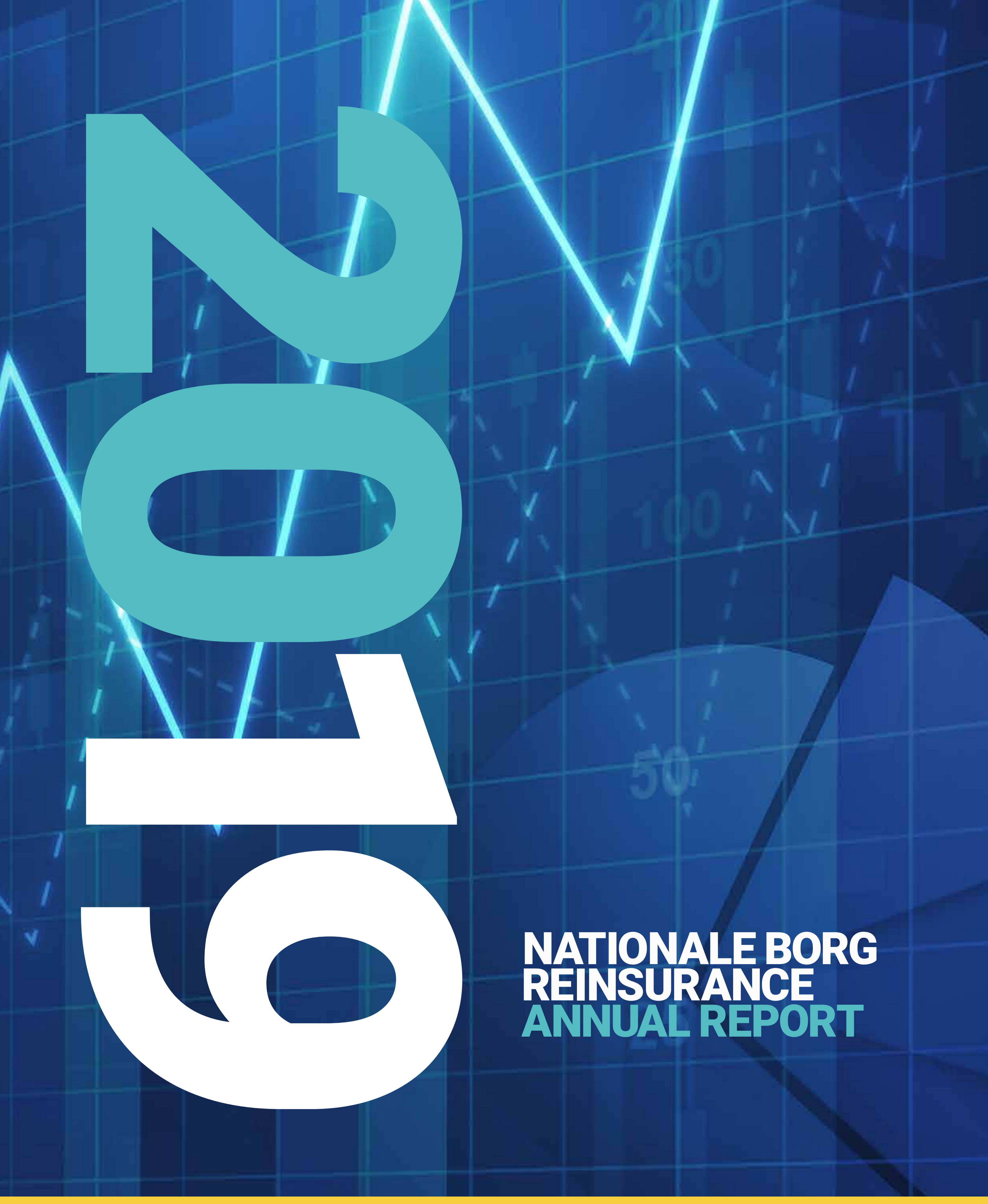

2019

NATIONALE BORG REINSURANCE ANNUAL REPORT

NATIONALE BORG
REINSURANCE

Member of Liberty Mutual Group

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ANNUAL REPORT

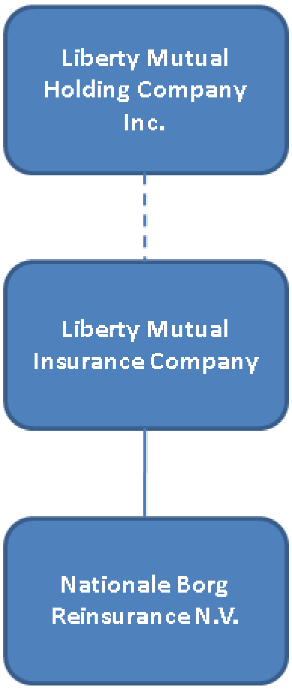
PROFILE

Nationale Borg Reinsurance N.V. is a specialized reinsurance carrier within the Liberty Mutual Group, ultimately owned by Liberty Mutual Holding Company, Inc. On October 2, 2019 Nationale Borg Reinsurance was sold by AmTrust to Liberty Mutual. 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.

After the acquisition of the company by Liberty Mutual, it was decided that Nationale Borg Reinsurance would go into run-off and that renewals would be handled by other entities in the Liberty Mutual Group. Nationale Borg Reinsurance continues to be responsible for managing the back book.

Nationale Borg Reinsurance is rated A by A.M. Best, and provides its clients a strong capitalization. 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
F.J.M. Hoeben

Executive Board Nationale Borg Reinsurance N.V.:

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

SUPERVISORY BOARD REPORT

The Supervisory Board has held four meetings in 2019, covering all important issues adhering to the annual schedule, as well as their actual relevance to the company.

In 2019 the following topics were extensively discussed with the management board: results 2019 and performance versus budget, corporate governance and the sale of the company to Liberty Mutual.

A very important topic discussed was the € 80 million (interim) dividend payment (of which € 6.1 million in cash) to AmTrust Equity Solutions, the previous shareholder of Nationale Borg Reinsurance.

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.

The Supervisory Board is monitoring closely the impact from the COVID-19 outbreak on the operational and financial performance of Nationale Borg Reinsurance.

Willemstad, 29 June 2020

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

EXECUTIVE BOARD REPORT

CONTINUING GROWTH, RESULTS IN LINE WITH PLAN, AND PORTFOLIO PUT IN RUN OFF

2019 started with the expectation that Nationale Borg Reinsurance would be able to maintain its market position, and maintain a combined ratio close to the one it finished with in 2018. The gross written premium (GWP) budget was set well below the 2018 GWP, as we expected the fall out of decreased shares and the effect of the Q1 announcement that Nationale Borg Reinsurance was for sale. During the year however it became clear that the GWP was less impacted and be close to the final results of 2018.

