RISK OUTLOOK

CREDIT, POLITICAL AND SECURITY RISK DECEMBER 2016

Source: Mercator Institute for Chinese Studies

INDONESIA

Chinese investment will have an expanded role in reducing Indonesia's infrastructure deficit, as government financing becomes more limited.

Page 4

MYANMAR

Despite Chinese interest in using Myanmar as a corridor to the Bay of Bengal, weak cross-border security will limit the progress of major infrastructure projects in the country.

Page 6

INDIA

India and China will continue to compete for geopolitical influence in Asia; yet Indian transport infrastructure will also be a beneficiary of outbound Chinese investment.

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ALSO IN THIS ISSUE

The One Belt, One Road Initiative

The Silk Road Economic Belt and 21st Century Maritime Silk Road, known collectively as the One Belt, One Road (OBOR) initiative, form China's USD 4 trillion strategy to boost economic cooperation and investment among 65 countries across 3 continents. OBOR will see China finance, construct and operate infrastructure and energy projects, with spending also directed toward improving domestic infrastructure and growth conditions, particularly in western China.

The vision was first mentioned in September 2013 when Chinese President Xi Jinping introduced the Silk Road Economic Belt, a land-based route which leads to Europe via Central Asia. Secondary routes include the China Pakistan Economic Corridor, the China-Indochina Peninsula Corridor and the China-Mongolia-Russia Corridor. President Xi Jinping highlighted five points for the establishment of the Silk Road Economic Belt as follows:

1. To strengthen communication among countries on economic development strategies and regional cooperation
2. To improve road connectivity along the route

N.B

This Risk Outlook contains pricing information on sovereign credit, confiscation, expropriation, nationalisation and deprivation (CEND), political violence and terrorism and sabotage insurance. The various costs for contractors, investors and lenders are available for a three to five tenor, for the countries covered in this report.

RATING ROUNDUP WORLD RISK REVIEW RATINGS IN SELECT OBOR COUNTRIES

Pakistan

Terrorism (8)

Provincial nationalist groups pose the greatest risk to the China Pakistan Economic Corridor, a trade link connecting southern Pakistan and western China. Infrastructure projects and foreign investment have been specifically targeted by the Sindhi and Baloch militant groups, which express opposition to investment by China in Pakistan. However, the capability of these groups is largely limited to small-arms attacks, improvised explosive device attacks and kidnapping for ransom.

Mongolia

Sovereign Credit Risk (8)

The state of Mongolia's economy has deteriorated in recent months, strained by declining foreign investment, suppressed global commodity prices and a rapid build-up of debt during boom years. Total external debt is, at USD 23.5 billion, nearly twice the size of the economy. The government approached the International Monetary Fund for a rescue loan in late September 2016, the terms of which are yet to be agreed upon.

Singapore

Country Economic Risk (1)

Singapore's Ministry of Trade and Industry revised down Singapore's GDP growth forecast for 2016 from 1.0%-2.0% to 1.0%-1.5%. In Q3 2016 the economy registered a quarter-on-quarter contraction of 2.0% on a seasonally adjusted and annualised basis. Singapore's weak economic performance is linked to a slump in the exports of goods and sluggish demand in China and the Eurozone.

Kyrgyzstan

Terrorism (4)

On 30 August 2016, a van rammed the entrance to the Embassy of China in Bishkek and exploded. The driver was killed and two locals injured. Kyrgyz Uyghur militants, opposed to the Chinese government's treatment of Uyghurs, are reported to have carried out the attack. Hundreds of Uyghurs are fighting in jihadi groups in Syria and Iraq, and returning militants will have the military expertise to carry out further attacks on diplomatic missions in Kyrgyzstan.

3. To promote trade facilitation
4. To enhance monetary circulation
5. To strengthen people-to-people exchanges

In October 2013, President Xi Jinping then proposed the 21st Century Maritime Silk Road to strengthen maritime cooperation during an address to the Indonesian parliament. This is a sea-based route passing through Southeast Asia, Africa and the Middle East towards Europe.

OBOR is not conceived as an aid programme, and the Chinese government hopes to reap political, economic and financial rewards from its investments. Aside from developing regional economic and energy links and gaining access to commodity resources the motivation behind OBOR is twofold. Firstly, by financing capital-intensive infrastructure projects abroad, the Chinese government is able to temporarily relieve domestic overcapacity in steel, cement, coal, solar panel and other sectors. Most lending under OBOR is conditional on the involvement of Chinese companies, whether in construction, operation of projects or supply of materials. As a result, the initiative acts as an indirect subsidy for companies, particularly state-owned enterprises (SOEs), suffering financially from industrial oversupply. At the same time, OBOR will be used as an opportunity to reform China's SOEs. Some SOEs will be restructured under a mixed-ownership system, with the aim of making them more efficient and profitable enterprises.

Secondly, financing overseas projects is an attempt to loosen links to the US dollar, diversify foreign-exchange reserves and build the renminbi as a global currency. Currently, around 90% of Chinese foreign exchange is US and euro-denominated government

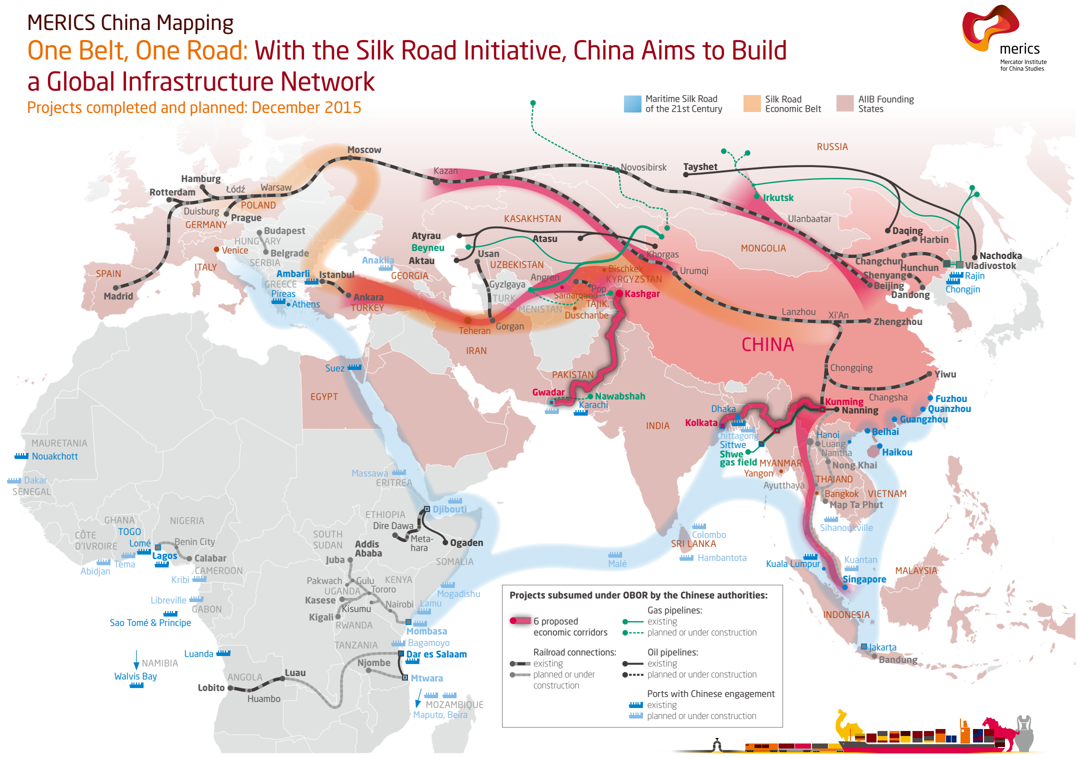
This Risk Outlook is supported by JLT's proprietary country risk rating tool, World Risk Review (WRR) which provides risk ratings across nine insurable perils for 197 countries. The country risk ratings are generated by a proprietary, algorithm-based modelling system incorporating over 60 international sources of data. The bar charts throughout this document represent the WRR ratings for each country across the security, trading, and investment environments.

