



Annual Report 2020

Nacional  Re

Nacional Re

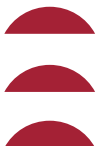
Annual Report
2020



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Board of Directors

		Management Committee	Audit and Control Committee	Nomination and Remuneration Committee	Strategy and Market Committee
Honorary Chairman	José María Sunyer Aldomá				
Chairman	José María Sunyer Sendra	●			
Deputy Chairman	José Ruiz Domínguez	●	●	●	
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	●			
	Heliodoro Sánchez Rus		●		●
	Lucía Sunyer Lachiondo	●	●	●	
	Juan Antonio Sagardoy Bengoechea			●	
	Isidoro Unda Urzáiz	●			
Secretary to the Board (not amember of the Board)	Juan Antonio Montoya Leal				

● Chairman Committee

● Member Committee

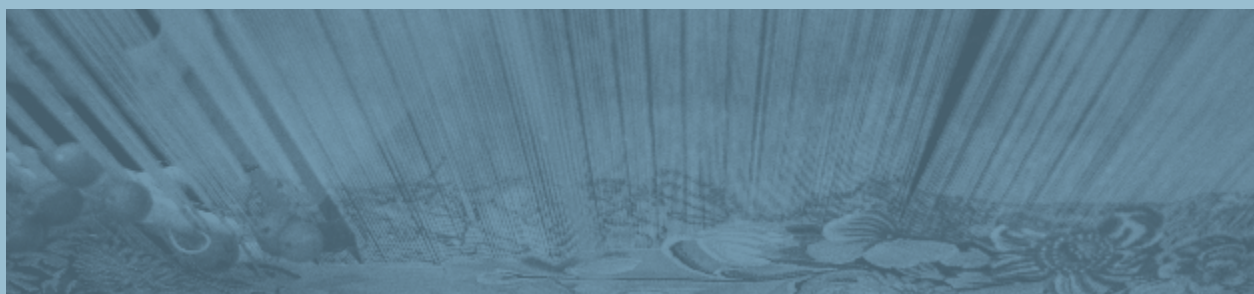






Steering Committee

Chief Executive Officer	Pedro Herrera Nogales
Chief Marketing Officer	Joaquín Coll Pueyo
Chief Financial & Operating Officer	Javier Melero Amejjide
Chief Underwriting & Actuarial Officer	Miguel Ángel Mora García
Chief International Department	David Santos Manzanares
Chief Underwriting P&C	Unai Baquero García







Letter from the Chairman



Dear shareholders,

We are pleased to present the Management Report and Annual Accounts of Nacional Re for 2020, the company's 81st financial year.

Last year will always stay in our minds, with numerous personal and collective memories. Some are very painful because of the personal and social losses caused by the pandemic. Others are positive because of the response and behaviour in such an adverse situation.

As a result of the coronavirus crisis, Spain's GDP fell by a record 11% in 2020, the worst year since 1970. That drop in activity led to a serious deterioration in the labour market, where the number of social security contributors decreased by 360,000 and unemployment increased by 725,000. Moreover, nearly 350,000 self-employed workers received the extraordinary benefit for cessation of activity and over 755,000 workers were furloughed (the ERTE scheme).

Overall in the European Union, the coronavirus crisis caused a 6.4% drop in GDP in 2020.

Logically, the lockdown due to the pandemic was felt in the insurance business in such a way that the sector's revenues in Spain decreased by 8.30% in 2020. The life insurance business fell by 20.7% while the non-life business rose by 1.1%.

After very positive contract renewals, Nacional Re began 2020 with the intention of continuing to implement its strategic plan throughout the year. Nevertheless, well into the first quarter, any such expectations fell through and we had to start implementing contingency plans to maintain the team's health and the Company's operational capability. We carried out

the necessary actions without delays or incidents, satisfactorily met all the legal obligations and managed to provide the cedants with the usual quality service by telematic means.

In a year in which it was impossible to travel and hold work meetings as usual and in which multiple events to which Nacional Re usually devotes considerable commercial efforts were cancelled, we managed to overcome all the setbacks so that we could be close to the cedants.

We also had to expand the internal processes and communication to adapt them to the new reality. We reached some milestones in this new scenario such as the first paperless renewal campaign and the implementation of our first robot, a budding and exciting process automation project.

Having overcome all the difficulties, we can now present the 2020 figures which we consider to be positive, taking into account the extraordinary context in which they were generated. More so, if we consider the impact on the business of the claims for COVID-19, with a considerable loss due to natural catastrophes, especially outside Europe, which was 17% higher than the average for the previous 10 years, and the strong impact of Storm Gloria, which seriously affected the entire Spanish insurance sector.

The highlights during the year were as follows:

- Premium income increased by 3% to 608.5 million euros, with growth in Spain (+2.9%) and in the European markets, where Nacional Re's presence continued to consolidate (+3.2%).
- Investment assets rose by 4.2%, also boosted by a favourable annual cash flow.
- The usual trend in equity was maintained, increasing by 4.3% to 393.6 million euros.
- Net profit amounted to 28.9 million euros, i.e. down 28% on 2019, which is extraordinary compared with the results of the leading insurance companies.
- As a result of the earnings obtained, a substantial amount of profit was withheld, as in previous years, in the form of reserves of 18.0 million euros, after paying a dividend to our shareholders of 10.9 million euros.

Apart from this summary, we invite you to analyse in depth all the features stated in the following pages.

The rating agencies S&P Global Ratings and AM Best ratified their "A" rating for Nacional Re, with a stable outlook, reflecting the company's resilience at a difficult time in which many ratings were downgraded.

