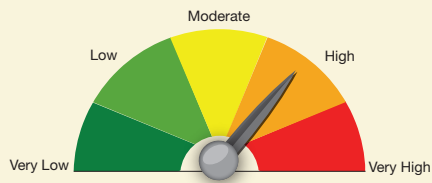


Bosnia and Herzegovina

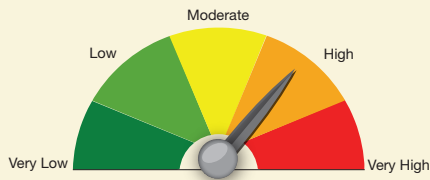
Country Risk Tier

CRT-5

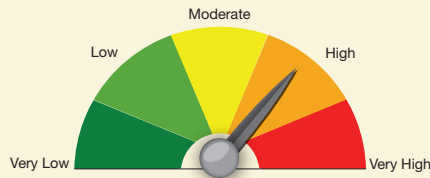
Economic Risk



Political Risk



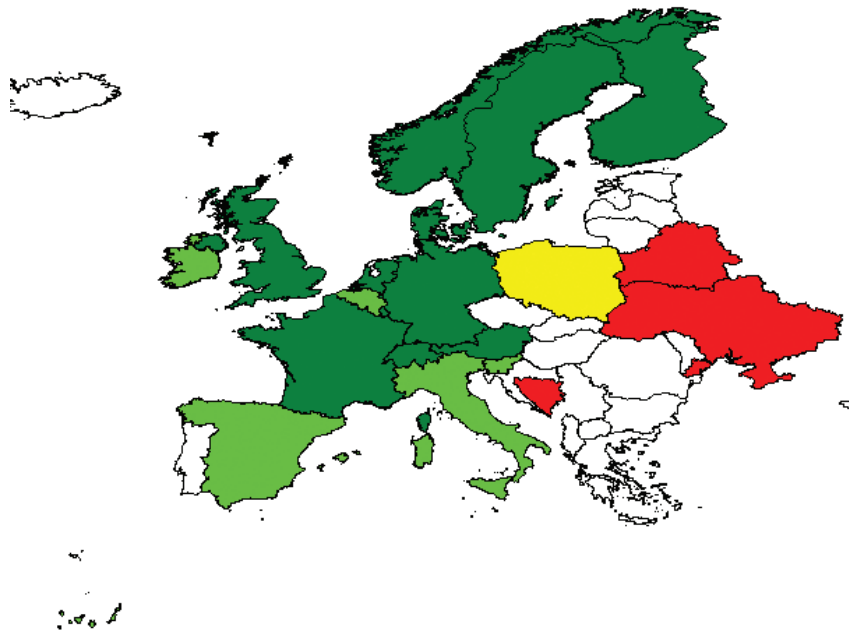
Financial System Risk



- The Country Risk Tier (CRT) reflects A.M. Best’s assessment of three categories of risk: Economic, Political and Financial System Risk.

- Bosnia and Herzegovina, a CRT-5 country, was on a path of prosperity and stability which included structural reforms and economic growth that was heavily reliant upon capital inflows and prospects of membership in the European Union. However, global economic recession and financial volatility has weighed on Bosnia’s prospects.

- The majority of countries pictured below are categorized as CRT-1 or CRT-2. The exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, Ukraine and Poland.



[For information on companies followed](#)

[Market Outlooks](#)

CRT 1 2 3 4 5



Regional Summary: Eastern Europe

- Eastern European countries are all at various stages of transition since the collapse of the Union of Soviet and Socialist Republics (U.S.S.R.). For most, the transition process involved the adoption of entirely new regulatory, legal and economic philosophies while combating cultural and / or historical tensions.

- All classified as “emerging market” countries, some have managed to achieve a great deal of economic stability and political power, particularly those that have secured membership in the European Union (EU) and some, even the euro-zone.

- Eastern Europe shows a great deal of potential and in recent years has been a favorite region for foreign investors from developed nations.

Economic Risk: High

- Growth rates have been strong but Bosnia’s economy lags behind most other countries of the former Yugoslavia with one of the most impoverished populations and an unemployment rate of approximately 25% of the labor force.