	Azerbaijan	Egypt	India	Indonesia	Myanmar	Saudi Arabia	Sri Lanka	Turkey
Strikes, Riots & Civil Commotion	4	5	5	3	4	4	4	5
Terrorism	3	6	5	5	4	4	4	6
War & Civil War	4	4	4	3	4	4	3	4
Country Economic Risk	6	6	5	5	6	3	6	5
Currency Inconvertibility & Transfer Risk	6	7	5	5	8	3	6	4
Sovereign Credit Risk	6	7	5	5	8	3	7	5
Expropriation	5	7	4	5	7	3	6	5
Contractual Agreement Repudiation	5	7	6	6	7	7	6	6
Legal & Regulatory Risk	6	6	6	6	8	4	5	5

1 = Low Risk
10 = High Risk

= Under Review (Monitoring for increased risk)

= Under Review (Monitoring for decreased risk)



Source: Mercator Institute for Chinese Studies

securities, as the government has historically used reserves to purchase US Treasuries. However, China will continue to prioritise its trade and geopolitical relations with the US. Under OBOR, reserves are instead increasingly being used to finance international infrastructure projects. Moreover, greater lending of the renminbi through OBOR will expand usage of the currency and support the development of China's offshore renminbi bond market.

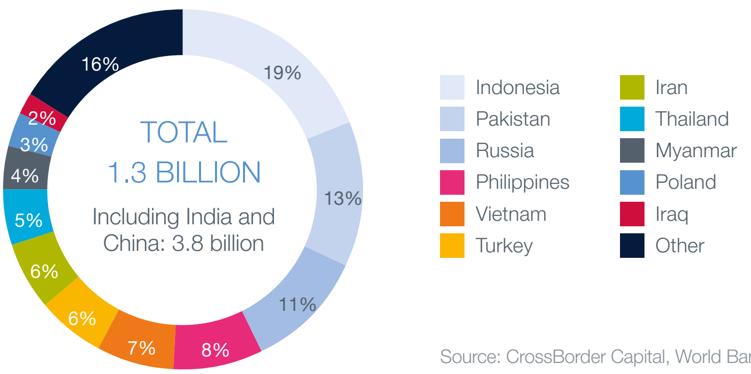
China has taken several steps to back the OBOR initiative, including the establishment of the USD 40 billion Silk Road Fund in December 2014, which is backed by China Investment Corporation, China Development Bank and the Export-Import Bank of China.

The commencement of the China-led Asian Infrastructure Investment Bank (AIIB) in January 2016 will also support projects by combining financial reserves with Chinese infrastructure expertise. Some of China's wealthiest provinces will also finance OBOR projects. In April 2015, provincial authorities in Guangdong announced their intention to contribute to 67 OBOR projects, totalling USD 55.4 billion.

However, the opportunities that the OBOR initiative brings also result in an array of challenges. OBOR will pass through countries as diverse as Poland and Iraq, exposing participating companies to myriad political, credit and security risks. Numerous countries receiving Chinese financing already bear elevated debt levels and OBOR will weaken their sovereign credit position further, elevating non-payment risks. Moreover, China's growing regional influence will elevate geopolitical risks, as it encroaches into India's traditional sphere of influence. Companies moving into territories for the first time may be unfamiliar with these developments in the risk environment. Risks can be addressed by political risk insurance which covers the following perils: expropriation including confiscation and nationalisation, selective discrimination, forced divestiture, forced abandonment, license cancellation, political violence and currency inconvertibility/exchange transfer embargo, as well as political violence, terrorism and sabotage insurance and kidnap-for-ransom insurance.

The political environment in key countries along OBOR, namely Indonesia, Myanmar, India, Sri Lanka, Egypt, Saudi Arabia, Turkey and Azerbaijan is assessed in this report. Whilst just 8 of the 65 countries that fall under the OBOR banner, these countries reflect the diverse risks and opportunities present in the initiative. ■

One Belt, One Road Populations (excluding China and India)



Source: CrossBorder Capital, World Bank

RATING OUTLOOK

Strikes, Riots and Civil Commotion;
Legal & Regulatory Risk

Indonesia

Risk Outlook

In the medium term, Chinese investment will have an expanded role in meeting Indonesia's infrastructure development ambitions in the context of reduced government financing. Although inefficient land acquisition procedures will cause project delays, regulatory reforms will reduce the frequency of delays in 2017.

Whilst the Indonesian government maintains ambitious infrastructure plans, a shortfall in tax revenues resulted in the Ministry of Public Works and Public Housing's 2016 budget being reduced by 7%. This, alongside limited private sector interest in Indonesian public-private partnerships, has made financing challenging. As a result, Chinese-financed projects under the OBOR banner will increasingly plug the gap. Chinese companies have already expanded their presence in the Indonesian railway sector. China Railway International holds a 40% stake in the joint-venture company responsible for constructing the USD 5.1 billion Jakarta-Bandung High-Speed Railway, with the China Development Bank meeting three-quarters of total financing requirements.

> Given that foreign financing will be vital to address Indonesia's infrastructure deficit, efforts have been made to improve the regulatory environment for investors.

Indonesia will also be the recipient of Chinese investment in the 21st Century Maritime Silk Road, particularly as these plans dovetail with President Joko Widodo's own plans to invest USD 429 billion in port infrastructure to establish Indonesia as a 'maritime axis.' Projects include USD 200 million of investment by Shenzhen city in an economic zone in western Indonesia and a USD 2 billion expansion of the Tanjung Sauh Seaport Terminal sponsored by China Merchants Group.

Infrastructure projects in Indonesia will face project delays caused by bureaucratic inefficiencies. Land acquisition continues to be a substantial obstacle to the timely completion of projects. As work began on the construction of the Jakarta-Bandung railway in January 2016, progress was halted within days as permits had only been secured for the construction of 5 km of track. Whilst work has since resumed and all permits were in place by August 2016, delays make it unlikely that the line will be completed by the 2019 deadline.

> Infrastructure projects in Indonesia will face project delays caused by bureaucratic inefficiencies.