In 2020, there were two major changes at the Board of Directors. Firstly, the beloved Jesús Quintanal died in March 2020 and he will be dearly remembered. Jesús was a member of the Board since 1988 and we will miss his countless contributions as a result of his considerable dedication and commitment to our project. He was replaced by Isidoro Unda, who joined with an outstanding record in the insurance sector at a domestic and international level.

Secondly, two new delegate committees were created by the Board: the Management Committee, to provide closer support and control to the executive team's work; and the Market and Strategy Committee, to provide Nacional Re with the directors' experience in direct insurance.

As a result of the uncertainties for 2021, we are extremely cautious but we are convinced of our project's soundness and believe that it will continue to grow in the coming years.

The special circumstances which took place in 2020, the fact that they still remain at the start of 2021, their consequences and the changes which they are generating or accelerating in many areas of our lives, the economy and businesses, have prompted us to review our Strategic Plan, a task which we are carrying out in the first half of 2021. The objective is to adapt our project to the current situation and the new reality as the anticipated end of the crisis emerges.

At the end of this very special year, we would like to thank once again our cedants for their trust, the team at Nacional Re for their commitment and efforts, and our shareholders for their invaluable and indispensable support.





Main figures

2020

Income

	Euros	% Variation
Gross Written Premiums	608,501,073	3.0%
Investment result	17,961,538	-8.9%
Total income	626,462,611	2.6%

Investments

Investments and cash	1,056,625,976	4.7%
Reinsurance deposits	203,579,402	2.0%
Total investments	1,260,205,378	4.2%

Equity

Share capital	84,000,000	7.7%
Capital reserve (ex - dividend)	309,559,954	3.5%
Total equity	393,559,954	4.3%

Results

Gross results	36,317,824	-30.1%
Income tax	7,380,000	-37.0%
Profit after tax	28,937,824	-28.1%

Attributable to:

Capital reserve	18,017,824	-32.2%
Dividend	10,920,000	-20.0%
% Dividend pay-out ratio	37.7%	

Rating

A.M. Best	'A' perspectiva estable
S&P Global Ratings	'A' perspectiva estable

Solvency II

Ratio of Admitted Equity over the Solvency Capital Required *	226%
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* As of 31st of December 2020

Technical and commercial aspects

Strategic Plan

In its second year, the "Strategic Plan 2022" was subjected to a demanding stress test due to the outbreak of the pandemic.

The Company's operational response to that unexpected, extraordinary and prolonged situation was immediate and decisive, complying with all its obligations, performing its activity in all the areas and meeting the customers' needs with the due quality that they require and which is usual in their relations with Nacional Re.

To face the challenges in 2020, conditioned by the numerous restrictions on what we were used to, the key was having an agile organisation, which fostered responsibility and initiative among all the team's members and which is a fundamental tool for generating the necessary excellence and providing the best services and products to customers with the aim of generating value and profitability.

In that complex scenario, which was entirely conditioned by COVID-19, Nacional Re applied a decisive future-proof service-minded customer-oriented approach in the technical and commercial area to consolidate the long-term close trustworthy relationships based on mutual knowledge, closeness and complete transparency.

Reinsurance premiums

Premium income amounted to 608.5 million euros, i.e. 3.0% higher than the previous year.

The Spanish market had a turnover of 400.7 million euros, i.e. 2.9% higher than the previous year. Premiums in the international markets grew overall by 3.2% to 207.8 million euros.

Despite the effects of the economic crisis caused by the health situation and, in particular, by the lockdown periods and the various restrictions on mobility and on certain activities, the positive contract renewal that the Company had made for 1 January 2020 mitigated those effects. As the year

passed, the favourable impact on the revenues from cedants, due to the various government measures and subsidies, also fostered growth in both geographical areas of around 3%.

Accepted reinsurance premiums	2020	2019	% Growth
Spain	400,687	389,417	2.9%
International	207,814	201,382	3.2%
TOTAL	608,501	590,799	3.0%

(Data in thousands of euros)

In 2020, Nacional Re maintained contracts with 378 cedants, 1.3% more than in the previous year. Of that total, 113 were in Spain while 265 were located in other countries, mainly in Europe (257). The main cedants were in the Nordic countries (51), the DACH countries of Germany, Austria and Switzerland (44), France (43), Italy (24) and Portugal (17).

Reinsurance premiums by segment

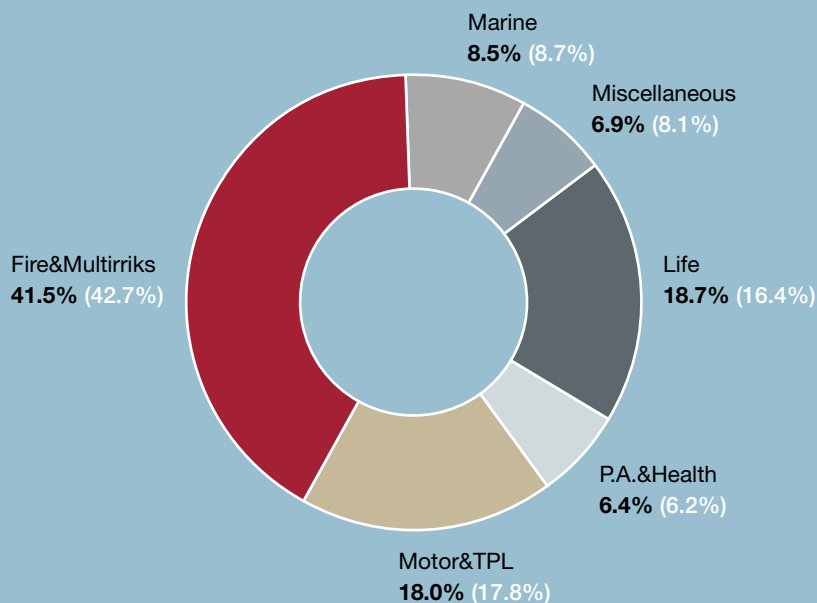
By segment, there was significant growth in Life insurance (16.9%), with revenues amounting to 113.5 million euros, and moderate growth in General insurance (0.3%), with premium revenues totalling 495.0 million euros.

