

Best's Credit Rating Effective Date

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Information

[Best's Credit Rating Methodology](#)

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Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Nacional de Reaseguros, S.A.

AMB #: 085481 | **AIIN #:** AA-1840680

Ultimate Parent: AMB # 046129 - Corporacion Europea de Inversiones, SA

Best's Credit Ratings

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable Action: Affirmed

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Very Strong**

- The risk-adjusted capitalisation of Nacional de Reaseguros, S.A. (Nacional), is at the strongest level according to Best's Capital Adequacy Ratio (BCAR), benefiting from low underwriting leverage.
- The company's risk-adjusted capitalisation benefits from low volatility due to a focus on proportional reinsurance and low exposure to natural catastrophe risk as these risks are covered by the Consorcio de Compensación de Seguros.
- The company has no financial leverage, prudent reserving, and strong liquidity.

Operating Performance: **Strong**

- Nacional has a strong and stable operating performance track record, with a five-year weighted average return on equity of 10.1% and pre-tax profit of EUR 36.3 million in 2020.
- Despite a competitive operating environment, the company's proportional-dominated underwriting portfolio delivered stable results, particularly in Nacional's domestic market.
- In 2020, the non-life combined ratio deteriorated from 92.8% reported in 2019 to 97.6% driven by a higher loss ratio due to catastrophe events and COVID-19-related claims. The company's five-year average combined ratio is 94.1% (2016-2020).

Business Profile: **Neutral**

- Nacional has a strong competitive position within Spain with good cedant relationships and moderate dependence on brokers.
- The company continued its prudent international expansion with overseas gross premiums reaching 34% of the company's profile in 2020.
- The company's profile remains concentrated in Spain and property is its main line of business, representing 41.5% of gross written premiums in 2020.

Enterprise Risk Management: **Appropriate**

- Nacional's enterprise risk management (ERM) is appropriate relative to its risk profile.
- The company has an effective risk reporting and governance structure in place. In 2018, the company developed and deployed an ERM project that includes rating models and best practices, and it operates this model on an ongoing basis.
- Nacional has effectively reduced risk in its investment portfolio by reducing concentration in Spanish sovereign debt.

Outlook

- The stable outlooks reflect AM Best's expectation that the company will maintain its very strong balance sheet strength through continued internal capital generation. Additionally, AM Best expects Nacional to continue its strong level of operating performance supported by stable underwriting results.

Rating Drivers

- Negative rating pressure could result from a deterioration of Nacional's currently strong level of operating performance.
- A material deterioration in risk-adjusted capitalisation could also lead to negative rating pressure.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	61.5	46.8	40.8	39.3

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)
Net Premiums Written:					
Life	112,579	95,942	89,203	86,007	81,694
Non-Life	367,935	376,246	361,179	357,618	297,303
Composite	480,514	472,188	450,382	443,625	378,997
Net Income	28,938	40,243	36,969	32,114	37,743
Total Assets	1,510,794	1,432,416	1,373,873	1,374,941	1,270,819
Total Capital and Surplus	404,480	390,927	345,165	339,574	319,247

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	11,080	7,415	9,261	8,776	943	...
Balance on Non-Life Technical Account	8,974	26,688	25,775	14,812	29,423	...
Net Income Return on Revenue (%)	5.9	8.4	8.0	6.5	9.4	7.6
Net Income Return on Capital and Surplus (%)	7.3	10.9	10.8	9.7	12.4	10.1
Non-Life Combined Ratio (%)	97.6	92.8	92.9	96.1	90.4	94.1
Net Investment Yield (%)	1.1	1.1	1.0	0.7	1.6	1.1
Leverage:						
Net Premiums Written to Capital and Surplus (%)	118.8	120.8	130.5	130.6	118.7	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Nacional de Reaseguros, S.A. (Nacional)'s risk-adjusted capitalisation as measured by Best's Capital Adequacy Ratio (BCAR) remains within the 'strongest' assessment primarily supported by modest underwriting leverage. Capital and surplus increased by 3.5% to EUR 404 million in 2020, due to continued positive results and a moderate dividend pay-out ratio of 34%. The quality and diversification of the company's invested asset base has improved over the years, with Nacional reducing its concentration in Spanish assets from around 50% in 2012 to 20% at year-end 2020. The company's fixed-income duration is just under 4 years, in line with liabilities. Nacional has demonstrated significant reserve margins above external best estimates and an appropriate retrocession programme to mitigate volatility and protect the company's underwriting activity. Nacional has an unleveraged balance sheet with no debt.