Given that foreign financing will be vital to address Indonesia's infrastructure deficit, efforts have been made to improve the regulatory environment for investors. The government reformed land acquisition processes in 2015, allowing courts to settle land disputes, setting time limits on delays and allowing projects to begin without having acquired all land. Reforms also established a Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) to further streamline procedures for larger projects. These reforms should begin to take effect in 2017, reducing the frequency of project delays.

Environmentally sensitive projects may be stalled due to damage caused by protesting local residents and environmental groups. In June 2014, villagers in Sukaraja, Rajabasa occupied facilities at a geothermal energy project owned by Supreme Energy Rajabasa (a GDF Suez and Sumitomo Corporation joint-venture). Protestors set fire to parts of the property, causing project delays of a year. Separatist insurgents in Papua are also known to target infrastructure projects and personnel. In March 2016, 4 employees of construction firm Modern were shot dead by armed separatists whilst working on the construction of the Trans-Papua road project. During the attack, an excavator and bulldozer were also burned and damaged. The threat of ground-based kidnap-for-ransom is generally low in Indonesia, yet separatist groups in Aceh and Papua may target foreigners. However, there have been no reported incidents in the last 12 months. Local sailors operating in the Sulu Sea, will face an elevated risk of kidnap-for-ransom by Philippine-based Abu Sayyaf militants. On 19 November 2016, 2 Indonesian fishermen were kidnapped off the Sabah coast by Abu Sayyaf and are currently being held in the Philippines.

Environmentally sensitive projects may be stalled due to damage caused by protesting local residents and environmental groups.

1.4% – 2.3% p.a
Sovereign Credit Risk Pricing Range

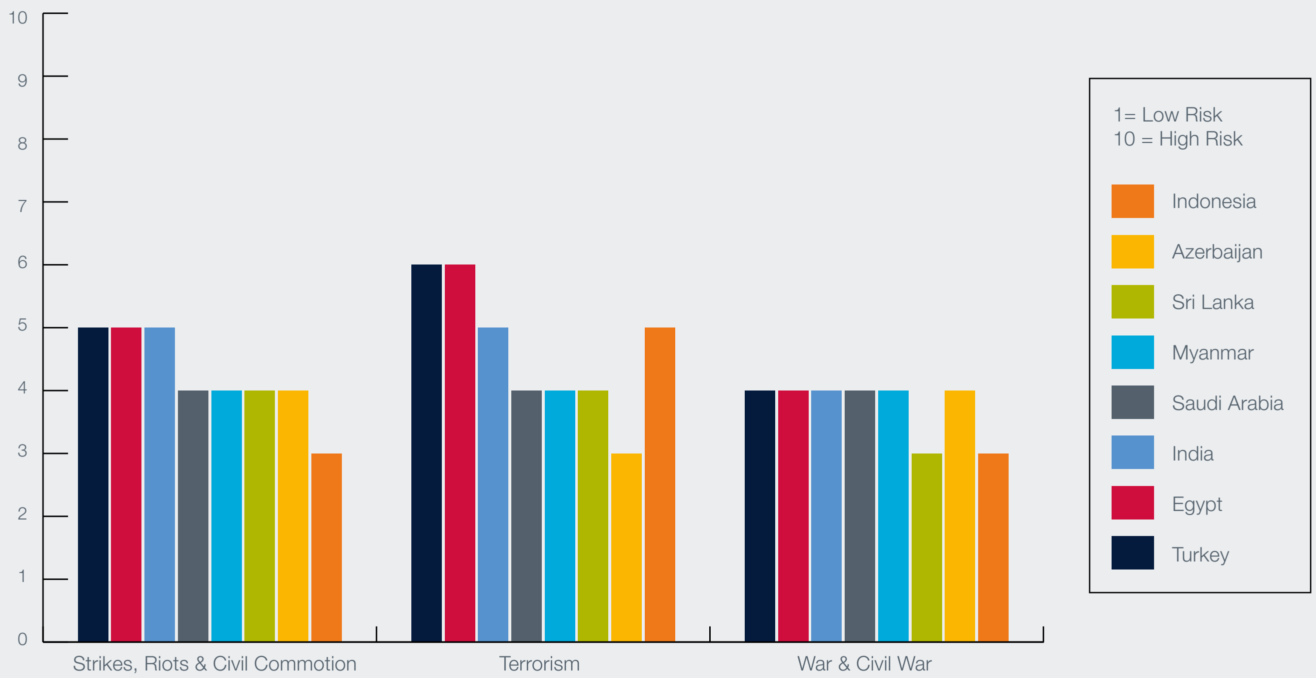
0.6% – 1.0% p.a
CEND Risk Pricing Range

0.065% – 0.075% p.a
Full Political Violence Pricing Range

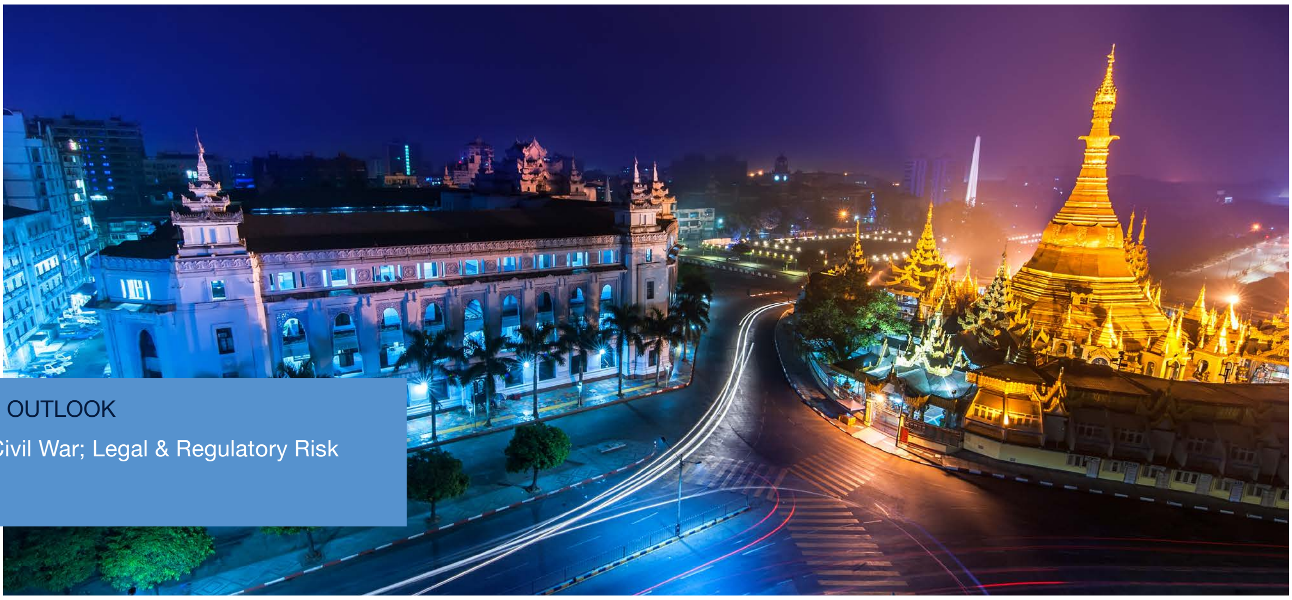
0.04% – 0.055% p.a
Terrorism & Sabotage Only Pricing Range

WORLD RISK REVIEW RATINGS - SECURITY ENVIRONMENT

DECEMBER 2016



Source: JLT World Risk Review Ratings



RATING OUTLOOK

War & Civil War; Legal & Regulatory Risk

Myanmar

Risk Outlook

Despite Chinese interest in using Myanmar as a corridor to the Bay of Bengal, a weak cross-border security environment will limit the progress of OBOR projects in the country. Whilst project delays are common in Myanmar, any future OBOR projects will be treated as priority projects and will benefit from streamlined procedures under a new investment code.

