NATIONALE BORG REINSURANCE

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ANNUAL REPORT

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 more than seven decades as a specialized reinsurer of worldwide surety, credit insurance and political risk insurance. The company is based in Willemstad, Curacao, and is supervised by the Central Bank of Curacao 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 and SAC, creates further access to its business partners.

GROUP STRUCTURE

Supervisory Board Nationale Borg Reinsurance N.V.:

A.P. van der Woude
J.M.R.S. van Eps
J.M. Griffiths
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 has held four meetings in 2018, covering all important issues adhering to the annual schedule, as well as their actual relevance to the company.

In 2018 the following topics were extensively discussed with the management board: results 2018 and performance versus budget, corporate governance, cooperation with other entities in the AmTrust group and budget 2019.

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 add them to the company's equity. In 2018 no interim dividend was distributed.

Willemstad, 29 March 2019

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

EXECUTIVE BOARD REPORT

CONTINUING GROWTH AND INCREASING PROFITABILITY AMIDST A COMPETITIVE MARKET ENVIRONMENT

2018 started off with the expectation that Nationale Borg Reinsurance would be able to maintain its market position, and possible slightly improve results compared to 2017. Budgets were set close to the final results of 2017 and the first quarter showed developments within the set predictions.

In the second quarter premium income started to outpace expectations, as we experienced the first effects of some increased treaty shares and slower run-off from cancelled contracts. The paid claim amounts remained well under the 2017 numbers, but were partially offset by increasing technical provisions.

During the second half of the year the results further improved and premium income remained more than 10% above budget, as we were helped by some significant (€ 1,750,000) facultative premium entering the numbers.

The overall combined ratio came in at 89.2%, significantly under last year's 93.9%. The main driver for the improved results has been the lower than expected acquisition cost ratio. The claim ratio (48.1%) and direct expense ratio (5.7%) ended up slightly above last year's level.

In 2018 the market was able to absorb the requested capacity and regionally increasing acquisition costs, mainly through reinsurers that entered this niche space or enlarged their risk appetite over the past five years.

Currently available info on 2019 renewals shows a modest hardening of the global reinsurance and alternative capital markets, without major price increases for Surety, Trade Credit and Political Risk Reinsurance. We do see rates in the direct markets, especially in Political Risk Insurance (PRI), harden further. This should positively impact the gross written premium for 2019 and beyond.

The worldwide economy continued its slow growth numbers during 2018. Underlying GDP growth remained modest, but unemployment rates further decreased in many leading economies. The commodity market pricing seemed to increase during 2018, but has fallen back again towards the end of the year and budget constraints of many governments still strain the demand for surety products in many markets.

EXECUTIVE BOARD REPORT

Nationale Borg Reinsurance experienced continued Surety claim activity in some emerging markets and moderate frequency and severity claim activity in various Trade Credit and PRI markets as well. The telecom sector in Asia was the major cause of severity claims in 2018.

The company continues its search for new opportunities in specific surety and ECA (Export Credit Agency) related markets and products, to compensate for the somewhat lackluster demand and increased retentions.

With the exception of China, Hong Kong (export and domestic credit insurance) and Chile (mainly domestic credit insurance), where results were weak, partially offset by low acquisition cost percentages, the global credit insurance markets showed stable revenues and solid results. The economic fundamentals required a continued prudent underwriting approach in 2018.

The Political Risk Insurance product showed continued claim activity in 2018, whilst incurring less severity impact than in the past year. Large recoveries are still expected in many cases, but these can take more than a decade to fully materialize. Demand remains solid in the midst of the economic and political turmoil in certain geographical areas.

Nationale Borg Reinsurance’s portfolio continues to be characterized by its diversification. Business is conducted with over 110 cedants, in close to 50 countries and three products. This diversification in our portfolio continues to be a stabilizing factor for our bottom line result.

Credit insurance has shown losses at favorable and stable levels over the past five years, with the exception of the aforementioned markets China and Chile. However, margins have decreased, and remain under some further downward pressure, due to the abundance of reinsurance capacity for these larger global accounts.

Surety has shown stable results in our portfolio over various economic cycles and continues to do so. We have seen an uptick in claim activity in Latin America, where the historical claim ratios were very favorable up to 2015. These have come up the past three years, but mostly still fall well within our combined ratio targets. Our main concerns are the continuous trend towards on demand bond wordings, as well as the legal framework around foreign contractors in various markets.

The growth of the Political Risk Insurance business in our portfolio has strengthened our global foothold and diversified our portfolio over the past decade. This line has consistently shown promising results, albeit affected by increased claim activity since 2015. We feel this product continues to provide promising opportunities for the future, but patience will be required in various recovery processes.

EXECUTIVE BOARD REPORT

There has been a change in our underwriting team in 2018. At the end of the year we lost one underwriter, based in Latin America. There has been no negative effect on our portfolio, which shows the strength of our corporate relationships as well as the backup service provided.

The growth of our portfolio and the administration involved require us to keep improving our systems and processes. Nationale Borg Reinsurance continues to look for suitable additions to the underwriting team. Our underwriters operate from various locations in Europe and Latin America, with our sister company in Amsterdam providing key support in operations, accounting and finance, as well as housing a substantial underwriting presence.

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

PREMIUM DEVELOPMENT AND INSURANCE RESULTS

Nationale Borg Reinsurance's 2018 gross written premium of € 87.3 million showed an increase of 14% compared to 2017, largely caused by some increased treaty shares, slower run off and one-off facultative premium.

Overall the net claims ratio remained stable at 48.1% (2017 47.9%), which is slightly outside our long term objective range. 2018 saw a slightly decreased claim frequency in all three products we underwrite. Isolated severity claims in Asia (Trade Credit) and Lloyds (PRI), combined with frequency claims in the Chinese and Chilean credit insurance markets, caused most of the incurred losses. Mainly for the PRI product line, important recoveries are expected. But these will take considerable time to materialize.

INVESTMENT RESULTS

Driven by the positive operational cash flow we have built up a bond portfolio during 2018. As per December 2018 the market value of the bond portfolio amounted to € 26.6 million. In 2018 the value of the loans to AmTrust International Insurance ($ 3.5 million) and AmTrust Equity Solutions (€ 70 million) increased with accrued interest to € 75.9 million. During 2018 the total cash balance decreased from € 18.7 million to € 10.5 million at 31 December 2018.

