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AM Best Affirms Credit Ratings of Nacional de Reaseguros, S.A.

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AMB# Company Name

094960	Consorcio Compensación Seguros
085481	Nacional de Reaseguros, S.A.

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FOR IMMEDIATE RELEASE

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AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" of Nacional de Reaseguros, S.A. (Nacional) (Spain). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Nacional's balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Nacional's risk-adjusted capitalisation remains at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), supported by strong internal earnings generation and modest underwriting leverage. The company's balance sheet strength assessment also reflects its prudent reserving approach and limited catastrophe exposure, as most natural perils in Spain are covered by the Consorcio de Compensación de Seguros, the compulsory government natural catastrophe scheme covering physical damage. AM Best expects the company's prospective capital position to benefit from high earnings retention, underpinned by a prudent dividend policy.

Nacional's disciplined underwriting approach and limited exposure to natural catastrophes have contributed to consistently strong technical results, demonstrated by a five-year (2015-2019) weighted average combined ratio of 93.2%. In 2019, the company's loss ratio remained relatively stable at 63.2% compared with 62.4% in 2018. This represents an improvement over 2017 (loss ratio of 67.8%) when results were dampened by natural catastrophe losses in territories outside of Spain. The company's 2019 profit after tax increased 9% to EUR 40.2 million.

Nacional maintains a strong competitive position as a leading independent reinsurer in Spain. Gross written premium increased by 4.1% to EUR 591 million in 2019, driven by the growth of Spain's insurance market and Nacional's steady growth in European markets outside of Spain. Nacional has expanded its international activities successfully in recent years, targeting small-to-medium sized insurers and mutual companies in Europe. In 2019, foreign business accounted for 34% of Nacional's total premium (compared to 27% in 2014), improving the geographical diversification of its portfolio. Nonetheless, uncertainties exist regarding the long-term profitability of business outside of Spain, owing to higher levels of competition from global reinsurers. AM Best believes that Nacional's expansion outside of its domestic market represents a source of potential volatility to the company's performance on a gross basis due to the exposure of this business to catastrophe losses. However, the company has demonstrated its ability to manage its catastrophe exposures through a comprehensive retrocession programme and, more recently, the acquisition and development of specialised risk management tools.

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