



Annual Report 2019



Annual Report
2019



80th financial year

Information submitted by the Board of Directors to the Shareholders' Meeting held on 6 May 2020, in compliance with the terms of the applicable legislation and the company's Articles of Association, to report on management during 2019 and submit the annual accounts, authorised by the Board meeting on 3 March 2020, for approval by the shareholders.

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Board of Directors

Members of the Nomination and Remunerations Committee

Members of the Audit and Control Committee

Honorary Chairman

José María Sunyer Aldomá

Chairman

José Ruiz Domínguez
(ending 3rd of March 2020)



José María Sunyer Sendra
(from 3rd of March 2020)

Deputy Chairman

José María Sunyer Sendra
(ending 3rd of March 2020)



José Ruiz Domínguez
(from 3rd of March 2020)

Members

Ignacio Eyries García De Vinuesa

General de Análisis y Gestión, S.L.
(permanent representative
Borja García-Nieto Portabella)



Ignacio Izquierdo Saugar



Diogo Moraes Sunyer

Jesús Quintanal San Emeterio

Juan Antonio Sagardoy Bengoechea



Heliodoro Sánchez Rus



Lucía Sunyer Lachiondo



Secretary to the Board
(not a member of the Board)

Juan Antonio Montoya Leal





Steering Committee

Chief Executive Officer	Pedro Herrera Nogales
Chief Commercial Officer	Joaquín Coll Pueyo
Chief Financial Officer	Javier Melero Amejjide
Chief Technical Officer	Miguel Ángel Mora García
Head of International Division	David Santos Manzanares



◀ Detail of the Cantino Planisphere. XVI century



01.

Management Report

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Letter from the Chairman



Dear shareholders,

We are pleased to present the Management Report and Annual Accounts of Nacional de Reaseguros, S.A. for 2019, the company's 80th financial year.

The global economy weakened in 2019. The fears of an escalation in the trade war between the United States and China and the slowdown in the latter had a negative impact on worldwide growth, which was barely 2.4%, i.e. the lowest in the last decade.

The eurozone countries grew by 1.2% in 2019. Growth suffered at the end of the year, when the progress in the economy was significantly slower than in previous quarters.

The Spanish economy rose by 2%, one-tenth below the government's projections and four-tenths less than in the previous year. Despite that setback, the Spanish economy resisted in a year shaped by trade tensions, Brexit, China's loss of steam, the eurozone slowdown and the difficulties in the automotive industry. Spain nearly doubled the 1.2% growth registered in the eurozone as a whole. Nevertheless, it was also the slowest growth since 2014, when the recovery began.

Revenues in the Spanish insurance sector decreased by 0.4% to 64.155 billion euros.

Non-Life insurance expanded, by even more than the Spanish economy, while Life insurance premiums decreased, weighed down by the low interest rates.

The Non-Life insurance lines increased revenues to 36.629 billion euros (+3.4%), with growth in all segments, especially in Health (+4.8%) and Multirisks (+4%), with revenues of 8.923 billion euros and 7.521 billion euros, respectively.

In 2019, there was a positive performance by the Miscellaneous lines, growing by 4% to 8.879 billion euros, and the Automotive lines, with revenues of 11.307 billion euros (+1.5%).

Premium revenues in the Life business decreased by 5% in 2019 to 27.526 billion euros.

In general, the reinsurance sector had a sound operating performance, with a smaller impact from catastrophe claims and an investment profitability that was slightly better than in previous years.

Although 2019 was below the average for the previous decade, there were also some extreme events, including the losses due to typhoons in Japan and the numerous and serious bushfires in Australia, which conditioned the numbers of many reinsurers at a worldwide level.

In that context, Nacional Re achieved positive performance from its business portfolio, with a moderate effect from the catastrophic events.

The main figures in 2019 are shown in the table below.

Premium income increased by 4.1% to 590.8 million euros, with growth in Spain (+2.6%) and in the European markets, where Nacional Re's presence continued to consolidate (+7.1%).

Revenues grew by 5% as a whole, with an interesting contribution from the financial yields, which performed superbly, after the especially complicated situation in 2018. Moreover, as a result of the asset valuation performance, the investment volumes recovered the growth trend, increasing by around 5%.

Equity rose by 7.6% to 377.2 million euros, maintaining the trend once again.

Such numbers mean that it was a good year, enabling the Company to foster its soundness, business portfolio and investment assets once again. Standard & Poor's and AM Best ratified their "A" ratings, in both cases with a stable outlook.

As a result of the earnings obtained, a substantial amount of profit was withheld, as in previous years, in the form of reserves of 26.6 million euros, after paying a dividend to our shareholders of 13.6 million euros.

We would like to invite you to consider all these aspects in greater depth in the following pages.

On occasion of the chairman's replacement formalised on 3 March 2020, the commitment to continue with Nacional Re's principles and values and the wish to foster growth and reinforce its position in the sector were ratified.

The Board of Directors expresses its gratitude to José Ruiz who, first as the General Manager and then, between 2012 and March 2020, as the Chairman, expertly managed many economic cycles, including significant crises in our sector and in the Spanish and world economy. In these last 35 years, the company has expanded considerably, with premium revenues from 37 to 590 million euros, earnings from 320,000 euros to 40 million euros, and equity from 4 to 377 million euros.

Under his management, we achieved many accomplishments: growth, profitability, leadership in the Spanish market, international diversification, adaptation to new regulatory frameworks, organisation update, equity performance, etc.

Since we are convinced that our company is very sound and has an ambitious business project, we are confident that all the accounting aggregates will perform satisfactorily and that we will be able to present exciting results once again to the Annual General Meeting next year.

We hope that the information offered here and the accounts put forward will merit your approval. We would like to thank our cedants for their indispensable trust, the team at Nacional de Reaseguros for their commitment and professionalism, and our shareholders for their usual and valuable support.