The incurred claim amount increased significantly during the course of 2019. This increase was largely offset by decreasing acquisitions costs, due to many sliding scale commission structures, as well as a slightly hardening reinsurance market during the 01/01/2019 renewal season.

The overall combined ratio came in at 91.2%, slightly under the 92.8% budgeted and modestly above the 89.6% recorded in 2018.

Currently available information on 2020 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 overall GWP for 2020 and beyond. This growth however will not benefit Nationale Borg Reinsurance, as the portfolio was put in run off at October 2, 2019.

The worldwide economy continued its slow growth numbers during 2019. Underlying GDP growth remained modest, but unemployment rates further decreased in many leading economies. The commodity market pricing stabilized in 2019, but the austerity policies adopted by governments still strain the demand for surety products in many markets.

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 construction, retail, and travel sectors were the major causes of severity claims in 2019.

As mentioned before, the portfolio was put in run off during Q4 of 2019. The underwriters transferred to positions within the buyer, Liberty Mutual Insurance Company (LMIC), and continue to service selected cedents through other LMIC entities.

The run off portfolio is being handled by a professional team in Amsterdam, and can rely on the experience of the Liberty Mutual Insurance organization.

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.

EXECUTIVE BOARD REPORT

PREMIUM DEVELOPMENT AND INSURANCE RESULTS

Nationale Borg Reinsurance's 2019 gross written premium of € 92.7 million showed an increase of 6% compared to 2018, largely caused by organic growth and some previously increased treaty shares.

Overall the net claims ratio remained stable at 48.7% (2018 48.1%), which is slightly outside our long term objective range. 2019 saw a slightly decreased claim frequency in all three products we underwrite. Isolated severity claims in the travel industry, UK construction, Chinese Telecom and Latam Surety, combined with frequency claims in the Chinese and Chilean credit insurance markets, caused most of the incurred losses.

