S&P Global Ratings

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Nacional de Reaseguros S.A.

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Nacional de Reaseguros S.A.

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Leading position in the Spanish reinsurance market with some diversification via foreign business.	Small absolute size and position in the global reinsurance market.
Low historical earnings volatility from natural catastrophe events.	Limited depth of workforce creates a key-man risk.
Resilient earnings generation supporting capital adequacy.	Macroeconomic uncertainties and volatility in capital markets are putting some pressure on investment performance and capitalization.
Very low expense ratio is a competitive edge.	

S&P Global Ratings believes that Nacional de Reaseguros' (NRe) capitalization will come under some pressure in 2022, but recover in the subsequent years, supported by sound earnings retention. Increasing interest rates are having a negative impact on NRe's bonds portfolio, putting some pressure on the company's shareholder's equity and capitalization. In contrast to recent years, we don't believe that the company will be able to maintain its excellent capital adequacy in 2022. However, we expect that NRe's strong retained earnings will allow it to rebuild its capital position over our two years forecasting horizon. For 2022, we expect net earnings to decline to €19 million-€21 million. Solid technical results are offset by lower investment results as a result of volatile capital markets.

We expect NRe to maintain its leading position in Spain's reinsurance market. Thanks to long-lasting relationships with insurers and brokers, NRe is a well-recognized brand in Spain, where we expect it will keep its competitive advantage and strong market position. Outside Spain, NRe has progressively expanded its activities over the past decade thanks to a selective distribution approach. Notwithstanding the diversification from this foreign business, the company's scale and geographic footprint remains small in a global context. This influences our view of NRe's competitive position compared with that of most 'A+' rated peers.

We consider that risk exposure will remain moderately low. Risks underwritten in Spain are mainly mitigated by the Consorcio de Compensacion de Seguros (CCS; a national scheme that will notably cover specific large catastrophe events). Outside Spain, we think that NRe has adopted a prudent approach to its expansion strategy, underwriting a low amount of catastrophe risk, as well as continually improving risk management to accompany its expanding international presence.

Outlook: Stable

The stable outlook indicates that we do not expect to change our ratings on NRe over the next two years. We expect NRe will maintain its leading, profitable position in Spain while prudently and profitably expanding its business outside Spain. We also expect earnings and capital will remain solid and stable with no material rise in volatility from increased exposure to catastrophes, inflation, or other lesser-known risks over our two-year forecasting horizon. Furthermore, we expect NRe will increasingly align its enterprise risk management to that of larger peers, with capital adequacy consolidating at an excellent level.

Downside scenario

We could lower the ratings on NRe if foreign business growth and related risks were to increase volatility, weaken the company's strong operating performance, or decrease its risk profile. We could also lower the ratings if NRe's capital adequacy declined below the excellent level over a prolonged time.

Upside scenario

We consider a positive rating action to be remote at this stage given the company's lack of global diversification compared with that of higher-rated peers, as well as pressure on its excellent capital adequacy.

Key Assumptions

- Decline in real GDP growth in the Eurozone, down to 3,3% in 2022 and 0% in 2023, from 5.3% in 2021.
- We expect the Spain economy's real GDP growth rate will fall to 4.6% in 2022 and further to 0.9% in 2023 from 5.5% in 2021.
- We expect long-term Spanish interest rates to increase to 3.6% in 2022 and 4.5% in 2023. The same trend in the eurozone, with rates that we estimate at 2.1% in 2022 and 2.2% in 2023.
- Average inflation in Spain to remain high at 9.0% in 2022 and 5.1% in 2023, compared with 3.0% in 2021.
- Unemployment rate to remain high in Spain at 12.8% in 2022 and 13.0% in 2023, compared with 6.7% and 7.0% in the eurozone over the same period.

Nacional de Reaseguros S.A.--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Very strong	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (Mil. €)	~730	~680	633.1	608.5	590.8	567.5	556.0
Net income (Mil. €)	35-40	19-21	30.0	28.9	40.2	37.0	32.1
Return on shareholders' equity (%)	9-11	5-7	7.2	7.3	10.9	10.8	9.7
Property/casualty: Net combined ratio (%)	94-96	95-97	96.7	97.5	92.9	92.9	96.1

f--S&P Global Ratings forecast. Source: S&P Global Ratings.