Main figures

2019

Income

	Euros	% Variation
Gross Written Premiums	590,798,472	4.1%
Investment result	19,712,167	42.9%
Total income	610,510,639	5.0%

INVESTMENTS

Investments and cash	1,009,575,780	5.1%
Reinsurance deposits	199,671,575	4.9%
Total investments	1,209,247,355	5.0%

EQUITY

Share capital	78,000,000	8.3%
Capital reserve (ex - dividend)	299,154,202	7.4%
Total equity	377,154,202	7.6%

RESULTS

Gross results	51,963,466	9.0%
Income tax	11,720,000	9.6%
Profit after tax	40,243,466	8.9%

ATTRIBUTABLE TO:

Capital reserve	26,593,466	10.8%
Dividend	13,650,000	5.3%
% Dividend pay-out ratio	33.9 %	

RATING

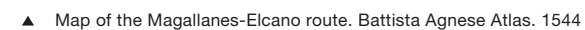
A.M. Best	'A' stable outlook
S&P Global Ratings	'A' stable outlook

Solvency II

Ratio of Admitted Equity over the Solvency Capital Required	260.0%
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* As of 31st of December 2019





Technical and commercial aspects

Strategic Plan

At the end of 2019, the first year after drafting and implementing the "Strategic Plan 2022", the main bases supporting it were corroborated:

- Sustained growth and oriented mainly to profitability.
- Customised and proactive customer service.
- Reinforcement of its leadership in Spain and consolidation of its position in Europe, through long-term relations.

In a context of accelerated changes, the Company's strategy focuses on expanding the organisation, the processes and all the resources to ensure the necessary transformation and the capability to innovate and adapt to the situation in an effective way.

Reinsurance premiums

Premium income amounted to 590.8 million euros, i.e. 4.1% higher than the previous year.

The Spanish market had revenues of 389.4 million euros, i.e. 2.6% higher than the previous year while premiums in the international markets grew overall by 7.1% to 201.4 million euros.

The sector's good performance in Spain and our strong position in this market provided continuing growth in the domestic portfolio. In parallel, our presence in other European countries started to benefit from the numerous ongoing programmes and from faster growth in the Company's supply markets.

Accepted reinsurance premiums	2019	2018	% Growth
Spain	389,417	379,425	2.6%
International	201,382	188,076	7.1%
TOTAL	590,799	567,501	4.1%

(Data in thousand Euros)

In 2019, Nacional Re maintained contracts with 373 cedants, 5.4% more than in the previous year. Of that total, 119 were in Spain while 254 were located in other countries, mainly in Europe (247). The main cedants were in the Nordic countries (48), France (44), Germany, Austria and Switzerland (45 in total), and Italy (27).

Reinsurance premiums by segment

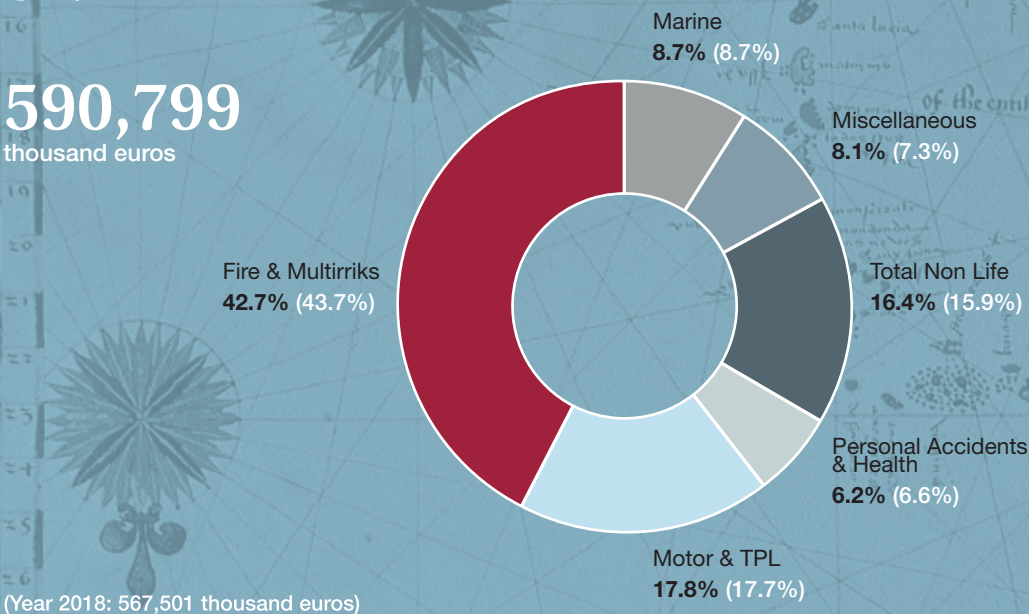
By segment, there was growth in both Life insurance (7.7%), with revenues amounting to 97.1 million euros, and in General insurance (3.4%), with premium revenues totalling 493.7 million euros.

Gross written premiums	2019	2018	Growth %
Personal Accidents & Health	36,708	37,586	-2.3%
Motor & TPL	104,922	100,663	4.2%
Fire & Multirriks	252,542	247,842	1.9%
Marine	51,465	49,585	3.8%
Miscellaneous	48,055	41,685	15.3%
Total Non Life	493,692	477,361	3.4%
Life	97,107	90,140	7.7%
Total	590,799	567,501	4.1%

(Data in thousand Euros)

Split by line of business 2019

590,799
thousand euros



Multirisks, accounting for 42.7% of the total premiums and over 50% of the General insurance area, grew once again (+1.9%), despite the decrease in the facultative business portfolio. The increase in premiums was due to a larger number of obligatory contracts and an improvement in some of the participations by the portfolio cedants.

