POLITICAL RISK TRENDS AND HOTSPOTS FOR 2014

DECEMBER 2013

FOREWORD

Produced jointly by Marsh's Global Credit & Political Risk Practice and risk advisory and mapping company Maplecroft, the Marsh-Maplecroft Political Risk Map 2014 highlights dynamic political risks across 197 countries, including conflict, terrorism, macroeconomic stability, rule of law, and regulatory and business environments.

The Marsh-Maplecroft Political Risk Map 2014 draws from Maplecroft's Political Risk Atlas 2014, which includes 52 dynamic short-term and structural long-term political risk indices and interactive maps, in addition to scorecards for 197 countries. Marsh clients are welcome to explore specific risks around their assets on www.maplecroft.com.

Foreign investors remain challenged by rising political violence, resource nationalism and expropriation threats, and remittances risks globally, according to the Marsh-Maplecroft Political Risk Map 2014. The map draws upon data from one of a series of atlases that Maplecroft produces every year covering 200 risk indices across political, legal and regulatory, societal, economic, environmental, natural hazard, and global risks.

Following are the key findings from Maplecroft's Political Risk Atlas 2014:

Risk and Opportunity in Growth Markets

Since 2010, 17 of the 197 countries included in the Marsh-Maplecroft Political Risk Map have experienced a significant increase in their level of dynamic political risk. Nine of these countries are located in the Middle East and North Africa, where instability and uncertainty from the Arab Spring have persisted. For the second consecutive year, the number of countries categorized as "extreme" and "high" risk has increased, from 32% in 2012 to 36% in 2014, according to Maplecroft.

High levels of political violence in several leading growth economies have increased the risk of disruptions to the operations and supply chains of multinational companies operating in those regions. Two-thirds of all growth markets are also categorized as "extreme" or "high" risks for corruption.

Despite these risks, investors can find some opportunities in growth markets, says Maplecroft. Overall dynamic political risk has also significantly improved since 2010 in six growth markets: the Philippines, India, Uganda, Ghana, Israel, and Malaysia. This steady improvement in part reflects a fall in the risk of political violence in the Philippines, India, and Uganda, and significant improvements in governance levels in Malaysia and Israel. A positive business and macroeconomic environment has also helped to lower the overall level of risk in these key economies.

Ongoing Instability in MENA and East Africa

Since 2010, the year prior to the Arab Spring, the risk of political violence has increased in 63% of the countries in Middle East and North Africa (MENA), according to Maplecroft's Political Risk Atlas 2014. For the first time, Egypt is categorized as "extreme" risk in the political violence index, a deterioration driven by post-coup violence and increased terrorist activity in the Sinai Peninsula. East Africa, meanwhile, is home to the most countries with an increase in political violence risk in 2014, with Eritrea, Mozambique, and Tanzania all experiencing significant increases in political violence. This continuing trend of increased political violence presents significant operational challenges at a time when investors are increasingly looking to the region following the discovery of substantial oil and gas reserves in countries such as Kenya, Mozambique, and Tanzania.

Oppressive Regimes Create Structural Political Risk

Over the past four years, more than one-fifth of all countries were host to a significant increase in their level of structural political risk, according to Maplecroft's research. Structural risks measure long-term trends and deeply engrained features of a country, such as human rights, resource security, development, and climate change vulnerability.

Political Risk 2014

Risk and opportunity hotspots in key growth markets

The Political Risk (Dynamic) Index assesses risks that have the potential to undergo change and, in particular, deteriorate rapidly. It is comprised of 30 political risk indices under the four themes of governance framework, political violence, business and macroeconomic risk, and societal forced regime change risk. To further explore root causes and risk analytics, visit www.maplecroft.com.

