2016

NATIONALE BORG REINSURANCE ANNUAL REPORT

NATIONALE BORG
REINSURANCE

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PROFILE

Nationale Borg Reinsurance N.V. is a specialized reinsurance carrier within AmTrust Group ultimately owned by AmTrust Financial Services, Inc. Nationale Borg Reinsurance has been operating for almost seven decades as a specialized reinsurer of worldwide surety, credit insurance and political risk insurance. The company is based in Willemstad, Curaçao, and is supervised by the Central Bank of Curaçao and Sint Maarten.

Nationale Borg Reinsurance is rated A by A.M. Best, and provides its clients a solid capitalization and strong capital adequacy. Nationale Borg Reinsurance is recognized within the industry as a trustworthy partner with a long-term commitment to its niche, with both treaty and facultative capacity. Nationale Borg Reinsurance has built its reputation in the specialist world of reinsurance through direct contact with its cedants, as well as through extensive relationships within the broker market.
The company's active membership of several worldwide and regional associations, such as ICISA, PASA, SFAA, Aman Union and SAC, creates further access to its business partners.

Nationale Borg Reinsurance will continue its operations based on the A.M. Best rating and has withdrawn its rating with Standard & Poor's on 28 February 2017.

On 31 May 2016 Nationale Borg-Maatschappij and its affiliates were acquired by AmTrust Financial Services, Inc., a multinational insurance holding company headquartered in New York City. AmTrust offers specialty property and casualty insurance products, including workers' compensation, commercial automobile, general liability and extended service and warranty coverage through its primary insurance subsidiaries

Nationale Borg Reinsurance became a fully owned subsidiary of AmTrust Equity Solutions Ltd on 23 November 2016. This transfer within the AmTrust group had no impact on the operations of Nationale Borg Reinsurance. Nationale Borg Reinsurance continues to cooperate closely with its former shareholder Nationale Borg-Maatschappij in Amsterdam. Nationale Borg-Maatschappij provides underwriting and support services to Nationale Borg Reinsurance.

GROUP STRUCTURE

Supervisory Board Nationale Borg Reinsurance N.V.:

A.P. van der Woude
J.M.R.S. van Eps
F.J.M. Hoeben

Executive Board Nationale Borg Reinsurance N.V.:

G.J. Hollander
A.P.J.C. Kroon
I.M. Nijenhuis

SUPERVISORY BOARD REPORT

The Supervisory Board advises the General Meeting of shareholders to approve the annual financial statements of Nationale Borg Reinsurance for the year 2016, dated 19 April 2017, as prepared by the Executive Board of the company. The annual report includes an unqualified auditors' opinion from KPMG Accountants N.V.. We advise the General Meeting to discharge the Executive Board and the Supervisory Board in accordance with the Bylaws of the company.

The Supervisory Board has held four meetings in 2016, covering all important issues adhering to the annual schedule, as well as their actual relevance to the company. In December 2016 A.P.J.C. Kroon stepped down from the Supervisory Board to join the Executive Board.

A major event during 2016 was the acquisition of Nationale Borg-Maatschappij and its affiliates by AmTrust Financial Services, Inc.. Following the acquisition by AmTrust, the shares of Nationale Borg Reinsurance were transferred from Nationale Borg-Maatschappij to Amtrust Equity Solutions.

The Supervisory Board supported the internal reinsurance with AmTrust International Insurance, further improving the company's solvency position.

With respect to the distribution of the result and retained earnings, the Supervisory Board agrees with the proposal of the Executive Board to the shareholders to retain all earnings and deduct them from the company's equity. In 2016 no interim dividend was distributed.

Willemstad, 19 April 2017

A.P. van der Woude
J.M.R.S. van Eps
F.J.M. Hoeben

EXECUTIVE BOARD REPORT

RETAINING MARKET POSITION AMIDST A CONTINUING COMPETITIVE MARKET ENVIRONMENT

As expected 2016 was a challenging year for Nationale Borg Reinsurance. Increasing costs, as well as an uptick in claim activity, have put pressure on technical margins. The market position of Nationale Borg Reinsurance remained solid. The purchasing power and strong leverage of well performing reinsurance buyers continued, although some larger leading reinsurers set boundaries regarding terms and conditions for 2017. In 2016 the market was still able to absorb much of the requested additional capacity and increasing acquisition costs, mainly through reinsurers that entered this niche space or enlarged their risk appetite, in the past five years.

The Executive Board of Nationale Borg Reinsurance expects only modest changes in this market trend for 2017, unless further consolidation takes place or external effects cause alternative capital to retreat from the reinsurance market.

The worldwide economy continued to improve slowly during 2016. Underlying GDP growth remained modest and unemployment rates stabilized in many leading economies. The ongoing deterioration of the commodity market pricing and subsequent budget constraints of many governments, decreased the demand for surety products in many markets. Nationale Borg Reinsurance experienced increased claim activity in some emerging markets. The company continues its search for new opportunities in specific surety markets and products, to compensate for the lackluster demand.

With the exception of China (export and domestic credit insurance) and Chile (mainly domestic credit insurance), where results remained very weak, the global credit insurance markets showed stable revenues and solid results. The economic fundamentals required a continued prudent underwriting approach in 2016.

The political risk insurance product suffered significantly increased claim activity in comparison to the past years. Large recoveries are expected in many cases, but these can take more than a decade to fully materialize. Demand has been solid in the midst of the economic and political turmoil in certain geographical areas.

Nationale Borg Reinsurance’s portfolio can be characterized by its diversification. Business is conducted with over 100 cedants in close to 50 countries, in surety, as well as in credit and political risk insurance. This diversification in our portfolio continues to be a stabilizing factor on our bottom line results.

EXECUTIVE BOARD REPORT

Credit insurance has shown losses at favourable and stable levels over the past five years, with the exception of China and Chile, but the margins have decreased, and are under some further downward pressure.

Surety has shown stable results over various economic cycles in our portfolio.
The growth of the political risk insurance business in our portfolio has strengthened our global foothold. This line has consistently shown good results, albeit affected by increased claim activity in 2016. We feel this product continues to provide promising opportunities for the future.

The underwriting team was strengthened with two additional staff members. The growth of our portfolio and the administration involved required us to enlarge the team. Nationale Borg Reinsurance continues to look for suitable additions to the underwriting team. Nationale Borg Reinsurance's underwriters operate from various locations in Europa and Latin America, with Amsterdam providing support in operations, accounting and finance.

The Executive Board would like to thank its employees, and the reinsurance and operations teams of Nationale Borg-Maatschappij in Amsterdam, for another year of strong commitment and hard work.

PREMIUM DEVELOPMENT AND INSURANCE RESULTS

Nationale Borg Reinsurance's 2016 gross written premium of € 68.9 million showed a decrease of 1.1% compared to 2015, largely caused by the competitive marketplace and by weakening currencies in some emerging markets.

Capacity levels remained high and technical insurance margins were affected by increasing claim activity and increasing acquisition costs, due to the aforementioned strong competition in the reinsurance marketplace.

Overall the net claims ratio increased from 43.2% in 2015 to 49.3%, which is outside our long term objective range of 40%-45%. 2016 saw an increased claim frequency in all three products we underwrite. Isolated severity surety and credit insurance claims in Spain, Latin America and the MENA region combined with frequency claims in the Chinese and Chilean credit insurance markets and some substantial market claims in political risk insurance. Mainly in this last product line, important recoveries are expected, but these will take considerable time.

INVESTMENT RESULTS

(amounts x € 1,000)
The composition of our investment portfolio changed in 2016 compared to the 2015 balance sheet date. In 2016, anticipating the acquisition by AmTrust Financial Services, the equity

portfolio was sold (realised loss: € 576). The proceeds were held in cash. The large cash balance at 31 May 2016 (€ 132,313) reduced to € 6.0 million at 31 December 2016 due to the reinsurance agreement with AmTrust International Insurance (reinsurance contracts € 60,975 at 31 December 2016), the investment in two money market funds (€ 35,833) and the two short term loans provided to AmTrust International Insurance (€ 36,263).

The total return on investments, including value adjustments through equity, amounted to € (977) (2015: € 2,854) delivering a yield of (0.7)%. The income from dividend decreased (2015: € 22, 2015: € 518) as a consequence of the sale of the equity portfolio. Interest income increased compared to 2015 (2016: € 964, 2015: € 900). The realized and unrealized gains and losses (including value adjustments through equity) decreased by € 2,872 (2016: € (1,732), 2015: € 1,140). The negative result in 2016 was mainly caused by the negative result (€ (1,309)) on the bond portfolio acquired in September 2016 and transferred to AmTrust International Insurance in December 2016.

For more information regarding risk management relating to financial instruments, we refer to the Risk Management paragraph in the notes to the financial statements.

CASH FLOW AND FUNDING REQUIREMENTS

Nationale Borg Reinsurance has no debt outstanding and had no funding requirements in 2016. In our Risk Management framework we take into account liquidity management in order to ensure that we are always able to meet the payment obligations arising from claims in our reinsurance business. For more information regarding our liquidity risk management we refer to the Liquidity Risk paragraph in the notes to the financial statements.

FINANCIAL INSTRUMENTS

The assets held against the technical provisions and equity attributable to the shareholders include investments in two money market funds, group loans and cash. The market risk associated with investments includes interest rate risk, currency risk, concentration risk and asset liability management risk. It also includes counterparty risk and liquidity risk. With respect to market risk we have a moderately risky investment policy.
Market risk is centrally managed by AII Insurance management and Nationale Borg-Maatschappij. Control measures are designed to fit the company's need, which is dependent on the scale and volatility of the specific risk. Market risk is considered to be the risk of economic losses triggered by changes in currency rates, interest rates, equity price changes and counterparty defaults or downgrades.

In addition to the above mentioned Market risks Nationale Borg Reinsurance is exposed to liquidity risk. Nationale Borg Reinsurance must at all times be able to fund items such as claims, reinsurance flows and operational cost. Premiums, fees, investment income, incoming reinsurance flows and recoveries in general are the main source to service the daily needs for ongoing liquidity. By taking various economical and market circumstances into consideration, the company ensures that it has a sufficient buffer of cash on call to provide itself the necessary liquidity if there were to be an unanticipated large outflow of cash as the result of claims. A cash call arrangement with AmTrust International Insurance as part of the internal reinsurance agreement.

UNDERWRITING AND RISK MANAGEMENT

The success of Nationale Borg Reinsurance is based on the full and accurate underwriting of both the organization, as well as the portfolio, of each of its cedants. Each underwriter is assigned to a particular geographic area, while in addition knowledge and experience is shared with the entire team through a work flow tool. Underwriters personally visit all clients at least once a year and they attend industry association meetings as key elements of the underwriting process.