In the facultative segment of this area, especially regarding the industrial risks, Nacional Re's underwriting and renewal policy continued to be very selective. Some recent signs of a change in the trend in prices and conditions do not warrant that there will be a sufficient balance in the short term.

In Motor insurance, revenues decreased by 8.7%, with adjustments to positions in some programmes, and unsatisfactory results in specific markets such as France. In any case, we maintained a broad and strong presence in the Spanish market (41.8 million euros) and continued a prudent expansion in several European markets (28.5 million euros).

Third-Party Liability grew significantly (+22.5%), with increases in the mandatory segment to a total portfolio of 34.7 million euros, of which nearly 70% came from Spanish insurers.

The Marine line of business increased revenues by 3.8%, although there are several countries where the business performance and market conditions advise us to reduce significantly, especially Italy (-20.4%). That was offset by a greater position in other markets, especially France, where premium revenues exceeded 10 million euros, and now accounts for nearly 20% of the total portfolio in this business line.

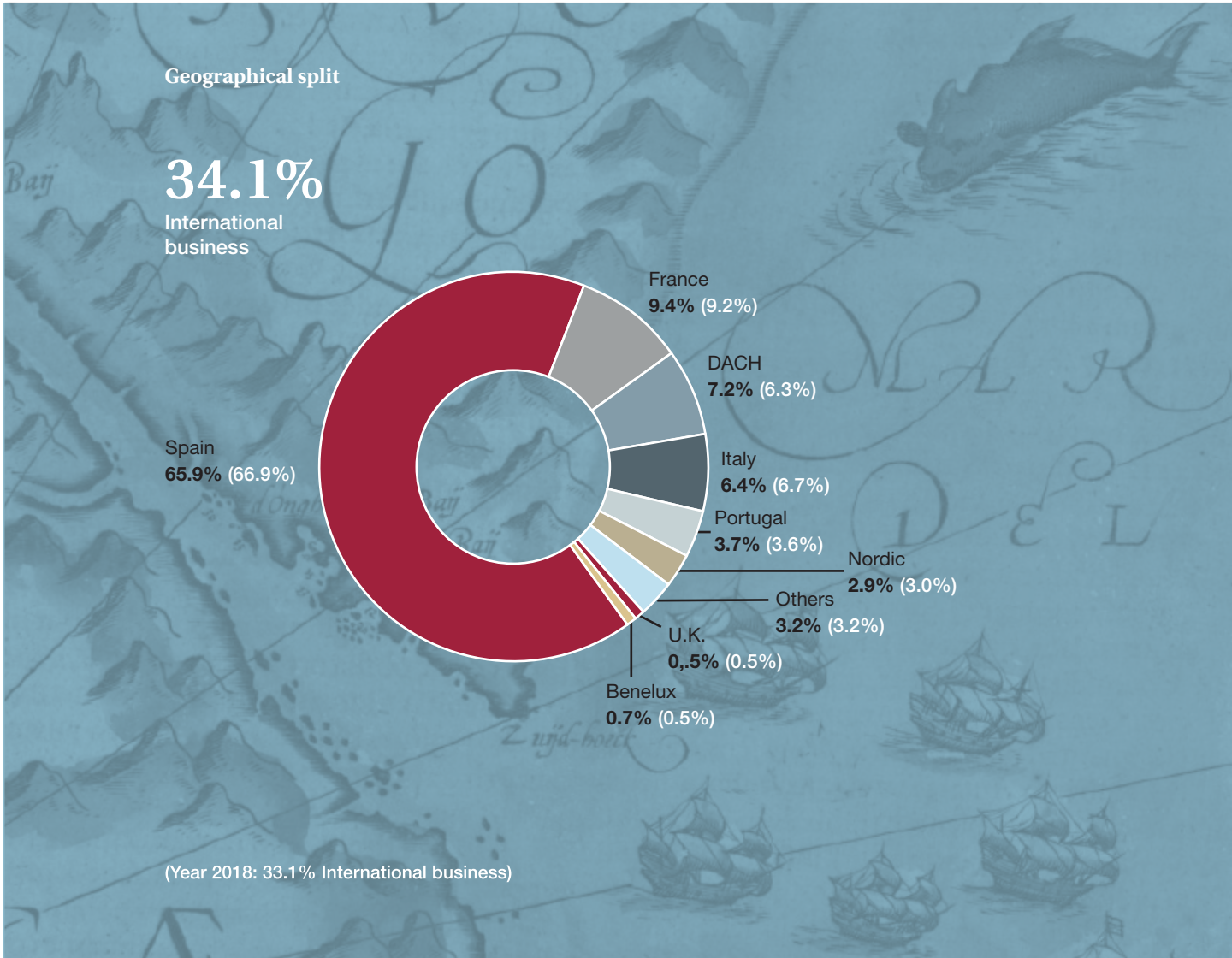
Personal Accidents & Health was the only area that did not grow, with a slight fall (-2.3%). By segment, there was an increase in premiums in Personal Accidents (+10.6%) to over 23 million euros, with expansion in the domestic and international areas; and a decrease in Health (-18.5%), which focuses basically on cedant services, where the end of some treaties with a limited period reduced revenues to 13.7 million euros.

In the Miscellaneous segment, with 48.1 million euros in premiums, Engineering obtained 14.4 million euros and the Credit and Surety area 32.7 million euros. In the latter case, the business came mainly from cedants in Spain (91.8%) while, in the Engineering area, it was more evenly distributed (54.4% domestic and 45.6% international).

The Life business grew once again (+7.7%), with a very significant increase in Spain (+15.9%), evidencing our leading position in the domestic market once again. The international portfolio had over 22 million euros and its activity continued to be oriented towards obtaining a larger number of cedants which provide sufficient diversification to ensure sustained growth in the coming years.

