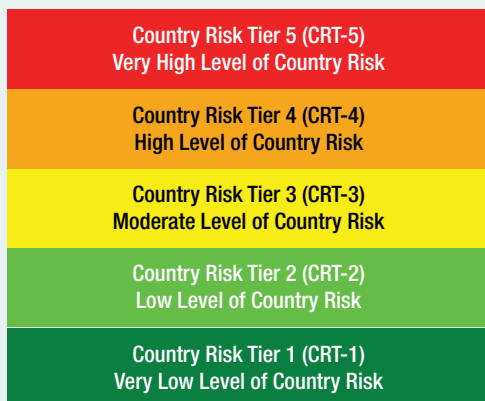
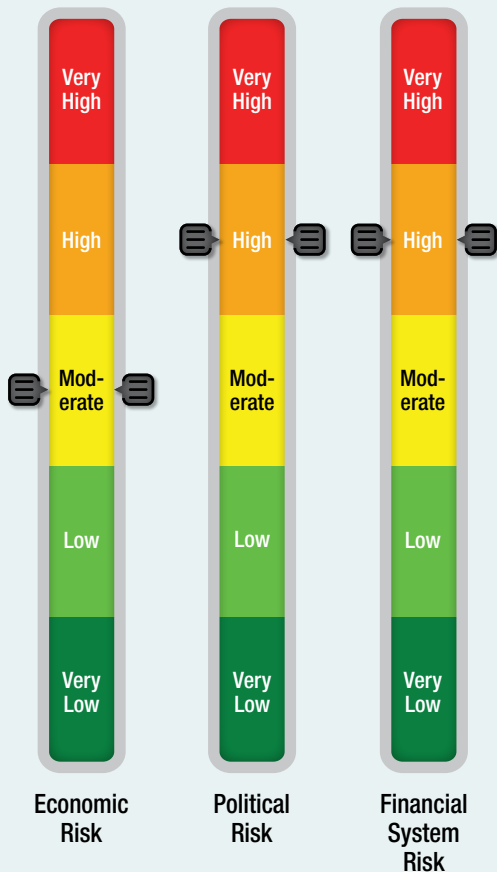
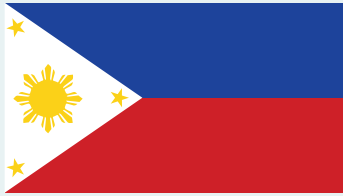
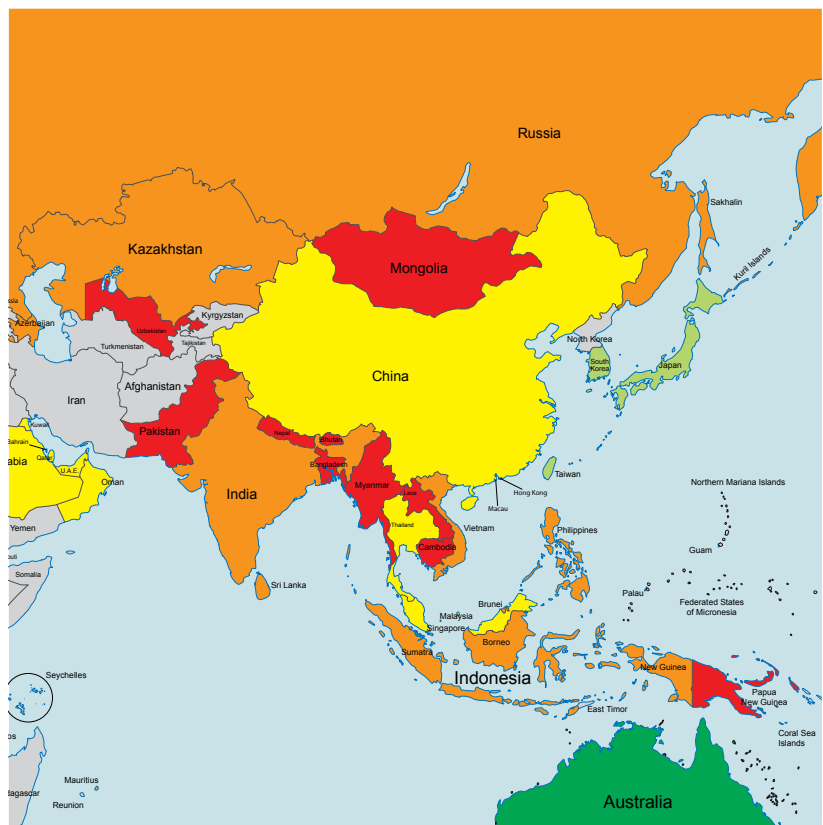


## Country Risk Tier CRT-4



## Philippines

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political and Financial System Risk.
- The Philippines is categorized as a CRT-4 country with moderate levels of economic risk and high levels of political and financial system risk. A.M. Best considers the majority of countries in Southeast Asia to be categorized as CRT-3 or CRT-4. The exceptions are Micronesia and Papua New Guinea, as CRT-5 countries, and Singapore, the sole CRT-1 country.
- Gross domestic product (GDP) growth and inflation are forecasted at 6.0% and 2.0%, respectively, in 2016. Economic growth in the Philippines is expected to range between 6.0% and 6.5% over the next few years. Growth will be driven by domestic consumption and higher rates of investment.