Underwriting conditions set by us as a treaty leader or presented to us as a following market, should meet our guidelines. Each underwriting decision is taken by the Executive Board on the basis of a proposal from the underwriter and the subsequent recommendation of the underwriting team.

Given the size and nature of the reinsurance business (new products and changes in products are not very common), Nationale Borg Reinsurance does not have a separate research and development department. New developments, and the need to adapt products, are discussed at the managerial level and experts (either internal or external) are involved if necessary.

COMPOSITION OF THE BOARD

The composition of the Executive Board, as well as the Supervisory Board (both 100% male) changed in 2016. Mr A.P.J.C. Kroon stepped down as member of the Supervisory Board and joined the Executive Board in December 2016.

PERSONNEL

Six employees are employed directly by Nationale Borg Reinsurance. No collective labor agreement is applicable to these employees. In 2016, The growth of our portfolio and the administration involved required us to add two additional members to the team.

Some of the personnel involved in the reinsurance activities of Nationale Borg Reinsurance are employed by Nationale Borg-Maatschappij (approximately 8 FTE). The collective labor agreement (in Dutch ‘Collectieve ArbeidsOvereenkomst’, CAO) for insurance companies applies to their contracts. The personnel costs related to these employees are charged to Nationale Borg Reinsurance based on a service level agreement.

EXECUTIVE BOARD REPORT

SUPERVISORY BOARD

COMPOSITION AND EXPERTISE

Nationale Borg Reinsurance has a Supervisory Board consisting of three members with a broad and diverse background (e.g. legal, construction, general management). The members do not only bring financial and industry expertise to the Board, but a broad social and commercial knowledge and network as well.

- The remuneration of the members of the Supervisory Board is set by the general meeting of shareholders. This remuneration does not depend on the result of Nationale Borg Reinsurance. The remuneration of the Board members is on the agenda of the annual meeting of shareholders every second year.
- The Supervisory Board members are encouraged to keep their expertise up to standard and to broaden it where needed. To add to their general financial knowhow and their general knowledge and experience, Supervisory Board members are frequently presented with detailed information that allows them to learn more in-depth about the business and the risk aspects that are specific to Nationale Borg Reinsurance. Wherever necessary, Supervisory Board members can take educational courses or hire external expertise.
- Every year the Supervisory Board evaluates its own performance and the relationship between the Supervisory Board and Executive Board and it assesses the need for actions required for improvements. So far, the Supervisory Board has felt this internal evaluation to be adequate and there has not been any reason to involve outside expertise in this evaluation.

TASKS AND PROCEDURES

- The Supervisory Board approves once a year the annual business plan which is set up by the Executive Board of Nationale Borg Reinsurance.

EXECUTIVE BOARD

COMPOSITION AND EXPERTISE

- The Executive Board of Nationale Borg Reinsurance consists of members with a broad and diverse background, experience and knowledge.
- Executive Board members are encouraged to keep their expertise up to par and to broaden it where necessary. When needed, Board members can take educational courses or hire external expertise. In the annual performance evaluation of the Board members, the effectiveness of the Board and of each individual member is assessed in order to determine the need for improvements in the members' expertise.

TASKS AND PROCEDURES

- The Executive Board members need to serve the interests of all stakeholders involved. They need to ensure the continuity of the company and its business.

- Core task is managing the reinsurance portfolio and all processes involved.
- The Executive Board of Nationale Borg Reinsurance has signed a moral and ethical statement. The principles included in this statement apply to all employees of Nationale Borg Reinsurance and serve as the guiding principles for their behaviour on the basis of the applicable Compliance Manual. The contract of each new employee refers to the Compliance Manual of Nationale Borg Reinsurance which includes a code of conduct and which states that this code should be adhered to. The manual is accessible for each employee through the company's intranet.

RISK MANAGEMENT

Nationale Borg Reinsurance's underwriting risk management approach is based on the full and accurate risk assessment of the cedant, its portfolio, and the markets in which it operates. A risk management framework is in place. Risk control assessments are reported to the supervisory board on a regular basis.

To ensure risk-taking is properly embedded, Nationale Borg Reinsurance has integrated risk management in its strategic business planning processes and in its daily business activities.
The Executive Board of Nationale Borg Reinsurance sets the example and encourages full commitment of its employees in Curacao, The Netherlands and around the world to conduct business according to these risk management principles.
As Executive Board we are clear about our strategy, our strategic risks, our desired risk profile and our risk appetite. We expect our employees to comply to the risk management policy and never to deviate on these principles to realize a potential short term benefit. Compliance with this policy and related risk guidelines is mandatory. Compliance is monitored by the second line of defense functions (risk management, compliance, actuary) and internal audit monitors the compliance with the policies. Deviations could be possible but only when addressed timely and agreed upon by the Executive Board, or the Supervisory Board, depending on the subject.

EXECUTIVE BOARD REPORT

The risk management policy covers all risk categories (financial and non-financial risks). These risks are:

a) Non-life Underwriting risk/ Insurance risk;
b) Market risk;
c) Operational risk;
d) Strategic risk;
e) Other risks (environmental risk, outsourcing risk, IT-risk, integrity risk and legal risk).

For further details reference is made to the risk management paragraph in the notes to the financial statements.

INTERNAL REINSURANCE

Since 1 June 2016 Nationale Borg Reinsurance has an outbound quota share reinsurance agreement with AmTrust International Insurance, a wholly-owned subsidiary of AmTrust Financial Services, whereby Nationale Borg Reinsurance cedes 75% of any business, after any other reinsurance treaties. At the start of the agreement 75% of the net technical provisions related to the existing portfolio (€ 62,205) were transferred to AmTrust International Insurance. During the year the treaty result amounted to € 39 due to AmTrust International Insurance. At 31 December 2016, € 1,184 was due to AmTrust International Insurance under this treaty, which is included in Other Accounts Payable. The technical provisions ceded to AmTrust International Insurance amounted to € 60,975 at 31 December 2016.

Nationale Borg Reinsurance may, at its sole discretion, request AmTrust International Insurance to make an immediate payment for its proportionate share in any losses due. Such payment shall be made in cleared funds within three working days. In addition, the loans provided to AmTrust International Insurance are short term and can be ended within one month.

INTERNAL AUDIT

The Internal Audit function for Nationale Borg Reinsurance is assumed by the AmTrust internal audit team.

EXECUTIVE BOARD REPORT

OUTLOOK 2017

Nationale Borg Reinsurance has always prided itself on being able to withstand the ups and downs of the market, by being diversified and long term minded. This means we do not overreact neither in good years (2010-2015), nor in bad ones (2008-2009-2016). Our strategy for 2017 will therefore not change substantially from the past three years. However, we do need to be aware of the continuously changing circumstances and address the disappointing 2016 result, especially where it was caused by a possibly prolonged deterioration of margins in many important markets. Therefore we closely monitor our continued relative performance in our chosen markets and will seek further diversification opportunities.

Although the global economy as a whole seems to continue its modest recovery from one of the largest economic downturns on record, some regions still face substantially more challenges than others. Emerging markets, with a dependence on commodity prices, are facing a prolonged budget crunch, which affects the overall economic development and demand for surety bonds in particular. Contractors in the commodity and renewable energy sectors will continue to face difficulties in 2017. Foreign exchange rate fluctuations may also adversely affect corporations with revenues in local currency and liabilities in US dollars or other strengthening currencies.

The political developments after the Brexit referendum in the United Kingdom and the presidential elections in the United States may affect the global trade flows in the upcoming years. This is something to closely monitor going forward.

As a specialized reinsurance company we depend, to a large extent, on the economic circumstances in the world, as these represent the risks to which our ceding companies and their clients are exposed. They also drive demand for the products we underwrite. However, Nationale Borg Reinsurance has been able to outperform the market by balancing the three products underwritten, as well as by looking into further niche markets, always within its underwriting scope.

After the long-awaited handover of ownership of Nationale Borg-Maatschappij and its affiliates to AmTrust group and the subsequent legal separation of Nationale Borg Reinsurance and Nationale Borg-Maatschappij, we expect to benefit from the extensive group network and from the financial strength of the various underwriting platforms within AmTrust group. This will allow Nationale Borg Reinsurance to combine its excellent global network and strong branding, with the strength of a highly rated and well capitalized parent.

EXECUTIVE BOARD REPORT

In 2017 we will again look to possibly add skilled staff members to our team, which will enable us to secure the high service level we are known for and to seek new growth opportunities.

Nationale Borg Reinsurance will continue to be prudent in its underwriting approach. Our enhanced administrative, risk accumulation and management information tools will provide the underwriters with additional capability to proactively review their clients and prospects. We expect acquisition costs to slightly increase and thus put additional pressure on the technical margins, due to the still abundant reinsurance capacity. Despite this trend, our expectation for 2017 is to return to our historical profitability levels, to outperform our peers, and to provide satisfactory returns to our shareholders.

Willemstad, 19 April 2017

G.J. Hollander
A.P.J.C. Kroon
I.M. Nijenhuis

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

Before appropriation of result

€'000	Note		**31 December 2016**		**31 December 2015**
ASSETS					
Property, plant and equipment	*5*		**6**		5
Intangible assets	*6*		**143**		51
Financial assets	*7*		**72,217**		29,301
Reinsurance contracts	*8*		**86,451**		24,591
Trade and other receivables:	*9*				
• Accounts receivable on insurance and reinsurance business		**3,840**		3,371	
• Current income tax receivable		**2,568**		2,388	
• Other accounts receivables		**23**		30	
			6,431		5,789
Other assets:	*10*				
• Deferred acquisition costs		**5,555**		5,823	
• Miscellaneous assets and accruals		**3**		705	
			5,558		6,528
Cash and cash equivalents	*11*		**6,022**		115,544
TOTAL ASSETS			**176,828**		181,809

STATEMENT OF FINANCIAL POSITION

€'000		**31 December 2016**		**31 December 2015**	
EQUITY					
Subscribed capital		**2,000**		2,000	
Capital reserve		**2,000**		2,000	
Revaluation reserve		–		–	
Revenue reserve		**87,290**		77,164	
Undistributed profits		**(156)**		10,126	
Capital and reserves attributable to the equity holders of the company	*12*		**91,134**		91,290
TOTAL EQUITY			**91,134**		91,290
LIABILITIES					
Technical provisions	*13*		**81,317**		81,033
Trade and other payables	*14*		**1,927**		1,484
Other liabilities:	*15*				
• Accrued interest		–		–	
• Deposits received from reinsurers		–		–	
• Profit commission payable		**1,830**		1,386	
• Miscellaneous liabilities and accruals		**190**		5,953	
			2,020		7,339
Deferred income tax liabilities	*16*	–		–	
Current income tax liabilities	*17*	**430**		663	
			430		663
TOTAL LIABILITIES			**85,694**		90,519
TOTAL EQUITY AND LIABILITIES			**176,828**		181,809