Gross written premiums	2020	2019	Growth %
Fire & Multirisks	252,518	252,542	0.0%
Motor & TPL	109,365	104,922	4.2%
Marine	51,951	51,465	0.9%
Miscellaneous	42,103	48,055	-12.4%
Personal Accidents & Health	39,057	36,708	6.4%
Total Non Life	494,994	493,692	0.3%
Life	113,507	97,107	16.9%
Total	608,501	590,799	3.0%

(Data in thousand Euros)

Split by line of business 2020

608,501
Thousand Euros



(Year 2019: 590,799 thousand Euros)

Multirisks, which accounts for 41.5% of the total premiums and over 50% of the General insurance area, maintained its revenue volume (252.5 million euros). In this segment, nearly 65% of the premiums came from Spain, where overall revenues were stable (0.2%).

As a result of a demanding underwriting and renewal policy, the volume provided by the proportional programmes decreased by 4.6%. Conversely, the volume provided by the non-proportional programmes increased by 15.5% in the portfolio, with wider margins. In the facultative business line, the acceptance policy continued to be highly selective in the industrial risks segment, waiting for a somewhat positive trend in prices and conditions but this was viewed as insufficient during the year.

In **Motor** insurance, total premiums increased by 2.0% and the international business performed well (+15.4%), offsetting the decrease in revenue volume

in Spain (-7.2%), which reduced exposure to some types of coverage, with high premiums but with low profitability expectations.

Our position in Spain is highly consolidated, with participation in practically all the programmes in this market's area (38.8 million euros) and with leadership in many programmes. At the same time, we progressed with our prudent diversified portfolio in other European markets (32.9 million euros), where France is our top country, with nearly 10 million euros.

Third-Party Liability grew once again (8.7%), with increases in the obligatory segment to a total portfolio of 37.7 million euros, of which approximately 75% came from Spanish insurers. Growth was sustained by the obligatory business, which increased premium revenues by around 10%.

Marine segment increased revenues by 0.9% but with a very different performance by the Spanish portfolio which, boosted by strong market positioning and growth in cedants, rose by 18.5%; in the international portfolio, the continuity of the measures adopted to restructure some markets led to a 22% decrease.

Personal Accidents & Health grew by 6.4% to a portfolio of 39 million euros; Spain accounts for 45% and the international area 55% of this business. Out of the total premiums, 60% came from Personal Accidents and 40% from Health. Both areas are gradually starting to gain in importance in other European markets where, sometimes in combination with Life insurance, they continue to be a priority development and diversification objective.

In the **Miscellaneous** segment, with 42.1 million euros in premiums, Engineering obtained 16.1 million euros and the Credit area 24.9 million euros. Engineering rose by 11.5%, prompted by the European markets where the increase was 30%, boosted by the 36% hike in the DACH countries. Conversely, the Credit area, which was strongly affected by the economic crisis and lower revenues in the private business as a result of the government subsidies agreed by many countries, decreased by 23.6%, with a reduction in Spain of 22.8%, which is the market that concentrates the Company's portfolio acceptance (93% of total premiums).

The **Life** business increased significantly (16.9%) to total premiums of 113.5 million euros. It grew in Spain (15.8%) and doubled its premiums in the international area, with growth in various markets as a result of the effort

to prioritise underwriting in this business line. In 2020, 24% of the total premiums in this segment came from the international area.

Reinsurance premiums by market

Spain continues to be Nacional Re's largest market, with revenues of 400.7 million euros, after recording 2.9% growth, with a strong boost in Life (15.8%) and Transport (8.5%), a slight advance in Multirisks (0.2%) and a decrease in some business lines, especially the Credit area (-22.8%).

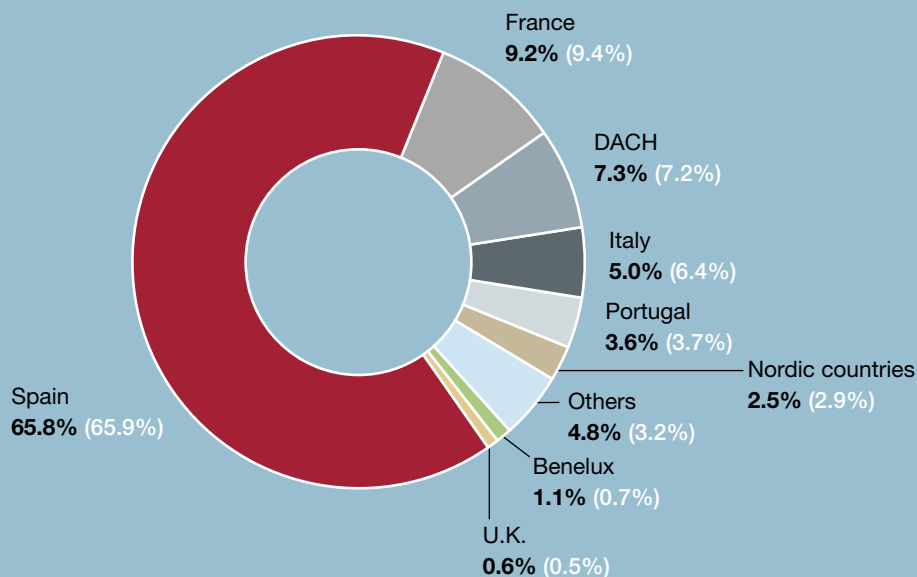
In that market, the Company manages 55% of the cedants, with a direct majority participation of over 90%.