Vital Statistics 2015		
Nominal GDP	USD bn	291.97
Population	mil	102.2
GDP Per Capita	USD	2,858
Real GDP Growth	%	5.8
Inflation Rate	%	1.4
Literacy Rate	%	96.3
Urbanization	%	44.4
Dependency Ratio	%	57.6
Life Expectancy	Years	69.0
Median Age	Years	23.2

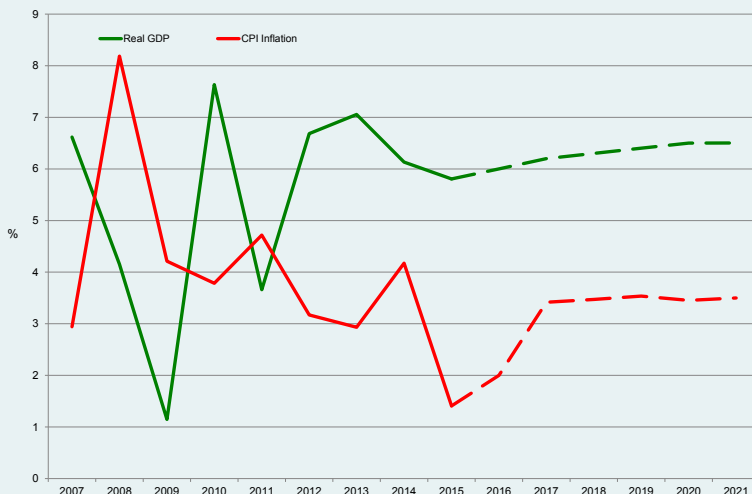
Insurance Statistics		
Insurance Regulator	The Insurance Commission	
Premiums Written (Life)	USD mil	4,010
Premiums Written (Non-Life)	USD mil	1,539
Premiums Growth (2014 - 2015)	%	16.0

Regional Comparison	
	Country Risk Tier
Philippines	CRT-4
Indonesia	CRT-4
Malaysia	CRT-3
Singapore	CRT-1
Thailand	CRT-3
Vietnam	CRT-4

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

### Economic Growth



Source: IMF World Economic Outlook and A.M. Best

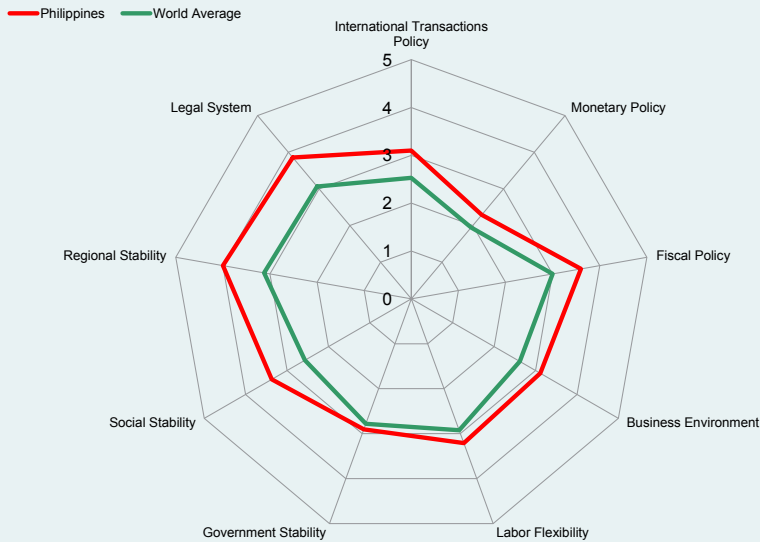
### Regional Summary: Southeast Asia

- Southeast Asia consists of the countries located north of Australia, west of New Guinea, east of India and south of China.
- According to the World Bank, aggregate economic growth in the Association of Southeast Asian Nations (ASEAN) will be 4.9% by 2017. Growth will be driven by higher global growth and export demand, particularly from higher-income countries.
- The continued slowdown in the Chinese economy will persist to be a headwind for the rest of the region as export demand declines and investment levels stagnate. Additional headwinds include continued lower commodity prices, the potential for increased political instability, growing regional unrest, the potential for U.S. monetary normalization and potential exchange rate volatility.
- Most countries are trying to implement structural reforms in an effort to encourage inclusive and sustainable development by boosting economic growth. Some of these reforms include building and maintaining needed infrastructure, improving the educational system and developing strategies to improve the competitiveness of small to medium enterprises.