Business Risk Profile: Strong

NRe is the leading reinsurer in terms of premiums in Spain, with an estimated market share of about 15%, excluding intercompany operations in the Spanish reinsurance market. It reported €633 million of gross premium at year-end 2021, which is an increase of 4% compared with 2020. For 2022, we expect a premium increase of 7% to about €680 million taking profit of a favorable pricing environment in the property / casualty (P/C) reinsurance market and some organic business growth. We expect the main growth driver to be the multirisk, liability, and trade credit operations, whereas motor and accident operations might see more competitive pressure. Life business is likely to decline in 2022 due to the cancellation of some larger contracts. Thanks to solid relationships with both insurers and brokers in Spain, which have been built over the decades, NRe has a leading position on most contracts in its domestic operations.

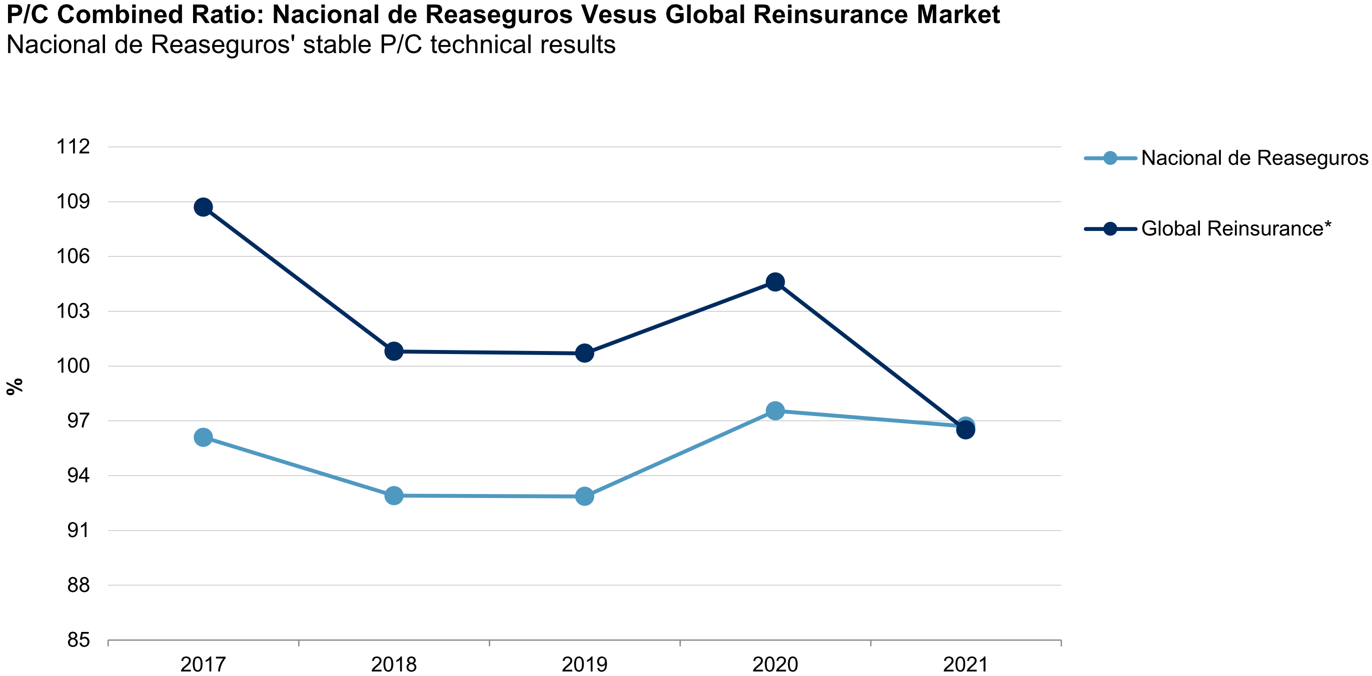
NRe's expansion across Europe, which began in 2010, has borne fruit. The international portfolio now contributes about one third of the company's total gross written premium, providing volumes and diversification. However, we believe that its international market position is less prominent than in its domestic market. NRe demonstrates disciplined execution of its geographic expansion strategy outside Spain, which helps to preserve its strong operating performance.

NRe has a diversified insurance business mix, which at year-end 2021 included: fire and multi-risk (44% of gross premiums), life (18%), motor and third-party liability (16%), marine (8%), personal accident and health (6%), and other lines (7%).