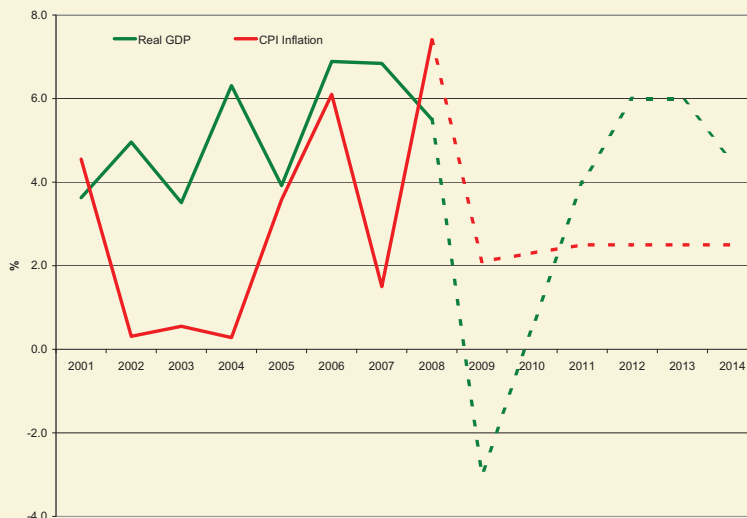
- Though growth will continue to be possible over the next few years, rates of growth in gross domestic product (GDP) will fall dramatically for 2009 and possibly 2010.

- As a candidate for European Union (EU) membership, Bosnia has positive long term prospects. However, the accession process has stalled and will not likely advance in 2009.

Vital Statistics 2008		
Nominal GDP	USD bn	18.47
Population	mil	4.0
GDP Per Capita	USD	4,625
Real GDP Growth	%	5.5
Inflation Rate	%	7.4
Premiums Written (Life)	USD mil	-
Premiums Written (Non-Life)	USD mil	-
Premiums Growth (07-08)	%	-

Regional Comparison	
	Country Risk Tier
Bosnia and Herzegovina	CRT-5
Germany	CRT-1
Slovenia	CRT-2
Italy	CRT-2
Poland	CRT-3
Ukraine	CRT-5

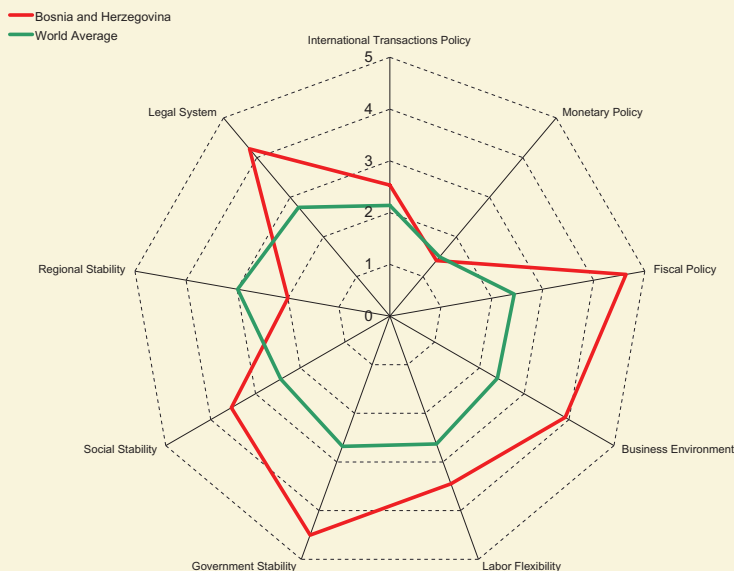
Source: IMF, Swiss Re and A.M. Best



Source: IMF World Economic Outlook (10/08) and A.M. Best

Political Risk Summary

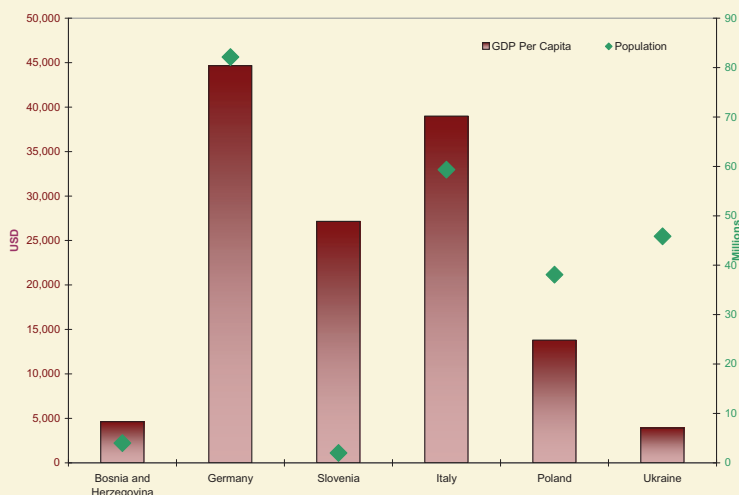
Score 1 (best) to 5 (worst)



Source: A.M. Best

Political Risk: High

- Bosnia and Herzegovina houses two largely autonomous entities, Republika Srpski and the Croat-Bosniak Federation of Bosnia and Herzegovina. This decentralized structure results in social tensions as well as redundancies of many domestic policy functions.
- Bosnian Serbs on occasion seek secession from Bosnia and Herzegovina, most recently after the 2008 declaration of independence by Kosovo.
- The Bosnian government continues to battle structural weaknesses in the economy such as a rigid labor market and antiquated health insurance and taxation systems. EU accession may not occur for another 10 years as membership is heavily reliant upon structural reforms.