### Economic Risk: Moderate

- The Philippines has a fairly well-diversified economy that is based on services and manufacturing, with revenue and consumption supported by remittances. However, the country has a high level of poverty, with the average GDP per capita at approximately 2,800 USD per year.
- There are several challenges to doing business in the Philippines, including high regional tax rates, infrastructure deficiencies and restrictions on foreign direct investment. The country currently ranks #103 out of 189 in the World Bank's 2016 Ease of Doing Business Survey.
- The Central Bank of the Philippines targets inflation in the range of 3.0% +/- 1.0%.

### Political Risk Summary Score 1 (best) to 5 (worst)

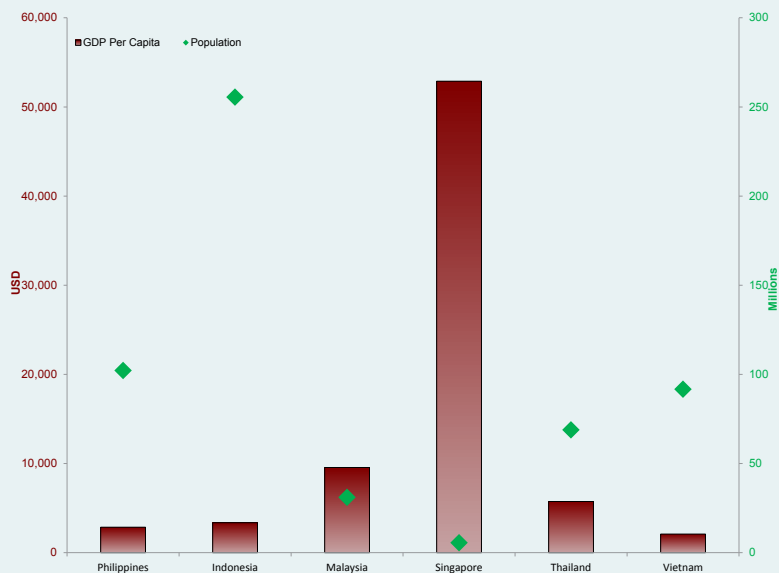


Source: A.M. Best

### Political Risk: High

- Presidential elections, held every six years, were held in May 2016, with Rodrigo Duterte winning the close election. He won approximately 38% of the popular vote on a platform of reducing current crime levels.
- The political system is characterized by a lack of traditional political parties that offer broad-based policies. This has historically led to general political instability and weak political institutions. There are also high levels of corruption and nepotism in the political system.
- Government priorities include President Duterte’s ten-point reform agenda. Some of the points include instituting progressive tax reform and collection, accelerating infrastructure spending, improving social protection programs and investing in health and education systems.
- The security environment continues to be risky with increasing levels of violent crime and a growing threat of insurgent and terror attacks in the country. China’s assertiveness over territory in the South China Sea could also be a concern going forward.

### GDP Per Capita and Population for Selected Countries



Source: IMF and A.M. Best

### Financial System Risk: High

- The Philippine insurance sector is regulated by the Insurance Commission, which is under the Department of Finance, according to the provisions of the 1974 Insurance Code.
- The authorities have undertaken increased efforts to strengthen systemic risk monitoring in the financial sector particularly for credit conditions and the real estate market.
- The Philippines would benefit from deeper capital markets and a more diversified financial system.
- Foreign direct investment will improve political stability and promote a reduction in the level of corruption.

## 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 erupt due to inadequate reporting standards, weak banking system or asset markets, and/or poor regulatory structure. In addition, it includes an evaluation of whether 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 one to five with one being the least amount of risk and five 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 does it address the suitability of any particular policy, contract or other financial obligation for a specific purpose or purchaser.

Copyright © 2016 by A.M. Best Company, Inc.

Version 091714



Copyright © 2016 A.M. Best Company, Inc. and/or its affiliates. ALL RIGHTS RESERVED. No part of this report or document may be distributed in any electronic form or by any means, or stored in a database or retrieval system, without the prior written permission of A.M. Best. For additional details, refer to our *Terms of Use* available at A.M. Best website: [www.ambest.com/terms](http://www.ambest.com/terms).