INCOME STATEMENT FOR THE YEAR

€'000		2016	2015
Gross premium earned		**69,931**	70,880
Reinsurers' share premium earned		**(31,503)**	(9)
NET PREMIUM EARNED	*18*	**38,428**	70,871
Reinsurance commission received	*19*	**15,902**	2
Net income/(expense) from investments	*20*	**(977)**	2,854
TOTAL INCOME		**53,353**	73,727
Insurance claims and loss adjustment expenses		**(34,445)**	(30,646)
Insurance claims and loss adjustment expenses recovered from reinsurers		**15,546**	_
NET INSURANCE CLAIMS	*21*	**(18,899)**	(30,646)
Acquisition costs	*22*	**(29,661)**	(29,714)
Net operating expenses	*23*	**(4,615)**	(2,382)
Profit before tax		**178**	10,985
Income tax expenses	*24*	**(334)**	(859)
PROFIT / (LOSS) FOR THE YEAR		**(156)**	10,126
Attributable profit / (loss) for the year to:			
Equity holders of the company		**(156)**	10,126
Basic earnings per share from continuing operations (Euro)	*25*	**(78.00)**	5,063.00

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

€'000		**2016**	2015
Profit for the year		**(156)**	10,126
Other comprehensive income:	*26*		
Net fair value gains/(losses) on available for sale financial investments		_	(796)
Total Other comprehensive income		_	(796)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR (net of tax)		**(156)**	9,330
Attributable to:			
Equity holders of the company		**(156)**	9,330

STATEMENT OF CHANGES IN TOTAL EQUITY

Attributable to the equity holders of the company:

€'000	Subscribed Capital	Capital Reserve	Revalua-tion Reserve	Revenue Reserve	Profit for the Year	Total
EQUITY AT 1 JANUARY 2016	2,000	2,000	-	77,164	10,126	**91,290**
Result income statement	_	_	_	_	(156)	**(156)**
Other comprehensive income	_	_	_	_	_	_
Total comprehensive income for the year	_	_	_	_	(156)	**(156)**
Dividend distribution	_	_	_	_	_	_
Appropriations to reserves	_	_	_	10,126	(10,126)	_
Other movements	_	_	_	_	_	_
EQUITY AS PER 31 DECEMBER 2016	**2,000**	**2,000**	_	**87,290**	**(156)**	**91,134**

€'000	Subscribed Capital	Capital Reserve	Revalua-tion Reserve	Revenue Reserve	Profit for the Year	Total
EQUITY AT 1 JANUARY 2015	2,000	2,000	796	61,485	15,679	**81,960**
Result income statement	_	_	_	_	10,126	**10,126**
Other comprehensive income	_	_	(796)	_	_	**(796)**
Total comprehensive income for the year	_	_	(796)	_	10,126	**9,330**
Dividend distribution	_	_	_	_	_	_
Appropriations to reserves	_	_	_	15,679	(15,679)	_
Other movements	_	_	_	_	_	_
EQUITY AS PER 31 DECEMBER 2015	**2,000**	**2,000**	_	**77,164**	**10,126**	**91,290**

CASH FLOW FOR THE YEAR

€'000	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**178**	10,985
Adjustments for:		
• Unrealized capital (gains) and losses on investments	**1,730**	2,169
• Depreciation and amortization	**18**	4
• Foreign exchange result	**(394)**	(414)
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**284**	2,201
• Reinsurance assets (net)	**(61,860)**	(5,608)
• Deferred acquisition costs	**268**	(274)
• Accounts receivable and payable on insurance and reinsurance business	**(469)**	(81)
• Changes in other assets and liabilities	**(5,260)**	9,147
• Interest on financial instruments	**1,094**	1,419
Income taxes paid	**(747)**	(855)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**(65,158)**	18,694
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments	**(136,637)**	(27,177)
Divestments, redemptions and disposals (cash inflows);		
• Financial investments	**92,384**	46,153
• Property, plant and equipment and intangible fixed assets	**(111)**	(54)
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**(44,364)**	18,922
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend distribution	**–**	–
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**–**	–
CHANGES IN CASH AND CASH EQUIVALENTS	**(109,522)**	37,616

Cash and cash equivalents at the end of the preceding year	**115,544**	77,928
Cash and cash equivalents at the end of the financial year	**6,022**	115,544
Changes in cash and cash equivalents	**(109,522)**	37,616

CASH FLOW FOR THE YEAR

	2016	2015
Cash at banks	**6,022**	59,536
Cash savings and deposit accounts	_	56,008
Total cash and cash equivalents	**6,022**	115,544

NOTES TO THE FINANCIAL STATEMENTS

1. ACTIVITIES OF NATIONALE BORG REINSURANCE NV

Nationale Borg Reinsurance underwrites reinsurance risks in the surety market as well as risks emanating from credit- and political risk insurance.

IMPACT OF RETROCESSION

Since 2011 Nationale Borg-Maatschappij has retroceded its remaining reinsurance portfolio for all underwriting years to Nationale Borg Reinsurance. The treatment of this retrocession at Nationale Borg Reinsurance does not differ from the treatment of business assumed from third parties. For 2016 the net premiums earned retroceded to Nationale Borg Reinsurance amounted to € 10.0 million. The insurance result on these retrocession contracts is € 1.1 million.

At 31 December 2016 the technical provisions retroceded to Nationale Borg Reinsurance amount to € 16,790. As security Nationale Borg Reinsurance holds a deposit with Nationale Borg-Maatschappij for the same amount.

SERVICES PROVIDED BY NATIONALE BORG-MAATSCHAPPIJ

Despite the transfer of Nationale Borg Reinsurance to AmTrust Equity Solutions the company still has close operational ties with Nationale Borg-Maatschappij. Nationale Borg-Maatschappij provides various services to Nationale Borg Reinsurance through a service level agreement. These services are: underwriting, , processing and accounting of reinsurance contracts, financial accounting, actuarial and IT.

2. GENERAL

SHAREHOLDERS

Nationale Borg Reinsurance N.V. is fully owned by AmTrust Equity Solutions Ltd established in Hamilton, Bermuda. AmTrust Equity Solutions is a wholly owned subsidiary of AmTrust Financial Services Inc. AmTrust Financial Services was founded in 1998 to provide property and casualty insurance to small businesses. Through acquisitions and organic growth, AmTrust Financial Services has since grown to become a multinational property and casualty insurer specializing in coverage for small to mid-sized businesses. In 2006 the company became publicly traded on the NASDAQ Global Market under the symbol AFSI.

Nationale Borg Reinsurance is a joint-stock company and is located (also registered office) at Kaya W.F.G. (Jombi) Mensing 18, Curacao.

3. PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

BASIS OF PRESENTATION

The financial statements 2016 of Nationale Borg Reinsurance have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ('EU') and Part 9 of Book 2 of the Netherlands Civil Code.
Nationale Borg Reinsurance is part of a US Insurance Group and the financial administration is based in Amsterdam (Netherlands). As it is allowed under Curaçao law to prepare the financial statements according to Dutch law, the company decided to apply Part 9 of Book 2 of the Netherlands Civil Code. A number of standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016. There was no impact related to these amendments on these financial statements. All amounts in these statements are in thousands of Euro, unless specified otherwise.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.
The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.
Translation differences on non-monetary items, measured at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

The most relevant currencies for the company are presented below:

Currency	End rate in €		Average rate in €	
	2016	**2015**	**2016**	**2015**
USD	**0.957**	0.915	**0.908**	0.901
ARS	**0.061**	0.070	**0.061**	0.097
JPY	**0.008**	0.008	**0.008**	0.007

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) are based on quoted market prices at the balance sheet date.
The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

PROPERTY, PLANT AND EQUIPMENT

Equipment
Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment 5 years, and 5 - 10 years for fixtures and fittings. Expenditures for maintenance and repairs are charged to the profit and loss account as incurred. Expenditure incurred on major improvements is capitalized and depreciated.
The depreciation period is based on the estimated economic useful life of the asset. All assets are depreciated using the straight-line depreciation method over the estimated economic useful lives presented below:

Asset category:	Years
Fixtures and fittings	5 – 10
Computer hardware	1 – 5

Subsequent expenditure is included in the asset’s carrying amount when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

INTANGIBLE ASSETS

The cost of the intangible assets is amortised on a straight-line basis over their estimated useful lives, which are generally as follows: for software 5 years.

FINANCIAL ASSETS

The Company classifies its financial assets into the following categories: at fair value through profit and loss, loans and receivables, and available for sale. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

CLASSIFICATION

I) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception.
A financial asset is classified into the ‘financial assets at fair value through profit and loss’ category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated at fair value through profit and loss at inception are those that are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the company’s key management personnel.

II) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated as at fair value through profit and loss or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

III) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

RECOGNITION AND MEASUREMENT

Regular-way purchases and sales of financial assets are recognized on trade-date – the date on which the company commits to purchase or sell the asset.
Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement.
Financial assets are derecognized when the rights to receive cash flows from them have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.
Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognized in the income statement as part of other income when the company's right to receive payments is established.
Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.
When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as net realized gains on financial assets.
Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the company's right to receive payments is established. Both are included in the investment income line.

DETERMINATION OF FAIR VALUE

The fair values of financial instruments traded in active markets (such as publicly traded available-for-sale securities) are based on quoted market prices at balance sheet date. The quoted market price used for financial assets by the company is the current bid price.
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.
For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the statement of financial position. The company uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity like options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.
In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairments. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

RECLASSIFICATION OF FINANCIAL ASSETS

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

IMPAIRMENT OF ASSETS

I) FINANCIAL ASSETS CARRIED AT AMORTIZED COST

The company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company, including:
  – adverse changes in the payment status of issuers or debtors in the company; or
  – national or local economic conditions that correlate with defaults on the assets in the company.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.
If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improved credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

II) ASSETS CLASSIFIED AS AVAILABLE FOR SALE

The company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss. In this respect, a decline of 20% or more is regarded as significant, and a period of 9 months or longer is considered to be prolonged. If any such quantitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

III) IMPAIRMENT OF OTHER NON-FINANCIAL ASSETS

Assets that have an indefinite useful life – for example, land – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

DEFERRED ACQUISITION COSTS

Commission costs that vary with and are related to securing new contracts and renewing existing contracts are capitalized as deferred acquisition costs. All other costs are recognized as expenses when incurred. The deferred acquisition costs are subsequently amortized over the life of the policies as premium is earned.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is only reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at banks, deposits on demands, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

EQUITY

The share capital of Nationale Borg Reinsurance consists of 2,000 shares with a nominal value of € 1,000, which have been fully paid.