NRe's performance improved in 2021 disclosing a net income of €30 million and a combined ratio of 96.7%, compared with €28.9 million and 97.5% respectively in 2020. This occurred despite unusual high natural catastrophe losses from storms Bernd in Central Europe and Filomena in Spain. Life results contributed with about €4.5 million, taking profit of lower, pandemic-related claims. Return on equity remained fairly stable at 7.2%.

We forecast the combined ratio to gradually improve to 94%-97% over the next two years, taking advantage of the favorable pricing momentum in the P/C reinsurance market following some years of elevated natural catastrophe claims. However, we see some uncertainties in future investment results and net earnings driven by the volatility in capital markets. We expect return on equity to decline in 2022 to 5%-7% impacted by the lower investment results, normalizing in 2023 to 9%-11%.

Chart 1



*Top 21 global reinsureres - Alleghany, Arch, Ascot, Aspen, AXIS, China Re, Everest Re, Fairfax, Fidelis, Hannover Re, Hiscox, Lancashire, Lloyd's, Markel, Munich Re, PartnerRe, Qatar Ins., RenaissanceRe, SCOR, Sirius, and Swiss Re. P/C--Property / casualty. Source: S&P Global Ratings and company financials.

Financial Risk Profile: Very Strong

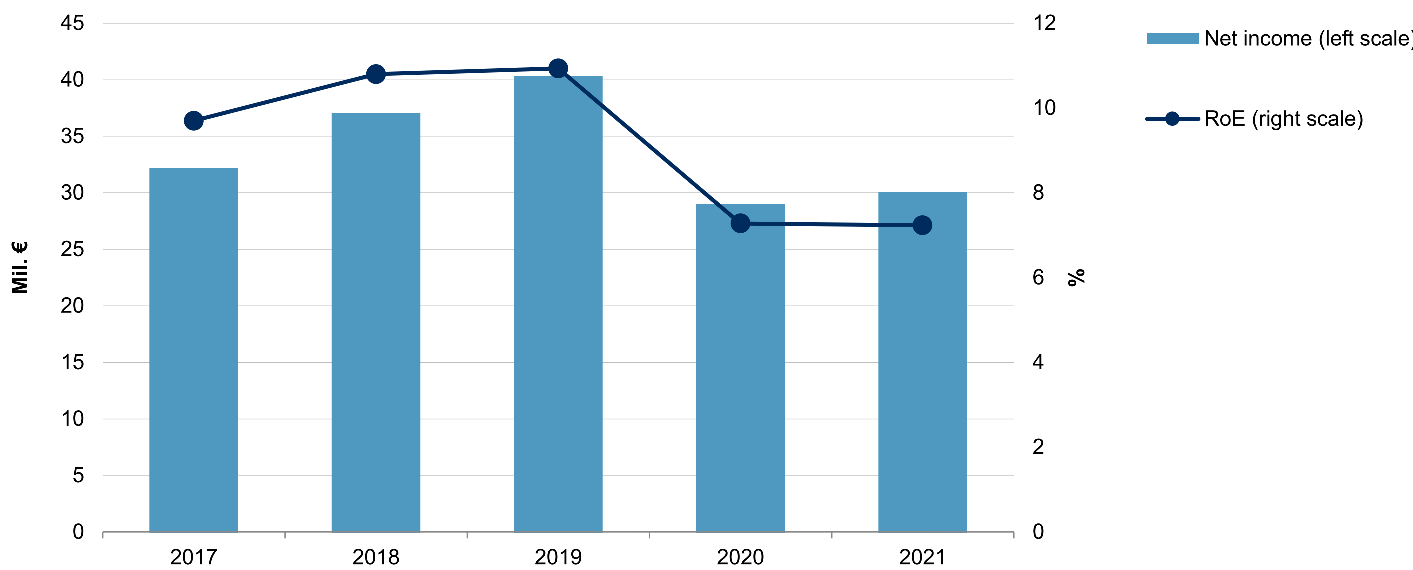
NRe's operations are backed by a solid balance sheet. We expect capital adequacy to decline to the AA capital level in 2022 driven by the decline in shareholders equity as a result of increased interest rates. Nevertheless, we expect that the strong and stable earnings generation will bring NRe back to a AAA capitalization over our forecasting period. From a regulatory capital standpoint, it comfortably covers the company's solvency capital requirements with a regulatory solvency ratio of 201% at year-end 2021. The ratio declined from 226% in 2020 mainly due to best estimate reserve adjustments as a consequence of unusual high natural catastrophe claims in 2021. For 2022, we expect solvency capital to remain broadly stable in light of the volatile capital market environment. We believe that the small absolute size of its capital remains a risk compared with larger reinsurers, making the company somewhat susceptible to movements in capital and earnings in the event of potential large losses.

