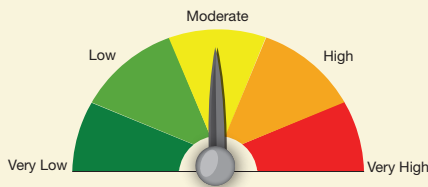


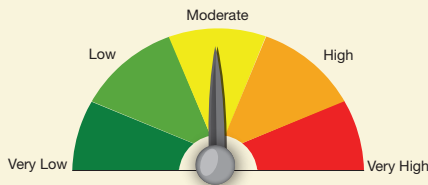
Country Risk Tier

CRT-3

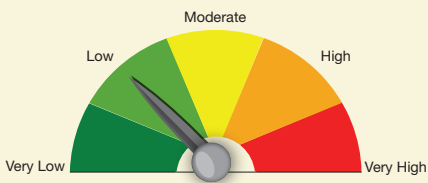
Economic Risk



Political Risk



Financial System Risk



[For information on companies followed](#)

[Market Outlooks](#)

Cyprus

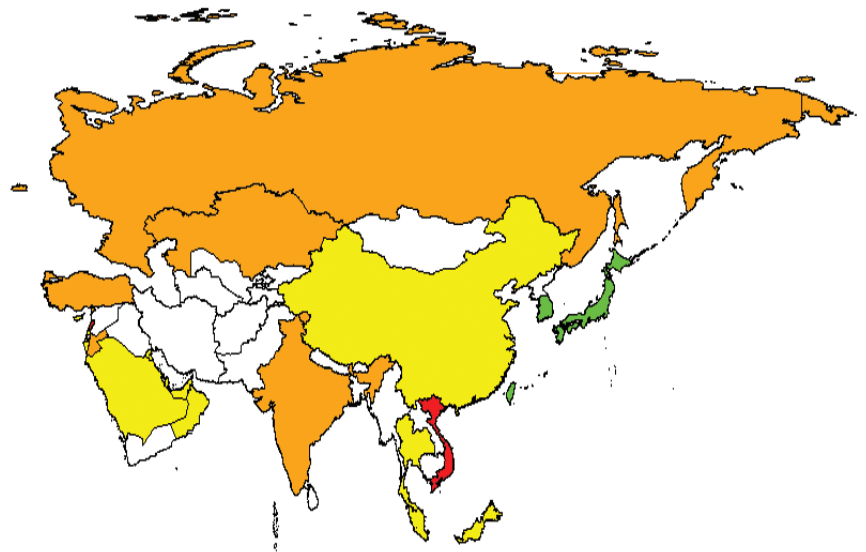
- The Country Risk Tier (CRT) reflects A.M. Best’s assessment of three categories of risk: Economic, Political and Financial System Risk.

- Cyprus is a CRT-3 country which places it among the less risky countries in the Middle East & North Africa regions, but makes it one of the more risky countries in the euro-zone.

- While entrance into the European Union and adoption of the euro have increased economic stability in Cyprus, political tension between the Greek and Turkish Cypriots remains an issue.

- Cyprus is experiencing a severe decline in growth in 2009 as compared to 2007-2008. Forecasts are for economic growth to be around zero for 2009 and then improve in the second half of 2010.

- Much of this decline has been driven by a reduction in tourism demand given poor economic conditions throughout Europe.



CRT 1 2 3 4 5



Regional Summary: Middle East & North Africa

- The Middle East & North Africa region includes several wealthy oil producing nations and is characterized by regional instability and periods of regional violence.
- After more than five years of rapid expansion, driven primarily by a boom in oil prices, the outlook for the Middle East & North Africa region has become more pessimistic.
- With the World Bank forecasting oil prices to remain below their peak levels for the foreseeable future, the region will continue to face economic challenges.
- In addition to falling oil prices, the global economic slowdown has impacted the region through reduced tourism and tightening credit conditions.