The total return on investments, including value adjustments through equity, amounted to € 1.5 million (2017: € 351k). Interest income increased compared to 2017 (2018: € 1.7 million; 2017: € 409k).

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 2018. 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 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.

Market risk is centrally managed by AII Insurance Management and Nationale Borg. 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 risk 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. Premium, 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 the organization, market and reinsurance structure of each of its cedants. Each underwriter is assigned to a particular geographical area. Additional knowledge and experience is shared with the entire team through a work flow tool. Underwriters personally visit all clients at least once a year. They also attend many industry meetings.

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

Given the size and nature of the reinsurance business (new products and changes in existing 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. Experts (either internal or external) are involved when necessary.

COMPOSITION OF THE BOARD

The composition of the Executive and Supervisory Board (both 100% male) did not change in 2018.

PERSONNEL

Seven employees are employed directly by Nationale Borg Reinsurance. No collective bargaining agreement is applicable to these employees.
Some of the personnel involved in the reinsurance activities of Nationale Borg Reinsurance are employed by Amtrust International Underwriters DAC, operating as Nationale Borg, in Amsterdam (approximately 8 FTE). The collective bargaining labor agreement (in Dutch 'Collectieve ArbeidsOvereenkomst') for insurance companies applies to their contracts. The personnel costs related to these employees are charged to Nationale Borg Reinsurance based on an annually adjusted service level agreement.

SUPERVISORY BOARD

COMPOSITION AND EXPERTISE

Nationale Borg Reinsurance has a Supervisory Board consisting of four members with a broad and diverse background (e.g. legal, construction, (re)insurance and general management). The members do not bring just 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

- Once a year, the Supervisory Board approves the annual budget that is prepared 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 must serve the interests of all stakeholders involved. They must ensure the continuity of the company and its business.
- Their 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.

EXECUTIVE BOARD REPORT

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 with 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 second line of defence functions (risk management, compliance, and actuary) and internal audit monitors the compliance with the policies. Deviations are possible but only when addressed timely and agreed upon by the Executive Board, or the Supervisory Board, depending on the subject.

The risk management policy covers all risk categories (financial and non-financial risks). These risks are:
Non-life underwriting risk/ insurance risk;
Market risk;
Operational risk;
Strategic risk;
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 in place 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. In addition there is a 100% quota share participation of the bad debt liability of Nationale Borg Reinsurance resulting from unpaid premium. In 2018 the treaty result amounted to € 705k (2017: € 5,448k). At 31 December 2018, € 22,426k (2017: € 9,137k) 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 € 71,981k at 31 December 2018 (2017: € 59,681k). The bad debt provision ceded to AmTrust International Insurance amounted to € 284k at 31 December 2018.

Nationale Borg Reinsurance may, at its sole discretion, request AmTrust International Insurance to make an immediate payment to Nationale Borg Reinsurance for its share in any loss due.

EXECUTIVE BOARD REPORT

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.

OUTLOOK 2019

Nationale Borg Reinsurance has always prided itself on being able to withstand the ups and downs of the market, because of its diversification and focus on the long term. This means we overreact neither in very promising years (2010-2015), nor in much more challenging ones (2008-2009-2016). 2018 was an above average year in which we surpassed expectations, but we are still far from the record returns we experienced during the beginning of this decade. Those returns will be hard to reach again in the near future for reasons already mentioned earlier in this report.

Our strategy for 2019 will not change substantially from the past three years. However, we do need to be aware of the continuously changing circumstances and address underperforming outliers in our portfolio. Especially where we see a possible prolonged deterioration of margins, without any payback expectation, we should act and cancel our commitments. We have done so more frequently at recent renewals. 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 slow growth ratio in 2019, some regions 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 2019 if the underlying commodity prices do not return to a stable level, well above the averages of the past three years. Foreign exchange rate fluctuations may also adversely affect corporations with revenues in local currency and liabilities in US dollars or other strengthening currencies. A weakening US dollar might affect some of the European exporters, as well as the written premium of Nationale Borg Reinsurance, as we report in euro.

The political developments in the United Kingdom (Brexit) and the potential ongoing protectionist policies in the United States may affect global trade flows in the upcoming year. This is something to closely monitor going forward. A global recession in 2020 is a realistic possibility.

EXECUTIVE BOARD REPORT

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 pro-actively underwriting its portfolio and balancing the three products underwritten, as well as by looking into further niche markets, always considering options within their underwriting scope.

Nationale Borg Reinsurance expects to benefit more from the extensive group network and from the financial strength of the various underwriting platforms within AmTrust in 2019. This will allow Nationale Borg Reinsurance to combine its excellent global network and strong branding, with the strength of a well-capitalized parent.

In 2019 we will look to strengthen our team with skilled new members, 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, compliance 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 in 2019, as they were low in 2018, and thus put additional pressure on the technical margins. On the other hand we expect the loss ratio to remain stable, or fall slightly. Our expectation for 2019 is to return close to our historical profitability levels, to outperform our peers, and to provide satisfactory returns to our shareholders.

Willemstad, 29 March 2019

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

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

Before appropriation of result €'000			31 December 2018		31 December 2017
ASSETS					
Property, plant and equipment	*5*		**6**		5
Intangible assets	*6*		**93**		126
Financial assets	*7*		**99,673**		73,391
Reinsurance contracts	*8*		**94,712**		81,611
Trade and other receivables:	*9*				
• Accounts receivable on insurance and reinsurance business		**6,090**		4,080	
• Current income tax receivable		–		–	
• Other accounts receivables		**1,063**		1,089	
			7,153		5,169
Other assets:	*10*				
• Deferred acquisition costs		**5,778**		5,225	
• Miscellaneous assets and accruals		**3,692**		26	
			9,470		5,251
Cash and cash equivalents	*11*		**10,525**		18,711
TOTAL ASSETS			**221,632**		184,264

