant and Equipment Insurance (CCPE) can be arranged to address losses of a contractor's physical assets due to:
 - > Expropriatory acts such as confiscation, expropriation, nationalization or requisition by the host country government that deprive the insured of the use or possession of its property
 - > Deprivation, or the inability to obtain an export license from the appropriate authority, in a host country for the export of property or equipment outside of the host country
 - > Forced abandonment involving the complete abandonment of property by order of the contractor's government to evacuate personnel from the host country

Substantial Capacity Worldwide

- Wrongful Calling of Guarantee Insurance
 - > Contractors can be indemnified for up to \$120 million in any one country, with policy terms of up to 10 years
 - > Coverage is available for up to 95% of the value of each bond or guarantee
- Comprehensive Contractors Plant and Equipment Insurance
 - > Contractors can be indemnified for up to \$120 million per country, with policy terms of up to 15 years
 - > Coverage is available for 100% of the value of the asset
 - > Waiting periods range from 180 to 360 days

Case Scenario

- An U.S.-based middle-market sized contractor with millions of dollars of equipment overseas is concerned that if political violence were to occur, the equipment could be damaged, the contractor might have to abandon the equipment during an evacuation or the host country's government would not allow the equipment to be exported once the contractor's job is completed. Chartis is able to provide insurance coverage for the equipment, giving the contractor the flexibility to adjust coverage in each individual country as the equipment is transferred from one location to another.

Importers and Exporters

International trade transactions can be disrupted by political events such as trade embargos, license cancellation or government acts that frustrate the completion of a contract. Chartis is able to structure a Political Risk Insurance policy that offers importers and exporters protection against these political risks.

Insured Risks

- Confiscation, expropriation and nationalization: government expropriatory acts or selective discrimination against the contract counterparty
- Currency inconvertibility or non-transfer: government control that prevents the purchase or transfer of hard-currency for payment under a contract
- Non-honoring of an arbitration award: governmental actions that result in default of the counterparty's obligation to pay the insured an arbitration award
- Political violence: terrorism, war, civil war, rebellion, revolution, insurrections, civil commotion or other like disturbance which prevents the counterparty from fulfilling contract terms
- Government act, law, decree or regulation: an act, law, decree, regulation or embargo by the host government that prevents fulfillment of the terms of the contract
- Inability to import or export: illegal cancellation of an import or export license by the host government
- Diversion of voyage: additional transport or insurance charges caused by interruption or diversion of a shipment outside of the country of exportation due to war or embargo
- Non-payment by a sovereign buyer: failure of a government obligor or a state-owned enterprise to honor its payment obligations under a purchase contract whether such payment obligations are denominated in hard currency or local currency
- Non-delivery by sovereign supplier: failure of a government obligor to deliver under a sales contract

- Non-honoring of a sovereign guarantee: failure of a government guarantor, such as the ministry of finance, central bank, government-owned bank or a state-owned enterprise, to honor its payment obligations under a guarantee issued in support of a trade contract whether such payment obligations are denominated in hard currency or local currency

Substantial Capacity Worldwide

- Wrongful Calling of Guarantee Insurance
 - › Policyholders can be indemnified for up to \$120 million in any one country, with policy terms of up to 10 years
 - › Coverage is available for up to 95% of the value of each bond or guarantee

Case Scenario

- An U.S.-based telecom supplier competing for a large contract for a European-based communication device distributor is unable to offer competitive financing for the contract due to the distributor's high level of country risk exposure. Chartis is able to provide the supplier with insurance coverage that enables the supplier to secure the appropriate financing needed for the transaction and complete the sale.

Commercial Multinational Companies

In order to meet the needs of commercial-sized multinational companies, Chartis can provide Political Risk Insurance that can be purchased as part of the WorldRisk Foreign Commercial Package, a flexible and comprehensive insurance package designed for U.S. and Canadian-based multinational companies operating overseas. A Political Risk Insurance policy issued as part of the WorldRisk Foreign Commercial Package can indemnify the policyholder up to the policy limits for any one country against a broad range of political risk exposures.

WorldRisk Foreign Commercial Package

- Clients have the flexibility to choose up to eight different coverages in addition to Political Risk Insurance including:
 - > Foreign Commercial General Liability
 - > Foreign Comp Elite®
 - > Foreign Travel Accident & Sickness
 - > Foreign Business Automobile Liability
 - > Foreign Commercial Property
 - > Marine Ocean Cargo
 - > Foreign Commercial Crime
 - > Kidnap & Ransom/Extortion
- Embargo and license cancellation: losses caused by governmental actions that prevent fulfillment of a contract due to embargo, license cancellation or the imposition of a government act, law or regulation
 - > Importers and exporters are protected against these risks when dealing with privately-owned counterparties overseas

Policy Attributes

Covered Risks

- Confiscation, expropriation and nationalization: losses caused by the total or partial confiscation, expropriation or nationalization of assets or investments in a foreign country
 - > Provides protection for permanent investments such as foreign equity investments, or the replacement cost or book value of a property, inventory or equipment located abroad
- Coverage is available for up to 90% of each transaction
- Limits are available up to \$500,000 per transaction
- Waiting periods apply only to embargo and license cancellation losses
- Clients have the ability to submit a claim by submitting a written proof of loss statement to Chartis within 12 months
- Multi-country program policies can include single or multiple countries to protect the client's total foreign exposure

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Chartis is a world leading property-casualty and general insurance organization serving more than 45 million clients in over 160 countries and jurisdictions. With a 90-year history, one of the industry's most extensive ranges of products and services, deep claims expertise and excellent financial strength, Chartis enables its commercial and personal insurance clients alike to manage virtually any risk with confidence.

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