The **international area** grew by 3.2% to 207.8 million euros, with positive performance in some of the larger markets such as the DACH countries

Geographical Split 2020

34.2%

International business



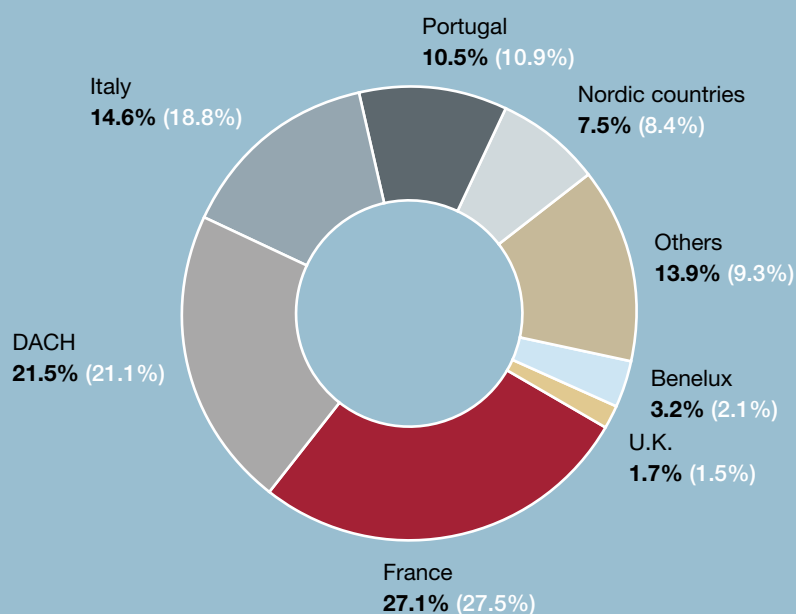
(Year 2019: 34.1% International business)

(4.7%) and others where the activity started more recently such as Benelux (55.0%).

As a result of the 10-year track record in actively developing the international portfolio, Nacional Re is becoming a recognisable brand with a unique identity in the European countries. It is noteworthy that one-third of the premiums in this portfolio are now accepted directly, without intermediation. In a highly competitive industry, the coming years will be important for reinforcing our market position so that we can manage a balanced portfolio that is sufficiently profitable in the medium and long term and has growth options.

France continued to be our top international market, with a total of 56.2 million euros in premiums (+1.2%). The continuity of most of the main programmes and the entry of new customers reinforced the strong diversification by business line, especially the portfolios of Motor and Third-Party Liability, Life and Multirisks. The strong mutual sector in this market

International Split 2020



continued to be a priority objective, where the Company wants to explore the already significant penetration. The Company will insist on progressive greater involvement in the Life and Personal Accident insurance areas in general, where it begins to see many growth opportunities.

The **DACH** countries (Germany, Austria and Switzerland) followed suit, with revenues amounting to 44.7 million euros (+4.7%). Multirisks represented two-thirds of total premiums (66.4%), with 3% annual growth, only slightly reducing its relative weighting in favour of diversification towards other business lines, especially Engineering (+36%), with 5.2 million euros in premiums, and Personal Accidents (+14.5%), with 3 million euros in premiums.

In **Italy**, a further step was taken to adjust the portfolio to achieve the necessary balance and the expected positive results. The premiums totalled 30.4 million euros (-19.7%), with a significant reduction in exposure, especially in Multirisks (-39.2%) and Marine (-12.8%), while there was growth in other lines such as Motor (+7.6%).

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

- **Portugal** did not experience major changes with respect to the previous year and maintained a similar premium volume (-0.8%), with total income of 21.8 million euros. The moderate reduction in Multirisks (-11.6%) and Marine (-11.6%) was offset with growth in Life (+97%) and Motor (+40.8%).
- The **Nordic countries**, with total revenues of 15.5 million euros (-9.0%), were affected by specific cancellations due to the disappearance of programmes from the market, with strong premium volumes in the Personal Accidents and Motor insurance lines. Besides those specific movements, this market performed positively, with increases especially in Multirisks (+18.9%), which contributed 72.6% of the total. In the coming years, the efforts in this market should focus on increasing the contribution from each cedant, by taking advantage of the already significant penetration in all the countries making up this area.
- **Benelux** continued to progress, where the premium portfolio soared 54.9% to 6.7 million euros, especially Motor (1.9 million euros) and Multirisks (3.3 million euros).

In general, business growth in the international arena focused on obligatory contracts. By business line, there was stability in Multirisks (-0.3%), a decrease in Marine (-22.2%), and growth in Life (+20.6%), Personal Accidents and Health (+15.9%), and Motor and Third-Party Liability (+7.6%).