OBOR projects are less well-developed in Myanmar than in other South Asian countries, despite China accounting for around half of foreign investment in the country. The only confirmed project is a rail link between Kunming in China and Kyaukphyu in Myanmar. A memorandum of understanding with China's Railways Engineering Corporation was signed in 2011 for the construction of the USD 20 billion railway, but this lapsed in 2014. The absence of projects is not due to a lack of Chinese interest in Myanmar. The Chinese government views the country as a vital corridor to ports in the Bay of Bengal, which would allow it to bypass the strategically vulnerable Malacca Straits.

The main obstacle to the expansion of OBOR projects into Myanmar is the poor security situation on the Myanmar-China border. The Chinese government has historically supported armed ethnic groups operating in Myanmar, including the Arakan Army, Ta'ang National Liberation Army and Myanmar National Democracy Alliance Army, perpetuating instability in the region. The Chinese government has since promised to support the Burmese peace process, as it hopes to progress with cross-border infrastructure projects. Its intervention led the 3 armed groups, who previously refused to participate in the national peace process, to state their willingness to join future dialogue. However, the situation is not likely to materially improve in 2017. In November 2016 an outbreak of fighting between the Myanmar security forces and an alliance of 4 armed ethnic groups left 13 civilians dead and 3 bridges damaged. 13 heavy mortar shells were also reportedly fired into Chinese territory with the aim of undermining Sino-Myanmar relations. Violence is also ongoing in Rakhine state, with clashes between police, the military and members of the Rohingya community causing around 130 deaths between 1-14 November 2016. However, there are no known kidnap-for-ransom incidents where armed ethnic groups have targeted foreign workers. Without a definitive improvement in the security environment, Chinese investment plans are unlikely to progress.

The main obstacle to the expansion of OBOR projects into Myanmar is the poor security situation on the Myanmar-China border.

Future OBOR projects in Myanmar will face a challenging regulatory environment. Inefficient decision-making will slow the approval of key projects. This is partly because of

OBOR projects are less well-developed in Myanmar than in other South Asian countries.

the National League of Democracy's inexperience at approving investments, having only been in government since March 2016. However, a new investment law, which will come into force in April 2017, should streamline investment procedures. Under the law, the Myanmar Investment Commission will now only screen projects that are considered to be strategic or have an environmental/cultural impact, whilst the infrastructure sector will be prioritised for investment, introducing tax incentives for these projects.

All projects using land will still require approval, exposing many infrastructure projects to continued delays or contract revisions. Land use can be a contentious issue in Myanmar. In 2011, local opposition to the Chinese-backed USD 3.6 billion Myitsone Dam project led to the suspension of the project. However, Chinese investment has the potential to substantially improve Myanmar's underdeveloped infrastructure sector, and OBOR projects will likely be treated as priority projects, reducing the risk of project delays.

3.0% – 4.25% p.a
Sovereign Credit Risk Pricing Range

1.4% – 2.5% p.a
CEND Risk Pricing Range

0.065% – 0.07% p.a
Full Political Violence Pricing Range

0.025% – 0.035% p.a
Terrorism & Sabotage Only Pricing Range

RATING OUTLOOK

Legal & Regulatory Risk

India

Risk Outlook

Whilst the Indian government is wary of China's increasing influence in South Asia through OBOR projects, it will also be open to Chinese investment in high-speed rail projects. Despite efforts to improve the operating environment, foreign investors will still be exposed to an inefficient tax system.

The Indian government views the OBOR initiative as both a threat and opportunity to its interests. In particular, Chinese investment in Asian ports has been perceived by the Indian establishment as part of a 'string of pearls' strategy by China to encircle the country, and that port investment may be a stepping-stone to the development of Chinese naval bases in the Indian Ocean, bringing it into conflict with India's own strategic defence interests. Indian influence was reportedly a contributing factor in the Sri Lankan government's decision in 2015 to suspend the Colombo Port City project, of which Chinese companies were major backers. India is also responding to OBOR projects with its own development initiatives, as it hopes to secure regional influence. Projects include the development of Chabahar Port, in partnership with Iran, which will link to a trade corridor through Afghanistan. This will be in direct competition with China's own plan to develop Pakistan's Gwadar port and establish a China Pakistan Economic Corridor. Such geostrategic competition between India and China should result in lower financing costs for countries receiving investment in infrastructure.

However, India will itself be a beneficiary of China's outbound investment, particularly as Narendra Modi's government looks to modernise its infrastructure system. In an indication that India does see its neighbour as a potential partner in development, it has joined Chinese-led multilateral institutions including the New Development Bank and the Asia Infrastructure Investment Bank. China is particularly keen to invest in high speed rail in India. China Railway won contracts in 2015 to perform feasibility studies on the Mumbai-New Delhi and Chennai-Delhi lines in a consortium with undisclosed local firms. The studies are ongoing, but Chinese firms are well positioned to participate in any rail projects which progress to the planning and construction stage.

> Geostrategic competition between India and China should result in lower financing costs for countries receiving investment in infrastructure.

Since coming to power in 2014 the Modi government has shown a commitment to improving the investment environment, although significant challenges remain for foreign investors. In June 2016 the government announced a relaxation of investment laws to allow up to 100% foreign ownership in sectors such as aviation and pharmaceuticals, whilst a January 2016 Commercial Courts

Act established specialised courts to arbitrate in commercial disputes involving sums greater than USD 160,000, although these are operating in a limited number of states. Given the strategic importance of foreign financing of major infrastructure projects, state contract alterations are unlikely, even as geopolitical competition with China develops. The Good and Services Tax (GST) Bill, approved by parliament in August 2016, has the potential to streamline the tax system in India. It proposes to introduce a single tax on the manufacture, sale and consumption of goods and services in India, replacing inconsistent state by state levies. A multi-tier rate system was agreed on 3 November 2016, however further lobbying by business groups to alter rates is likely and the GST is unlikely to be introduced by the April 2017 deadline.

The Good and Services Tax (GST) Bill, approved by parliament in August 2016, has the potential to streamline the tax system in India.

Naxalite militants operating in Orissa, Chhattisgarh, Jharkhand and Bihar will continue to use kidnap-for-ransom in the near term, targeting foreigners and personnel of road construction, rail and telecoms companies. On 6 October 2016, a local construction worker was kidnapped by militants whilst upgrading a road. It is not known if the individual has been released. In October 2016, state security forces launched raids on Naxalites in Andhra Pradesh and Odisha states, leading to the capture or killing of 50 militants. As counter-insurgent operations continue into December 2016, kidnapping may increase in frequency as militants seek funding sources.