STATEMENT OF FINANCIAL POSITION

€'000	Note	31 December 2018		31 December 2017	
EQUITY					
Subscribed capital		**2,000**		2,000	
Capital reserve		**2,000**		2,000	
Revaluation reserve		**(159)**		–	
Revenue reserve		**87,274**		87,134	
Undistributed profits		**8,998**		140	
Capital and reserves attributable to the equity holders of the company	*12*		**100,113**		91,274
TOTAL EQUITY			**100,113**		91,274
LIABILITIES					
Technical provisions	*13*		**95,985**		79,577
Trade and other payables	*14*		**24,071**		9,931
Other liabilities:	*15*				
• Profit commission payable		–		2,605	
• Miscellaneous liabilities and accruals		**835**		406	
			835		3,011
Current income tax liabilities	*16*	**628**		472	
			628		472
TOTAL LIABILITIES			**120,263**		92,991
TOTAL EQUITY AND LIABILITIES			**221,632**		184,264

STATEMENT OF PROFIT & LOSS

€'000		2018	2017
Gross premium earned		**84,198**	77,254
Reinsurers' share premium earned		**(63,146)**	(57,948)
NET PREMIUM EARNED	*17*	**21,052**	19,306
Reinsurance commission received	*18*	**32,106**	28,145
Net income/(loss) from investments	*19*	**1,701**	351
TOTAL INCOME		**54,859**	47,802
Insurance claims and loss adjustment expenses		**(40,523)**	(37,030)
Insurance claims and loss adjustment expenses recovered from reinsurers		**30,392**	27,773
NET INSURANCE CLAIMS	*20*	**(10,131)**	(9,257)
Acquisition costs	*21*	**(29,788)**	(31,410)
Net operating expenses	*22*	**(5,294)**	(6,586)
Profit before tax		**9,646**	549
Income tax expenses	*23*	**(648)**	(409)
PROFIT / (LOSS) FOR THE YEAR		**8,998**	140
Attributable profit / (loss) for the year to:			
Equity holders of the company		**8,998**	140
Basic earnings per share from continuing operations (Euro)	*24*	**4,499.00**	70.00

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

€‘000	**2018**	2017
Profit for the year	**8,998**	140
Other comprehensive income	**(159)**	_
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR (net of tax)	**8,839**	140
Attributable to:		
Equity holders of the company	**8,839**	140

STATEMENT OF CHANGES IN TOTAL EQUITY

Attributable to the equity holders of the company:

€'000	Subscribed Capital	Capital Reserve	Revaluation Reserve	Revenue Reserve	Profit for the Year	Total
EQUITY AT 1 JANUARY 2018	2,000	2,000	-	87,134	140	**91,274**
Profit / Loss for the year	_	_	_	_	8,998	**8,998**
Other comprehensive income	_	_	**(159)**	_	_	**(159)**
Total comprehensive income for the year	_	_	**(159)**	_	9,138	**8,839**
Appropriations to reserves	_	_	_	140	(140)	_
EQUITY AS PER 31 DECEMBER 2018	**2,000**	**2,000**	**(159)**	**87,274**	**8,998**	**100,113**
EQUITY AT 1 JANUARY 2017	2,000	2,000	-	87,290	(156)	91,134
Profit / Loss for the year	_	_	_	_	140	140
Other comprehensive income	_	_	_	_	_	_
Total comprehensive income for the year	_	_	_	_	140	140
Appropriations to reserves	_	_	_	(156)	156	_
EQUITY AS PER 31 DECEMBER 2017	2,000	2,000	_	87,134	140	91,274

STATEMENT OF CASH FLOWS

€'000	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**9,646**	549
Adjustments for:		
• Realized capital (gains) and losses on investments	_	(9)
• Accrued interest	**(2,409)**	_
• Depreciation and amortization	**35**	31
• Foreign exchange result	**372**	69
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**16,311**	(1,740)
• Reinsurance assets and liabilities	**123**	12,794
• Deferred acquisition costs	**(553)**	330
• Accounts receivable and payable on insurance and reinsurance business	**(1,219)**	(240)
• Changes in other assets and liabilities	**(3,225)**	165
• Interest on financial instruments paid	**(52)**	(21)
• Interest on financial instruments received	**18**	149
Income taxes paid	**(458)**	(447)
Income taxes received	_	2,306
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**18,589**	13,936
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments	**(27,813)**	(37,007)
• Property, plant and equipment	**(3)**	(13)
Divestments, redemptions and disposals (cash inflows);		
• Financial investments	**1,041**	35,766
• Property, plant and equipment and intangible fixed assets	_	6
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**(26,775)**	(1,248)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	_	_
CHANGES IN CASH AND CASH EQUIVALENTS	**(8,186)**	12,689

STATEMENT OF CASH FLOWS

Cash and cash equivalents at the end of the preceding year	**18,711**	6,022
Cash and cash equivalents at the end of the financial year	**10,525**	18,711
Changes in cash and cash equivalents	**(8,186)**	12,689

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 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 2018 the net premium earned retroceded to Nationale Borg Reinsurance amounted to € 8.8 million.

At 31 December 2018 the technical provisions retroceded to Nationale Borg Reinsurance amount to € 15,065. As security Nationale Borg Reinsurance holds a deposit with Nationale Borg for the same amount.

SERVICES PROVIDED BY NATIONALE BORG

Despite the transfer of Nationale Borg Reinsurance to AmTrust Equity Solutions in 2016 the company still has close operational ties with Nationale Borg. Nationale Borg 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 2018 the company was delisted from the NASDAQ Global Market (trading under the symbol AFSI since 2006).

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

NOTES TO THE FINANCIAL STATEMENTS

3. PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

BASIS OF PRESENTATION

The financial statements 2018 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 Curacao 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 2018 (IFRS 15 and amendments to IFRS 2 and IAS 40). There was no impact related to these amendments on the financial statements. All amounts in these statements are in thousands of euro, unless specified otherwise.

UPCOMING CHANGES IN IFRS-EU

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and could be relevant to Nationale Borg Reinsurance are IFRS 9, 16 and 17.

IFRS 9 'Financial Instruments' is effective as of 1 January 2018; however Nationale Borg Reinsurance applies a temporary exemption (expires once IFRS 17 becomes effective). IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. IFRS 9 is expected to impact the accounting of future investments by Nationale Borg Reinsurance.
IFRS 16 'Leases' is effective as of 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. IFRS 16 is not expected to have any impact on the annual accounts of Nationale Borg Reinsurance.
IFRS 17 'Insurance Contracts' will replace IFRS 4 that was issued in 2004 and amended in 2005. The published but not endorsed IFRS 17 includes 1 January 2021 as the effective date. However, in 2018 the IASB tentatively decided to defer the effective date to 1 January 2022. IFRS17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is expected to have (significant) impact on the annual accounts of Nationale Borg Reinsurance.