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 2020	Spain	% o/ total	International	% o/ total	Total
Fire & Multirisks	163,320	26.8%	89,198	14.7%	252,518
Motor & TPL	66,990	11.0%	42,375	7.0%	109,365
Marine	34,630	5.7%	17,321	2.8%	51,951
Miscellaneous	31,649	5.2%	10,454	1.7%	42,103
Personal Accidents & Health	17,417	2.9%	21,640	3.6%	39,057
Total Non Life	314,006	51.6%	180,988	29.7%	494,994
Life	86,681	14.2%	26,826	4.4%	113,507
Total	400,687	65.8%	207,814	34.2%	608,501

(Data in thousand Euros)

Retention: Underwriting premiums and provisions

Nacional Re arranges retrocession protection to mitigate business volatility and the effects of high-intensity or accumulation of claims for catastrophic events. In combination with that prudent policy, which is a normal practice by reinsurers when managing risks, the Company fully assumes a philosophy that is always aimed at overall profitability, within the framework of its traditionally moderate risk appetite.

The retention amounts reflect the nature and performance of the risk that is actually retained, which the Company meets with its equity, after discounting the impact transferred to the retrocessionaires and the cost associated with arranging protection coverage.

In 2020, the retention was 78.9% of the accepted premiums (79.9% in 2019). The retained premiums amounted to 480.5 million euros, i.e. 1.8% more than in 2019.

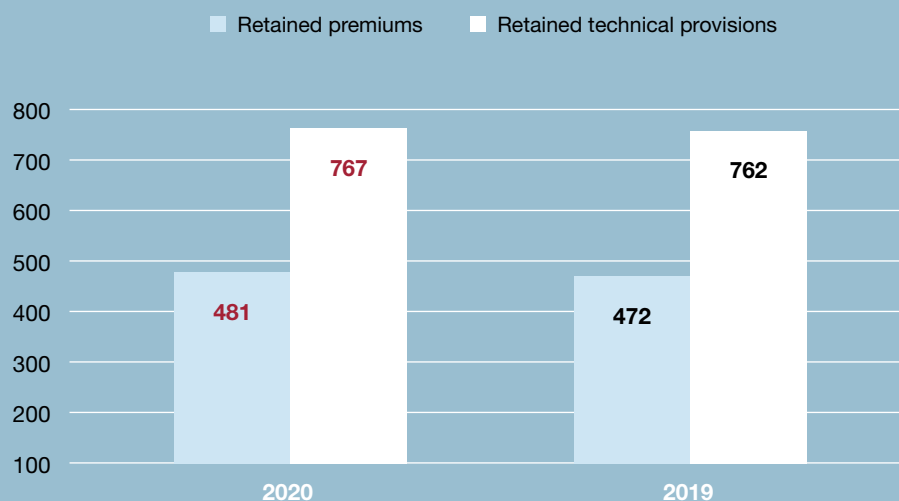
In accordance with the information provided by the cedants and the features of each business line and the specifics of the risks, based on their nature and location, the Company establishes the amount for underwriting provisions to meet all the obligations assumed as a result of the reinsurance business acceptances. Such obligations, net of the retrocession protection, amounted to 766.9 million euros (762.2 million euros in 2019): 631.8 million euros for the General insurance lines (171.7% of the retained premiums in these areas) and 136.6 million euros in Life insurance (121.4% 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 volume of premiums and underwriting provisions retained in the last two years.

Premiums and Technical Provisions

(Data in Millions Euros)



Underwriting results

Net underwriting profit amounted to 26.1 million euros, i.e. 5.4% of the retained premiums. This means that there was a significant decrease with respect to 2019 (8.4%).

That change was due to a greater frequency of serious claims higher than in 2019 and extraordinary claims, mainly due to the effects related to the COVID-19 pandemic and Storm Gloria, which devastated most of Spain at the start of the year. In economic terms, the net impact at 2020 year-end was 8.7 million euros and 11.7 million euros, respectively.

Net underwriting results	2020	% over retained premiums	2019	% over retained premiums
Fire & Multirisks	-29,264	-18.3%	-150	-0.1%
Motor & TPL	23,006	21.9%	19,875	19.8%
Marine	2,173	6.5%	-363	-0.9%
Miscellaneous	11,316	33.1%	9,251	22.1%
Personal Accidents & Health	7,469	21.3%	3,746	11.3%
Total Non Life	14,700	4.0%	32,359	8.6%
Life	11,369	10.1%	7,275	7.6%
Total	26,069	5.4%	39,634	8.4%

(Data in thousand Euros)

Underwriting results by business line

The **Life** business delivered a profit of 11.4 million euros (10.1%), while the **General insurance** lines provided a profit of 14.7 million euros (4.0%).

As can be seen, the decrease in underwriting results was due to lower earnings in General insurance and, specifically, a loss in **Multirisks**.

The year's two main claims events focused on this business line.

On one hand, the damage caused by Storm Gloria affected over 30 cedants of Nacional Re in the Spanish market, mainly via the obligatory contracts through which they cede part of their portfolio plus the effects suffered by the retention protection contracts.

As stated in last year's annual report, we must highlight the growing frequency in claims for natural events. The upward trend in such events, in terms of both their frequency and intensity, in the international area and in Spain, ratifies the priority we give to controlling risks and being prudent when accepting business exposed to these types of phenomena.

On the other hand, we must highlight the claims related to COVID-19 specifically and, above all, to the lockdowns established by the authorities of several countries, mainly Germany and Switzerland, and, to a lesser extent, Austria, France and the Nordic countries. In such cases, business interruption clauses which did not require prior property damage or were drafted to protect these types of situations granted the coverage applicable to business closures issued by the central or local governments aimed at preventing the spread of the virus.

