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A.M. Best Affirms Ratings of Lonpac Insurance Bhd

OLDWICK, NEW JERSEY, U.S.A., Sept. 14, 2009—A.M. Best Co. has affirmed the financial strength rating of A- (Excellent) and issuer credit rating (ICR) of “a-” of **Lonpac Insurance Bhd** (Lonpac) (Malaysia). The outlook for both ratings is stable.

The ratings reflect Lonpac’s adequate capitalization and its ability to manage profitable growth. The ratings also recognize the company’s wide distribution platform and sound spread of business composition.

Lonpac has a strong underwriting profitability with a five-year average combined ratio at approximately 78%. As at fiscal year 2008, the company’s net underwriting income was MYR 75 million, translating into a combined ratio of 77.8% in 2008, compared to 78.5% in 2007. Favorable underwriting results coupled with stable investment earnings continued to reinforce Lonpac’s return on equity and assets, which increased from 17.6% and 8.9%, respectively, in 2004 to 36.0% and 14.8% in 2008.

Lonpac offers a broad spectrum of general insurance products, which mainly consists of short-tailed classes. Fire and motor are the company’s key business lines, representing about 33.2% and 31.5%, respectively, of the company’s gross written premiums.

Lonpac has a broad distribution platform. The agency force, brokers and bancassurance channels contributed to approximately 41%, 11% and 27%, respectively, of the company’s gross

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premiums in 2008. In addition to wide production sources, Lonpac has maintained a high policy renewal rate and continues to improve its efficiency and productivity.

Offsetting these positive factors are the company's increasing capitalization pressure due to aggressive premium growth, concentration risk associated with its invested assets and its volatile underwriting performance in Singapore.

As a result of high dividend payout and aggressive premium growth, the pace of surplus expansion is lower than the net premium growth. This slower surplus growth is expected to gradually lessen the company's risk-adjusted capitalization in the coming three years, as measured by Best's Capital Adequacy Ratio. Going forward, A.M. Best remains cautious about Lonpac's planned growth and its impact on capitalization on a risk-adjusted basis.

Lonpac has a significant investment concentration risk, although the overall investment liquidity remains sound. The company has over 12% of its total assets invested in Public Bank Berhad (PBB), split into 11.8% in shares and 0.6% in bonds. Nonetheless, Lonpac disposed of PBB shares in 2008 and plans to further decrease its exposure to PBB going forward.

For Best's Credit Ratings, an overview of the rating process and rating methodologies, please visit www.ambest.com/ratings.

The principal methodologies used in determining these ratings, including any additional methodologies and factors that may have been considered, can be found at www.ambest.com/ratings/methodology.

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