Capitalisation

Nacional has risk-adjusted capitalisation at the 'strongest' level as assessed by the BCAR. Its risk-adjusted capitalisation benefits from limited catastrophe exposure within Spain due to the Consorcio de Compensación de Seguros (CCS), the compulsory government natural catastrophe scheme covering physical damage. This allows the company to have lower volatility in its capital position compared to most reinsurance peers. The company has a modest level of underwriting leverage with net written premiums of EUR 480 million compared to a capital base of EUR 404 million in 2020. Prospective risk-adjusted capitalisation is expected to remain at the strongest level based on the company's expectations of positive operating performance underpinned by its strategic controlled growth and prudent capital management.

Balance Sheet Strength (Continued...)

Capital Generation Analysis	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)
Beginning Capital and Surplus	390,927	345,165	339,571	319,247	291,784
Net Income	28,938	40,243	36,969	32,114	37,743
Net Unrealized Capital Gains (Losses)	-1,735	18,478	-20,595	-490	430
Change in Equalisation and Other Reserves	-6,000	-5,999	-6,000	-6,000	-6,000
Net Change in Paid-In Capital and Surplus	6,000	6,000	6,000	6,000	6,000
Stockholder Dividends	-13,650	-12,960	-10,780	-11,300	-10,710
Net Change in Capital and Surplus	13,553	45,762	5,594	20,324	27,463
Ending Capital and Surplus	404,480	390,927	345,165	339,571	319,247
Net Change in Capital and Surplus (%)	3.5	13.3	1.6	6.4	9.4

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2020	2019	2018	2017	2016
Liquid Assets to Total Liabilities	91.5	92.8	91.9	92.3	93.6
Total Investments to Total Liabilities	95.1	96.6	92.9	93.4	94.8

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Nacional's investment portfolio allocation is dominated by liquid assets composed of fixed income, mutual funds and money market securities. The company has a low appetite for credit and duration risk. The asset allocation to higher risk assets, including real estate and private equity, increased to 12% of the invested portfolio at year-end 2020. Nacional's direct investments in equity are limited to a strategic holding of EUR 50.7 million in Grupo Compañía Española de Crédito y Caución, S.L. (Grupo CyC), and three smaller holdings to a total value of EUR 52.9 million at year-end 2020. Most of the company's investments are directly managed whereas funds are co-managed with external experts. The company has limited duration risk as the majority of its business is in short-tail lines.

Composition of Cash and Invested Assets	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)
Total Cash and Invested Assets	1,052,296	1,005,720	956,164	966,698	901,637
Cash (%)	3.2	2.1	5.9	2.2	6.9
Bonds (%)	51.2	53.4	53.1	59.5	53.6
Equity Securities (%)	41.9	40.6	39.8	37.3	38.3
Real Estate, Mortgages and Loans (%)	3.8	3.9	1.1	1.1	1.2
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Nacional have a prudent reserving approach. The company has demonstrated a very strong reserving position with reported reserves well in excess of best estimates as determined by an external third party. Additionally, the company avoids long tail and catastrophic lines of business within its non-life portfolio so there is a low risk of reserve volatility.

Holding Company Assessment

Nacional is majority owned by Corporación Europea de Inversiones (CEI), an investment holding company which specialises in the insurance sector. CEI is a non-operating holding company and has a neutral impact on the assessment of Nacional's balance sheet strength.

Operating Performance

Nacional's strong operating performance assessment is supported by the company's 5-year weighted average return on equity of 10.1% and consistently good level of underwriting profitability. The company's underwriting portfolio is weighted towards proportional business; this combined with a low level of catastrophe exposure limits volatility in underwriting performance.

Nacional's disciplined underwriting approach and limited exposure to natural catastrophes have contributed to consistently strong technical results, demonstrated by a five-year (2016-2020) weighted average combined ratio of 94.1%. In 2020, the company's loss ratio deteriorated to 66.8% (2019: 63.2%), driven by COVID-19-related losses in its non-domestic portfolio combined with losses from storm Gloria in Spain. Nonetheless, the company's net result remained positive at EUR 28.9 million. Despite volatility in capital markets, net investment income including gains and losses remained positive at EUR 16.5 million in 2020.