NRe's shareholders have a long-term commitment to its development. We therefore forecast that the company's retained earnings will support its growth ambitions over the next two years. However, net income will likely decline to €19-€21 million in 2022 and recover to €35-€40 million in 2023, retaining about 65% of this to finance capital requirements from the expanding business and continually increase its capital base.

NRe has no debt, and we consider its need for extraordinary additional funds to be modest because of its long-established strategy of self-financing organic growth.

Chart 2

Nacional de Reaseguros' Consistent Profitability



RoE--Return on equity. Source: S&P Global Ratings and company financials.

We expect earnings volatility to remain modest, especially thanks to the stability of the domestic operations. We don't expect that inflation will have a material negative impact on NRe's results mainly because of Spain's system for assessing damages in personal injury claims (Baremo), which provides a solid and effective framework to anticipate claims amounts and contain inflation trends. Additionally, NRe's liabilities are mostly of short duration with yearly renewed contracts, allowing the company to quickly adapt to a change in economic conditions. Meanwhile, the CCS scheme to cover natural catastrophes absorbs most losses on claims arising from such events, which lessens the volatility of technical results.

We expect conservative underwriting and comprehensive reinsurance cover will limit peak risks outside Spain. The majority of NRe's new portfolio comes from proportional treaties in line with existing ones. In addition, NRe's focus on the EU reduces volatility, as well as regulatory and political risk, because of its physical and cultural proximity.

NRe's investment strategy focuses on short-duration and liquid assets, consistent with a strict asset-liability management policy. NRe's average credit quality in its fixed-income portfolio remained at the 'BBB+' level. We believe that increasing interest rates will allow NRe to reduce credit risk over the next years, without sacrificing investment returns. Exposure to equities is relatively high, representing about 16.6% of total invested assets at market values, although around 12% refers to NRe's long-term investment in Grupo Compañía Española de Crédito y Caución S.L. Net investment yields remained stable at 1.1% (2.4% including realized and unrealized gains) in 2021.

We believe NRe's catastrophe and overall risk management is improving to support its increasing international profile, thus helping to mitigate the company's exposure to more volatile earnings. We believe NRe's overall risk profile remains largely unchanged since we do not anticipate that it will take material catastrophe risk in its international business, and that catastrophe risk will generally remain controlled in its Spanish business.

Other Key Credit Considerations

Governance

NRe has an effective governance framework in place, with management and shareholders seamlessly committed to gradually and prudently building its market position outside Spain, taking advantage of the company's established expertise as a service-led coverage provider for small and midsize companies. Risk management is ingrained in NRe's culture, with continual efforts to embed risk-based decisions at all levels of the organization.

Liquidity

Liquidity is exceptional. NRe maintains a sufficient level of cash or cash equivalents, as well as a high portion of readily realizable assets to face its obligations in the short term.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of NRe.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Nacional de Reaseguros S.A.--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total shareholder equity	425.2	404.5	390.9	345.2	340.0
Gross premiums written	633.1	608.5	590.8	567.5	556.0
Net premiums written	515.5	480.5	472.2	450.4	444.0
Net premiums earned	512.5	479.3	467.3	449.0	482.0
Reinsurance utilization (%)	18.6	21.0	20.1	20.6	20.0
EBIT	39.8	36.3	52.0	47.7	41.0
Net income (attributable to all shareholders)	30.0	28.9	40.2	37.0	32.1
Return on revenue (%)	5.0	5.9	9.1	9.6	5.8
Return on shareholders' equity (reported) (%)	7.2	7.3	10.9	10.8	9.7
P/C: net combined ratio (%)	96.7	97.5	92.9	92.9	96.1
P/C: net expense ratio (%)	28.5	30.7	29.7	30.5	28.3
Net investment yield (%)	1.1	1.1	1.1	1.1	0.7
Net investment yield including investment gains/(losses) (%)	2.4	1.7	2.0	1.4	2.1

P/C--Property/casualty. Source: S&P Global Ratings.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 22, 2022)*

Operating Company Covered By This Report	
Nacional de Reaseguros S.A.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of December 22, 2022)*(cont.)	
Domicile	Spain

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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