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, 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 €	
	2018	**2017**	**2018**	**2017**
USD	**0.874**	0.838	**0.847**	0.886
JPY	**0.008**	0.007	**0.008**	0.008
PLN	**0.233**	0.239	**0.235**	0.235

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

Nationale Borg Reinsurance applies the temporary exemption from IFRS 9. Nationale Borg Reinsurance has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance.
In Note 4 the following two groups of financial assets are separately disclosed: i) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (assets that meet the SPPI test), and ii) all other financial assets. Note 4 also include information of the credit risk exposure (exposure per credit rating).

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 statement of profit & loss.

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 statement of profit & loss in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognized in the statement of profit & loss 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 statement of profit & loss as net realized gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of profit & loss. Dividends on available-for-sale equity instruments are recognized in the statement of profit & loss 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 impairment. 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 statement of profit & loss. 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 statement of profit & loss.

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 statement of profit & loss. Impairment losses recognized in the statement of profit & loss on equity instruments are not reversed through the statement of profit & loss. 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 statement of profit & loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 premium, 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 premium at the mid-point of the reporting quarter and that on average guarantee premium cover a 15 month risk period and credit insurance premium cover a 7.5 month risk period. We calculate the premium 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.

NOTES TO THE FINANCIAL STATEMENTS

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 premium 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 statement of profit & loss. 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 statement of profit & loss.

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 statement of profit & loss. 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.

INCOME

Revenue is recognized as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

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 statement of profit & loss 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.

NOTES TO THE FINANCIAL STATEMENTS

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 premium

The unearned premium and commission reserves for assumed reinsurance are calculated on the basis of the assumptions that cedants book all premium at the mid-point of the reporting quarter and that on average bond premium cover a 15 month risk period and credit insurance premium cover a 7.5 month risk period. We calculate the premium 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 premium, which was determined on the basis of expected loss ratios, do not adequately cover the actual loss ratios 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. These risks are monitored and managed by the investment committee, which meets every quarter 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 premium 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 Reinsurance 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:

	2018	2017
Treaty		
• Number of countries	**47**	47
• Number of cedants	**100**	97
• Total amount (PML basis, in € millions)*	**5,936**	5,848
o Bond	**3,803**	4,004
o Credit	**1,730**	1,535
o Political	**391**	309
o Other	**12**	_

	2018	2017
Facultative		
• Number of countries	**22**	23
• Number of risks	**67**	63
• Total nominal amount (in € thousands)	**68,639**	50,347
• Average amount per risk (in € thousands)	**1,024**	799

* 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 47.5% (2017: 42.5%) of premium income, while the twenty largest cedants together account for approximately 62.5% (2017: 58.4%) 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 (all amounts in thousands) shows the accounting years in which premium 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 € 842 on our loss expenses before internal reinsurance.

NOTES TO THE FINANCIAL STATEMENTS

UW Year					Accounting Year					
2009	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Premium	19,116	40,409	43,811	45,401	46,384	46,580	46,989	47,217	47,388	47,468
Losses paid	657	5,483	9,571	12,474	14,104	15,660	16,328	17,094	17,361	17,702
Recoveries	19	367	926	1,332	1,522	1,808	2,002	2,080	2,127	2,203
Loss reserves	5,450	8,205	5,907	4,266	3,926	2,426	1,938	1,951	1,735	1,130
Loss incurred	6,088	13,322	14,552	15,409	16,508	16,278	16,264	16,965	16,970	16,628
Loss ratio	32%	33%	33%	34%	36%	35%	35%	36%	36%	35%
2010		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Premium		21,629	47,406	51,568	53,649	54,614	55,275	55,879	56198	56,172
Losses paid		446	5,511	11,402	14,838	17,165	18,586	20,130	21,373	21,555
Recoveries		8	566	939	1,450	1,807	2,385	2,659	3,649	3,921
Loss reserves		4,495	10,446	8,034	5,250	3,280	3,404	2,713	1,444	1,110
Loss incurred		4,933	15,391	18,498	18,639	18,638	19,605	20,184	19,168	18,745
Loss ratio		23%	32%	36%	35%	34%	35%	36%	34%	33%
2011			**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Premium			25,518	57,180	63,939	66,534	67,826	68,849	69,531	69,831
Losses paid			724	10,125	18,716	22,627	25,593	26,607	30,738	31,215
Recoveries			43	472	1,057	1,593	2,569	2,879	3,290	3,490
Loss reserves			6,099	12,900	10,100	7,083	4,073	5,305	1,298	1,041
Loss incurred			6,780	22,553	27,758	28,117	27,097	29,033	28,746	28,766
Loss ratio			27%	39%	43%	42%	40%	42%	41%	41%
2012				**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Premium				25,861	58,851	67,752	70,956	72,680	73,685	74,265
Losses paid				2,058	10,916	21,408	29,599	34,898	38,603	39,847
Recoveries				42	607	1,481	2,830	3,902	5,810	6,155
Loss reserves				6,411	13,575	9,944	7,063	5,762	4,106	2,251
Loss incurred				8,427	23,884	29,872	33,832	36,758	36,900	35,944
Loss ratio				33%	41%	44%	48%	51%	50%	48%
2013					**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Premium					23,850	50,008	57,418	60,677	62,560	63,655
Losses paid					1,185	8,689	16,146	21,787	27,403	29,040
Recoveries					26	446	1,104	1,646	3,045	3,508
Loss reserves					7,408	12,930	10,287	6,155	2,806	2,392
Loss incurred					8,568	21,173	25,329	26,296	27,163	27,923
Loss ratio					36%	42%	44%	43%	43%	44%
2014						**2014**	**2015**	**2016**	**2017**	**2018**
Premium						26,196	55,969	64,792	69,289	70,939
Losses paid						886	11,770	21,294	28,272	30,870
Recoveries						46	1,063	2,502	3,585	4,390
Loss reserves						6,785	11,555	10,145	6,264	4,428
Loss incurred						7,625	22,263	28,937	30,951	30,909
Loss ratio						29%	40%	45%	45%	44%