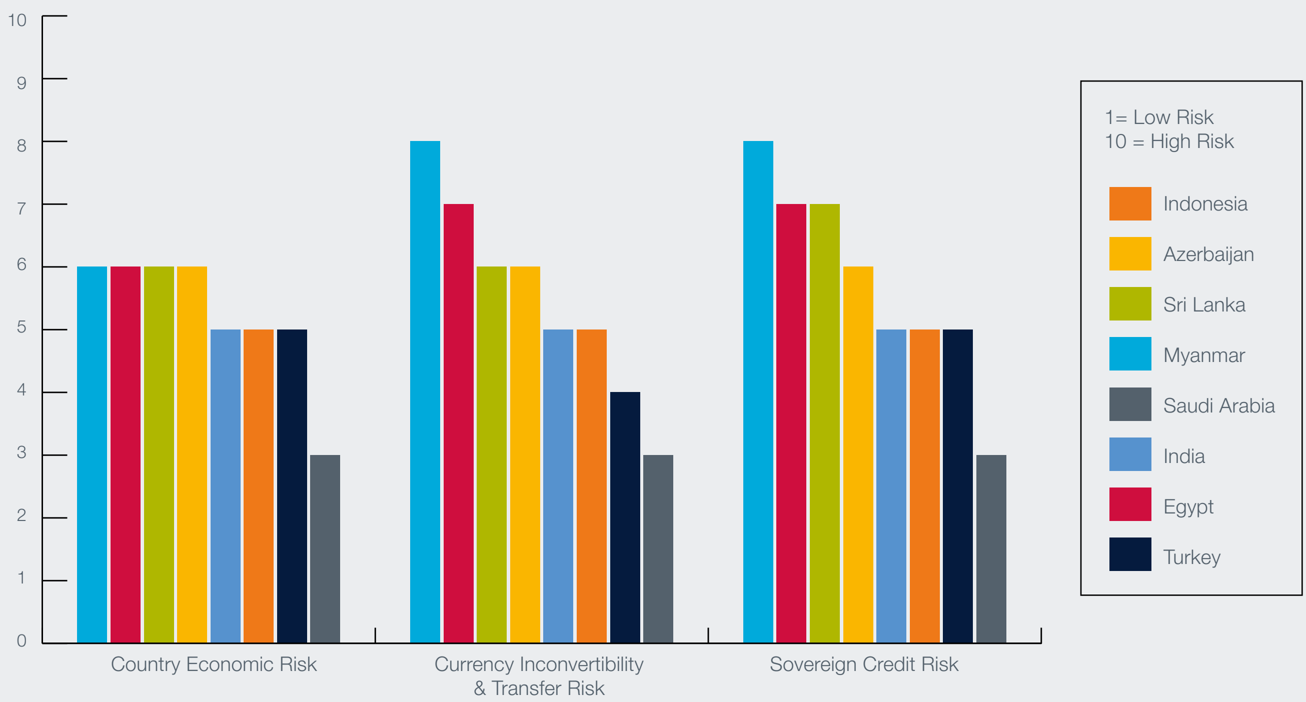
0.25% – 0.8% p.a
Sovereign Credit Risk Pricing Range

0.4% – 0.5% p.a
CEND Risk Pricing Range

0.05% – 0.06% p.a
Full Political Violence Pricing Range

0.0125% – 0.015% p.a
Terrorism & Sabotage Only Pricing Range

WORLD RISK REVIEW RATINGS - TRADING ENVIRONMENT
DECEMBER 2016



Source: JLT World Risk Review Ratings

RATING OUTLOOK

Sovereign Credit Risk;
Contractual Agreement Repudiation

Sri Lanka

Risk Outlook

Sri Lanka will be a key pillar of Chinese investment in the 21st Century Maritime Silk Road, driving growth in the country's construction industry. However, participating companies will be exposed to project delays and contract alterations, as India and China compete for regional influence.

Chinese investment as part of the 21st Century Maritime Silk Road will be a significant driver of growth in Sri Lanka's construction sector, which is forecasted to expand by 7.7% in 2017, up from 4.6% in 2015. Currently, at least one Chinese company is participating in around 40% of Sri Lankan infrastructure projects. Projects benefitting from Chinese participation include the USD 1.4 billion Colombo

The 21st Century Maritime Silk Road will be a driver of growth in Sri Lanka's construction sector.

Port City project, which is being funded by state-owned company China Communications Constructions, the Hambantota Port Development Project and various highway projects. In June 2016, China Merchants Group also indicated its intention to construct several warehouses in the Port of Colombo in the period to 2020.

The Sri Lankan government's openness to Chinese investment is likely to continue in the near term, after it negotiated a free-trade agreement with the country, due to be signed in March 2017. However, any future change in administration will expose foreign companies linked to OBOR projects to contract alterations and project delays. Legislative elections are next due in 2021, yet the competing interests of parties in the coalition government will threaten government stability and snap elections are likely if relations deteriorate. In March 2015, following the election of President Maithripala Sirisena, the new government suspended the Colombo Port City project in a rejection of Chinese-backed investment. The suspension was partly driven by geopolitical considerations, as India objected to the granting of freehold land rights to a Chinese company. The project was renewed in March 2016, albeit with less preferential terms for Chinese investors, including the introduction of a 99-year land lease. The incident underscores OBOR's geopolitical ramifications, as China and India compete for influence in the region, and the resulting political risks that foreign firms are exposed to.

The Sri Lankan government's openness to Chinese investment is likely to continue in the near term.

Sovereign credit risks are elevated in Sri Lanka, as the country's fiscal position continues to weaken. Government debt stood at 76.0% of GDP in 2015, up from 68.7% in 2012. The government also retains substantial liabilities for financially strained state-owned enterprises, including USD 3.2 billion of SriLankan Airlines' liabilities. Chinese-financed infrastructure projects have expanded Sri Lanka's debt burden, and there is an elevated risk that the country will be unable to repay Chinese loans and/or seek debt relief in the form of equity swaps. By the end of former President Mahinda Rajapaksa's tenure in January 2015, Sri Lanka owed around USD 8 billion in sovereign debt to China. Much of this debt was held under elevated commercial interest rates. As a result, in October 2015 over a third of Sri Lankan revenues were spent on debt servicing. However, in the 3 year outlook, USD 500 million per year in funding from the International Monetary Fund will ease government liquidity risks.

Ongoing currency weaknesses will also elevate the import costs of raw materials for Sri Lankan infrastructure projects. The Sri Lankan rupee (LKR) is forecasted to reach an average rate of LKR148.44/USD in 2017, from LKR135.84/USD in 2015, driven by strong domestic import demand. Given the limited supply of construction materials within Sri Lanka, this will necessarily elevate capital costs throughout the construction stage of infrastructure projects.

Chinese-financed infrastructure projects have expanded Sri Lanka's debt burden, and there is an elevated risk that the country will be unable to repay.