INVESTMENT RESULTS

We have maintained a stable bond portfolio during 2019. As per December 2019 the market value of the bond portfolio amounted to € 22.1 million. Investment income (€ 1.2 million) benefited from the interest on the loans to AmTrust equity Solutions and AmTrust International Insurance, but it was partly offset by the costs of Letters of Credit. In September the loans to both AmTrust entities were fully repaid through a non-cash dividend payment of € 80 million (difference of € 6.1 million was paid in cash). In November part of the bond portfolio was sold to fund the Liberty Mutual insurance Company reinsurance payable. During 2019 the total cash balance slightly decreased from € 10.5 million to € 10.3 million at 31 December 2019.

The total return on investments, including value adjustments through equity, amounted to € 2.0 million (2018: € 1.5 million). Interest income decreased compared to 2018 (2019: € 1.2 million; 2018: € 1.7million) as a result of repayment of the intercompany loans end of Q3 2019.

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 2019. 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 bonds 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 Liberty Mutual Group asset Management 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 and counterparty defaults or downgrades.

EXECUTIVE BOARD REPORT

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.

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. After the acquisition of the company by Liberty Mutual, it was decided that Nationale Borg Reinsurance would go into run-off and that renewals would be handled by other entities in the Liberty Mutual Group. Nationale Borg Reinsurance continues to be responsible for managing the back book.

COMPOSITION OF THE BOARD

The composition of the Executive Board (both 100% male) did not change in 2019. Following the sale to Liberty Mutual, AmTrust representative J.M. Griffiths resigned from the Supervisory Board in October 2019. On February 4, 2020 our managing director G.J. Hollander passed away after being with the company for almost 12 years. During these 12 years Mr. Hollander has been of great value to the company. The Executive Board currently has two members.

PERSONNEL

Five 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 Liberty Mutual Surety Europe BV, operating as Nationale Borg, in Amsterdam (approximately 3 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 three 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.

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.

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.

EXECUTIVE BOARD REPORT

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.

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 had an outbound quota share reinsurance agreement in with AmTrust International Insurance, a wholly-owned subsidiary of AmTrust Financial Services, which has been transferred to Liberty Mutual Insurance Company as per October 2019 whereby Nationale Borg Reinsurance cedes 75% of any business, after any other reinsurance treaties. In 2019 the treaty result amounted to a loss of € 1,277 (2018: (€ 705)).

At 31 December 2019, € 613 was due to Liberty Mutual insurance Company under the reinsurance treaty and an amount of € 3,559 was due from AmTrust International Insurance as per that date (31 December 2018: € 22,426 was due to AmTrust International Insurance).

The technical provisions ceded to Liberty Mutual Insurance Company amounted to € 76,340 at 31 December 2019 (At 31 December 2018 the technical provisions ceded to AmTrust International Insurance amounted to € 71,981).

OUTLOOK 2020

After the acquisition of the company by Liberty Mutual Group, it was decided that Nationale Borg Reinsurance would go into run-off and that renewals would be handled by other entities in the Liberty Mutual Group.
This effectively means that Nationale Borg Reinsurance no longer needs to set a strategy and risk appetite and that its main concern now is to service the run-off book with the same dedication it has always shown to its cedents and to make sure it does so in a way that enhances the market standing of Liberty Mutual as a reinsurer in the surety, credit and political risk reinsurance market.

The company benefits from an internal retrocession program with Liberty Mutual Insurance Company that has prompted AM Best to extend its A rating of the group to Nationale Borg Reinsurance.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The COVID-19 crisis will have a serious impact on the surety, trade credit and political risk insurance world wide. During the first five months of 2020 the impact on our business and results however is still limited.

Willemstad, 29 June 2020

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

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

Before appropriation of result

€'000	Note		**31 December 2019**		**31 December 2018**
ASSETS					
Property, plant and equipment	*5*		**6**		6
Intangible assets	*6*		**59**		93
Financial assets	*7*		**22,057**		99,673
Reinsurance contracts	*8*		**84,089**		94,712
Trade and other receivables:	*9*				
• Accounts receivable on insurance and reinsurance business		**4,985**		6,090	
• Other accounts receivables		**4,209**		1,063	
			9,194		7,153
Other assets:	*10*				
• Deferred acquisition costs		**6,348**		5,778	
• Miscellaneous assets and accruals		**1,263**		3,692	
			7,611		9,470
Cash and cash equivalents	*11*		**10,309**		10,525
TOTAL ASSETS			**133,325**		221,632