In total, we received over 30 claims from entities located mainly in Central Europe.

We also received claims for cancellation of events or trips, through contracts in the Personal Accidents and Marine areas, and a certain number of claims in the Personal Accidents insurance line for infections and their effects in the form of disabilities or death.

Special mention must be made to the **Marine** area which, after several renewals guided by the implementation of restructuring measures, delivered positive results (6.5%). The results were balanced in Spain (0.3%) and very positive in the international area (2.1 million euros; 19.6%).

In **Motor and Third-Party Liability**, the positive results were delivered once again (21.9% vs. 19.8% in 2019), with good performance in Spain (26.6%) and abroad (14.8%). In general, Motor insurance performed atypically in all the markets as a result of lower vehicle use due to the mobility restrictions generated by the health situation, which led to a reduction in the frequency. In Third-Party Liability, which was affected by specific claims, the results slowed although this segment still provided 5.7%.

In **Miscellaneous** insurance, net profit amounted to 11.3 million euros in the year as a result of the performance by Engineering and the Credit area, which accounted for over 65% of the segment's premiums; the key was the formalisation of numerous agreements with governments which drastically reduced exposure to the private sector and, together with the delay in the

effects of the economic crisis due to the direct subsidies to the most affected sectors of the economy, helped to contain claims.

Lastly, there was also good performance by the **Personal Non-Life areas:** Personal Accidents (22.7%) and Health (19.7%). In both cases, those business lines contributed to balancing the accounts in the various geographical areas, with very positive results in Spain (30.7%) and in the international area (13.2%).

In the **Life** business, the contribution was positive from both Spain (14.0%) and from International (9.8%). In Spain, a mature market with considerably fewer direct players than several years ago, the Company's efforts focus on providing high added value services to cedants by giving expert advice and developing new products. In Europe, interesting opportunities are being identified which are starting to take shape and will be a growth driver in the coming years, insofar as the Company is able to provide some service capability which is usually necessary and highly valued by the cedants.

Underwriting results by market

In short, the portfolio provided a combined ratio of 94.6%, higher than the ratio in the previous year (91.5%), due to more claims as stated in previous sections.

Despite that increase with respect to 2019, the figure will be significantly better than that of the main reinsurers; to that end, the estimates for the industry's combined ratio will clearly be above 100%.

That better performance reflects the features of Nacional Re's portfolio, with moderate risk and lower exposure to catastrophic events than the standard portfolio of an international reinsurer and its principle of prudence in risk underwriting and management.

The Spanish business delivered an underwriting profitability of 6.4%, lower than the 10.2% in the previous year, due to more claims as a result of Storm Gloria and a larger impact of intensity claims.

The international business reduced its underwriting profitability (3.4%) with respect to the previous year (4.4%), influenced by the claims related to coronavirus, despite being a year with a soft impact from other serious claims in this area.

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

- Italy provided profitability of 1.3% (-12.2% in 2019). The portfolio in that country has started to bear fruit in recent years, with strong repositioning measures and reduced exposure to some business lines.
- The DACH countries delivered 3.3% (15.4% in 2019), despite the impact of the COVID-19 claims, while the other business lines offset the poor performance by Multirisks (+7%).
- France, which remained its leading international market, achieved profitability of 4.6% (6.1% in 2019).
- Benelux is gradually gaining some volume and obtained over 1 million euros in profit (21.5% vs. 27.9% in 2019).
- The rest of Europe, mainly the Czech Republic, Poland, Greece and Andorra, contributed 4.2% overall (11.7% in 2019).

Portugal delivered slightly negative performance, with a loss of around 500,000 euros, conditioned by poor results in the Marine, Motor and Life insurance areas.

The Nordic countries, which were affected by some intensity claims and others related to the effect of COVID-19, provided neutral results (-0.2% vs. -7.2% in 2019).

In short, the portfolio is gaining equilibrium and helping us to overcome years with special claims in some markets, with results which are logically conditioned by the pandemic but which reasonably resist compared with the competition. The stated upward trend in climate events and their impact, plus the growth trend expected by the Company in the coming years, require decisive risk management that is fully coherent with our underwriting policies.

The recent contract renewals for 2021 improved our market conditions and continued Nacional Re's portfolio rebalancing strategy, both of which should lead to positive results in the coming years.

Net underwriting results	2020	2019
Spain	6.4%	10.2%
International	3.4%	4.4%
Total	5.4%	8.4%

(% over retained premiums)

Underwriting and financial results

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 30.1 million euros, i.e. 33.9% lower than the previous year.

Technical and financial results	2020	2019
Fire & Multirisks	-28,994	747
Motor & TPL	25,704	23,092
Marine	2,438	-63
Miscellaneous	12,179	10,282
Personal Accidents & Health	7,674	4,007
Total Non Life	19,001	38,065
Life	11,080	7,415
TOTAL	30,081	45,480

(Data in thousand Euros)

Financial aspects

When going over the economic and financial matters for 2020, we must remember that the year started with a focus on three major areas of the financial markets:

- The trade war between the United States and China.
- The stagnant world economic growth.
- The tensions arising from Brexit.

Nevertheless, 2020 will be remembered as the year of the worldwide pandemic caused by COVID-19, which was first reported in Wuhan (China) on 31 December 2019, with unimaginable health and financial consequences which have affected the entire planet and which continue in 2021.

The measures adopted by the countries to combat the virus included lockdowns which shut down worldwide economic activity for many weeks. Those measures caused an economic collapse, where global GDP fell by 3.5%, according to the IMF data, i.e. the largest drop on record, and what is most serious: it has caused over two million deaths around the world.