2015	2015	2016	2017	2018
Premium	28,517	53,575	59,898	62,629
Losses paid	930	15,424	23,775	27,967
Recoveries	50	667	2,069	2,992
Loss reserves	7,647	8,668	6,755	2,479
Loss incurred	8,527	23,425	28,461	27,454
Loss ratio	30%	44%	48%	44%

2016	2016	2017	2018
Premium	28,232	57,050	65,092
Losses paid	413	9,571	16,046
Recoveries	64	619	1,160
Loss reserves	8,309	13,985	14,382
Loss incurred	8,659	22,937	29,268
Loss ratio	31%	40%	45%

2017	2017	2018
Premium	31,913	64,545
Losses paid	1,901	14,420
Recoveries	52	1,859
Loss reserves	9,607	20,885
Loss incurred	11,456	33,446
Loss ratio	36%	52%

2018	2018
Premium	37,851
Losses paid	1,470
Recoveries	31
Loss reserves	13,523
Loss incurred	14,962
Loss ratio	40%

Total	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Premium	19,116	62,038	116,735	180,010	246,673	311,685	382,950	451,901	527,512	612,448
Losses paid	657	5,929	15,806	36,059	59,759	86,435	118,951	157,646	198,997	230,132
Recoveries	19	374	1,535	2,784	4,663	7,180	12,003	16,399	24,246	29,708
Loss reserves	5,450	12,699	22,452	31,611	40,259	42,448	45,967	49,009	48,001	63,621
Loss incurred	6,088	18,255	36,724	64,887	95,356	121,702	152,916	190,256	222,751	264,044
Loss ratio	31.8%	29.4%	31.5%	36.0%	38.7%	39.0%	39.9%	42.1%	42.2%	43.1%

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 counterparty, whether this arises from insolvency, dispute or another reason.

Market risk is managed by AmTrust International Insurance and Nationale Borg. 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 and US dollar 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 2018, Nationale Borg Reinsurance was exposed to interest risk. At balance sheet date Nationale Borg Reinsurance had a fairly limited investment portfolio that consisted of a corporate bond portfolio of € 26,613, cash and deposits of € 10,525 (2017: € 18,711), one loan provided to AmTrust International Insurance of $ 3.5 million (2017: $ 3.5 million) and two loans provided to AmTrust Equity Solutions in 2017 of € 70 million.

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 € 5.5 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)	11	10%	5%	0.5
Medium (Bonds/Loans)	100	90%	5%	5.0
High (Equity)	_	0%	42%	_
Total	111	100%		5.5

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 2018 the technical provisions included a USD exposure of approximately $ 17.8 (2017: $ 25.3 million). It is the company policy to balance the retained liability (75% is ceded to AmTrust International Insurance) to a large extent by keeping USD bank deposits amounting to $ 3.9 (2017: $ 12.2 million) and also to keep USD and other currencies position in deposits with reinsurers in the amount of $ 1.4 (2017: $ 1.5 million) at balance sheet date. The company also provides a loan to AmTrust International Insurance in the amount of $ 3.5 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, premium, 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 31% (2017: 25%) of the Best Estimate of the 2018 Loss Reserve is expected to be paid in the first 12 months; and, similarly, 69% (2017: 63%) 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 53% (2017: 56%) of the future net premium will be received in the first 12 months and 82% (2017: 82%) in 36 months.
The average duration of the projected claims is 3.26 years (2017: 3.67 years); while the duration for the projected net premium is 2.36 years (2017: 2.34) years indicating that, in aggregate, the premium 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) at December 2017 as follows:

Loss reserve in € million	Stress outflow	Liquidity needed in € million
75.4	14.9%	11.2

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 (€ 11.2 million) with the stress loss in investments (€ 5.5 million) provides an estimate of the minimum liquidity requirement to be € 16.7 million. Regarding cash and cash equivalents a concentration risk is applicable.

NOTES TO THE FINANCIAL STATEMENTS

The table below provides an overview of the financial institutions where cash positions are held:

	2018	2017
ING	**10,084**	12,748
Deutsche Bank	**121**	5,598
RBC	**320**	365
Total cash and cash equivalents	**10,525**	18,711

Nationale Borg Reinsurance has a credit agreement (for an amount of € 80 million) from Deutsche Bank AG for standby LOC's (drawn € 59.7 million as per 31 December 2018).

CREDIT RISK

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

	2018						2017	
	Opening	Purchases / sales	Reclass	Gains/ losses	Total		Total	
Corporate bonds - fixed rate	_	26,775	_	(162)	**26,613**	**27%**	_	0%
Total - Available for Sale	_	26,775	_	(162)	**26,613**	**27%**	_	0%
Equity and Preferred shares	_	_	_	_	_	**0%**	_	0%
Total – To/From P&L	_	_	_	_	_	**0%**	_	0%
Intercompany loans	73,391	_	(458)	127	**73,060**	**73%**	73,391	100%
Total - All Financial Assets	73,391	26,775	(458)	(35)	**99,673**	**100%**	73,391	100%

In addition, credit risk also exists with regard to deposits at cedants (including Nationale Borg) amounting to € 22,720 (2017: € 21,927) and credit risk with respect to outstanding premium receivables of € 6,090 (2017: € 4,080). Accrued interest on the intercompany loans (2017: € 458) has been reported as Accrued Interest in 2018.

Below table provides insight in the credit risk portfolio of the investment portfolio.

	2018	2017
AA	**6,413**	_
A	**86,485**	72,933
BB	**6,775**	_
Total – All Financial Assets	**99,673**	72,933

All financial assets (corporate bond portfolio and intercompany loans) meet the SPPI test (“the contractual payments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding”).

OTHER RISKS

Operational risk of Nationale Borg Reinsurance is managed by the Risk Management and Compliance department of Nationale Borg. 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Curacao is € 10.4 million. The current capital of € 99.8 million comfortably exceeds the capital level required to maintain standards under current conditions.