SUBSCRIBED CAPITAL

The share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issues of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

CAPITAL RESERVE

Capital reserve is the amount of share premium received by the company in excess of the nominal value of the shares it had issued.

REVALUATION RESERVE

The revaluation reserve comprises the unrealized gains/losses of financial assets available-for-sale.

Reversals of impairment losses in shares and other variable yield securities are also credited directly to this revaluation reserve. For debt instruments and other fixed income securities, any reversals of impairments above the original cost are included in the revaluation reserve.

REVENUE RESERVE

Revenue reserve is the accumulated amount of profits and losses at balance sheet date, which have not been distributed to shareholders (i.e. retained earnings). The distribution of retained earnings is restricted by the solvency requirements imposed by the ‘Landsverordening van de 4de oktober 1990 houdende regelen inzake het Toezicht op het Verzekeringsbedrijf’ (Act related to Financial Supervision). The required and available solvency margin is disclosed in the Risk Management paragraph.

PROVISIONS

INSURANCE CONTRACTS

The Company issues contracts that transfer insurance risk. Insurance contracts are contracts that transfer significant insurance risk, which is defined as the possibility of having to pay benefits on the occurrence of an event that are at least 10% more than the benefits payable if the insured event did not occur.

REINSURANCE CONTRACTS

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in the same way as the original contracts for which the reinsurance was concluded. In the case and to the extent that the assuming reinsurers are unable to meet their obligations, the company remains liable to its policyholders for the portion reinsured. Consequently, provisions will be made, if necessary, for receivables on reinsurance contracts which are deemed uncollectible.

PROVISION FOR UNEARNED PREMIUM

The unearned premium and commission reserves for assumed reinsurance are calculated on the basis of the assumptions that cedants book all premiums at the mid-point of the reporting quarter and that on average guarantee premiums cover a 15 month risk period and credit insurance premiums cover a 7.5 month risk period. We calculate the premiums reserve on the basis of the remaining risk period as per the reporting date.

PROVISION FOR OUTSTANDING CLAIMS

Claims and loss adjustment expenses are charged to the income as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from the risks the company has taken up to balance sheet date. Nationale Borg Reinsurance applies the Ultimate Loss Reserve (ULR) method. The reserve for a specific inwards reinsurance treaty is based on the expected ultimate loss ratio for that treaty. ULR's are set for all underwriting years for all treaties. Reserving is performed on a ground up basis. For every cedant and underwriting year, an expected ultimate loss ratio is applied to the earned premium based on information received from cedants. Alternatively a market / country loss ratio is applied based on 20 years of actual loss ratio statistics.
The company does not discount its liabilities given the cycle of the company's business.

LIABILITY ADEQUACY TEST

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities (provisions). Both for the provision for unearned premium as the provision for outstanding claims the adequacy is tested by calculating a Best Estimate reserve, which is based on future cash flows taking into account the time value of money (i.e. discounting). This Best Estimate reserve is compared with the reserves at balance sheet date. Any deficiency is immediately charged to the profit and loss account, initially by writing off the intangible assets (deferred acquisition costs) related to insurance portfolios and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Based on the liability adequacy test, the provisions at year end are prudently determined based on over 15 years of experience and considered adequate based on the positive run-off results.

REINSURER'S SHARE OF UNDERWRITING PROVISIONS

The benefits to which the company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due. The Company assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired by applying similar procedures adopted for financial assets held at amortized costs. The impairment loss is calculated under the same method used for these financial assets.

INCOME FROM REINSURANCE CONTRACTS

The Company recognizes the gains and losses on assumed reinsurance directly in the income statement.

RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.
If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement. The company gathers the objective evidence that an insurance receivable is impaired by applying procedures similar to those adopted for loans and receivables. The impairment loss is also calculated under the same method used for financial assets.

DEPOSITS RECEIVED FROM REINSURERS

Deposits received from reinsurers represent amounts received from reinsurance companies in respect to ceded claims and premium provisions and are stated at amortized costs using the effective interest method. Interest expense is recognized on a straight-line basis.

TAX LIABILITIES

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at balance sheet date, and any adjustments to tax payable in respect to previous years.

NOTES TO THE FINANCIAL STATEMENTS

INCOME

Revenue is recognized as follows:

NET PREMIUMS EARNED

Written premiums are defined as all premium assumed, excluding tax. Accruals for premium refunds are charged against premiums written.
Premiums earned include an adjustment for the unearned share of premiums. The unearned premium and commission reserves for assumed reinsurance are calculated on the basis of the assumptions that cedants book all premiums at the mid-point of the reporting quarter and that on average guarantee premiums cover a 15 month risk period and credit insurance premiums cover a 7.5 month risk period. We calculate the premiums reserve on the basis of the remaining risk period as per the reporting date.

NET INCOME FROM INVESTMENTS

Net investment income is the result of investment income minus investment expenses, including interest income, dividend income from available-for-sale equities. Dividend income from available-for-sale equities is recognized when payment is received. This line also includes the realized revaluations on available for sale financial assets and the realized and unrealized revaluations on financial assets at fair value.

EXPENSES

NET INSURANCE CLAIMS

Claims charges include paid claims net of recoveries, the change in claims provisions and the claims handling expenses. Claims ceded under cession contracts are recorded as reductions of gross claims.

NET OPERATING EXPENSES

Net operating expenses comprise administrative expenses, gross acquisition costs, gross change in deferred acquisition costs and the change in reinsurance share of deferred acquisition costs and reinsurance commission.

INCOME TAX

The total sum of income tax expense recognized in the income statement contains the current income tax.

CASH FLOW STATEMENT

Some of the terminology used in the cash flow statement is explained as follows:

- Cash comprises cash at banks and deposits on demand;
- Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value;
- Cash flows are inflows and outflows of cash and cash equivalents;

- Operating activities are the principal revenue-producing activities of the company and other activities that are not investing or financing activities;
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents;
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the company.

The cash flow statement has been drawn up in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flows from operating activities, the profit before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.
Cash flows arising from foreign currency transactions are translated into euro using the exchange rates at the date of the cash flows.
The net cash flow shown in respect of accounts receivables only relates to transactions involving actual payments or receipts. The addition to the provision which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the profit before tax and is shown separately in the cash flow statement.
The difference between the net cash flow in accordance with the cash flow statement and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is separately accounted for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Nationale Borg Reinsurance makes use of estimates and assumptions that affect the reported assets and liabilities. Estimates and judgments are continually evaluated. They are based on historical experience and other factors (e.g. expectation of future events), that are believed to be reasonable under the circumstances.

Ultimate Loss Reserves

Reserves are set up on the basis of the most recent outstanding loss information supplied by the ceding company, individual policy loss information, market developments and account experience. Otherwise the company uses the historical loss ratio for various markets. It should be mentioned that during the underwriting year a large proportion of the premium is set aside as a loss reserve, as claims relating to the underwriting year usually are incurred with a significant time lag. Time lags vary per ceding company, treaty and country. The ultimate loss r includes an assessment of future recoveries on reported or paid losses.

Variable Reinsurance Commission and future Profit Commission

For inwards reinsurance treaties which contain a variable reinsurance commission clause or for which profit commission is first calculated after at least 24 months, a special reserve has been set up. This reserve is based on the expected final reinsurance commission and profit commission to be paid, using the ULR(Ultimate Loss Ratio) methodology.

Provision for unearned premiums

The unearned premium and commission reserves for assumed reinsurance are calculated on the basis of the assumptions that cedants book all premiums at the mid-point of the reporting quarter and that on average bond premiums cover a 15 month risk period and credit insurance premiums cover a 7.5 month risk period. We calculate the premiums reserve on the basis of the remaining risk period as per the reporting date.

Impairment of available-for-sale financial investments

The company assesses at each balance sheet date whether there is objective evidence that the financial investments classified as available-for-sale financial assets are impaired. Financial investments classified as available-for-sale financial investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. In this respect, a decline of 20% or more is regarded as significant, and a period of 9 months or longer is considered to be prolonged. If any such quantitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account.

4. RISK MANAGEMENT

Nationale Borg Reinsurance is a reinsurer of surety risks as well as of credit insurance and political risks. For the long term Nationale Borg Reinsurance wants to grow its market share and make use of opportunities to write profitable business in the global reinsurance market.
Key to our mission and continuity is prudent risk management. As an insurance company, Nationale Borg Reinsurance by definition assumes risk against a premium. The risks Nationale Borg Reinsurance is exposed to can be broken down into several categories:

- Insurance risk: the risk we run on a professional basis as a reinsurance company, which is the risk that the premiums, which were determined on the basis of expected loss ratios, do not adequately cover the actual loss ratio's realized. In reinsurance we only participate in treaties which historically have shown combined ratio levels within our guidelines and thus leaving ample profit margins. Bottom line result is the key target;
- Market risk: credit risk on (re)insurance assets; the risk associated with investments, including market risk (interest rate, currency, real estate & equity risk); and liquidity risk. With respect to market risk we have a moderately conservative investment policy with approximately 14% (2015: 80%) in cash and deposits, 86% (2015: 7%) in money market funds and 0% (2015: 13%) in equities. These risks are monitored and managed by the investment committee, which meets every month or more frequently when deemed necessary;
- Other risks: include environmental risk, outsourcing risk, IT-risk, integrity risk, legal risk and strategic risk. If not referred to otherwise in the respective policies, the respective managers are responsible for monitoring the other risks in their area of responsibility.

Our risk management function monitors the continued compliance with internal policies and the chosen internal controls.

INSURANCE RISK

NON-LIFE UNDERWRITING RISK (INSURANCE RISK)

This is described as the risk we run on a professional basis as a reinsurance company. Insurance risk is the risk that the premiums and provisions, which were calculated on the basis of expected risk, do not adequately cover the actual losses incurred. Separate guidelines and instructions are available.

UNDERWRITING

Nationale Borg Reinsurance assumes global surety risks as well as risk from Credit insurance and Political risk cover. Reinsurance conditions set by us, as a treaty leader, or presented to us, as a following market participant, should meet the overall guidelines set by the Executive Board, and approved by the Supervisory Board.

Nationale Borg Reinsurance has set up a framework based on which the operational and financial performance of prospective reinsurance clients is monitored. Regular visits (at least once a year) are made to assess the cedant and its business. The opportunities are assessed by a team of underwriters. All underwriting decisions are subject to approval by the Executive Board of Nationale Borg Reinsurance.