STATEMENT OF FINANCIAL POSITION

€'000		31 December 2019		31 December 2018	
EQUITY					
Subscribed capital		**2,000**		2,000	
Capital reserve		**2,000**		2,000	
Available for sale reserve		**661**		(159)	
Retained earnings		**16,272**		87,274	
Undistributed profits		**7,382**		8,998	
Capital and reserves attributable to the equity holders of the company	*12*		**28,315**		100,113
TOTAL EQUITY			**28,315**		100,113
LIABILITIES					
Technical provisions	*13*		**101,798**		95,985
Trade and other payables	*14*		**1,635**		24,071
Other liabilities:	*15*				
• Miscellaneous liabilities and accruals		**880**		835	
			880		835
Current income tax liabilities	*16*	**697**		628	
			697		628
TOTAL LIABILITIES			**105,010**		120,263
TOTAL EQUITY AND LIABILITIES			**133,325**		221,632

STATEMENT OF PROFIT & LOSS

€‘000		2019	2018
Gross premium earned		**90,891**	84,198
Reinsurers’ share premium earned		**(68,179)**	(63,146)
NET PREMIUM EARNED	*17*	**22,712**	21,052
Reinsurance commission received	*18*	**33,827**	32,106
Net income/(loss) from investments	*19*	**1,199**	1,701
TOTAL INCOME		**57,738**	54,859
Insurance claims and loss adjustment expenses		**(44,216)**	(40,523)
Insurance claims and loss adjustment expenses recovered from reinsurers		**33,163**	30,392
NET INSURANCE CLAIMS	*20*	**(11,053)**	(10,131)
Acquisition costs	*21*	**(33,916)**	(29,788)
Net operating expenses	*22*	**(4,622)**	(5,294)
Profit before tax		**8,147**	9,646
Income tax expenses	*23*	**(765)**	(648)
PROFIT / (LOSS) FOR THE YEAR		**7,382**	8,998
Attributable profit / (loss) for the year to:			
Equity holders of the company		**7,382**	8,998
Basic earnings per share from continuing operations (Euro)	*24*	**3,691.00**	4,499.00

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

€'000	**2019**	2018
Profit for the year	**7,382**	8,998
Other comprehensive income	**820**	(159)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR (net of tax)	**8,202**	8,839
Attributable to:		
Equity holders of the company	**8,202**	8,839

STATEMENT OF CHANGES IN TOTAL EQUITY

Attributable to the equity holders of the company:

€'000	Subscribed Capital	Capital Reserve	Available for sale Reserve	Retained Earnings	Profit for the Year	Total
EQUITY AT 1 JANUARY 2019	2,000	2,000	(159)	87,274	8,998	**100,113**
Profit / Loss for the year	_	_	_	_	7,382	**7,382**
Other comprehensive income	_	_	**820**	_	_	**820**
Total comprehensive income for the year	_	_	**820**	_	7,382	**8,202**
Dividend distribution	_	_	_	(80,000)	_	**(80,000)**
Appropriations to reserves	_	_	_	8,998	(8,998)	_
EQUITY AS PER 31 DECEMBER 2019	**2,000**	**2,000**	**661**	**16,272**	**7,382**	**28,315**

€'000	Subscribed Capital	Capital Reserve	Available for sale Reserve	Retained Earnings	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

STATEMENT OF CASH FLOWS

€'000	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**8,147**	9,646
Adjustments for:		
• Realized capital (gains) and losses on investments	**(28)**	–
• Accrued interest	–	**(2,409)**
• Interest income	**(1,226)**	–
• Depreciation and amortization	**39**	35
• Foreign exchange result	**159**	372
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**5,406**	16,311
• Reinsurance assets and liabilities	**(12,099)**	123
• Deferred acquisition costs	**(569)**	(553)
• Accounts receivable and payable on insurance and reinsurance business	**383**	(1,219)
• Changes in other assets and liabilities	**(3,198)**	(3,225)
• Interest on financial instruments paid	**(66)**	(52)
• Interest on financial instruments received	**4,947**	18
Income taxes paid	**(689)**	(458)
Income taxes received	–	–
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**1,206**	18,589
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments	–	(27,813)
• Property, plant and equipment	**(5)**	(3)
Divestments, redemptions and disposals (cash inflows);		
• Financial investments	**4,671**	1,041
• Property, plant and equipment and intangible fixed assets	–	–
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**4,666**	(26,775)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to shareholders of the company	**(6,088)**	–
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**(6,088)**	–
CHANGES IN CASH AND CASH EQUIVALENTS	**(216)**	(8,186)

STATEMENT OF CASH FLOWS

Cash and cash equivalents at the end of the preceding year	**10,525**	18,711
Cash and cash equivalents at the end of the financial year	**10,309**	10,525
Changes in cash and cash equivalents	**(216)**	(8,186)

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 AmTrust International Underwriters DAC (legal successor of Nationale Borg-Maatschappij following their legal merger in December 2017) 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 other third parties. For 2019 the net premium earned retroceded to Nationale Borg Reinsurance amounted to € 9.8 million.