Nacional's technical performance is supported by strict underwriting guidelines that focus on conservative risk selection and low net maximum exposures per line of business. Exposures are carefully monitored and covered through a comprehensive retrocession programme. With 74% of its business written on a proportional basis, the company has been benefiting from the good results of its domestic market, where natural catastrophe risks are limited. Most of these risks are covered by the Spanish government scheme, CCS, which absorbs physical damage losses arising from catastrophic events in Spain. The company has continued to reduce the amount of facultative business written due to unprofitable results.

Nacional has a relatively prudent investment philosophy that has produced good and stable investment yields over the years. The company mainly focuses on risk control and liquidity. In 2020, the company reported a net investment return (inc. gains) of 1.7%, which is in line with its 5-year weighted average of 1.8%.

As of half year 2021, Nacional has continued to operate profitably, with a slight better net income of EUR 17.4 million (versus EUR 12.3 million in the first half of 2020) supported by a better loss ratio, despite exposure to storm Filomena in Spain.

Financial Performance Summary	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)
Pre-Tax Income	36,318	51,963	47,659	41,124	47,013
Net Income after Non-Controlling Interests	28,938	40,243	36,969	32,114	37,743

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	2.0	2.9	2.7	2.4	3.0
Return on Capital and Surplus	7.3	10.9	10.8	9.7	12.4
Non-Life Performance:					
Loss and LAE Ratio	66.8	63.2	62.4	67.8	58.8
Expense Ratio	30.7	29.7	30.5	28.4	31.7
Non-Life Combined Ratio	97.6	92.8	92.9	96.1	90.4

Source: BestLink® - Best's Financial Suite

Business Profile

Nacional maintains a strong competitive position as a leading reinsurer in Spain. The company has been operating for more than 80 years and has a strong competitive position in its domestic market, with established relationships with its main cedants. However, the company's overall size remains limited when compared with its international reinsurance competitors. Nacional has embarked on a strategy to improve diversification by selectively expanding its foreign activities to reduce its dependence on its domestic market.

Nacional is a composite reinsurance company predominantly focused on non-life risks. At year-end 2020, non-life business represented 81.3% of gross written premium (GWP). Nacional's profile primarily consists of proportional treaties, which account for 74% of business written, with the remainder consisting of non-proportional treaties (18%) and facultative contracts (7%). Nacional's profile has benefited from growth in the Spanish primary insurance market as well as its prudent international expansion. Nacional's non-life GWP increased by 0.3% to EUR 495 million in 2020, while the smaller life portfolio, which reinsures solely mortality risk, grew by 16.9% to EUR 113.5 million.

Business Profile (Continued...)

Nacional has successfully operated as a local market reinsurer, establishing an excellent reputation and strong relationships with cedents in the market. However, Nacional's concentration and dependence to its domestic market was highlighted during the financial crisis and the company decided to undergo a strategic shift to diversify part of its operations away from Spain. The company has successfully executed this initiative as demonstrated by the decrease of business written in Spain from 84% of total premium in 2011 to 66% in year-end 2020. During this period, the international portfolio has grown in a controlled manner, contributing EUR 208 million to total gross premium revenue. The foreign business has been derived from France (9% of total GWP in 2020), Italy (5%), Central Europe (7%), Portugal (4%), the Nordic countries (3%), and other countries (6%). Despite challenging market conditions, the reinsurer has been able to successfully grow its international business by targeting small to medium-sized insurers and mutual societies in these markets. Nacional's strategy abroad is to write lines of business where it can leverage its existing underwriting expertise, and the company limits its exposures by initially writing small shares of treaties with new cedants.

The company's retention levels are low (approximately 79%) compared with its reinsurance peers; however, this is indicative of Nacional's lower risk profile and focus on proportional business. All risks are protected through a global retrocession programme.

Nacional is predominately a property writer, which accounts for 41% of its GWP at year-end 2020. The company has good diversification across other lines of business including, life (19% of GWP), motor (18%), transport (9%), personal accident and health (6%), and miscellaneous lines including credit and liability insurance (7%). The business mix has remained largely consistent year on year. The introduction of the "baremo" regulation in January 2016 has led to rate-driven growth in Nacional's motor and third-party liability lines.