Since the end of Sri Lanka's civil war in May 2009, the terrorism risk facing infrastructure projects has fallen significantly. Remnants of the Liberation Tigers of Tamil Eelam are confined to small-scale attacks on army bases and political assassinations in the Northern and Eastern provinces. There is a very low risk that foreign nationals will be targeted in kidnap-for-ransom incidents. ■

0.35% – 1.0% p.a
Sovereign Credit Risk Pricing Range

0.3% – 1.0% p.a
CEND Risk Pricing Range

0.055% – 0.06% p.a
Full Political Violence Pricing Range

0.02% – 0.025% p.a
Terrorism & Sabotage Only Pricing Range

N.B. Some insurers lack appetite for Sri Lanka and so will not provide a steer on pricing.

RATING OUTLOOK

Terrorism; Country Economic Risk; Legal & Regulatory Risk

Saudi Arabia

Risk Outlook

Economic and security ties between China and Saudi Arabia have accelerated in 2016, as the countries' respective OBOR and Vision 2030 strategies intersect. Preliminary agreements on infrastructure development will further take shape in 2017, although large construction projects will face delays and bureaucratic hurdles.

In August 2016 the Saudi Arabian and Chinese governments signed 15 preliminary agreements in various sectors, including energy and housing. These agreements are likely to take shape in the first half of 2017, as the 2 countries iron out the details of the 5-year investment programme. Alongside this, Saudi Arabia's housing minister Majed Al-Huquail signed a memorandum of cooperation with the Chinese Ningxia Region to develop 100,000 residential units in Al-Ahsa Province. This area has become a priority for the Saudi government, with an estimated 300,000 new houses per year required to prevent the housing deficit of 1.65 million homes from widening.

Traditionally its largest source of oil imports, Saudi Arabia represents a key trade partner for China. Increasing economic cooperation with China also forms part of Saudi Arabia's wider attempts to attract greater foreign investment in order to diversify its oil-dependent economy. As part of its long-term diversification plan, the government unveiled Saudi Arabia's 'Vision 2030' in April 2016 and it is likely that Chinese banks and firms will have a significant role in the development of Saudi energy and infrastructure projects, alongside partners from Europe and Japan. In June 2016 Industrial and Commercial Bank of China lent USD 1.5 billion to Saudi Electricity Co. for project funding. The strengthening link between the countries is also being seen in the security sphere. In November 2016 the 2 countries signed a 5-year security cooperation agreement, following their first joint counter-terrorism drills in the previous month.

Traditionally its largest source of oil imports, Saudi Arabia represents a key trade partner for China.

However, Saudi Arabia's fiscal challenges will pose risks for foreign investors in the country. Closer scrutiny of Saudi public finances will lead to elevated risks of project delays for joint ventures involving state owned firms. Red tape will also act as a drag on attempts to open up the Saudi economy to Chinese investment. In October 2016 the government introduced a seven-fold increase in business visa fees in an attempt to boost state revenues. Meanwhile greater restrictions are being introduced on the use of foreign labour, as the government pushes the 'Saudisation' of the workforce, replacing foreign nationals with Saudi workers in the private sector.

Whilst Saudi Arabia's involvement in operations against the Islamic State (IS) elevates the threat of terrorism linked to the group, sophisticated attacks on infrastructure are unlikely in the short term. In October 2016 the authorities arrested at least 8 suspects linked to IS, after foiling plots to attack security forces and bomb a football World Cup qualifier in Jeddah.

> Closer scrutiny of Saudi public finances will lead to an elevated risk of project delays.

Likely targets are security forces and Shia Muslim mosques, rather than more logistically challenging attacks against energy or power infrastructure.

Kidnappings-for-ransom or execution are rare, although there is the potential for attacks to be carried out by IS-inspired groups or individuals. Such attacks are likely to target government security forces or expatriate workers, replicating the kidnap and execution of an American defence contractor near Riyadh in 2004. ■

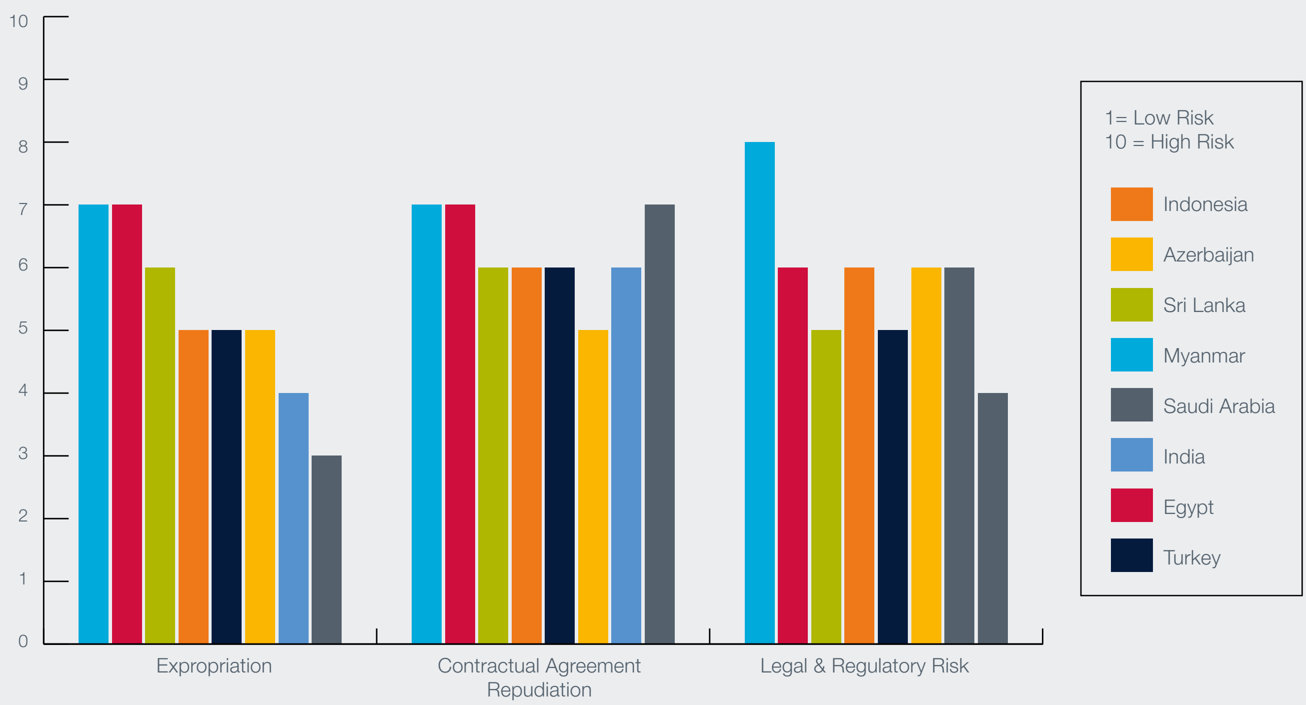
0.3% – 1.25% p.a
Sovereign Credit Risk Pricing Range

0.3% – 0.9% p.a
CEND Risk Pricing Range

0.05% – 0.06% p.a
Full Political Violence Pricing Range

0.025% – 0.03% p.a
Terrorism & Sabotage Only Pricing Range

WORLD RISK REVIEW RATINGS - INVESTMENT ENVIRONMENT
DECEMBER 2016



Source: JLT World Risk Review Ratings

RATING OUTLOOK

Country Economic Risk;
Sovereign Credit Risk

Egypt

Risk Outlook

Chinese investment in Egyptian infrastructure has accelerated as the country looks to develop its OBOR investment strategy. Large scale infrastructure projects such as the new capital city development are likely to face delays, raising contract risks for international investors.