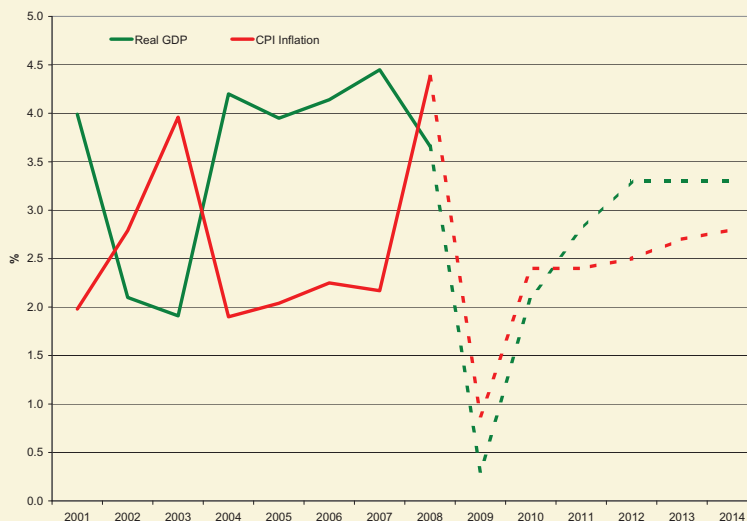
Economic Risk: Moderate

- Cyprus became a member of the European Union in 2004 and adopted the Euro as its currency on January 1, 2008.
- The Cypriot economy is dominated by its services sector (accounting for 70% of GDP), specifically tourism, financial intermediation and business services.
- There is significant disparity in income levels between the northern part of the island and the southern part.

Vital Statistics 2008		
Nominal GDP	USD bn	24.94
Population	mil	0.8
GDP Per Capita	USD	32,772
Real GDP Growth	%	3.7
Inflation Rate	%	4.4
Premiums Written (Life)	USD mil	492
Premiums Written (Non-Life)	USD mil	528
Premiums Growth (07-08)	%	16.2

Regional Comparison	
	Country Risk Tier
Cyprus	CRT-3
Turkey	CRT-4
Slovenia	CRT-2
Italy	CRT-2
Israel	CRT-3
Tunisia	CRT-4

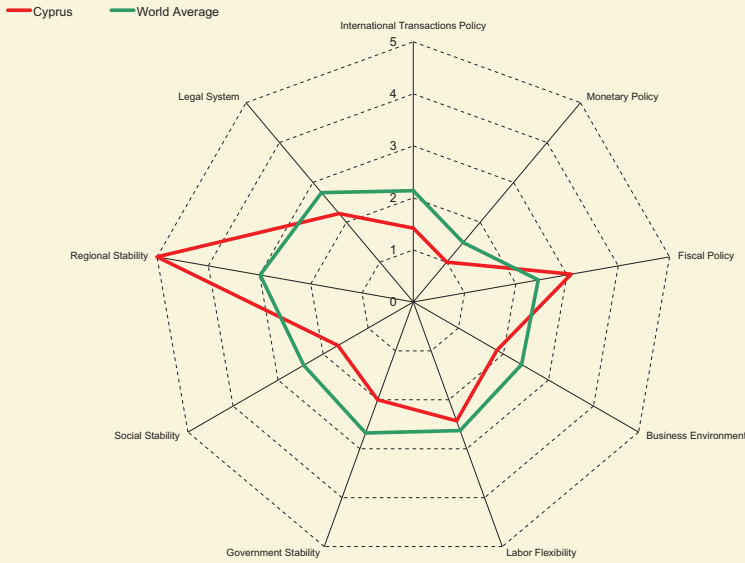
Source: IMF, Swiss Re and A.M. Best



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

Political Risk Summary

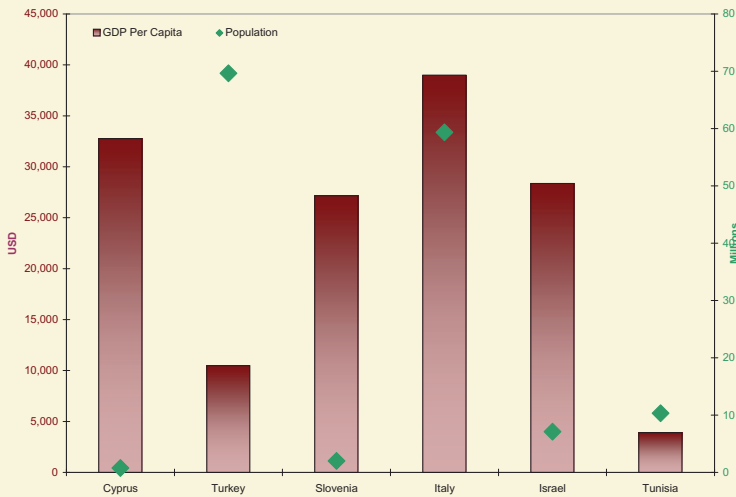
Score 1 (best) to 5 (worst)



Source: A.M. Best

Political Risk: Moderate

- The island of Cyprus is divided between two communities: the Greek Cypriots and Turkish Cypriots, the later comprising approximately one fifth of the population.
- The government of the Republic of Cyprus does not have any control of the northern part of the island, which is occupied and governed by the Turkish Republic of Northern Cyprus.



Source: IMF and A.M. Best

Financial System Risk: Low

- The insurance industry is regulated by the Insurance Companies' Control Service which is a department of the Ministry of Finance.
- Accession to the European Union and adoption of the euro has helped to significantly improve the stability of the Cypriot economy and financial system.

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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