FAIR VALUE HIERARCHY

During 2018 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).
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 2018.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Corporate bonds – fixed rate	26,613	_	_	**26,613**
Loans and Receivables				
• Intercompany loans	_	73,060	_	**73,060**
• Cash and cash equivalents	10,525	_	_	**10,525**
Total loans and receivables	10,525	73,060	_	**83,585**
Total assets	**37,139**	**73,060**	_	**110,198**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
• Payables	_	24,071	_	**24,071**
• Other liabilities	_	835	_	**835**
Total liabilities	_	**24,906**	_	**24,906**

NOTES TO THE FINANCIAL STATEMENTS

The comparative figures for 2017 are:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and Receivables				
• Intercompany loans	_	73,391	_	73,391
• Cash and cash equivalents	18,711	_	_	18,711
Total loans and receivables	18,711	73,391	_	92,102
Total assets	18,711	73,391	_	92,102

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at amortized costs				
• Payables	_	9,931	_	9,931
• Other liabilities	_	3,483	_	3,483
Total liabilities	_	**13,414**	_	**13,414**

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 2018	3	7	**10**
Additions	_	3	**3**
Disposals	_	(1)	**(1)**
Revaluations	_	_	_
At cost as at 31 December 2018	3	9	**12**
Accumulated depreciation and impairments at 1 January 2018	(2)	(3)	**(5)**
Depreciation charge for the year	_	(1)	**(1)**
Depreciation on disposals	_	_	_
Accumulated depreciation and impairments at 31 December 2018	(2)	(4)	**(6)**
Book value as at 1 January 2018	1	4	5
Book value as at 31 December 2018	**1**	**5**	**6**

The comparative figures for 2017 are:

	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2017	3	12	15
Additions	_	1	1
Disposals	_	(6)	(6)
Revaluations	_	_	_
At cost as at 31 December 2017	3	7	10
Accumulated depreciation and impairments at 1 January 2017	(2)	(7)	(9)
Depreciation charge for the year	_	(2)	(2)
Depreciation on disposals	_	6	6
Accumulated depreciation and impairments at 31 December 2017	(2)	(3)	(5)
Book value as at 1 January 2017	1	5	6
Book value as at 31 December 2017	1	4	5

6. INTANGIBLE ASSETS

	IT Software
At cost as at 1 January 2018	**168**
Additions	_
At cost as at 31 December 2018	**168**
Accumulated amortization at 1 January 2018	**(42)**
Amortization charge for the year	**(33)**
Impairment charge for the year	_
Accumulated amortization and impairments at 31 December 2018	**(75)**
Book value as at 1 January 2018	**126**
Book value as at 31 December 2018	**93**

The comparative figures for 2017 are:

	IT Software
At cost as at 1 January 2017	156
Additions	12
At cost as at 31 December 2017	168
Accumulated amortization at 1 January 2017	(13)
Amortization charge for the year	(29)
Impairment charge for the year	_
Accumulated amortization and impairments at 31 December 2017	(42)
Book value as at 1 January 2017	143
Book value as at 31 December 2017	126

7. FINANCIAL ASSETS

Financial assets classified by type and nature:

2018	**Available for sale**	**Assets at Fair Value through P&L**	**Loans**	**Total**
Bonds and other fixed income securities	26,613	_	_	**26,613**
Intercompany loans	_	_	73,060	**73,060**
	26,613	_	**73,060**	**99,673**

2017	**Available for sale**	**Assets at Fair Value through P&L**	**Loans**	**Total**
Intercompany loans	_	_	73,391	73,391
	_	_	73,391	73,391

In 2018 a bond portfolio was built up. Intercompany Loans relates to one short term loan provided to AmTrust International Insurance and two loans provided to AmTrust Equity Solutions. The loan to AmTrust International Insurance is denominated in US dollar and the other two loans are denominated in euro. 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:

	2018	**2017**
Book value at 1 January	_	35,833
Additions	**27,813**	_
Disposals	**(1,041)**	(35,766)
Revaluations	**(159)**	2
Effects of movements in foreign exchange	_	(69)
Book value at 31 December	**26,613**	_

8. REINSURANCE CONTRACTS

	2018	2017
Deposits with cedants	**22,720**	21,927
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premium	**15,416**	13,062
• Claims and loss adjustment expenses	**56,576**	46,622
Balance as at 31 December	**94,712**	81,611

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 € 15,065 (2017: 15,060) relates to Nationale Borg.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
Accounts receivable on reinsurance business:		
• Amounts owed by cedants	**6,090**	4,080
• Other accounts receivable	**1,063**	1,089
Balance as at 31 December	**7,153**	5,169

The outstanding receivables are substantially all current and consequently their fair value does not materially differ from its book value. Other accounts receivable mainly relates to the intercompany receivable from Nationale Borg (€ 1,166).

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 for impairment testing (individual and collective assessment). The company does not hold any collateral over these balances.

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

	2018	2017
Balance as at 1 January	**180**	99
Additions and (releases) during the year	**104**	81
Ceded to AmTrust International Insurance	**(284)**	_
Balance as at 31 December	_	180

Based on the reinsurance agreement with AmTrust International Insurance the bad debt provision was fully ceded in 2018. The creation or release of provision for impaired receivables has been included in net operating expenses in the statement of profit & loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovery. The amount owed by cedants (including debtors with credit balance) overdue but not impaired is € 4,659 (2017: € 3,156).

10. OTHER ASSETS

	2018	2017
Accrued interest	**3,036**	_
Deferred acquisition costs	**5,778**	5,225
Profit commission receivable	**478**	_
Other	**178**	26
Balance as at 31 December	**9,470**	**5,251**

As a result of loss performance the profit commission payable turned into a receivable of € 478. Accrued interest is related to the loans to AmTrust Equity Solutions and AmTrust International Insurance and the bond portfolio acquired in 2018. 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:

	2018	2017
Balance as at 1 January	**5,225**	5,555
Change in deferred acquisition costs	**553**	(330)
Balance as at 31 December	**5,778**	5,225

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

11. CASH AND CASH EQUIVALENTS

	2018	2017
Cash at banks	**10,426**	13,644
Cash savings and deposit accounts	**99**	5,067
Balance as at 31 December	**10,525**	18,711

The decrease in 2018 versus 2017 is caused by positive operational cash flow in combination with the investments in corporate bonds. All amounts are on demand.

12. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2018	2017
Balance as at 31 December	**2,000**	2,000

The share capital of € 2,000 (2017: € 2,000) is divided into 2,000 fully paid ordinary shares of €1. The fully paid shares carry one vote per share and carry the rights to dividends.