Chinese firms are having a significant impact on infrastructure investment in Egypt, reflecting a shift from the country's more traditional funding partners in the United States and Europe. This will boost the country's construction sector, with robust annual growth of 8.5% forecasted in the 5 year outlook.

China Fortune Land Development Co agreed to invest USD 20 billion in Egypt's new capital city development.

In October 2016 Chinese firm China Fortune Land Development Co agreed to invest USD 20 billion in Egypt's new capital city development, which is projected to cost USD 45 billion over 5 years. This follows on from a USD 15 billion pledge by Chinese state-owned company China State Construction Engineering Corporation, which has committed to developing the first phase of the project. Given the Egyptian government's need to attract foreign direct investment (FDI), it is likely that cost-effective Chinese financing will increasingly be sought in order to fund Egypt's critical infrastructure requirements. In January 2016, President Xi Jinping announced the provision of USD 10 billion in soft loans to the country, alongside credit of USD 10 billion for energy projects involving Chinese companies. The power sector has also benefited from Chinese funding; in November 2016 the Egyptian Electricity Transmission Company agreed to a loan of USD 757 million from the Export-Import Bank of China in order to fund 1,210 km of new electricity lines.

Economic fragility will create a challenging trading environment for foreign investors. Years of geopolitical and economic turbulence saw foreign exchange reserves fall to around USD 19.6 billion in September 2016, down from USD 36 billion in 2011. In October 2016 China agreed to a currency swap deal worth USD 2.7 billion with Egypt, part of the external assistance required for the country to secure a USD 12 billion 3-year loan from the International Monetary Fund (IMF). This will ease currency pressures and boost investor sentiment in the country in the short term. However, investors will face the risk of infrastructure project delays and scale backs due to economic uncertainty. In 2015, UAE-based Capital City Partners, the

Economic fragility will create a challenging trading environment for foreign investors.

company initially scheduled to deliver the capital city project, withdrew over its lack of progress. It is therefore highly likely that despite the boost provided by Chinese investment, this project will continue to face delays.

FDI is crucial for the government and therefore it is unlikely to actively pursue outright expropriation or selective discrimination of foreign companies. However, operational and investment risks will remain for Chinese companies looking to invest in Egypt. Commercial contract disputes can be delayed by an inefficient bureaucracy. Gold mining firm Centamin has faced a protracted legal battle since 2012 in relation to its rights over the Sukari gold mine in the Eastern Desert, with the dispute still unresolved.

Operational and investment risks will remain for Chinese companies looking to invest in Egypt.

The threat from Islamic State(IS)-inspired groups will extend beyond the Sinai Peninsula, with a kidnap threat to tourists and foreign workers near Cairo and other urban centres. In August 2015, a Croatian expatriate working for a French company was kidnapped and executed in Cairo by a group linked to IS.

1.5% – 3.5% p.a
Sovereign Credit Risk Pricing Range

Circa 1.0% p.a
CEND Risk Pricing Range

0.075% – 0.01% p.a
Full Political Violence Pricing Range

0.035% – 0.045% p.a
Terrorism & Sabotage Only Pricing Range

N.B. Some insurers do not have appetite for Egypt, this is driven either by capacity constraints or country concerns.

RATING OUTLOOK

Legal & Regulatory Risk

Azerbaijan

Risk Outlook

Companies investing in Azerbaijan will continue to face elevated levels of corruption and political interference in the judiciary. However, declining oil revenues and macroeconomic instability have made foreign investment critical if the government is to finance economic diversification, leading to improvements in the business environment.

Foreign investors will be exposed to macroeconomic headwinds in Azerbaijan, with currency weakness a particular concern. Suppressed oil prices have contributed to an estimated 3.4% contraction in economic growth in 2016. Reduced oil revenues also led the government to devalue the manat by 34% in 2015 to AZN 1.55/USD, as central bank reserves fell by two-thirds in the same year. Not only will a weakened manat elevate import costs for construction materials, in January 2016 the government introduced capital controls, including a 20% tax on the transfer of foreign currency for investment abroad, only to reverse the decision weeks later. Whilst the value of the manat has stabilised since early 2016, it remains vulnerable to further shocks and further depreciation is expected in 2017, reaching an average AZN 1.71/USD.

Foreign investors will be exposed to macroeconomic headwinds in Azerbaijan, with currency weakness a particular concern.

The operating environment for all foreign companies investing in Azerbaijan is challenging as a result of the pervasive influence of President Ilham Aliyev and his family. Contracts in all sectors are disproportionately awarded to local companies with links to the Aliyev family and their allies. Where foreign companies investing in projects are awarded contracts, they may be asked to subcontract to domestic companies. In the event of contract disputes, firms will find it difficult to enforce contracts, as the judicial system lacks political independence. Arbitrary court decisions are common and are likely to benefit companies with close ties to the government. Whilst Azerbaijan is a member of the International Centre for Settlement of Investment Disputes, the country's Supreme Court has the right to annul foreign arbitral awards.

The operating environment for all foreign companies investing in Azerbaijan is challenging as a result of President Ilham Aliyev and his family.

Despite this, the political and economic importance of OBOR projects to the Azeri government will mitigate the risk of contract alteration and/or cancellation. Chinese investors, who are currently involved in 12 projects totalling USD 640 million, are a key source of funding for economic diversification, critical for a country which must now court foreign investment in the face of falling government income. The suppressed oil price environment will see government revenues fall by 2.9% y-o-y in 2016. Chinese oil companies have contracts at 4 Azeri oil fields, but are also targeting non-oil projects. Talks are ongoing between the Azeri Agriculture Ministry and Xinjiang Yinlong International Agricultural Cooperation over the construction of a cotton plant in Azerbaijan.

Given this, the government is keen to protect Azerbaijan's investment profile, and may be less willing to target foreign companies in arbitrary judicial decisions. The government has also shown willingness to tackle corruption in order to reassure investors, pursuing a crackdown on the payment of bribes to import goods, which led to a 30% increase in customs revenues in H1 2016. However, Azerbaijan is still struggling to attract similar levels of Chinese investment as regional competitors. Kazakhstan has recently signed deals worth USD 23 billion with China.

> The suppressed oil price environment will see government revenues fall by 2.9% y-o-y in 2016.