Reinsurance premiums by market

As stated in the Strategic Plan 2022, Spain is the main market for Nacional de Reaseguros. With 389.4 million euros, it accounts for nearly two-thirds of the total accepted premiums. Its growth (+2.6%) reinforces the Company's dominant position in domestic reinsurance.



The international business increased its relative weighting step by step and now accounts for 34.1% of the total. As a result of the experience gained every year, the implementation of Nacional's image in new markets and the progressive adaptation of our human and technological resources, we can consistently meet the requirements to manage a portfolio whose features are different to the usual Spanish portfolio.

France continued to be the main international market, with a total of 55.6 million euros in premiums (+6.1%). The diversification by segment was very positive; the main growth was in Transport, Motor and Third-Party Liability. Our broad customer portfolio and, in general, our good positioning in the mutual sector must also be highlighted.

The DACH countries (Germany, Austria and Switzerland) followed suit, with revenues amounting to 42.6 million euros (+18.4%). Multirisks here accounted for 67.8%, so the expansion objectives of other segments have become important, although they are always subordinate to risk performance and the profitability outlook. A positive feature was the continuity of the portfolio, expanding the range and degree of participation in the programmes.

Once again, in Italy the progress among the cedants which provide good results were not jeopardized by the decisions adopted by Nacional to reduce exposure in certain programmes and business lines. Consequently, that market decreased its weighting within the portfolio, mainly due to the reductions in Marine (-20.4%) and Motor (-12.3%).

The main features of the other markets, which account for less than 5% of the Company's total premiums, are as follows:

- Portugal contributed 22 million euros (+6.5%); despite the concentration of its insurance sector, Nacional's position among the market's leading reinsurers enabled it to maintain a highly consolidated portfolio.
- The Nordic countries, with 17 million euros (-1.5%), provide a portfolio which progresses due to corporate movements in a very active market and the changes in participations based on the opportunities and results of the many existing programmes.
- Benelux started being significant, with a portfolio of 4.3 million euros (+58.1%) and 18 customers.

In general, as in previous years, the business growth, especially in the international arena, focused on obligatory contracts. Stability, balanced results in this business segment and a greater long-term focus are the incentives for maintaining this strategy, compared with the poor margin expectations and the high intrinsic volatility in the facultative business.

The following table shows the portfolio breakdown for the domestic and international business, plus details of the relative weighting of each line in both geographical areas in comparison with the Company's overall portfolio.

Gross written premiums 2019	Spain	% s/ total	International	% s/ total	Total
Personal Accidents & Health	18,036	3.1%	18,672	3.2%	36,708
Motor & TPL	65,547	11.1%	39,375	6.7%	104,922
Fire & Multirisks	163,065	27.6%	89,477	15.1%	252,542
Marine	29,217	4.9%	22,248	3.8%	51,465
Miscellaneous	38,697	6.5%	9,358	1.6%	48,055
Total Non Life	314,562	53.2%	179,130	30.3%	493,692
Life	74,855	12.7%	22,252	3.8%	97,107
Total	389,417	65.9%	201,382	34.1%	590,799

(Data in thousand Euros)

Retention: Underwriting premiums and provisions

Nacional Re's activity has always been governed by a philosophy of underwriting business focusing on retention. To fulfil its risk appetite, it maintains the retrocession coverage which adapts to the portfolio needs with the aim of moderating the impact of the intrinsic volatility in the risks, mitigating the effect of the deviations in the frequency or intensity of the claims, especially in this case in the international business portfolio, by absorbing the extraordinary claims occasionally caused by some natural catastrophes.

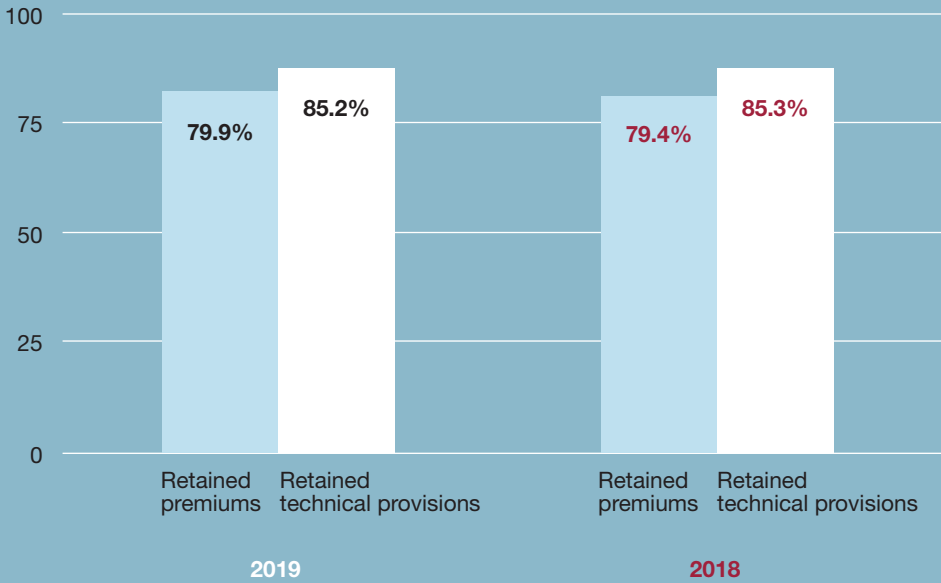
In 2019, the retention rate was 79.9% (79.4% in 2018). The retained premiums amounted to 472.2 million euros, i.e. 4.8% more than in 2018.