Nacional's life business, being predominately death and disability coverage, only represents a small amount of premium revenue but has seen strong growth in recent years. The life business provides another revenue stream that complements the existing non-life book of business by providing the company with uncorrelated risks. Nacional writes 70.8% of its total business on a direct basis and the remainder through brokers, with whom the company's strategy is to develop long-term relationships.

AM Best expects Nacional to maintain its leading position in the domestic market, as well as to continue its controlled growth of the international portfolio boosted by the current hardening market. The changing business profile of the company will expose Nacional to marginally higher risk, whereby prudent risk practices will need to be developed to ensure risks are controlled in markets that are less familiar to the company.

Geographical Breakdown of Gross Premium Written	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)
European Community	179,464	177,758	167,005	161,803	155,151
Spain	400,687	389,418	379,425	376,688	361,140
Total Europe	580,151	567,176	546,430	538,491	516,291
Other World-Wide	28,350	23,623	21,070	17,087	15,694
Total	608,501	590,799	567,500	555,578	531,985

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

Nacional's enterprise risk management (ERM) is deemed to be appropriate relative to its risk profile. The company operates a low risk business model writing mainly proportional business and retaining approximately 79% of business written. Nacional's exposure to catastrophe risk is limited by Spain's natural catastrophe scheme. However, as the international business grows, the company has improved its catastrophe modelling capabilities, in line with its cautious management style. The company continues to strengthen its internal procedures and operations to ensure compliance with the Solvency II pillar 2 requirements around governance and risk management.

Nacional's key functions (Risk Management, Actuarial, Internal Audit and Compliance) prepare individual reports for both the Executive Committee and Board of Directors. Those charged with governance receive quarterly/monthly management information to ensure any required remedial actions can be agreed and implemented efficiently.

Investment risk is adequately supported by Nacional's capital base, with the company ensuring sufficient liquidity and appropriate asset-liability management is in place.

Enterprise Risk Management (Continued...)

Reinsurance Summary

Nacional currently cedes approximately 21% of its premiums to a panel of highly rated retrocessionaires. Nacional focuses on security and continuity, and its proportional retrocession cover has been stable for a number of years, both in terms of the panel of retrocessionaires and the level of cover it affords.

Financial Statements

	12/31/2020		12/31/2020
	EUR (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	33,718	2.2	41,419
Bonds	538,256	35.6	661,194
Equity Securities	440,699	29.2	541,355
Other Invested Assets	39,623	2.6	48,673
Total Cash and Invested Assets	1,052,296	69.7	1,292,640
Reinsurers' Share of Reserves	151,588	10.0	186,211
Debtors / Amounts Receivable	40,168	2.7	49,342
Other Assets	266,742	17.7	327,666
Total Assets	1,510,794	100.0	1,855,859
Unearned Premiums	162,574	10.8	199,706
Non-Life - Outstanding Claims	619,328	41.0	760,783
Life - Outstanding Claims	105,543	7.0	129,649
Life - Long Term Business	31,074	2.1	38,171
Total Gross Technical Reserves	918,519	60.8	1,128,309
Other Liabilities	187,795	12.4	230,687
Total Liabilities	1,106,314	73.2	1,358,996
Capital Stock	84,000	5.6	103,186
Retained Earnings	28,938	1.9	35,547
Other Capital and Surplus	291,542	19.3	358,130
Total Capital and Surplus	404,480	26.8	496,863
Total Liabilities and Surplus	1,510,794	100.0	1,855,859

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1.2284 = 1 Euro (EUR)

	12/31/2020			12/31/2020
	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	Total USD (000)
Income Statement				
Gross Premiums Written	494,994	113,507	...	747,483
Net Premiums Earned	366,246	113,019	...	588,729
Net Investment Income	...	880	9,954	13,308
Realized capital gains / (losses)	...	631	7,406	9,873
Unrealized capital gains / (losses)	...	-71	-839	-1,118
Other Income	...	653	...	802
Total Revenue	366,246	115,112	16,521	611,595
Benefits and Claims	244,835	62,959	...	378,094
Net Operating and Other Expense	112,437	41,073	257	188,887
Total Benefits, Claims and Expenses	357,272	104,032	257	566,982
Pre-Tax Income	8,974	11,080	16,264	44,613
Income Taxes Incurred	9,066
Net Income before Non-Controlling Interests	35,547
Net Income/(loss)	35,547

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1.2284 = 1 Euro (EUR)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Global BCAR, 07/22/2021](#)

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