CAPITAL RESERVE

	2018	2017
Balance as at 31 December	**2,000**	2,000

REVALUATION RESERVE

	2018	2017
Balance as at 1 January	–	–
Change in revaluation reserve	**(159)**	–
Balance as at 31 December	**(159)**	–

REVENUE RESERVE

	2018	2017
Balance as at 1 January	**87,134**	87,290
Appropriations to reserve	**140**	(156)
Balance as at 31 December	**87,274**	87,134

PROFIT FOR THE YEAR

	2018	2017
Balance as at 1 January	**140**	(156)
Appropriations to revenue reserve	**(140)**	156
Dividend distribution	–	–
Profit for the year	**8,998**	140
Balance as at 31 December	**8,998**	140

TOTAL EQUITY

	2018	2017
Subscribed capital	**2,000**	2,000
Capital reserve	**2,000**	2,000
Revaluation reserve	**(159)**	–

Revenue reserve	**87,274**	87,134
Profit for the year	**8,998**	140
Balance as at 31 December	**100,113**	91,274

13. TECHNICAL PROVISIONS

	2018	2017
Provision for claims	**75,434**	62,162
Provision for unearned premium	**20,551**	17,415
Total underwriting provisions at 31 December	**95,985**	79,577

The movement schedule of technical provisions:

	2018	2017
Opening provision for claims	**62,162**	63,233
Change in provision	**13,175**	3,040
Effects of changes in foreign exchange	**97**	(4,111)
Ending provision for claims	**75,434**	62,162
Provision for unearned premium	**17,414**	18,084
Change in provision	**3,137**	(669)
Ending provision for unearned premium	**20,551**	17,415

The change in provision of € 3.1 million is in line with the increased premium volume and the provision adjustment in some individual cases.

14. PAYABLES

	2018	2017
Trade and other accounts payable:		
Accounts payable	**(5)**	(5)
Debtors with credit balance	**1,646**	799
Internal reinsurance	**22,426**	9,137
Other accounts payable	**4**	–
Balance as at 31 December	**24,071**	9,931

The funds held position with AmTrust International Insurance increased from € 9,137 to € 22,426 due to the positive insurance results ceded to AmTrust International Insurance under the 75% quota share reinsurance agreement and the increase of their share of the insurance liabilities.

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

15. OTHER LIABILITIES

	2018	2017
Profit commission payable	_	2,605
Miscellaneous liabilities and accruals:		
Payroll and other accruals	**527**	253
Sundry creditors	**308**	153
Balance as at 31 December	**835**	3,011

As a result of loss performance the profit commission payable turned into a receivable of € 478. The increase in Payroll and other accruals is mainly caused by higher reservation for bonuses. All other liabilities are current liabilities and payable within one year, consequently their fair value does not materially differ from their book value.

16. CURRENT INCOME TAX LIABILITIES

	2018	2017
Current income tax liabilities	**628**	472

The current income tax liabilities consist of corporate income taxes payable for 2018.

17. NET PREMIUM EARNED

	2018			2017		
	Gross	**Reinsurers' Share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Written premium	87,335	(65,500)	**21,835**	76,585	(57,442)	19,143
Change in provision for unearned premium	(3,137)	2,354	**(783)**	669	(506)	163
Premium earned	**84,198**	**(63,146)**	**21,052**	77,254	(57,948)	19,306

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 € 63,146 (2017: € 57,948). The increase of ceded earned premium is mainly caused by the full year effect.

18. REINSURANCE COMMISSION RECEIVED

	2018	2017
Reinsurance commission received	**32,106**	28,145

The amount of reinsurance commission received almost fully (€ 32,095) relates to the commission received from AmTrust International Insurance under the internal reinsurance agreement. The increase of reinsurance commission is mainly caused by the full year effect.

19. NET INVESTMENT INCOME

Net investment income by type of investment:

	2018	2017
Income/expense from:		
• Bonds and other fixed rate securities	**78**	16
• Loans	**2,409**	1,090
• Derivatives	**_**	3
• Interest deposits and LOC costs	**(719)**	(677)
• Other investments	**(67)**	(81)
Net income/(expense) from investments	**1,701**	351

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

	2018	2017
Income/(expense) from:		
Interest	**1,703**	409
Realized gains	**(4)**	3
Investment handling expenses	**2**	(61)
Net income/(expense) from investments	**1,701**	351

20. NET INSURANCE CLAIMS

	2018			2017		
	Gross	Re-insurers' share	Net	Gross	Re-insurers' share	Net
Claims paid in the year	27,348	(20,511)	**6,837**	33,990	(25,493)	8,497
Change in provision for outstanding claims	13,175	(9,881)	**3,294**	3,040	(2,280)	760
Total insurance claims and loss adjustment expenses	**40,523**	**(30,392)**	**10,131**	37,030	(27,773)	9,257

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

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

21. ACQUISITION COSTS

	2018	2017
Acquisition costs paid	**30,474**	27,581
Change in deferred acquisition costs	**(553)**	323
Change in profit commission payable	**(3,082)**	774
Profit commission paid	**2,949**	2,732
Total acquisition costs	**29,788**	31,410

22. NET OPERATING EXPENSES

	2018	2017
Staff expenses	**1,894**	1,602
Administrative expenses	**589**	547
Depreciation	**35**	31
Exchange rate differences	**371**	2,136
Other expenses	**2,405**	2,270
Total net operating expenses	**5,294**	6,586

The increase of staff expenses is caused by the increase of salaries (€ 81) and higher bonus expenses (€ 176). Administrative expenses 2018 includes no bad debt costs (following the 100% cession to AmTrust International Insurance) where 2017 included € -22. The increase in administrative expenses is explained by higher IT expenses (€ 101). Higher costs related to exchange rate differences in 2017 were a result of mismatch in USD assets and liabilities during (part of) that year.

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

23. INCOME TAX EXPENSES

	2018	2017
Current tax	**648**	409

The effective tax rate as a percentage of gross written premium (optional tax basis for insurance companies resided on Curacao) amounts to 0.5 % for 2018 (2017: 0.5%).

