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FOR IMMEDIATE RELEASE

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A.M. Best Revises Outlook to Negative for National Reinsurance Corporation of the Philippines

HONG KONG, April 2, 2015—A.M. Best has revised the outlook to negative from stable and affirmed the financial strength rating of B++ (Good) and the issuer credit rating of “bbb” of **National Reinsurance Corporation of the Philippines** (PhilNaRe) (Philippines).

The revised outlook follows PhilNaRe's continued unsatisfactory underwriting performance in recent years. PhilNaRe's underwriting performance has been volatile and remained unsatisfactory in recent years. The poor combined ratio was driven by the losses from domestic cedents and several catastrophe losses, including Typhoon Haiyan in 2013.

Other negative rating factors include the challenging investment environment and the company's significant catastrophe exposures.

The majority of PhilNaRe's investment income was generated from fixed income securities. The current low interest rate environment in the Philippines has weakened the company's investment returns and the related support of its operating profit.

Furthermore, PhilNaRe is exposed to earthquake, flooding and typhoon risks as the majority of its underwriting business is generated from the domestic market. Unexpected large catastrophe losses that exceed the limit of catastrophe retrocession coverage, or multiple hits of medium-to-large-sized catastrophes in a single year, could impact the company's overall performance. Considering the potential impact, PhilNaRe has strengthened its

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catastrophe risk management, for example, improving data quality and monitoring growth in aggregate exposure.

Partially offsetting these negative factors are PhilNaRe's solid risk-based capitalization and established market presence in the Philippines.

PhilNaRe's risk-adjusted capitalization level, as measured by Best's Capital Adequacy Ratio (BCAR), remains strong due to its low underwriting leverage and investment asset risk.

As the sole professional reinsurer in the Philippines, PhilNaRe enjoys a compulsory cession as all direct insurance companies in the country are required to offer PhilNaRe at least 10% of their foreign outward reinsurance.

An upgrade of PhilNaRe's ratings is unlikely in the near term. The outlook of PhilNaRe's rating may be changed back to stable from negative if the company can demonstrate notable improvement in its underwriting profitability, maintain its solid risk-based capitalization and continue to strengthen its catastrophe risk management capability. Conversely, downward rating actions could occur if the company's operating performance further deteriorates resulting in a material decline in its risk-based capitalization level.

The methodology used in determining these interactive ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best's rating process and contains the different rating criteria employed in the rating process. Best's Credit Rating Methodology can be found at

www.ambest.com/ratings/methodology.

Key insurance criteria reports utilized:

- Catastrophe Analysis in A.M. Best Ratings
- Evaluating Country Risk
- Risk Management and the Rating Process for Insurance Companies
- Understanding Universal BCAR

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