At 31 December 2019 the technical provisions retroceded to Nationale Borg Reinsurance amount to € 14,896. As security AmTrust International Underwriters DAC held a deposit with Nationale Borg which has been fully repaid in 2019.

SERVICES PROVIDED BY NATIONALE BORG

Liberty Mutual Surety Europe (trade name Nationale Borg) provides various services to Nationale Borg Reinsurance through a service level agreement (until 2 October 2019 these services were provided by the Dutch branch of AmTrust International Underwriters DAC). These services are: processing and accounting of reinsurance contracts, financial accounting, actuarial and IT.

2. GENERAL

SHAREHOLDERS

Since 2 October 2019 Nationale Borg Reinsurance is fully owned by Liberty Mutual Insurance Company established in Boston Massachusetts USA . On that date they acquired the shares from AmTrust Equity Solutions Ltd. established in Hamilton Bermuda. Liberty Mutual is in business since 1912 and is the fifth largest global property and casualty insurer based on 2018 gross written premium. Liberty Mutual ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of 31 December 2019, Liberty Mutual had $ 43.2 billion in annual consolidated revenue. Liberty Mutual employs over 45,000 people in 29 countries and economies around the world. Liberty Mutual offers a wide range of insurance products and services, including personal automobile, homeowners, specialty lines, reinsurance, commercial multiple-peril, workers compensation, commercial automobile, general liability, surety, and commercial property.

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 PREPARATION

The financial statements 2019 of Nationale Borg Reinsurance have been prepared in accordance with International Financial Reporting Standards (IFRS) and Book 2 of the Curacao Civil Code with the euro as reporting currency.
Nationale Borg Reinsurance is part of a US Insurance Group and the financial administration is based in Amsterdam (The Netherlands). A number of standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 (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.

CHANGES IN IFRS

Changes in IFRS that were issued by the IASB and are effective as per 1 January 2019 or after 2019 and relevant to Nationale Borg Reinsurance are IFRS 9, 16 and 17.

IFRS 9 'Financial Instruments' is effective as of 1 January 2019; however Nationale Borg Reinsurance applies a temporary exemption (expires once IFRS 17 becomes effective). In March 2020 the IASB decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time. 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. IFRS 16 contains a new accounting model for lessees. For the year 2019 IFRS 16 did not have any impact on the annual accounts of Nationale Borg Reinsurance as

- No new high-value assets were leased in 2019
- All low-value assets in lease are exempt in IFRS 16

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 March 2020 the IASB decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023. 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 €	
	2019	**2018**	**2019**	**2018**
USD	**0.8930**	0.8743	**0.8923**	0.8468
PLN	**0.2349**	0.2328	**0.2324**	0.2350
COP	**0.0003**	0.0003	**0.0003**	0.0003

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.

NOTES TO THE FINANCIAL STATEMENTS

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 (unrealized changes in fair value presented in other comprehensive income) 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 reporting date of the financial statements 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 authorised 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.

AVAILABLE FOR SALE 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.

RETAINED EARNINGS

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Cash flows arising from foreign currency transactions are translated into euro using the exchange rates at the date of the cash flows.
The net cash flow shown in respect of accounts receivables only relates to transactions involving actual payments or receipts. The addition to the provision which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the profit before tax and is shown separately in the cash flow statement.
The difference between the net cash flow in accordance with the cash flow statement and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is separately accounted for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Ultimate Loss Reserves
Reserves are set up on the basis of the most recent outstanding loss information supplied by the ceding company, individual policy loss information, market developments and account experience. Otherwise the company uses the historical loss ratio for various markets. It should be mentioned that during the underwriting year a large proportion of the premium is set aside as a loss reserve, as claims relating to the underwriting year usually are incurred with a significant time lag. Time lags vary per ceding company, treaty and country. The ultimate loss reserve 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 reporting 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. 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. As the Nationale Borg Reinsurance portfolio is in run off since October 2019, we do not have up to date exposure data to present since then. For that reason the 2019 figures in the table below relate to the September 2019 position.