The developed countries were the worst hit by that crisis: the United States contracted by 3.4%, the euro zone by 7.2% and Spain by 11% (where the pandemic was particularly devastating).

In the financial markets, the health crisis, especially at the start, sank the world's stock markets, which plummeted 25%-35%, and shrank bond, gold and oil prices, which led to a significant market distortion and an unprecedented increase in volatility.

To offset the effects and combat the economic shock, the world's main central banks and governments, especially those of the United States and the European Union, implemented diverse financial support and tax incentive programmes with an unparalleled intensity and size:

A direct consequence of that health and financial crisis will be higher global debt, which has reached record levels throughout the world. Debt is expected to climb to 126% of GDP in the developed economies and 100% in the emerging economies.

The budget deficit will also soar to 14% in the Western world.

As a result of the measures agreed, some of which were implemented in 2020 and others will be effective in 2021, plus the positive news on the effectiveness of some COVID-19 vaccines, the financial markets mitigated the losses suffered in March 2020 and ended the year with better results, although some were positive and others were negative depending on the country. In Europe, only the DAX ended positively (+3.55%); Spain's IBEX 35 was the worst performer, with a drop of 15.45%. In the United States, the Nasdaq rose by 47.58%, and the Dow Jones Ind by 7.25%.

This clearly shows that there is a full disconnect between the economy and the stock markets—a situation which has not yet recovered and it is unlikely to do so in the near future.

The year 2020 was not devoid of political events either which had an effect on the financial world: the US election, in which Joe Biden won; and the uncertainty arising from the Brexit negotiations, which finally concluded with an agreement at the end of December.

Regarding the outlook for interest rates, as a result of the outbreak of COVID-19, the probability of a rate hike has fallen significantly, at least in the near future.

In Spain, the main macroeconomic figures for 2020 reflect an unprecedented situation: an 11% fall in GDP, an increase in the unemployment rate to 16.2%, a 0.5% decrease in consumer prices, and a country risk premium below 61 basis points.

Investment composition and strategy

At 31 December 2020, the Company's investments amounted to 1.260,2 billion euros, i.e. up 4.2% on 2019. The composition and trends in assets are shown in the following table:

	2020	2019
Long term fixed income	33,718	21,112
Short fixed income	542,584	540,845
Investment funds	384,833	351,310
Real Estate	39,624	39,721
Shares	55,866	56,588
Reinsurance Deposits	203,580	199,671
Total Investment portfolio	1,260,205	1,209,247

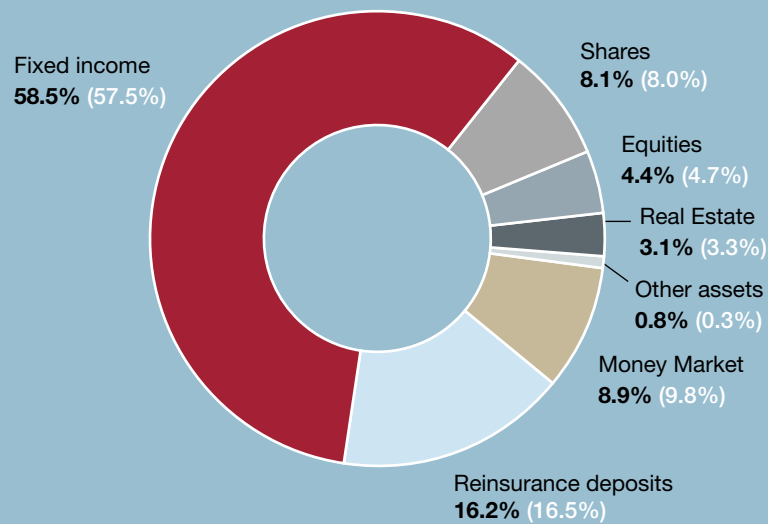
(Data in thousand Euros)

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.

Investment Portfolio 2020

1,260.2
millions Euros



(Year 2019: 1,151.1 millions Euros)

In general, the asset structure was stable throughout the year. Fixed-income investments rose slightly, by 1% on 2019, since part of the maturities in money market investments were channelled towards that group as there was no product supply as a result of the zero or negative interest rate situation.

After the Company's acquisition in May 2019 of the property located at Plaza de la Lealtad núm. 2 in Madrid, its direct investment in properties remained stable in absolute terms and accounted for 3.1% of the total portfolio in 2020.

The "other assets" category, which represents less than 1% of the portfolio, includes alternative investments (infrastructure, venture capital, etc.).

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 complicated financial context of 2020, and after the valuation of the Company's investment portfolio was affected by significant losses at the start, in line with the market shock, the prudent and defensive investment structure benefited positively from the financial market improvements and the Company ended the year with a book profit of 18 million euros, including the loss of 1 million euros from the valuation of currency positions for reinsurance contracts.

The book profit represents a 1.5% return on assets, which increases to 1.8% 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, the assets classified as available for sale ended 2020 with a slight year-on-year decrease of 1.7 million euros, reflected in the balance of -1.6 million euros recognised under "valuation adjustments" in the balance sheet.

General expenses and human resources

In 2020, the Company's general expenses amounted to nearly 7.6 million euros, so the expense-to-premium ratio was maintained at a moderate 1.24%. Once again, this confirms that Nacional Re is a reinsurer with the highest levels of efficiency.

The plan to adapt the staff to the business volume and characteristics was culminated at the start of 2020 when one person joined Nacional Re's team. We ended the year with 59 people.