In accordance with the information provided by the cedants and in line with the features of each segment and the specifics of the risks, based on their nature and location, the Company establishes the amount for technical provisions with respect to all the obligations assumed as a result of the reinsurance business acceptances. Such obligations, net of the retrocession protection, amounted to 762.2 million euros (760.7 million euros in 2018): 628.2 million euros for the General insurance lines (167.0% of the retained premiums in these areas) and 134.0 million euros in Life insurance (139.7% of the retained premiums).

In addition to equity, the underwriting provisions guarantee the liabilities assumed in the reinsurance business and, therefore, they provide a significant contribution to the Company's solvency.

The following table shows the percentage of retained premiums and underwriting provisions with respect to the total gross amount.

Premiums and Technical Provisions
(Data in %)



Underwriting results

Net underwriting profit amounted to 39.6 million euros, i.e. 8.4% of accepted premiums and slightly below the 2018 result (9.0%).

Net technical results	2019	%	2018	%
Personal Accidents & Health	3,746	11.3%	3,318	9.8%
Motor & TPLI	19,875	19.8%	7,710	8.2%
Fire & Multirisks	-150	-0.1%	15,498	9.3%
Marine	-363	-0.9%	-6,388	-18.3%
Miscellaneous	9,251	22.1%	10,841	34.9%
Total Non Life	32,359	8.6%	30,979	8.6%
Life	7,275	7.6%	9,475	10.6%
TOTAL	39,634	8.4%	40,454	9.0%

(Data in thousand Euros)

Underwriting results by business line

The Life business delivered a profit of 7.3 million euros (7.6%), while the General insurance lines provided a profit of 32.4 million euros (8.6%).

In the Life business, the contribution was positive from both Spain (6.7%) and from International (10.5%). In Spain, the focus was on developing new lines and promoting products among the cedants; in other markets, the work was aimed at identifying the insurers which could be the best long-term partners, trying to enter existing programmes and using our knowledge and experience as a leader in Spain in a broad spectrum of entities.

In the General insurance lines, the net contribution from Multirisks to the overall results was practically zero (-0.1%). Although the contribution was positive from Spain (3.1%) and from International (3.4%), the gross margin (3.2%) was narrower than in the previous year (12.9%) due mainly to the high frequency of climate events, which do not provide sufficient room for offsetting the protection cost in this business line, as it has the highest exposure to the risks of accumulation. The effect of recovering the unusual amounts of claims which had affected the protection in previous years improved the book result in our retrocession in 2019.

Although 2019 was a year in which the overall amounts which affected the Company for such reasons were relatively moderate, we must highlight that the frequency in claims for natural events is growing. To that end, we ratified our conviction to combine the control and prudence capabilities for underwriting this segment.

The main feature was the profitability in Motor and Third-Party Liability (19.8%). In Motor, the profitability was positive in Spain (22.3%) because it was not affected by a spike in claims but, because of the volatility introduced by the new Scale in the expectations for reinsurance results, we do not believe that this profit level will be recurring. There was also positive profitability in International (12.7%).

Once again, Third-Party Liability delivered significant profitability in both the domestic market (33.4%) and at international level (28.0%), highlighting the contribution from France, DACH and Italy.

Marine improved its results over previous years due to the restructuring measures applied in recent years and the rigorous underwriting and business renewal policy and was on the verge of achieving neutral profitability, delivering a slight loss (-0.9%).

In the Miscellaneous area, there was an excellent performance during the year by its two main business lines: Credit and Surety (10.2%), and Engineering (58.2%).

Lastly, there was also good performance by the Personal Non-Life areas: Personal Accident (13.3%) and Health (8.3%). In both cases, those business lines contributed to balancing the accounts in the various geographical areas, with the most positive contribution from the Nordic countries (48.5%), Italy (18.7%), Portugal (17.7%) and Spain (13.6%).

Underwriting results by market

In short, the portfolio provide a combined ratio of 91.5%, improving the average ratios for the sector, which are very likely to end 2019 with nearly 100%.

The Spanish business delivered an underwriting profitability of 10.2%, once again in the two-digit range (11.1% in 2018), while the International business repeated its positive profitability and improved to 4.4% (3.8% in 2018).

The main features of most of the markets which provided positive profitability are as follows:

- It was another very satisfactory year for the Central European countries (Germany, Austria and Switzerland), with 15.4% (17.4% in 2018).
- France, which remained the leading international market, achieved a positive profitability of 6.1% (6.9% in 2018).
- Portugal, which recovered its usual good results after two years of particularly catastrophic events, delivered 18.4% (-30.0% in 2018).
- Benelux, which continued to increase its contribution, as well as in absolute terms, provided a magnificent 38.8% (27.9% in 2018).
- The rest of Europe, mainly the Czech Republic, Poland, Greece and Andorra, contributed 11.7% overall (9.7% in 2018).

In Italy, despite the underlying trend in the portfolio, there was negative profitability (-12.2%) due to the poor development of the marine businesses which are now cancelled and the impact of the atypical frequency in climate events: severe storms and hailstorms which destroyed large areas of the country in spring and summer.

In the Nordic countries, still affected by the intrinsic volatility in their moderate volume, the loss (-7.2%) was less than one million euros.

The overall positive results in the international business endorse the risk underwriting and renewal policy that has been applied in recent years aimed at seeking exposure to moderate risk, together with prudent control of the volatility in claims and special caution in the business lines with poorer market performance such as the industrial facultative business and the marine segment. Nacional's consolidation in the European markets and its growing knowledge of the distinctive features of each country and each cedant in particular will enable it to assess and select the increasingly closest businesses to the Company's strategic interests, focused on identifying the cedants with which it is feasible to carry out long-term relations with a high mutual value.

Net technical results	2019	2018
Spain	10.2%	11.1%
International	4.4%	3.8%
Total	8.4%	9.0%

Underwriting earnings

The profit and loss account combines the net underwriting result with the financial profit and expenses attributed to the insurance lines. The result amounted to 45.5 million euros, i.e. 5.0% higher than the previous year.