By nature of the activity, the spread of risk is very high. Not only does Nationale Borg Reinsurance participate for a small share in all underlying risks in the cedants' portfolios, but also the geographic spread of the cedants and contracts provides additional diversification. Contracts can be clustered into proportional treaty, excess of loss and facultative contracts. In proportional treaty business Nationale Borg Reinsurance participates for a certain fixed percentage in all business risks underwritten by the cedant within the limits and conditions of the treaty. In excess of loss contracts Nationale Borg Re provides a fixed cover of losses in excess of a hurdle amount up to a contract limit. Depending on contract conditions the cover can have one or more reinstatements. Underwriting of treaty and excess of loss business is based on the evaluation of the ceding company.

Facultative contracts provide coverage for a fixed share of a named risk. Generally, such coverage is provided for a limited number of risks in case a cedant has exhausted its treaty capacity. Underwriting of facultative business is based on the individual merits of the underlying risk and remains limited in relation to our overall portfolio.

Monitoring & reporting

In order to follow the developments of the underlying business within the cedants' portfolios we have a complete pallet. All data are gathered in a data warehouse from which all kind of ad hoc and standard reports are produced and discussed. The technical accounts booked are uploaded in the system on a regular basis and statistics show "live" data. All data relating to the reinsurance clients are stored electronically in an identical format, providing easy access to the underwriters and managers. Triangular statistics per cedant, line of business, territory are the basis for control and planning.

Risk Exposure development

The reinsurance portfolio items of the assessed total exposure are specified as shown in the table below:

	2016	2015
Treaty		
• Number of countries	**43**	42
• Number of cedants	**88**	97
• Total amount (PML basis, in € millions)*	**6,293**	4,902
o Bond	**3,912**	3,001
o Credit	**1,778**	1,701
o Political	**603**	200

	2016	2015
Facultative		
• Number of countries	**20**	18
• Number of risks	**54**	53
• Total nominal amount (in € thousands)	**41,962**	64,502
• Average amount per risk (in € thousands)	**777**	1,217

* Total exposure amount is assessed based on information supplied by cedants and assumptions based on experience and sector information.

The ten largest cedants account for approximately 40.7% (2015: 40%) of premium income, while the twenty largest cedants together account for approximately 56.9% (2015: 58%) of premium income.

Claim development

The claim development of reinsurance contracts provides a measure of the ability of Nationale Borg Reinsurance to estimate the ultimate value of claims. The top of the table shows the accounting years in which premiums were booked for the different underlying underwriting years. This table is presented on a consolidated basis for all the reinsurance contracts. The information is based on historical financial accounting numbers and not corrected for foreign currency. A change in loss ratio of 1% (up or down) has an impact of € 699 thousand on our loss expenses before internal reinsurance. Accidently, the claim development as presented in the annual report 2015 was based on November 2015 results.

UW Year					Accounting Year					
2007	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium	12,876	28,011	30,128	31,104	32,088	32,574	32,786	32,964	33,078	33,162
Losses paid	514	4,860	9,850	12,555	15,855	17,453	18,001	20,847	22,219	23,068
Recoveries	7	214	612	796	1,159	1,293	1,436	3,585	3,705	3,847
Loss reserves	2,997	6,803	4,641	4,264	2,627	1,889	1,949	2,382	1,348	1,062
Loss incurred	3,504	11,449	13,879	16,023	17,324	18,050	18,514	19,644	19,862	20,283
Loss ratio	27%	41%	46%	52%	54%	55%	56%	60%	60%	61%
2008		**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium		17,149	34,862	38,085	39,593	40,066	40,551	40,800	41,024	41,134
Losses paid		1,199	11,878	26,213	30,937	32,232	33,695	35,216	35,828	36,129
Recoveries		15	297	1,514	2,399	3,874	4,377	4,757	4,957	5,148
Loss reserves		6,076	12,229	4,784	2,781	2,902	2,771	1,887	1,782	1,167
Loss incurred		7,260	23,810	29,484	31,320	31,259	32,088	32,345	32,652	32,148
Loss ratio		42%	68%	77%	79%	78%	79%	79%	80%	78%
2009			**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium			19,116	40,409	43,811	45,401	46,384	46,580	46,989	47,217
Losses paid			657	5,483	9,571	12,474	14,104	15,660	16,328	17,094
Recoveries			19	367	926	1,332	1,522	1,808	2,002	2,080
Loss reserves			5,450	8,205	5,907	4,266	3,926	2,426	1,938	1,951
Loss incurred			6,088	13,322	14,552	15,409	16,508	16,278	16,264	16,965
Loss ratio			32%	33%	33%	34%	36%	35%	35%	36%
2010				**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium				21,629	47,406	51,568	53,649	54,614	55,275	55,879
Losses paid				446	5,511	11,402	14,838	17,165	18,586	20,130
Recoveries				8	566	939	1,450	1,807	2,385	2,659
Loss reserves				4,495	10,446	8,034	5,250	3,280	3,404	2,713
Loss incurred				4,933	15,391	18,498	18,639	18,638	19,605	20,184
Loss ratio				23%	32%	36%	35%	34%	35%	36%
2011					**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium					25,518	57,180	63,939	66,534	67,826	68,849
Losses paid					724	10,125	18,716	22,627	25,593	26,607
Recoveries					43	472	1,057	1,593	2,569	2,879
Loss reserves					6,099	12,900	10,100	7,083	4,073	5,305
Loss incurred					6,780	22,553	27,758	28,117	27,097	29,033
Loss ratio					27%	39%	43%	42%	40%	42%
2012						**2012**	**2013**	**2014**	**2015**	**2016**
Premium						25,861	58,851	67,752	70,956	72,680
Losses paid						2,058	10,916	21,408	29,599	34,898
Recoveries						42	607	1,481	2,830	3,902
Loss reserves						6,411	13,575	9,944	7,063	5,762
Loss incurred						8,427	23,884	29,872	33,832	36,758
Loss ratio						33%	41%	44%	48%	51%

2013							**2013**	**2014**	**2015**	**2016**
Premium							23,850	50,008	57,418	60,677
Losses paid							1,185	8,689	16,146	21,787
Recoveries							26	446	1,104	1,646
Loss reserves							7,408	12,930	10,287	6,155
Loss incurred							8,568	21,173	25,329	26,296
Loss ratio							36%	42%	44%	43%
2014								**2014**	**2015**	**2016**
Premium								26,196	55,969	64,792
Losses paid								886	11,770	21,294
Recoveries								46	1,063	2,502
Loss reserves								6,785	11,555	10,145
Loss incurred								7,625	22,263	28,937
Loss ratio								29%	40%	45%
2015									**2015**	**2016**
Premium									28,517	53,575
Losses paid									930	15,424
Recoveries									50	667
Loss reserves									7,647	8,668
Loss incurred									8,527	23,425
Loss ratio									30%	44%
2016										**2016**
Premium										28,232
Losses paid										413
Recoveries										64
Loss reserves										8,309
Loss incurred										8,659
Loss ratio										31%
Total	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Premium	12,876	45,160	84,107	131,227	188,415	252,650	320,010	385,449	457,052	526,197
Losses paid	514	6,059	22,384	44,697	62,599	85,744	111,455	142,498	176,999	216,844
Recoveries	7	229	929	2,685	5,093	7,952	10,476	15,522	20,665	25,394
Loss reserves	2,997	12,879	22,319	21,747	27,860	36,402	44,979	46,717	49,097	51,237
Loss incurred	3,504	18,709	43,776	63,762	85,367	114,196	145,958	173,692	205,430	242,688
Loss ratio	27%	41%	52%	49%	45%	45%	46%	56%	60%	46%

Based on the expected claims ratio of a contract, the actual loss reserve is adjusted by the difference between the actual reported ratio and the expected ratio in relation to the premium income on the contract. The expected loss ratios are adjusted periodically, based on updated information as the contract develops. The table above is supplied on a pro forma basis and only contains the losses and recoveries as stated by the cedants.

Market Risk

Market risk is the risk associated with investments, including interest rate risk, currency risk, concentration risk, investment risk and liquidity risk. Possible risks associated with differences in duration (ALM risk) are included in Market Risk as well. Furthermore credit risk (counterparty default) is included in Market Risk. Credit risk is the risk associated with the default of a counterparty, whether this arises from insolvency, dispute or another reason.

Market risk is managed by AmTrust International Insurance and Nationale Borg-Maatschappij. Market risk is considered to be the risk of economic losses triggered by changes in currency rates, interest and equity price changes due to counter party default or downgrades. In relation to market circumstances foreseen and encountered Nationale Borg Reinsurance pro-actively monitors and manages its investment portfolio according to the investment policy agreed by the investment committee.

In addition to Market risk Nationale Borg Reinsurance is exposed to Liquidity risk. Nationale Borg Reinsurance must be capable at all times to fund items such as claims, reinsurance flows and operational cost. Liquidity Management is integrated in our investment policy.

MARKET RISK INVESTMENTS

Investments are held in Euro, US dollar and Danish crown denominated financial instruments. The currency risks associated with these investments are explained in the paragraph hereafter. Investment risk is the risk of economic losses triggered by changes in prices of investments. In 2016, Nationale Borg Reinsurance was exposed to interest and equity price risk. At balance sheet date Nationale Borg Reinsurance had a fairly limited investment portfolio that consisted of cash and deposits of € 6,022 (2015: € 115,544), an investment of € 35,833 (2015: € 10,012) in two money market funds (Euro and US dollar) and two loans provided to AmTrust International Insurance of € 36,384.

Risk of loss due to stress movements (i.e. decline or adverse movement in the market value of the securities under stress conditions) in market rates is estimated to be € 3.9 million.
This is measured by applying stress loss rates to the various categories of investments, per the table below:

Risk category	**Amount in € million**	**Proportion**	**Stress rate**	**Stress loss in € million**
Low (Cash and MMF)	42	54%	5%	2.1
Medium (Bonds/Loans)	36	46%	5%	1.8
High (Equity)	_	0%	42%	_
Total	78	100%		3.9

CURRENCY RISK

The foreign currency risk emanates on account of claims of international cedants that are paid in non-Euro currencies. For the purpose of managing this risk, all material loss provisions in currencies closely correlated with the USD are deemed to be managed on an equivalent 'USD' basis. Non-'USD' currencies are managed on a deemed 'Euro' basis.