Nacional Re's team has always been characterised by a high level of professional qualifications and commitment. That is why we persevere in our special commitment and care in each selection process.

We also work to maintain an efficient, demanding and pleasant working environment so that employees can achieve goals while maintaining a work-life balance.

The quality and dedication of our workforce always deserve our express acknowledgement to their effective work but this year the acknowledgement is much more worthy and special since they have carried out their work under the exceptional circumstances imposed by the COVID-19 pandemic.

Since the start of the health crisis and until mid-June 2020, when face-to-face activity partially resumed, all the workforce carried out their work remotely. In that way, we managed to maintain our employees' health and ensure business continuity without interrupting our activity at any time.

Corporate social responsibility

In 2020, 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 improvement in the business environment and at its own philanthropic projects, including volunteer activities.

To respond to the health crisis, Nacional Re participated in the sector's initiative to boost the arrangement of Group Life insurance to cover the professionals of the Spanish National Health System against the risk of death and hospitalisation caused directly by COVID-19.

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 2020, the paid-up capital amounted to 84 million euros, after an increase of 6 million euros paid out of reserves in June that year.

In 2020, no acquisitions or transactions were made with the Company's own shares.

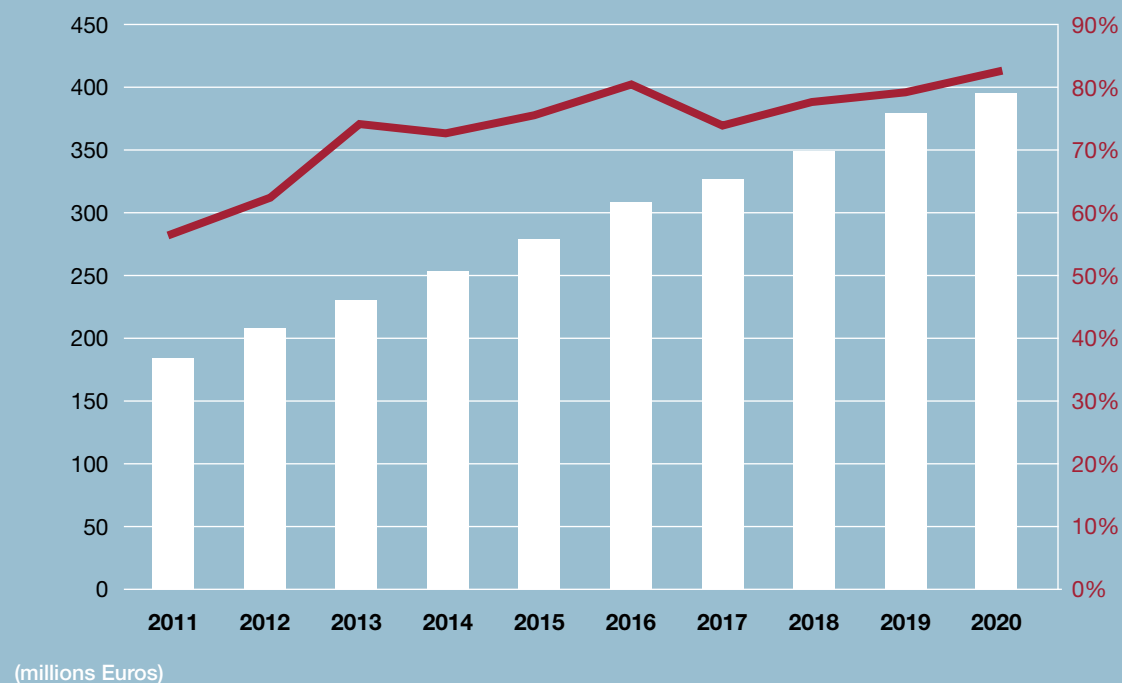
The Company's policy of increasing its resources through self-financing has been a constant feature at Nacional. Over ten years, the carrying amount of the company's equity, after deducting the dividend to be distributed to shareholders, increased from 186.8 million euros at 2011 year-end to 395.2 million euros at 2020 year-end. That figure represents 82.2% of the retained premiums.

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

Net Equity

Absolute values (L) / Relative values (R)

**% Net equity /
Retained premiums**



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 2020 was 226%, so it easily met the capital requirements.

In 2020, as a result of the adverse economic effects around the world as a result of COVID-19, the Company constantly monitored the solvency ratio, confirming that it remained at a high level and did not show any signs of being compromised at any time.

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

Rating

In 2020, S&P Global Ratings and AM Best reaffirmed the "A" rating for Nacional de Reaseguros, with a stable outlook.

	Rating	Outlook
S&P Global Ratings		
06/11/2020	A	Stable
A.M. Best		
08/10/2020	A (Excellent)	Stable

Earnings and proposed distribution

After reducing the pre-tax profit of 36.3 million euros to provide for income tax amounting to 7.4 million euros, net profit totalled 28.9 million euros, i.e. 28% lower than in the previous year.

That profit represents 4.8% of premiums and 7.7% of equity.

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

To the legal reserve	1,200,000.00
To the capitalisation reserve	2,539,346.58
To the unrestricted reserves	14,278,477.82
To the shareholders (divident)	10,920,000.00
Total earnings available	28,937,824.40

Data in Euros

The proposed **dividend** amounts to 37.7% of earnings, as follows:

- applied to shares numbered 1 to 14,000,000;
- 0.78 euros per share, i.e. 13% of the nominal price of 6 euros;
- 20% less than the year before;
- 2.9% of initial equity.

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

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