An escalation in the conflict with Armenia over the Nagorno-Karabakh region would threaten energy infrastructure. In April 2016, an outbreak of fighting led to 31 Azeri and 56 Armenian casualties. In the case of renewed hostilities Armenia may use missiles to target the strategically important Azeri energy sector. Whilst the underground oil and gas pipeline would be logistically harder to damage, offshore oil deposits, such as the Shah Deniz gas field could be targeted. In Azerbaijan's north-west regions, wealthy individuals may also be targeted in express kidnap incidents by criminal gangs. In June 2016, an Azerbaijani businessman was kidnapped and killed, after his car and money were stolen. Locals are at most risk, and the kidnapping of expatriates is rare. ■

1.75% – 3.0% p.a
Sovereign Credit Risk Pricing Range

0.9% – 2.0% p.a
CEND Risk Pricing Range

0.04% – 0.045% p.a
Full Political Violence Pricing Range

0.025% – 0.035% p.a
Terrorism & Sabotage Only Pricing Range

RATING OUTLOOK

Terrorism; Contractual Agreement Repudiation

Turkey

Risk Outlook

The business environment in Turkey has become more challenging since the attempted coup of 15 July 2016, as the government targets private sector companies it believes to be linked to the political opposition. Foreign investors partnering with Turkish firms will also face an elevated risk of contract alteration. However, China will continue to dominate as an investor in Turkey's high-speed rail network.

China views Turkey as a critical link between Europe and Asia in the OBOR initiative, and is participating in both land-based and maritime projects, with Chinese foreign direct investment (FDI) in Turkey reaching USD 1.6 billion in 2015. In September 2015, Chinese companies CIC Capital and China Merchants Holdings together acquired 65% of Fina Liman, the operator of Kumport Terminal, a Turkish container terminal near Istanbul. China has also been at the forefront of developing Turkey's high-speed rail network, which is projected to grow by 1,500 miles by 2020. In partnership with a local construction firm, China Railway Construction Corporation completed the Ankara-Istanbul line in July 2014. USD 750 million of the project was financed by China. China's dominant position in the market is likely to continue. Chinese rail companies are currently negotiating with their Turkish counterparts the terms of a contract to construct the USD 35 billion Edirne-Kars high speed line, which would connect Turkey's north-eastern and north-western limits and be the country's largest railway. A bilateral agreement on the construction of an East-West high speed railway in Turkey was previously signed by the two countries in 2010.

> China has been at the forefront of developing Turkey's high-speed rail network.

Turkey's economic outlook is problematic for foreign investors. Since the attempted coup of 15 July 2016, President Recep Tayyip Erdoğan has revealed a tendency towards greater government intervention in the economy. In doing so, the government has sought looser monetary conditions, which will likely augment macroeconomic imbalances, including long-term elevated inflation, a broad current account deficit and limited domestic savings. Investment under the OBOR initiative will benefit the Turkish economy, particularly as it will counter a trend of falling foreign FDI. FDI currently constitutes only 20% of the current account deficit, from 50% in 2009. However, foreign financing of Turkish infrastructure projects will also exacerbate external indebtedness, with gross external debt forecasted to rise to 81.3% in 2020, from 60.9% in 2015. With gross borrowing needs at 5.5% of GDP in 2017, government debt will remain affordable and mitigate non-payment risks.

In general, the ruling Justice and Development Party (AKP) has maintained a pro-investor business environment. However, following the attempted coup Erdoğan has targeted private sector business interests that he believes to be connected with his political enemies. In May 2016, the regulator took over Bank Aysa in what was seen as a politically motivated attempt to undermine an institution with ties to opponents of the AKP. Whilst foreign businesses themselves are unlikely to be directly targeted, they may face discriminatory action if they have partnered with Turkish companies perceived to be linked to the opposition. Furthermore, it will become more difficult to enforce commercial contracts, as the removal of around 2,750 prosecutors and judges in post-coup purges has undermined judicial efficiency and independence. Despite downside risks, the Turkish government has made efforts to reassure international investors. The treasury provides debt guarantees to private contractors on government tendered projects costing more than USD 470 million.

Large-scale infrastructure projects will be exposed to a challenging security environment, particularly in south-east Turkey. The Kurdistan Workers' Party (PKK) is likely to target energy infrastructure, including hydropower and pipelines in improvised explosive device (IED) and shooting attacks. On-site construction equipment may also be targeted in arson attacks. The PKK have launched numerous attacks on Turkey's pipeline network since the breakdown of a ceasefire in July 2015, with at least 5 reported incidents targeting the Iraq-Turkey Pipeline. In the most recent incident on 27 October 2016, the Iran-Turkey gas pipeline was taken offline for 5 days due to an explosion in Ağrı Province. The PKK will also target construction workers on major infrastructure projects, particularly in southeast Turkey. Ransoms are not usually demanded and foreigners are not generally targeted by the PKK. The last reported incident was in June 2012, when a British citizen was kidnapped on the Diyarbakır-Bingöl highway and released 2 days later.

1.0% – 1.5% p.a
Sovereign Credit Risk Pricing Range

0.6% – 1.0% p.a
CEND Risk Pricing Range

0.1% – 0.15% p.a
Full Political Violence Pricing Range

0.035% – 0.045% p.a
Terrorism & Sabotage Only Pricing Range

JLT Specialty Limited provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust – often unique – solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

As one of the world's strongest credit, political and security risks teams we help banks, commodity traders and corporations to understand, mitigate and transfer the effects of political and country economic risk, counterparty (credit) risk, political violence and kidnap & ransom. Through a relationship driven, consultative approach we use a systematic methodology to quantify, prioritise and minimise your company's political risk, security and trade credit exposures.

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CLAIMS DATA

Claims management is central to the value that we seek to add at JLT, and foremost in our minds when we work for any client. Claims are not an afterthought; they drive our placing process. JLT has a diversified client base by sector and geography and JLT has had all Political Risk Insurance claims either paid in full, settled in agreement with the client or withdrawn by the client.

Please see below for historic claims data for the countries covered by this report:

LOCATION	YEAR	INDUSTRY SECTOR	SUMMARY OF CIRCUMSTANCES
Azerbaijan	2009	Banking	Contract frustration: Non-payment
Egypt	2011	Mining	Forced abandonment: Claim submission for extra-ordinary expenses incurred in the evacuation of personnel
India	2015	Commodities	Non-payment under bills of exchange by obligor
India	2015	Commodities	Non-payment under bills of exchange by obligor
India	2015	Commodities	Non-payment under bills of exchange by obligor
Indonesia	2015	Banking	Inability of obligor to export product
Indonesia	2011	Commodity Trading	Expropriation: Stocks missing
Indonesia	2008	Commodity Trading	Credit protracted default
Sri Lanka	2012	Banking	Contract frustration: Non-payment

JLT CREDIT, POLITICAL & SECURITY RISK EXPERTISE

Organisations with international operations are exposed to counterparty and country risks in the course of their daily trade and investment. The diversity of JLT's client base reflects the fact that all balance sheets can benefit from the leverage and protection given by structured use of credit and political risk insurance.

JLT has been a leader in political risk insurance since the advent of the market in the early 1980s and enjoys strong relationships with all insurers in this sector. At any one time we manage upwards of USD 60 billion of insurance capacity and we have had extensive success in collecting claims on our clients' behalf.

The insurance contracts we arrange relate to a wide variety of transactions brought about by our diverse client base and we also offer a range of risk consulting services.