For the year 2016 the technical provisions included a USD exposure of approximately $ 31.2 (2015: $ 33.5 million). It is the company policy to balance this exposure to a large extent by keeping USD bank deposits (including money market fund) amounting to $ 9.1 (2015: $ 27.8 million) and also USD and other currencies position in deposits with reinsurers in the amount of $ 1.7 (2015: $ 4.9 million) at balance sheet date. The company also provided a loan to AmTrust International Insurance in the amount of $ 17.0 million. The short term USD cash flows are also taken into consideration when managing this currency risk. As a result of this matching policy, a change in USD exchange rate should not lead to a significant foreign exchange result for the balance sheet positions.

LIQUIDITY RISK

Besides our cash, premiums, fees, investment income, incoming reinsurance flows and recoveries in general are the main source to service the daily needs for ongoing liquidity. Taking into consideration various economical and market circumstances the company makes sure to keep a sufficient buffer of cash on demand to provide itself the necessary liquidity, if there were to be an unanticipated large outflow of cash as the result of claims. Investments in equities are made only in categories which are very liquid and can be marketed overnight, as such providing sufficient payment capacity to meet the demand for liquidity within the time frames specified for our business.

In line with the 75% reinsurance position of AmTrust International Insurance, a liquidity call arrangement is in place. Nationale Borg Reinsurance may request AmTrust Insurance International to make an immediate payment for its proportionate share of any losses due. Such payment shall be made in cleared funds within 3 working days.

Nationale Borg Reinsurance is exposed to liquidity risk if there is insufficient cash available to pay its (insurance) obligations. Using the Chain-Ladder method to project the cash flows for Nationale Borg Reinsurance, we find that 30% (2015: 30%) of the Best Estimate of the 2016 Loss Reserve is expected to be paid in the first 12 months; and, similarly, 67% (2015: 65%) of the Best Estimate is expected to be paid in 36 months. The Net Premium (i.e. Premium -/- Commission -/- Brokerage) is also projected using the same method. Around 56% (2015: 55%) of the future net premium will be received in the first 12 months and 80% (2015: 80%) in 36 months. The cumulative premium exceeds the cumulative losses by 24% (2015: 33%).
The average duration of the projected claims is 3.25 years (2015: 3.42 years); while the duration for the projected net premium is 2.30 years (2015: 2.35) years indicating that, in aggregate, the

premiums are received earlier than the claims. Thus, we find that the cumulative net premium always exceeds the cumulative claims for the projected years.

During the year a liquidity shortfall could occur if there were to be an unanticipated large outflow of cash as the result of claim payments. As a result, the potential for liquidity shortfall is estimated by examining the claims cash flows in a quarter relative to the size of the reserve at the beginning of the quarter. The mean plus one standard deviation of cash outflow on account of claims is estimated over the past 20 quarters and applied to the loss reserve (including the portfolio retroceded from Nationale Borg-Maatschappij) at December 2016 as follows:

Loss reserve in € million	Stress outflow	Liquidity needed in € million
63.0	14.3%	9.0

Nationale Borg Reinsurance keeps an amount of cash to provide itself the necessary liquidity. Investments are made only in categories which are very liquid and can be marketed overnight. This, in combination with the liquidity call arrangement with AmTrust International Insurance, provides more than enough capacity to meet the demand for liquidity within the time frames specified for our business.

Simple addition (ignoring possible diversification effects) of the calculation of the cash outflow from claims (€ 9.0 million) with the stress loss in investments (€ 3.9 million) provides an estimate of the minimum liquidity requirement to be € 12.9 million. Regarding cash and cash equivalents a concentration risk is applicable. The table below provides an overview of the financial institutions where cash positions are held:

	2016	2015
ING	**5,002**	41,126
Rabobank	_	12,435
Deutsche Bank	**47**	36,619
Kasbank	_	_
SNS	_	23,252
RBC	**31**	237
Barclays	**942**	1,876
Total cash and cash equivalents	**6,022**	115,544

Nationale Borg Reinsurance has a credit agreement (for an amount of € 70 million) from Deutsche Bank AG for standby LOC's (drawn € 56.1 million as per 31 December 2016). Under the credit agreement our cash deposits with Deutsche Bank and our investment in two money market funds (€ 35.8 million) have been pledged as collateral to Deutsche Bank. The sum of our cash deposit must at all times be at least € 35 million.

CREDIT RISK

The following table provides insight in the profile of the investment portfolio.

	2016						2015	
	Opening	Purchases / sales	Matured	Gains/ losses	Total		Total	
Corporate bonds - fixed rate	_	1,309	_	(1,309)	_	**0%**	_	0%
Money Market Funds	10,012	25,435	_	386	**35,833**	**100%**	10,012	100%
Total - Available for Sale	10,012	26,744	_	(923)	**35,833**	**100%**	10,012	100%
Equity and Preferred shares	19,289	(18,876)	_	(413)	_	**0%**	19,289	100%
Total – To/From P&L	19,289	(18,876)	_	(413)	_	**0%**	19,289	100%
Intercompany loans	_	36,384	_	_	**36,384**	**100%**	19,289	100%
Total - All Financial Assets	29,301	44,252	_	(1,336)	**72,217**	**100%**	29,301	100%

In 2016, the split of investments by country of risk is provided in the following table:

	MMF	**Loans**	**Total**	**%**
Belgium	_	_	_	**0%**
Bermuda	_	36,384	**36,384**	**50%**
Germany	_	_	_	**0%**
France	_	_	_	**0%**
Luxembourg *	35,833		**35,833**	**50%**
Netherlands	_	_	_	**0%**
United States	_	_	_	**0%**
Total	**35,833**	**36,384**	**72,217**	**100%**

* The money market fund is located in Luxembourg but has a world wide spread portfolio.

In addition, credit risk also exists with regard to deposits at cedants (including Nationale Borg-Maatschappij) amounting to € 25,459 (2015: € 24,579) and credit risk with respect to outstanding premium receivables of € 3,840 (2015: € 3,371).

OTHER RISKS

Operational risk of Nationale Borg Reinsurance is managed by the Risk Management and Compliance department of Nationale Borg-Maatschappij. In case a new risk is identified this risk is discussed with Risk Management and mitigating controls are defined. The regular Risk Assessment process contributes to the identification and analysis of risks. During this Risk Assessment risks are analyzed and assessed. Risk analysis consists of describing the risk on a detailed level including assigning a risk owner.

Line Management of the business is responsible for effectively operating internal controls and keep documentation in order to proof existence and operating effectiveness. It is the responsibility of business management to ensure internal controls (agreed in risk assessments). Risk Management is responsible to monitor the implementation of new controls and to monitor the operating effectiveness of existing controls. Internal Audit is responsible to evaluate the adequacy and effectiveness of the internal control system.

Strategic risks are those risks that are most consequential to the ability of Nationale Borg Reinsurance to execute its strategies and achieve its business objectives. These are the risk exposures that can ultimately affect shareholder value or the viability of the organization. Strategic risk is managed by the Executive Board. Examples of strategic risk that resulted from the last Risk Assessment are:

- Increase in competition;
- Changes in regulation;
- Downgrade credit rating Nationale Borg Reinsurance.

We closely monitor our business/market environment and follow trends etc. which are periodically discussed in the Executive and Supervisory Board. The Strategic Plan is updated on a yearly basis and forms the basis for the next year's budget.

CAPITAL MANAGEMENT

The optimal capital position is determined by comparing the following objectives and requirements:

- ROE and dividend requirements from shareholders;
- Minimum regulatory requirements (local, as well as an internal Solvency II evaluation);
- Rating agency requirements to maintain an A rating;
- Requirements from counterparties (mainly cedants);
- Internal calculation of solvency needs.

The company's objective is to maintain a buffer over the greater of regulatory and rating agency requirements.

The capital needed for our business according to the standards of the regulator of Curaçao is € 10.4 million. The current capital of € 91.1 million comfortably exceeds the capital level required to maintain standards under current conditions.

FAIR VALUE HIERARCHY

During 2016 there were no transfers of financial assets between the Level 1, 2 and 3 fair value hierarchy classifications. As all financial assets and liabilities are classified in the Level 1 and 2 fair value hierarchy, the fair value of these assets and liabilities are not/limited sensitive to possible favorable or unfavorable changes in the assumptions used to determine the fair value (for example, discount rate, credit rating assumptions).
At 31 December 2016, investments classified as Level 1 comprised 100% (2015: 100%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices (i.e. quoted market prices in an active market) of fixed maturities, equity securities and derivative contracts.
For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, reference is made to note 3 (Principles of valuation and determination of result).

The following table presents the group's assets and liabilities measured at fair value at 31 December 2016.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
• Shares and other variable yield securities	35,833	_	_	**35,833**
• Bonds and other fixed income securities	_	_	_	_
Financial assets at fair value through P&L				
• Shares and other variable yield securities	_	_	_	_
• Bonds and other fixed income securities	_	_	_	_
Loans and Receivables				
• Reinsurance contracts	_	86,451	_	**86,451**
• Intercompany loans	_	36,384	_	**36,384**
• Cash and cash equivalents	6,022	_	_	**6,022**
Total loans and receivables	6,022	122,835	_	**128,857**
Total assets	**41,855**	**122,835**	_	**164,690**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at amortized costs				
• Technical provisions	_	81,317	_	**81,317**
• Payables	_	1,927	_	**1,927**
• Other liabilities	_	2,610	_	**2,610**
Total liabilities	_	**85,854**	_	**85,854**

The comparative figures for 2015 are:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
• Shares and other variable yield securities	10,012	_	_	10,012
• Bonds and other fixed income securities	_	_	_	_
Financial assets at fair value through P&L				
• Shares and other variable yield securities	12,290	_	_	12,290
• Bonds and other fixed income securities	_	_	_	_
Loans and Receivables				
• Reinsurance contracts	_	24,591	_	24,591
• Cash and cash equivalents	115,544	_	_	115,544
Total loans and receivables	115,544	24,591	_	140,135
Total assets	144,846	24,591	_	169,437

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at amortized costs				
• Technical provisions	_	81,033	_	81,033
• Payables	_	1,484	_	1,484
• Other liabilities	_	8,002	_	8,002
Total liabilities	_	90,519	_	90,519

The fair values of all financial instruments (assets and liabilities) do not differ from their book value.

5. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2016	3	4	**7**
Additions	_	8	**8**
Disposals	_	_	_
Revaluations	_	_	_
At cost as at 31 December 2016	3	12	**15**
Accumulated depreciation and impairments at 1 January 2016	(1)	(1)	**(2)**
Depreciation charge for the year	(1)	(6)	**(7)**
Depreciation on disposals	_	_	_
Accumulated depreciation and impairments at 31 December 2016	(2)	(7)	**(9)**
Book value as at 1 January 2016	2	3	5
Book value as at 31 December 2016	**1**	**5**	**6**

	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2015	3	3	**6**
Additions	_	1	**1**
Disposals	_	_	_
Revaluations	_	_	_
At cost as at 31 December 2015	3	4	**7**
Accumulated depreciation and impairments at 1 January 2015	(1)	(2)	(3)
Depreciation charge for the year	_	1	1
Depreciation on disposals	_	_	_
Accumulated depreciation and impairments at 31 December 2015	(1)	(1)	(2)
Book value as at 1 January 2015	2	1	3
Book value as at 31 December 2015	2	3	5

6. INTANGIBLE ASSETS

	IT Software	Total
At cost as at 1 January 2016	53	**53**
Additions	103	**103**
At cost as at 31 December 2016	156	**156**
Accumulated amortization at 1 January 2016	(2)	**(2)**
Amortization charge for the year	(11)	**(11)**
Impairment charge for the year	–	–
Accumulated amortization and impairments at 31 December 2016	(13)	**(13)**
Book value as at 1 January 2016	51	**51**
Book value as at 31 December 2016	143	**143**

	IT Software	Total
At cost as at 1 January 2015	–	–
Additions	53	**53**
At cost as at 31 December 2015	53	**53**
Accumulated amortization at 1 January 2015	–	–
Amortization charge for the year	(2)	**(2)**
Impairment charge for the year	–	–
Accumulated amortization and impairments at 31 December 2015	(2)	**(2)**
Book value as at 1 January 2015	–	–
Book value as at 31 December 2015	51	**51**

7. FINANCIAL ASSETS

Financial assets classified by type and nature:

2016	Available for sale	Assets at Fair Value through P&L	Loans	Total
Shares and other variable yield securities *	35,833	_	_	**35,833**
Bonds and other fixed income securities	_	_	_	_
Intercompany loans	_	_	36,384	**36,384**
	35,833	_	**36,384**	**72,217**

2015	Available for sale	Assets at Fair Value through P&L	Loans	Total
Shares and other variable yield securities	10,012	19,289	_	29,301
Bonds and other fixed income securities	_	_	_	_
	10,012	19,289	–	29,301

* These relate to money market fund Investments that are pledged as collateral with Deutsche Bank in relation to LOC facilities.

Intercompany Loans relates to two short term loans provided to AmTrust International Insurance. One loan is denominated in EUR and the other loan in USD. The interest rate on the loans is 6 Month LIBOR plus 3.486%. The loans shall be terminated if either the lender or the borrower has given one month prior written notice to the other party to terminate the loans.

Movements in available-for-sale assets:

	2016	2015
Book value at 1 January	**10,012**	23,862
Additions	**100,253**	10,012
Disposals	**(73,510)**	(23,066)
Revaluations	**(1,316)**	(796)
Effects of movements in foreign exchange	**394**	_
Book value at 31 December	**35,833**	10,012

NOTES TO THE FINANCIAL STATEMENTS

Movements in financial assets at fair value through profit and loss:

	2016	2015
Book value at 1 January	**19,289**	26,967
Additions	_	17,165
Disposals	**(18,874)**	(23,087)
Revaluations	**(415)**	(2,169)
Effects of movements in foreign exchange	_	414
Book value at 31 December	_	19,289

8. REINSURANCE CONTRACTS

	2016	2015
Deposits with cedants	**25,459**	24,579
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premiums	**13,568**	12
• Claims and loss adjustment expenses	**47,424**	_
Balance as at 31 December	**86,451**	24,591

The reinsurers' share of insurance liabilities mainly relates to the 75% Quota Share reinsurance agreement between Nationale Borg Reinsurance and AmTrust International Insurance. Of the deposits with cedants € 16,790 (2015: 16,398) relates to Nationale Borg-Maatschappij.

9. TRADE AND OTHER RECEIVABLES

	2016	2015
Accounts receivable on reinsurance business:		
• Amounts owed by cedants	**3,840**	3,371
• Current income tax receivable	**2,568**	2,388
• Other accounts receivable	**23**	30
Balance as at 31 December	**6,431**	5,789

The outstanding receivables are substantially all current and consequently their fair value does not materially differ from its book value. All trade and other receivables are collectible within one year. The current income tax receivable is related to prior year's tax receivables.

There is no concentration of credit risk with respect to receivables as the company has a large number of internationally dispersed debtors. All receivables are considered on an individual basis for impairment testing. The company does not hold any collateral over these balances.

Movements on the provision for impairment of receivables are as follows:

	2016	2015
Balance as at 1 January	**9**	(153)
Additions and (releases) during the year	**90**	162
Balance as at 31 December	**99**	9

The creation or release of provision for impaired receivables has been included in net operating expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

10. OTHER ASSETS

	2016	2015
Accrued interest	–	108
Sliding scale commission receivable	–	584
Deferred acquisition costs	**5,555**	5,823
Other	**3**	13
Balance as at 31 December	**5,558**	6,528

The Other Assets are substantially all current and consequently their fair value does not materially differ from their book value.

Movements on the deferred acquisition costs are as follows:

	2016	2015
Balance as at 1 January	**5,823**	5,549
Change in deferred acquisition costs	**(268)**	274
Balance as at 31 December	**5,555**	5,823

For assumed reinsurance the deferred acquisition costs are taken into account in the profit and loss statement equal to the corresponding premiums earned. The premiums earned are recognized proportionally to the insurance risk of the contract.

11. CASH AND CASH EQUIVALENTS

	2016	2015
Cash at banks	**6,022**	59,536
Cash savings and deposit accounts	–	56,008
Balance as at 31 December	**6,022**	115,544

The decrease in 2016 versus 2015 is caused by the implementation of the internal reinsurance agreement with AmTrust International Insurance, the investment in the money market funds and the two loans provided to AmTrust International Insurance. All cash and deposits are available without restrictions.

12. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2016	2015
Balance as at 31 December	**2,000**	2,000

The share capital of € 2,000 (2015: € 2,000) is divided into 2,000 fully paid ordinary shares of €1,000. The fully paid shares carry one vote per share and carry the rights to dividends.

CAPITAL RESERVE

	2016	2015
Balance as at 31 December	**2,000**	2,000

REVALUATION RESERVE

	2016	2015
Balance as at 1 January	–	796
Change in revaluation reserve	–	(796)
Balance as at 31 December	–	–

REVENUE RESERVE

	2016	2015
Balance as at 1 January	**77,164**	61,485
Appropriations to reserve	**10,126**	15,679
Balance as at 31 December	**87,290**	77,164

PROFIT FOR THE YEAR

	2016	2015
Balance as at 1 January	**10,126**	15,679
Appropriations to revenue reserve	**(10,126)**	(15,679)
Dividend distribution	–	–
Profit for the year	**(156)**	10,126
Balance as at 31 December	**(156)**	10,126

TOTAL EQUITY

	2016	2015
Subscribed capital	**2,000**	2,000
Capital reserve	**2,000**	2,000
Revaluation reserve	–	–
Revenue reserve	**87,290**	77,164
Profit for the year	**(156)**	10,126
Balance as at 31 December	**91,134**	91,290

13. TECHNICAL PROVISIONS

	2016	2015
Provision for claims	**63,233**	62,856
Provision for unearned premium	**18,084**	18,177
Total underwriting provisions at 31 December	**81,317**	81,033

The movement schedule of technical provisions:

	2016	2015
Opening provision for claims	**62,856**	62,138
Change in provision	**(1,520)**	(690)
Effects of changes in foreign exchange	**1,897**	1,408
Ending provision for claims	**63,233**	62,856
Provision for unearned premium	**18,179**	16,695
Change in provision	**(94)**	1,473
Ending provision for unearned premium	**18,084**	18,179

14. PAYABLES

	2016	2015
Trade and other accounts payable:		
Accounts payable	**4**	(139)
Debtors with credit balance	**735**	1,611
Internal reinsurance	**1,184**	1
Other accounts payable	**4**	11
Balance as at 31 December	**1,927**	1,484

The payables are all current and consequently their fair value does not materially differ from their book value.

15. OTHER LIABILITIES

	2016	2015
Accrued interest	**16**	_
Profit commission payable	**1,572**	1,386
Miscellaneous liabilities and accruals:		
Payroll and other accruals	**181**	5,626
Sundry creditors	**252**	327
Balance as at 31 December	**2,021**	7,339

All other liabilities are current liabilities and payable within one year, consequently their fair value does not materially differ from their book value. Payroll and other liabilities of 2015 included an intercompany amount of € 5.4 million payable to Nationale Borg-Maatschappij. In 2016 this amount reduced to a € 18 thousand payable.

16. DEFERRED INCOME TAX LIABILITIES

	2016	2015
Deferred income tax liabilities	_	_

The movement on the deferred income taxes is as follows:

	2016	2015
Balance as at 1 January	_	(174)
Charge/(credit) to equity for the year	_	_
Charge/(credit) to corporate tax payable for the year	_	_
Charge/(credit) to the income statement for the year	_	174
Balance as at 31 December	_	_

17. CURRENT INCOME TAX LIABILITIES

	2016	2015
Current income tax liabilities	**430**	663

The current income tax liabilities consist of corporate income taxes payable for 2016.

18. NET PREMIUM EARNED

	2016			2015		
	Gross	**Reinsurers' Share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Written premium	69,837	(32,457)	**37,380**	72,363	(3)	72,360
Change in provision for unearned premium	94	954	**1,048**	(1,483)	(6)	(1,489)
Premium earned	**69,931**	**(31,503)**	**38,428**	70,880	(9)	70,871

Since 1 June 2016 Nationale Borg Reinsurance operates a quota share reinsurance agreement with AmTrust Internal Insurance, a wholly owned indirect subsidiary of AmTrust Financial Services, whereby the company cedes 75% of any business, after any other reinsurance treaties. The earned premium ceded to AmTrust International Insurance amounted to € 31,487.

19. REINSURANCE COMMISSION RECEIVED

	2016	**2015**
Reinsurance commission received	**15,902**	2

The amount of reinsurance commission received almost fully (€ 15,893) relates to the commission received from AmTrust International Insurance under the internal reinsurance agreement.

20. NET INVESTMENT INCOME

Net investment income by type of investment:

	2016	**2015**
Income/expense from:		
• Bonds and other fixed rate securities	**(1,093)**	881
• Loans	**933**	756
• Shares and other variable yield securities	**(554)**	2,321
• Derivatives	**162**	(390)
• Other investments	**(425)**	(714)
Net income/(expense) from investments	**(977)**	2,854

Net investment income by nature of income/(expense):

	2016	2015
Income/(expense) from:		
Interest	**964**	900
Dividends	**22**	518
Realized gains	**3,704**	4,106
Unrealized gains	**(5,436)**	(2,169)
Investment handling expenses	**(231)**	(501)
Net income/(expense) from investments	**(977)**	2,854

21. NET INSURANCE CLAIMS

	2016			2015		
	Gross	Re-insurers' share	Net	Gross	Re-insurers' share	Net
Claims paid in the year	35,965	(19,459)	**16,506**	31,336	_	31,336
Change in provision for outstanding claims	(1,520)	3,913	**2,393**	(690)	_	(690)
Total insurance claims and loss adjustment expenses	**34,445**	**(15,546)**	**18,899**	30,646	_	30,646

Since 1 June 2016, 75% of insurance claims is ceded to AmTrust International Insurance.