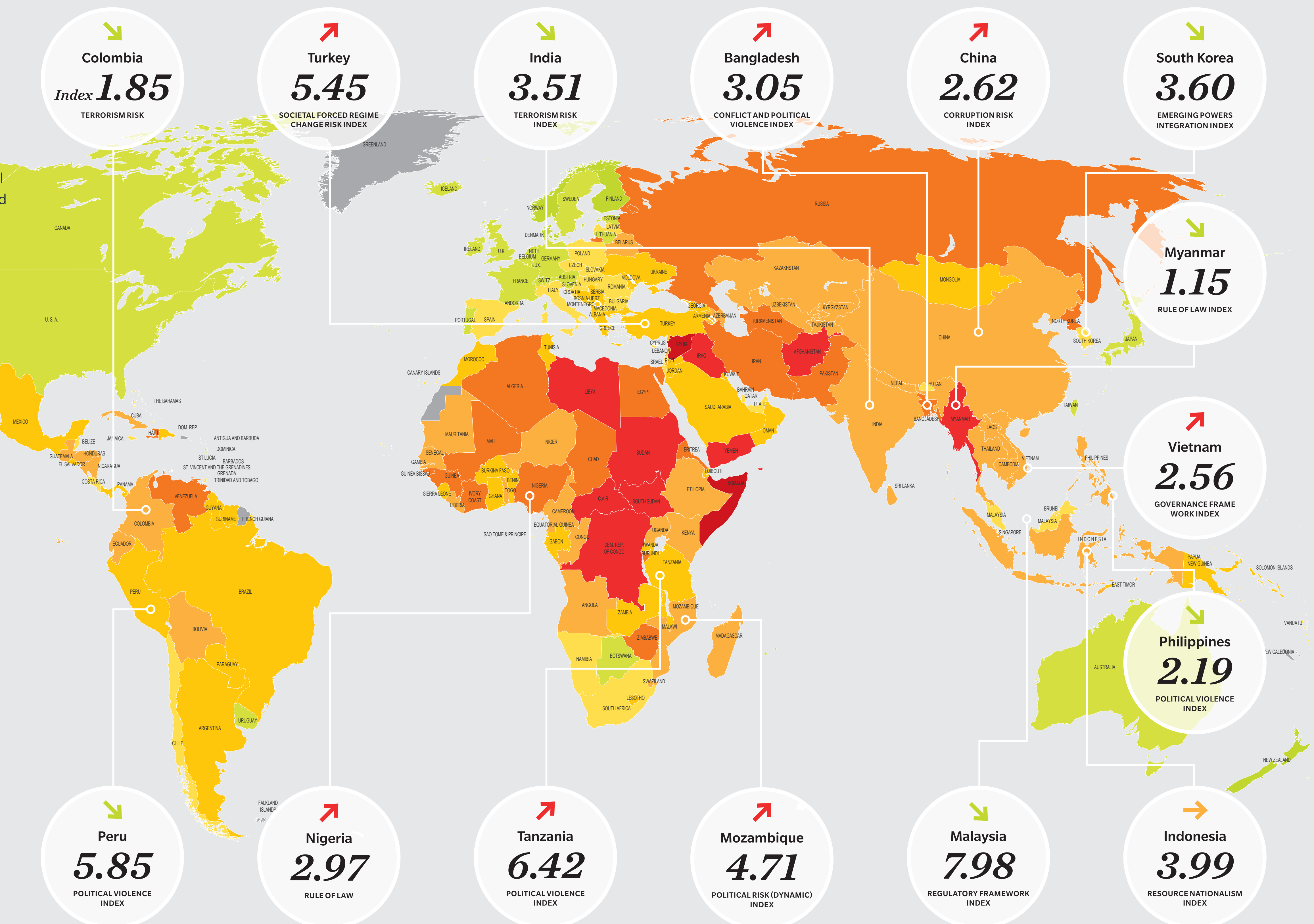
Political Risk (Dynamic) Index: Top 20 Highest Risk

Rank	Country	Rating	Risk Trend
1	Somalia	Extreme	→
2	Syria	Extreme	↗
3	Afghanistan	Extreme	→
4	Sudan	Extreme	→
5	DR Congo	Extreme	→
6	C.A.R	Extreme	↗
7	Yemen	Extreme	→
8	Libya	Extreme	↗
9	South Sudan	Extreme	→
10	Iraq	Extreme	→
11	Myanmar	Extreme	↘
12	Pakistan	High	→
13	North Korea	High	→
14	Nigeria	High	→
15	Egypt	High	↗
16	Eritrea	High	↗
17	Zimbabwe	High	→
18	Russia	High	→
19	Iran	High	→
20	Chad	High	→

Political Risk (Dynamic) Index: Top 20 Growth Markets

GM Rank	Country	2014 Rank	Rating	Risk Trend
1	India	47	High	↘
2	China	59	High	→
3	Indonesia	62	High	→
4	Malaysia	122	Medium	↘
5	Bangladesh	30	High	→
6	Saudi Arabia	95	Medium	→
7	Philippines	35	High	↘
8	South Korea	157	Medium	→
9	Vietnam	71	High	→
10	Singapore	176	Low	→
11	Peru	104	Medium	→
12	Tanzania	72	Medium	→
13	Turkey	77	Medium	→
14	Qatar	147	Medium	→
15	Iraq	10	Extreme	→
16	USA	168	Low	→
17	Hong Kong	177	Low	→
18	Nigeria	14	High	→
19	Colombia	52	High	→
20	Panama	115	Medium	→

EXTREME RISK	> 0.00 – 1.25	> 1.25 – 2.50
HIGH RISK	> 2.50 – 3.75	> 3.75 – 5.00
MEDIUM RISK	> 5.00 – 6.25	> 6.25 – 7.50
LOW RISK	> 7.50 – 8.75	> 8.75 – 10.00



Eighteen growth markets are assessed by Maplecroft as "extreme" or "high" risk for structural political risk, with complicity risks — typically associated with human rights violations by security forces, arbitrary arrest and detention, and the infringement of civil and political rights — creating particular challenges for investors. This increased risk has been driven by several factors — most notably the challenges presented by oppressive regimes that undermine democratic processes. In the short term, the immediate impact of these risks on investors is reputational, but these factors are also central to driving the wider risk of unrest and instability in the medium- and long-term.