The next table shows the data by insurance line, after the aforementioned adjustments:

Technical and financial results	2019	2018
Personal Accidents & Health	4,007	3,372
Motor & TPLI	23,092	9,527
Fire & Multirriks	747	15,849
Marine	-63	-6,302
Miscellaneous	10,282	11,596
Total Non Life	38,065	34,042
Life	7,415	9,261
TOTAL	45,480	43,303

(Data in thousand Euros)

Financial aspects

Economic situation and market performance

In contrast with 2018, particularly its last quarter, when major losses were recorded in practically all the financial assets, 2019 ended with extraordinary profitability in terms of both equities and fixed-income, although it was not devoid of volatility.

One of the main factors for uncertainty during the year was clearly the trade negotiations between the USA and China and their potential risk to worldwide growth. After the first four months in which everything indicated a fast agreement, this changed radically when in May the US president announced a new tariff hike on products from China.

The trade war between those two powers, together with the so-called "tech war", and the extension of the US tariff threat to other countries (Mexico and Europe) raised the fear of a world recession, which led to major tensions in the international stock markets.

The return of the negotiations between the USA and China, plus the support from the central banks (the Fed's rate cuts and the ECB's battery of measures) provided positive performance for the financial markets.

In the European economy, particular in the eurozone, the uncertainty generated by a no-deal Brexit also had effects on the financial markets, which were finally dispelled after Boris Johnson's victory in December's general election in the United Kingdom.

All those factors clearly had a major impact on worldwide growth, as reflected in the corporate profit downgrades on both sides of the Atlantic.

At the start of the year, the growth projections for Europe were around 1.9%, but fell to 1.1%. Spain ended the year with the projected growth of 2%.

At the end of 2019, the main world stock indices accumulated a yield of over 20%, offsetting the losses from the previous year. The European stock markets obtained major rewards: the Eurostoxx 50 gained 24.8%, with higher gains in countries such as Germany (25.5%) and France (26.4%). The Spanish blue-chip Ibex 35 index gained 11.8%, affected by the larger weighting from banks.

Once again, the US stock markets ended with rises and setting historical records in 2019. Its main indices reached yields in line with the worldwide measures and, in some cases, considerably higher (the Dow Jones gained 22.3% and the S&P 500 rose 28.9%).

The fixed-income markets also performed very positively in 2019. The Fed's three rate cuts during the year and the stimulus measures announced by the European Central Bank led to revaluations of public debt which sometimes intensified strongly as a result of the tensions between the USA and China.

The 10-year US bond started 2019 with a yield of 2.6% and ended with nearly 1.9%. In Europe, public debt yields continued in negative territory during the year, as reflected in the Bund's movements: it began 2019 with a positive yield of 0.24% and ended with a negative yield of -0.185%, after reaching a low of 0.71% in August.

The risk premiums of eurozone countries enjoyed major reductions: over 90 percentage points in the case of Italy and nearly 51 percentage points in the case of Spain.

In the private fixed-income market, the credit spreads also reflected a positive performance in 2019.

In Spain, the main macroeconomic data provided the following information: a GDP projection of 2.0%; an unemployment rate of 13.7% (14.4% in 2018), although its performance suggests a stabilisation in the pace of job creation; and an inflation rate of 0.8% in 2019, which is at a low level.

Investment composition and strategy

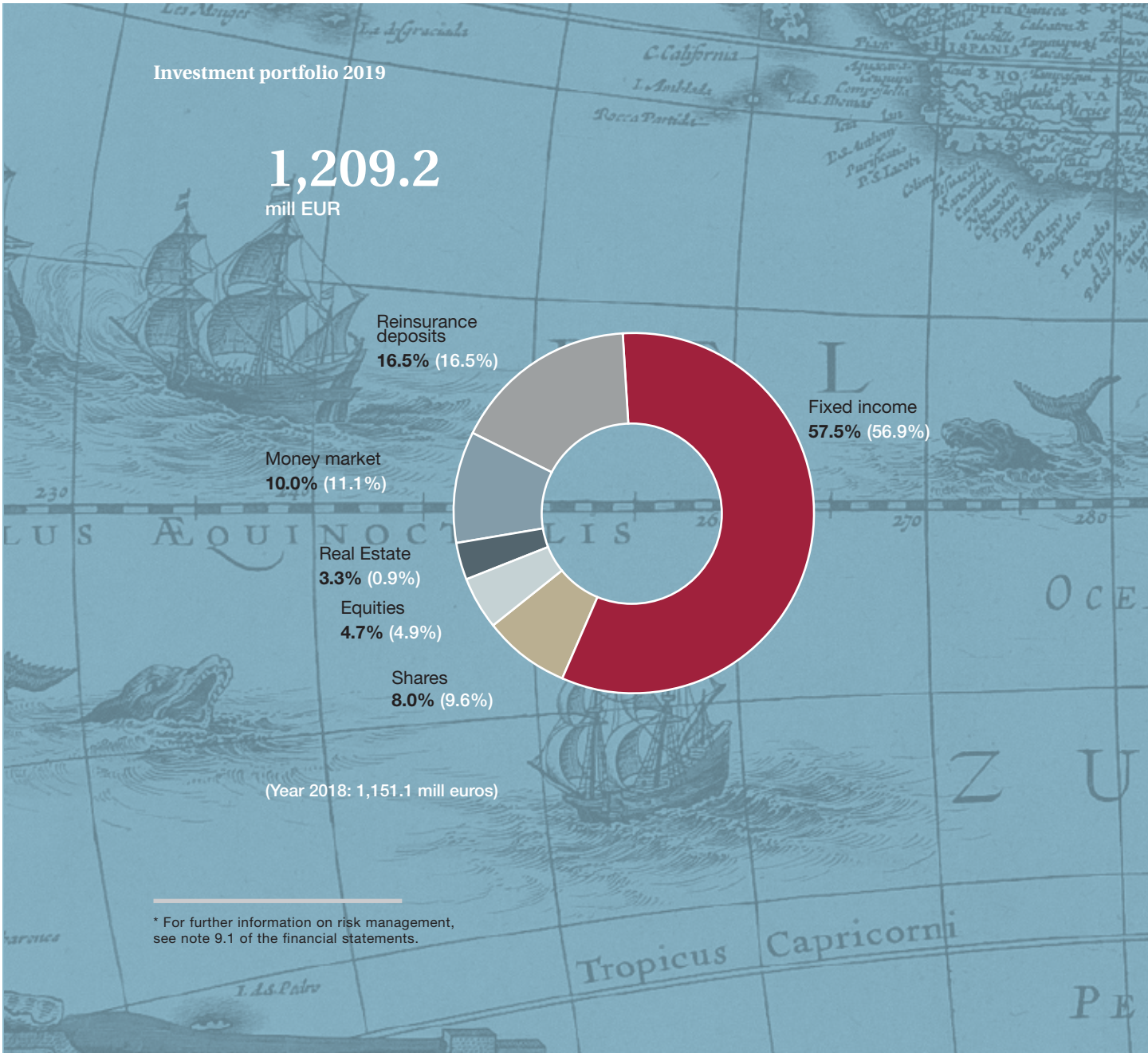
At 31 December 2019, the Company's investments amounted to 1.2092 billion euros. The composition and trends in assets are shown in the following table:

Investments	2019	2018
Long term fixed income	21,112	56,926
Short term fixed income	540,845	512,432
Investment funds	351,310	324,009
Real Estate	39,721	10,788
Shares	56,588	56,690
Reinsurance Deposits	199,671	190,284
Total Investment portfolio	1,209,247	1,151,129

(Data in thousand Euros)

Nacional's investment management focuses on risk control, in line with the principles arising from its Investment Policy, and optimises the risk-return tradeoff within a conservative risk appetite profile*.

The following diagram shows the weighting of the various assets after breaking down the composition of participations in investment funds.



Although the asset structure was stable throughout the year, the investment in property increased significantly (from 0.9% in 2018 to 3.3% in 2019) due to the acquisition in May 2019 of a building in Madrid (address: Plaza de la Lealtad, número 2). The transaction price amounted to 30.5 million euros.

The building from the early 20th century was completely renovated in 2017. The work included comprehensive refurbishment, which respected the façade's style and aesthetics, adapting the building to the prevailing regulations, and modifying and improving the top-rate facilities and offices.

The total area of that asset is 2,803 m², with commercial premises in the basement, a ground floor and seven other floors above ground, in addition to the private courtyard and a terrace on the top floor. The entire building has been leased.

The notes to the financial statements provide detailed information about the accounting method for the acquisition of that building.

There was a slight reduction in investments in other assets, except for investments in public debt and fixed-income, which rose moderately by 0.6% over the previous year.

The main features of the investment portfolio are as follows:

- International diversification both in direct positions and through investment funds.
- Investment grade ratings for fixed-income securities.
- Preference for the liquidity and flexibility of active management.
- Conservative valuation criteria.
- Assets preferentially denominated in euros.

Regarding the geographical location of investments, the aim is clearly to diversify, especially among issuers of both fixed-income and equities in developed economies. That investment strategy is necessary for maintaining high levels of quality and certainty.

Financial returns

In the aforementioned financial context, the investment structure provided a book profit of 19.7 million euros, i.e. 42.9% higher than in the previous year.

The book profit represents a 1.6% return on assets, which increases to 2.0% if we do not consider the interest on reinsurance deposits, which are a very low or nearly zero earning asset, reflecting the current low interest rate environment.

Moreover, in 2019 the assets classified as available for sale recorded a revaluation of 24.6 million euros, thus fully offsetting the negative figure recognised under "valuation adjustments" in the balance sheet at 2018 year-end.

General expenses and human resources

In 2019, the Company's general expenses amounted to 7.1 million euros, so the expense-to-premium ratio was maintained at a moderate 1.2%. This confirms that Nacional Re is a reinsurer with the highest levels of efficiency. The average payment period was within the limits established in the regulations (see note 9.8.2 of the financial statements).

In the last few years, a staff adaptation plan has been developed gradually to satisfactorily meet the new needs arising from the international diversification strategy. We believe that the goals set in this section were met in 2019, ending the year with a workforce of 59 people, i.e. 11 more than in the three-year period.

Nacional Re's team has always been characterised by a high level of professional skills, a balanced size, and commitment, obliging us to especially care about the selection, training and professional development processes of our collaborators. We also work to maintain an efficient, demanding and pleasant working environment so that employees can achieve goals while maintaining a work-life balance.

We would like to expressly acknowledge here the quality and dedication of our staff.

Corporate social responsibility

In 2019, in the field of social responsibility, Nacional de Reaseguros made an economic contribution to Fundación Carlos Sunyer. That foundation channels the corporate social responsibility projects aimed at social im-provement in the business environment and at its own philanthropic projects, including volunteer activities.

Environmental policy

While we understand that reinsurance is not a particularly polluting activity, as far as possible we aim to be aware of our responsibility towards the environment that belongs to us all.

For several years, we have been submitting voluntarily to an external assessment of the company’s environmental impact. Based on its conclusions, we undertake to foster active management leading to energy savings and preserving our scarce natural resources.

