

National Re Receives Strong Investment Grade Rating

The National Reinsurance Corporation of the Philippines (Nat Re), the Philippines' sole professional reinsurer, was assigned a financial strength rating of **PRS A**, with a Stable Outlook, by Philippine Rating Services Corporation (PhilRatings).

A **PRS A** rating means that an insurer has **strong** financial security characteristics, but is somewhat more likely to be affected by adverse business conditions compared to higher-rated insurance companies.

A Stable Outlook is defined as: "The rating is likely to be maintained or to remain unchanged in the next twelve months."

The assigned financial strength rating and Outlook take into consideration the following: a) Nat Re's solid market franchise; b) the important role it plays in the development of the domestic and regional insurance industry, given its status as the Philippines' sole domestic professional reinsurer; c) its shareholders of good standing; d) the Company's experienced management; e) Nat Re's sound investment portfolio; f) its more than adequate capital; and g) the external headwinds which weigh down and affect the Company's performance.

As the only domestic professional reinsurance firm in the country, Nat Re is considered to have a solid market franchise. Nat Re has a unique advantage granted by the law, which is that of being entitled to take up a minimum 10% share of all the outward reinsurance business of domestic insurance companies, and which would otherwise be ceded abroad. This gives Nat Re significant access to domestic reinsurers' business, and also a broader view of their reinsurance requirements.

Given its status as the Philippines' sole domestic professional reinsurer, Nat Re plays an important role in the development of the domestic and regional insurance industry. In December 2020, the Company completed The Oasis Platform for Climate and Catastrophe Risk Assessment in Asia Project (the Oasis Project) in which the Philippines is the project manager. The project brought together experts across different industries to develop the first open-access catastrophe model for flood in the country.

Nat Re is also part of East Asian Insurance Congress (EAIC), the ASEAN Reinsurance Working Committee (ARWC) and an active member of the Philippine Insurers and Reinsurers Association (PIRA). In 2021, Allan R. Santos, Nat Re's Chief Executive Officer (CEO), was appointed as President of EAIC. PhilRatings notes that the Company's active involvement in these organizations puts it in a good position to achieve its long-term vision of being a recognized partner in other emerging markets in Asia. The Company is also actively involved in two industry initiatives: the Philippine Catastrophe Insurance Facility (PCIF) initiative and the Philippine Crop Insurance initiative.

As of end-June 2022, the Government Service Insurance System (GSIS) remained as Nat Re's largest shareholder, with a 25.7% ownership stake in the Company. GSIS is a government-owned and controlled corporation mandated to provide and administer social security benefits for government employees. The Bank of the Philippine Islands (BPI) and MICO Equities, Inc. (MEI) were the Company's other major shareholders, with ownership interests of 13.7% and 12.9%, respectively. BPI, the banking arm of Philippine conglomerate Ayala Corporation, is one of the country's largest and leading universal banks, with services encompassing traditional commercial banking, as well as investment and consumer banking. MEI, on the other hand, operates as a holding company for the Yuchengco Group's non-life

insurance business, Malayan Insurance Company Inc., which was the largest domestic non-life insurance company in terms of Gross Premiums Written (GPW; P14.9 billion), as of end-2021.

Jose Arnulfo A. Veloso, who is the current President and General Manager of the GSIS, was appointed as the new Chairman of Nat Re's Board of Directors effective July 28, 2022. Mr. Veloso is a seasoned banker. He was the President and CEO of the Philippine National Bank (PNB) and was the President of the Bankers Association of the Philippines (BAP). He was appointed as the first Filipino CEO at HSBC Philippines in 2012, until he transferred as CEO of PNB in 2018.

Nat Re is led by a management team with extensive experience and understanding of the insurance and financial markets, both domestic and global.

Allan R. Santos is President and Chief Executive Officer (CEO) of Nat Re, and has been a member of the Board of Directors, since August 2018. Before his appointment, Mr. Santos served as Executive Vice President and Chief Operating Officer (COO) of the Company. Prior to joining Nat Re in April 2016, he was the COO for Affiliate Companies and Head of Vitality of the Philippine American Life and General Insurance Company (Philam Life). He also worked with Cigna Global Health Benefits as Regional Chief Financial Officer (CFO) for Europe.

As of end-2021 and as of end-March 2022, low-risk fixed income investments made up 83.2% and 83.6%, respectively, of Nat Re's total investment portfolio. Fixed income investments of the Company included: corporate bonds, government bonds, treasury bills and short-term investments. Equity securities, on the other hand, accounted for 16.8% and 16.4% of the Company's total investment portfolio as of end-2021 and as of end-March 2022, respectively. Equity securities consisted mainly of shares of stocks in companies listed in the Philippine Stock Exchange (PSE). Nat Re had P9.1 billion in investment assets, as of end-March 2022.

With a net worth of P5.7 billion as of March 31, 2022, Nat Re was substantially ahead of the end-2022 regulatory deadline for a minimum net worth of P3 billion. Similarly, its risk-based capital (RBC) ratio of 247% as of end-March 2022 was more than double the minimum ratio of 100% required by the IC. In the next three years, NRCP expects its RBC ratios to further increase.

Notwithstanding its sound investment portfolio and more than adequate capital, Nat Re has been facing a number of external headwinds. Over the last three to five years, the industry has seen that growth in catastrophe losses has outpaced the growth in premium rates. The foregoing was also evident in the Company's loss experience in 2021 and in the first half of 2022. To mitigate the potential impact of higher catastrophe losses on the Company's performance moving forward, Nat Re seeks to lower the volatility in its loss experience by gradually revising its business mix.

Also weighing down on the Company's performance is accelerating inflation. Management acknowledged that the inflation surge has become a headwind to Nat Re's operating income and profitability as it directly affected the input costs incurred by the businesses of the Company. Given the foregoing, the Company is closely monitoring inflation movements.

The other headwind that the Company faces is rising interest rates. The Bangko Sentral ng Pilipinas (BSP) has increased its benchmark interest rates by a total of 175 basis points (bps) so far this year - 25 bps in May 19, 2022, another 25 bps in June 23, 2022, 75 bps in July 14, 2022, and 50 bps in August 18, 2022. The foregoing brought the policy rate to 3.75%, up from a record low of 2% since November 2020. While such will improve the yield of the Company's overall portfolio in the medium- to long-term, it adversely affected the present value of the Company's investment assets as of end-June 2022.

In the first six months of 2022, Nat Re recognized an impairment loss on its available-for-sale (AFS) equity securities amounting to P84.8 million and a fair value loss on its held-for-trading (HFT) equity securities amounting to P24.8 million.

While the Company has taken the necessary steps to mitigate the risks associated with the abovementioned challenges, these factors may continue to affect the Company's performance in the short- to medium-term.