Disparity Between Political Freedoms and Societal Resilience

The growing disparity between deteriorating political freedoms and social gains is elevating the risk of instability and unrest significantly in many countries. An uneven relationship between the level of political freedoms in a country and the social gains enjoyed by the population is a root cause of societal and political risk.

For example, Maplecroft found that Libya, Tunisia, Iran, Saudi Arabia, Syria, and Egypt were among the 20 countries with the biggest gap between the level of social gains and political freedoms in 2010, the year prior to the Arab Spring. In these countries, an increasingly educated and tech-savvy youth and burgeoning middle class grew frustrated with the failure of the political class to either reform sufficiently quickly, to address corruption and growing youth unemployment, or seek to address continued abuses by the security forces. More recently, demonstrations in Turkey in 2013 highlighted how the growth of the middle class can impact popular expectations of the government.
In 2014, the countries host to the most significant disparities in political freedoms and social gains are Belarus, Bahrain, Cuba, Kazakhstan, Saudi Arabia, the United Arab Emirates, China, Vietnam, Uzbekistan, and Turkmenistan, according to Maplecroft's latest Political Risk Atlas. But it is not just the absolute size of the disparity that determines the impact of this relationship on the potential for instability and unrest; more relevant is a rapid increase in this disparity over a period of several years or a pronounced change in either their oppression or resilience score. In 2014, the growing imbalance between social gains and political freedoms in Bahrain, Azerbaijan, and South Africa could signal increased risks of societal unrest and instability in 2014 and beyond.

Western Political Populism

A growing level of political polarization is driving macroeconomic, regulatory, and operational uncertainty for investors in many Western countries. Despite a tentative return to economic growth in the majority of developed economies, the impact of the global financial crisis remains evident in high levels of unemployment and underemployment. Combined with austerity measures introduced to address fiscal deficits and restore investor confidence, this has contributed to growing income inequality and stagnating or declining living standards, says Maplecroft.

Maplecroft observes that the dissatisfaction created by this decline is contributing to the rise of populist parties in both Europe and the United States, as many voters have grown disillusioned with established political parties. As a result, the political landscape has grown increasingly fragmented and polarized. The influence exerted by emerging parties and pressure groups, and the response by mainstream political parties as they attempt to retain their support bases, have significantly increased uncertainty for investors. This was illustrated most notably by the US government shutdown in October 2013. Meanwhile, in Greece, disillusionment with mainstream political parties has led to the rise of political extremists, elevating the risk of political violence and unrest.

MANAGING POLITICAL RISK

The landscape of the Marsh-Maplecroft Political Risk Map 2014 highlights the speed at which a variety of political risks can develop in individual countries and across regions. The emergence of previously unseen risks in several regions also demonstrates the potential mistake in using a "rear-view-mirror" approach of forecasting risk by studying past events.

Multinational companies cannot always accurately predict the future — and it is often counterproductive to try to do so. Instead, a broad, multi-country and multi-hazard approach to managing political risk is more practical and effective. A multi-country political risk insurance policy can cover 20 or more countries, providing broad insurance coverage for a number of risks, including expropriation, political violence, trade disruption, and currency inconvertibility.

Multinational businesses should also review their current business interruption and supply chain resiliency plans and procedures, evaluating the immediate and long-term impact of potential political risk events on their own operations and on those of their customers and suppliers. Additionally, organizations should ensure that they can communicate potential problems to employees, customers, and suppliers, review crisis communication plans and procedures to ensure the safety of employees, and review their credit risks and credit control policies and procedures.

ABOUT MAPLECROFT

Maplecroft is a world leading global risk analytics, research, and strategic forecasting company. It offers an unparalleled portfolio of risk indices, interactive maps, expert country risk analysis, risk calculators, scorecards and dashboards. Clients of Marsh's Trade Credit and Political Risk Practice can access Maplecroft's interactive Political Risk Atlas 2014 at www.maplecroft.com, once registered and logged in (your email address is your username, you choose your own password, and you must note "Marsh_PRI_123" in the voucher box).

ABOUT MARSH

Marsh is a global leader in insurance broking and risk management. We help clients succeed by defining, designing, and delivering innovative industry-specific solutions that help them effectively manage risk. We have approximately 27,000 colleagues working together to serve clients in more than 100 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC).

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