	2019-09	2018
Treaty		
• Number of countries	**53**	47
• Number of cedants	**109**	100
• Total amount (PML basis, in € millions)*	**6,561**	5,936
o Bond	**4,100**	3,803
o Credit	**2,042**	1,730
o Political	**419**	391
o Other	**0**	12

	2019	2018
Facultative		
• Number of countries	**23**	22
• Number of risks	**46**	67
• Total nominal amount (in € thousands)	**105,817**	68,639
• Average amount per risk (in € thousands)	**2,300**	1,024

NOTES TO THE FINANCIAL STATEMENTS

* 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 50.4% (2018: 47.5%) of premium income, while the twenty largest cedants together account for approximately 64.4% (2018: 62.5%) 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 € 909 on our loss expenses before internal reinsurance.

UW Year	Accounting Year									
2010	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium	21,629	47,406	51,568	53,649	54,614	55,275	55,879	56,198	56,172	56,291
Losses paid	446	5,511	11,402	14,838	17,165	18,586	20,130	21,373	21,555	22,086
Recoveries	8	566	939	1,450	1,807	2,385	2,659	3,649	3,921	4,295
Loss reserves	4,495	10,446	8,034	5,250	3,280	3,404	2,713	1,444	1,110	1,083
Loss incurred	4,933	15,391	18,498	18,639	18,638	19,605	20,184	19,168	18,745	18,874
Loss ratio	23%	32%	36%	35%	34%	35%	36%	34%	33%	34%
2011		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium		25,518	57,180	63,939	66,534	67,826	68,849	69,531	69,831	70,226
Losses paid		724	10,125	18,716	22,627	25,593	26,607	30,738	31,215	32,514
Recoveries		43	472	1,057	1,593	2,569	2,879	3,290	3,490	3,796
Loss reserves		6,099	12,900	10,100	7,083	4,073	5,305	1,298	1,041	905
Loss incurred		6,780	22,553	27,758	28,117	27,097	29,033	28,746	28,766	29,624
Loss ratio		27%	39%	43%	42%	40%	42%	41%	41%	42%
2012			**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium			25,861	58,851	67,752	70,956	72,680	73,685	74,265	74,672
Losses paid			2,058	10,916	21,408	29,599	34,898	38,603	39,847	41,279
Recoveries			42	607	1,481	2,830	3,902	5,810	6,155	6,712
Loss reserves			6,411	13,575	9,944	7,063	5,762	4,106	2,251	7,516
Loss incurred			8,427	23,884	29,872	33,832	36,758	36,900	35,944	42,083
Loss ratio			33%	41%	44%	48%	51%	50%	48%	56%
2013				**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium				23,850	50,008	57,418	60,677	62,560	63,655	64,350
Losses paid				1,185	8,689	16,146	21,787	27,403	29,040	31,305
Recoveries				26	446	1,104	1,646	3,045	3,508	4,141
Loss reserves				7,408	12,930	10,287	6,155	2,806	2,392	3,337
Loss incurred				8,568	21,173	25,329	26,296	27,163	27,923	30,501
Loss ratio				36%	42%	44%	43%	43%	44%	47%
2014					**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium					26,196	55,969	64,792	69,289	70,939	72,249
Losses paid					886	11,770	21,294	28,272	30,870	33,229
Recoveries					46	1,063	2,502	3,585	4,390	5,284
Loss reserves					6,785	11,555	10,145	6,264	4,428	5,131
Loss incurred					7,625	22,263	28,937	30,951	30,909	33,075
Loss ratio					29%	40%	45%	45%	44%	46%
2015						**2015**	**2016**	**2017**	**2018**	**2019**
Premium						28,517	53,575	59,898	62,629	64,440
Losses paid						930	15,424	23,775	27,967	32,504
Recoveries						50	667	2,069	2,992	3,796
Loss reserves						7,647	8,668	6,755	2,479	-1,258
Loss incurred						8,527	23,425	28,461	27,454	27,450
Loss ratio						30%	44%	48%	44%	43%
2016							**2016**	**2017**	**2018**	**2019**
Premium							28,232	57,050	65,092	69,253
Losses paid							413	9,571	16,046	20,496
Recoveries							64	619	1,160	1,600
Loss reserves							8,309	13,985	14,382	5,144
Loss incurred							8,659	22,937	29,268	24,040
Loss ratio							31%	40%	45%	35%
2017								**2017**	**2018**	**2019**