	2018	2017
Gross written premium	**87,334**	76,585
Shifted to fiscal authorities in the Netherlands	**(27,074)**	(30,634)
Gross written premium Curacao	**60,260**	45,951
Tax basis Curacao (5%)	**3,013**	2,298
Tax calculated at domestic tax rate	**663**	505
Tax exempt income and permanent differences	_	_
Reassessment of prior year tax positions	**(15)**	(96)
Tax charge for the year	**648**	409

24. EARNINGS AND DIVIDENDS PER SHARE

BASIS EARNINGS PER SHARE

	2018	2017
Continuing operations:		
Profit attributable to the company's equity holders	**8,998**	140
Number of ordinary shares issued as per 31 December	**2,000**	2,000
Earnings per share (in €)	**4,499.00**	70.00

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.

Proposed profit appropriation

Net profit	**8,998**
Interim dividend paid out	–
Transfer to reserves	**8,998**
Dividend to shareholders	–

DIVIDEND PER SHARE

No (interim) dividend was distributed in 2018 (2017: 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.

25. 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 € 37 (2017: € 55). The rental commitment for the Argentinian office ends 1 March 2019. The rental commitment for the Curacao 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.

26. CAPITAL COMMITMENTS

Nationale Borg Reinsurance is committed to keep its Solvency II ratio at a minimum of 175%. Both year-end 2018 and 2017 the Solvency II ratio for Nationale Borg Reinsurance was in excess of this minimum.

27. RELATED PARTY TRANSACTIONS

The following table provides the total value of (re-)insurance transactions which have been entered into with related parties Nationale Borg (branch of AmTrust International Underwriters DAC) and AmTrust International Insurance for the financial year:

	2018	2017
Inward reinsurance (assumed)	**527**	1,353
GRA participation Nationale Borg	**102**	234
Outward reinsurance (ceded)	**(705)**	(5,448)
Service level agreement on underwriting and supporting services	**(2,008)**	(1,913)
(Interest on) outstanding intercompany balances after novation	**521**	502
Total related party transactions	**(1,563)**	(5,372)

The net intercompany position with Nationale Borg was a receivable of € 1,166 (2017: receivable € 1,118). The net intercompany position with AmTrust International Insurance was a payable of € 22,426 (2017: payable € 9,137).

The inward reinsurance (assumed) business relates to the retroceded indirect business of Nationale Borg 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 for the services Nationale Borg provides to the company. These services are related to Underwriting, IT, Finance, Actuary and Investment management. The remuneration to Nationale Borg has been set at arm's-length conditions.

Interest is due on all outstanding intercompany balances including intercompany loans. During 2018 this was calculated on a quarterly basis (3 month € LIBOR +3.486%) at an average rate of 3.1% (2017: 3.1%).

Below table shows year end intercompany balances (excluding the amounts included above for Nationale Borg and AmTrust International Insurance) for Nationale Borg Reinsurance:

	2018	2017
Loan to AmTrust International Insurance	**3,060**	2,933
Loans to AmTrust Equity Solutions	**70,000**	70,000
Accrued interest intercompany loans	**2,888**	458
AmTrust International Insurance share of UPR	**15,405**	13,060
AmTrust International Insurance share of Claim provision	**56,576**	46,621
AmTrust International Insurance share of bad debt provision	**284**	–
Premium deposit at Nationale Borg	**2,852**	2,308
Claim deposit at Nationale Borg	**12,214**	12,753

OTHER

- AmTrust Financial Services has issued a guarantee towards Nationale Borg Reinsurance with the commitment to keep the Solvency II ratio at a minimum of 125%;
- Until 2017 Nationale Borg Reinsurance participated (for 3%) in the General Reinsurance Agreement of Nationale Borg;
- 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;
- A pledge agreement is in place between Nationale Borg Reinsurance and Nationale Borg. Nationale Borg Reinsurance has granted, for the benefit of Nationale Borg, a right of pledge over any all receivables which Nationale Borg Reinsurance has or may at any time have against Nationale Borg;

28. PERSONNEL

The number of employees working for the company:

	2018	2017
Total average number of employees (full-time equivalent)	**6.0**	6.0
Total year-end number of employees (full-time equivalent)	**6.0**	6.0
Total year-end number of employees	**7**	7

29. 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 (2017: 3 members). The Supervisory Board consists of 4 members (2017: 4 members).

	2018	2017
Short term employee benefits	**779**	714
Bonus payments	**211**	325
Long term benefits (deferred compensation)	**119**	_
Pension and other benefits	**19**	12
Total remuneration Executive Board and Supervisory Board	**1,128**	1,051

	2018	2017
Supervisory Board	**41**	16
Total compensation paid to the Supervisory Board	**41**	16

The yearly compensation was increased in Q4 2017 but paid in 2018 (impact in 2018: € 14).

30. 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.

For the year 2018:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	80	_	**80**
Tax-related advisory services	_	_	_
Total fees charged during the year	**80**	_	**80**

These costs are including VAT.

For the year 2017:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	89	_	89
Tax-related advisory services	_	14	14
Total fees charged during the year	89	14	103

NOTES TO THE FINANCIAL STATEMENTS

Willemstad, 29 March 2019

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

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

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

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

Report on the accompanying company financial statements

Our opinion

We have audited the financial statements 2018 of Nationale Borg Reinsurance N.V., based in Willemstad, Curacao.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Nationale Borg Reinsurance N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

The financial statements comprise:

1. the statement of financial position as at 31 December 2018;
2. the following statements 2018: the income statement, the statements of comprehensive income, statement of changes in total equity and cash flows; and
3. the notes comprising a summary of the 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 company financial statements' section of our report.

We are independent of Nationale Borg Reinsurance N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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 company financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Supervisory Board Report
- Executive Board Report;

- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

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 Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the company 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 Book 2 of the Dutch 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 company financial statements
Management is responsible for the preparation of the other information, including the Executive Board Report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the company financial statements

Responsibilities of management for the company financial statements

Management is responsible for the preparation and fair presentation of the company financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the company financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the company 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 company 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 company financial statements.
The management is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the company 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.

OTHER INFORMATION

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 company 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.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the company financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nationale Borg Reinsurance N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- evaluating the overall presentation, structure and content of the company financial statements, including the disclosures; and
- evaluating whether the company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Utrecht, 29 March 2019

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 statement of profit & loss 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."

EVENTS AFTER BALANCE SHEET DATE

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