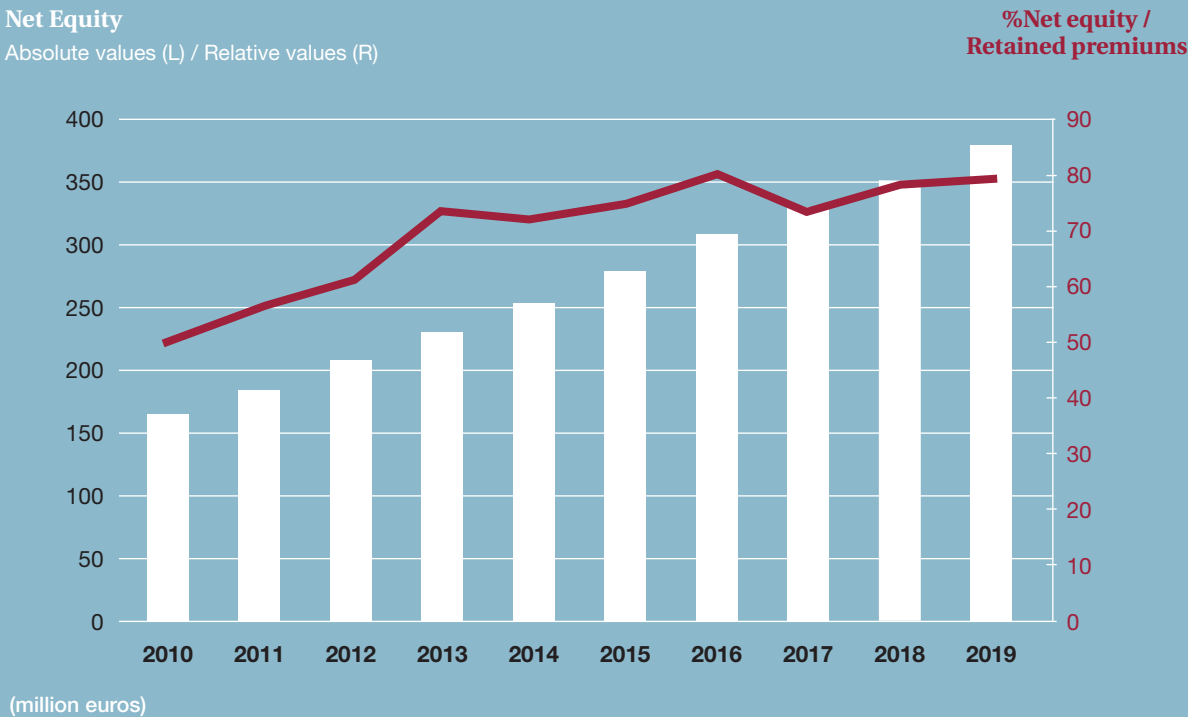
Capital and reserves

At 31 December 2019, the paid-up capital amounted to 78 million euros, after an increase of 6 million euros paid out of reserves in June that year.

In 2019, no acquisitions or transactions were made with the Company’s own shares.

The Company’s policy of increasing its resources through self-financing has been a constant feature at Nacional. Over ten years, the carrying amount of the company’s equity, after deducting the dividend to be distributed to shareholders, increased from 166.5 million euros at 2010 year-end to 377.2 million euros at 2019 year-end. That figure represents 79.9% of the retained premiums, which has been cushioned by the increase in the retention volume since 2017.

The diagram shows the trend in this figure over the last ten years.



Solvency

Regarding the Solvency II regulations, Nacional de Reaseguros applies the standard formula for calculating the solvency capital requirement in all the risk modules and sub-modules.

In line with that standard formula, the ratio between eligible own funds and the solvency capital requirement at 31 December 2018 was 258.0%, so it easily met the capital requirements.

At the date of presenting these accounts, the company is working on the Solvency II rules for 2019 and we can reveal that the results will be in line with those of the previous year.

The report on the company's financial position and solvency will be published within the regulatory period.

Rating

In 2019, S&P Global Ratings and AM Best reaffirmed the "A" rating for Nacional de Reaseguros, with a stable outlook.

	Rating	Outlook
S&P GLOBAL 29/07/2019	A	Stable
A.M. Best 16/10/2019	A (Excellent)	Stable



▲ Anonymous. Portrait of Juan Sebastián Elcano. XIX century

Earnings and proposed distribution

After reducing the pre-tax profit of 51.9 million euros to provide for income tax amounting to 11.7 million euros, net profit totalled 40.2 million euros, i.e. 8.9% higher than in the previous year.

That profit represents 6.8% of premiums and 12.1% of equity.

We propose the following **distribution of earnings**:

To the legal reserve	1,200,000.00
To the capitalisation reserve	2,280,890.01
To the unrestricted reserves	23,112,575.80
To the shareholders (dividend)	13,650,000.00
To retained earnings	0.00
Total earnings available	40,243,465.81

(Data in Euros)

The proposed **dividend** amounts to 37.1% of earnings, as follows:

- applied to shares numbered 1 to 13,000,000;
- 1,05 euros per share, i.e. 17,5% of the nominal price of 6 euros;
- 5,3% more than the year before;
- 4,1% of initial equity.

We are pleased to have obtained very positive results once again and this will enable us to reward our shareholders, strengthen the Company’s solvency and increase its equity value.

* Note: the proposed provision to the “capitalisation reserve” is because Nacional de Reaseguros is entitled to reduce its income tax base by the amount corresponding to 10% of the increase in equity during the period, by virtue of the terms of article 25 of Act 27/2014 of 27 November.



▲ Detail of the world map, Nova Orbis Tabula, 1670

Nacional de Reaseguros, S.A.

Zurbano, 8
28010 Madrid

www.nacionalre.es

nr@nacionalre.es

The electronic version of this Annual Report
is available at the Company's website.

Graphic report. V Centennial: First round the world of Magallanes-Elcano

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Detail of the cartographic map of Abraham Ortelius, 1589 ►