Source: IMF and A.M. Best

Financial System Risk: High

- The insurance industry is regulated by the Insurance Supervisory Agency but does have the challenge of coexisting with sub-national insurance supervisory entities.
- The financial sector is dominated by foreign-bank owned subsidiaries.
- The Stabilization and Association Agreement (SAA) with the EU, the precursor to EU membership, promises that Bosnia will work towards aligning its laws, regulation and infrastructure with those of the EU. However, in 2009, progress has stalled.

GUIDE TO BEST'S COUNTRY RISK TIERS

A.M. Best defines country risk as the risk that country-specific factors could adversely affect the claims paying ability of an insurer. Country risk is evaluated and factored into all Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1), denoting a stable environment with the least amount of risk, to "CRT-5" (Country Risk Tier 5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength and performance.

A.M. Best's Country Risk Tiers are not credit ratings and are not directly comparable to a sovereign debt rating, which evaluates the ability and willingness of a government to service its debt obligations.

Country Risk Tiers

Country Risk Tier	Definition
CRT-1	Predictable and transparent legal environment, legal system and business infrastructure; sophisticated financial system regulation with deep capital markets; mature insurance industry framework.
CRT-2	Predictable and transparent legal environment, legal system and business infrastructure; sufficient financial system regulation; mature insurance industry framework.
CRT-3	Developing legal environment, legal system and business environment with developing capital markets; developing insurance regulatory structure.
CRT-4	Relatively unpredictable and nontransparent political, legal and business environment with underdeveloped capital markets; partially to fully inadequate regulatory structure.
CRT-5	Unpredictable and opaque political, legal and business environment with limited or nonexistent capital markets; low human development and social instability; nascent insurance industry.

Country Risk Reports

A.M. Best Country Risk Reports are designed to provide a brief, high level, explanation of some of the key factors that determine a country's Country Risk Tier assignment. It is not intended to summarize A.M. Best's opinion on any particular insurance market, or the prospects for that market.

Categories of Risk

Country Risk Reports provide "scores" for three categories of risk for each country. These "scores" are: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	The likelihood that fundamental weaknesses in a country's economy will cause adverse developments for an insurer. A.M. Best's assessment of economic risk evaluates the state of the domestic economy, government finances and international transactions, as well as prospects for growth and stability.
Political Risk	The likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of the government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy and the appropriateness and effectiveness of the government's economic policies.
Financial System Risk	Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupts due to inadequate reporting standards, weak banking system or asset markets and/or poor regulatory structure. Along with the risk that the insurance industry's level of development and public awareness, transparent and effective regulation and reporting standards and sophisticated regulatory body will contribute to a volatile financial system and compromise the ability of an insurer to pay claims.

Political Risk Summary

To provide additional detail on the political risk in a given domicile the Country Risk Reports include the Political Risk Summary. The Political Risk Summary is a radar chart that displays scores for nine different aspects of political risk scored on a scale of 1-5 with 1 being the least amount of risk and 5 being the highest amount of risk.

Category	Definition
International Transactions Policy	Measures the effectiveness of the exchange rate regime and currency management.
Monetary Policy	Measures the ability of a country to effectively implement monetary policy.
Fiscal Policy	Measures the ability of a country to effectively implement fiscal policy.
Business Environment	Measures the overall quality of the business environment, and ease of doing business.
Labor Flexibility	Measures the flexibility of the labor market, including the company's ability to hire and fire employees.
Government Stability	Measures the degree of stability in a government.
Social Stability	Measures the degree of social stability including human development and political rights.
Regional Stability	Measures the degree of stability in the region
Legal System	Measures the transparency and level of corruption in the legal system.

Country Risk Tier Disclosure

A Country Risk Tier (CRT) is not a credit rating, rather it represents a component of A.M. Best's credit rating methodology that is applied to all insurers. A CRT is not a recommendation to purchase, hold or terminate any security, insurance policy, contract or any other financial obligation issued by a government, an insurer or other rated issuer, nor do they address the suitability of any particular policy, contract or other financial obligation for a specific purpose or purchaser.

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