The historical claim development is disclosed in note 4: Risk Management.

22. ACQUISITION COSTS

	2016	2015
Acquisition costs	**26,104**	26,906
Change in deferred acquisition costs	**270**	(278)
Change in profit commission payable	**1,002**	760
Profit commission paid	**2,285**	2,326
Total acquisition costs	**29,661**	29,714

23. NET OPERATING EXPENSES

	2016	2015
Staff expenses	**925**	890
Administrative expenses	**1,129**	801
Depreciation	**18**	4
Exchange rate differences	**741**	(1,257)
Other expenses	**1,802**	1,944
Total net operating expenses	**4,615**	2,382

The other expenses mainly relates to the costs associated with the service level agreement between Nationale Borg Reinsurance and Nationale Borg-Maatschappij, relating to supporting services on underwriting, IT, financial and actuarial activities. The service level agreement has been set up at arm's-length conditions.

24. INCOME TAX EXPENSES

	2016	2015
Current tax	**334**	859

The effective tax rate as a percentage of gross written premiums (optional tax basis for insurance companies resided on Curaçao) amounts to 0.5 % for 2016 (2015: 1.2%).

	2016	2015
Gross written premiums (tax basis)	**69,837**	72,364
Taxation base shifted to fiscal authorities in the Netherlands	**(30,728)**	(17,862)
Tax basis Curaçao	**39,109**	54,501

	2016	2015
Tax calculated at domestic tax rates applicable to profits in the respective countries	**430**	685
Tax exempt income and permanent differences	**–**	–
Reassessment of prior year tax positions	**(96)**	174
Tax charge for the year	**334**	859

25. EARNINGS AND DIVIDENDS PER SHARE

BASIS EARNINGS PER SHARE

	2016	**2015**
Continuing operations:		
Profit attributable to the company's equity holders	**(156)**	10,126
Number of ordinary shares issued as per 31 December	**2,000**	2,000
Earnings per share (in €)	**(78.00)**	5,063.00

Basic earnings per share are calculated dividing the net profit / (loss) of the year attributable to the equity holders of the company by the weighted average number of ordinary shares issued during the year.

DIVIDEND PER SHARE

No dividend was distributed in 2016 (2015: no dividend was distributed).

26. OTHER COMPREHENSIVE INCOME

	2016			2015		
	Gross	**Income tax**	**Net**	**Gross**	**Income tax**	**Net**
Fair value gains/(losses) on available for sale financial investments	_	_	_	(796)	_	(796)
	_	_	_	(796)	_	(796)

In 2015 the government bonds were disposed. The income tax charges of Nationale Borg Reinsurance are based on a percentage of the gross written premiums. Therefore the impact of income tax on these fair value changes is zero.

27. CONTINGENCIES

The Company has contractual commitments with regard to the office rent and housing for personnel. The total commitment relating to office rent at balance sheet date amounts to € 55 (2015: € 56). The duration of the rental commitment for the Argentinian office is 12 months. The rental commitment for the Curaçao office is automatically renewed every year, except in case one of the parties intends to cancel the contract, in which case that party has to notify the other party at least 3 months in advance by registered letter/mail.

There are no other contingencies or litigation issues that could have a significant impact on the financial statements.

28. CAPITAL COMMITMENTS

Nationale Borg Reinsurance is committed to keep its Solvency II ratio at a minimum of 175%.

29. RELATED PARTY TRANSACTIONS

The following table provides the total value of transactions which have been entered into with related parties Nationale Borg-Maatschappij and AmTrust International Insurance for the financial year:

	2016	2015
Inward reinsurance (assumed)	**1,088**	4,688
Outward reinsurance (ceded)	**(39)**	–
Service level agreement on underwriting and supporting services	**(1,809)**	(1,944)
(Interest on) outstanding intercompany balances after novation	**812**	756
Total related party transactions	**52**	3,500

The net intercompany position with Nationale Borg-Maatschappij was a payable of € 18 (2015: payable € 5.4 million). The net intercompany position with AmTrust International Insurance was a payable of € 1,184.

The inward reinsurance (assumed) business relates to the retroceded indirect business of Nationale Borg-Maatschappij for all underwriting years. This portfolio has been reinsured at Nationale Borg Reinsurance at current arm's-length market conditions. The assumed reserves are fully collateralised by Nationale Borg Reinsurance;

The outward reinsurance relates to the outbound quota share reinsurance agreement with AmTrust International Insurance, a wholly-owned indirect subsidiary of AmTrust Financial Services, whereby Nationale Borg Reinsurance cedes 75% of any business, after any other reinsurance treaties.

A service level agreement has been set-up between Nationale Borg Reinsurance and Nationale Borg-Maatschappij for the services Nationale Borg-Maatschappij provides to the company. These services are related to Underwriting, IT, Finance, Actuary and Investment management. The remuneration to Nationale Borg-Maatschappij has been set at arm's-length conditions.

Interest is due on all outstanding intercompany balances including intercompany loans. During 2016 this was calculated on a monthly basis at an average rate of 5.0% (2015: 5.75%) for Nationale Borg-Maatschappij and 3 month USD LIBOR +3.486% (2015: not applicable) for AmTrust International Insurance.

OTHER

- Nationale Borg Reinsurance became a fully owned subsidiary of AmTrust Equity Solutions Ltd. on 23 November 2016 for an amount of € 131,102. This transfer within the AmTrust Group had no impact on the operations of neither Nationale Borg Reinsurance nor Nationale Borg-Maatschappij;
- One director of Nationale Borg Reinsurance is the owner of Gilhol Management and Consulting NV (Gilhol). Nationale Borg-Maatschappij offers guarantees to customers located at the Antilles. Regarding some guarantees Gilhol serves as a local intermediary.
- Nationale Borg Reinsurance and All Insurance Management Ltd. entered into an investment management agreement pursuant to which All Insurance Management manages the investments of Nationale Borg Reinsurance and its managed syndicates;
- Nationale Borg Reinsurance participates (for 3%) in the General Reinsurance Agreement of Nationale Borg-Maatschappij;

30. PERSONNEL

The number of employees working for the company:

	2016	2015
Total average number of employees (full-time equivalent)	**5.6**	4.3
Total year-end number of employees (full-time equivalent)	**5.6**	5.0
Total year-end number of employees	**6**	5

31. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

The following table provides details regarding the remuneration of the Executive Board and Supervisory Board. The Executive Board consists of 3 members (2015: 2 members). The Supervisory Board consists of 3 members (2015: 4 members).

	2016	2015
Short term employee benefits	**292**	168
Bonus payments	**79**	252
Long term benefits (deferred compensation)	–	–
Pension and other benefits	**19**	19
Total remuneration Executive Board and Supervisory Board	**390**	439

	2016	2015
Supervisory Board	**15**	15
Total compensation paid to the Supervisory Board	**15**	15

32. AUDITOR FEES

With reference to section 2:382 of the Dutch Civil Code, the following fees for the financial year have been charged by KPMG accountants NV to the company and its subsidiaries.

For the year 2016:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	36	_	**36**
Tax-related advisory services	_	33	**33**
Total fees charged during the year	**36**	**33**	**69**

For the year 2015:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	37	_	37
Tax-related advisory services	_	33	33
Total fees charged during the year	37	33	70

Willemstad, 19 April 2017

Supervisory Board:
A.P. van der Woude
J.M.R.S. van Eps
F.J.M. Hoeben

Executive Board:
G.J. Hollander
I.M. Nijenhuis
A.P.J.C. Kroon

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders and the Supervisory Board of Nationale Borg Reinsurance

REPORT ON THE ACCOMPANYING FINANCIAL STATEMENTS

Our opinion

We have audited the financial statements 2016 of Nationale Borg Reinsurance ("the Company"), based in Willemstad, Curaçao.
In our opinion the accompanying financial statements give a true and fair view of the financial position of Nationale Borg Reinsurance as at 31 December 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.
The financial statements comprise:

1. the statement of financial position as at 31 December 2016;
2. the following statements for 2016: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.
We are independent of Nationale Borg Reinsurance in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Executive Board;
- the Report of the Supervisory Board.
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

OTHER INFORMATION

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.
Management is responsible for the preparation of the other information, including the Report of the Executive Board, in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

DESCRIPTION OF THE RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.
As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.
Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and

extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.
For a further description of our responsibilities in respect of an audit of financial statements, we refer to the website of the professional body for accountants in the Netherlands (NBA):
https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_niet_oob_variant_%20Engels.docx

Utrecht, 19 April 2017

KPMG Accountants N.V.

A.J.H. Reijns RA

OTHER INFORMATION

PROFIT APPROPRIATION

The profit is appropriated according to Article 12 of the articles of Association of Nationale Borg Reinsurance the relevant stipulations of which state:
“The profit as included in the income statement is available for distribution at the discretion of the shareholders. As far as the profit of the company allows it, an interim dividend may be paid by the Executive Board upon approval of the Supervisory Board. If a loss is made that cannot be covered by the reserves or other methods, dividend will not be paid in the following years until the negative balance has been recovered.”

PROPOSED PROFIT APPROPRIATION

Net loss	**(156)**
Interim dividend paid out	_
Transfer to reserves	**(156)**
Dividend to shareholders	_

No (interim) dividend was distributed in 2016 (2015: nil). The Supervisory Board agrees with the proposal of the Executive Board to the shareholders to retain all earnings and add them to the company’s equity.

EVENTS AFTER BALANCE SHEET DATE

Since 9 November 2016 Nationale Borg Reinsurance has an A rating from A.M. Best, as this is the rating agency of AmTrust Group. Consequently Nationale Borg Reinsurance has ended its rating with S&P on 28 February 2017.

As a result of the internal reinsurance with AmTrust International Insurance and the withdrawal of the S&P rating Nationale Borg Reinsurance no longer satisfied the covenants in the credit agreement with Deutsche Bank. On 31 March 2017 an amended credit agreement was signed reflecting the new arrangements. As from this date Nationale Borg Reinsurance is also no longer co-obligor under the credit agreement of Nationale Borg-Maatschappij with Deutsche Bank.

There have been no adjusting events after the balance sheet date.

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