Premium								31,913	64,545	73,116
Losses paid								1,901	14,420	25,429
Recoveries								52	1,859	2,546
Loss reserves								9,607	20,885	11,624
Loss incurred								11,456	33,446	34,507
Loss ratio								36%	52%	47%
2018									**2018**	**2019**
Premium									37,851	73,924
Losses paid									1,470	15,076
Recoveries									31	592
Loss reserves									13,523	20,955
Loss incurred									14,962	35,439
Loss ratio									40%	48%
2019										**2019**
Premium										38,331
Losses paid										2,545
Recoveries										23
Loss reserves										13,669
Loss incurred										16,191
Loss ratio										42%
Total	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Premium	21,629	72,923	134,609	200,288	265,104	335,961	404,685	480,124	564,980	656,853
Losses paid	446	6,235	23,585	45,656	70,775	102,624	140,552	181,635	212,431	256,461
Recoveries	8	609	1,452	3,141	5,372	10,001	14,319	22,120	27,505	32,784
Loss reserves	4,495	16,545	27,346	36,333	40,021	44,029	47,058	46,265	62,491	68,107
Loss incurred	4,933	22,171	49,478	78,848	105,425	136,652	173,291	205,781	247,417	291,784
Loss ratio	22.8%	30.4%	36.8%	39.4%	39.8%	40.7%	42.8%	42.9%	43.8%	44.4%

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 Liberty Mutual Group Asset Management. 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2019, 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 € 22,057 (2018: € 26.613) and cash of € 10,309 (2018: € 10,525),

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 € 2.6 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)	10	31%	7%	0.7
Medium (Bonds/Loans)	22	69%	9%	1.9
High (Equity)	_	0%	42%	_
Total	32	100%		2.6

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 2019 the technical provisions included a USD exposure of approximately $ 18.8 (2018: $ 17.8 million). It is the company policy to balance the retained liability (75% is ceded to Liberty Mutual Insurance Company) to a large extent by keeping USD bank deposits amounting to $ 2.4 (2018: $ 3.9 million) and also to keep the USD position in deposits with reinsurers in the amount of $ 1.2 (2018: $ 1.4 million) at balance sheet date. 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.

NOTES TO THE FINANCIAL STATEMENTS

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 44% (2018: 31%) of the Best Estimate of the 2019 Loss Reserve is expected to be paid in the first 12 months; and, similarly, 89% (2018: 69%) 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 61% (2018: 53%) of the future net premium will be received in the first 12 months and 88% (2018: 82%) in 36 months.
The average duration of the projected claims is 2.02 years (2018: 3.26 years); while the duration for the projected net premium is 1.87 years (2018: 2.36) 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 2019 as follows:

Loss reserve in € million	Stress outflow	Liquidity needed in € million
79.4	14.9%	11.8

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 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 (€ 11.8 million) with the stress loss in investments (€ 2.6 million) provides an estimate of the minimum liquidity requirement to be € 14.4 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:

	2019	2018
ING	**9,997**	10,084
Deutsche Bank	**117**	121
RBC	**195**	320
Total cash and cash equivalents	**10,309**	10,525

Nationale Borg Reinsurance has a credit agreement (for an amount of € 80 million) from Deutsche Bank AG for standby LOC's (drawn € 58.9 million as per 31 December 2019).

CREDIT RISK

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

	2019						2018	
	Opening	**Purchases / sales**	**Reclass**	**Gains/ losses**	**Total**		Total	
Corporate bonds - fixed rate	26,613	(5,404)	_	848	**22,057**	**100%**	26,613	27%
Total - Available for Sale	26,613	(5,404)	_	848	**22,057**	**100%**	26,613	27%
Equity and Preferred shares	_	_	_	_	_	**0%**	_	0%
Total – To/From P&L	_	_	_	_	_	**0%**	_	0%
Intercompany loans	73,060	(73,179)	_	119	_	**100%**	73,060	73%
Total - All Financial Assets	99,673	(78,583)	_	967	**22,057**	**100%**	99,673	100%

The € 848 gain on the corporate bond portfolio is mainly unrealized (€ 820), only € 28 is realized through profit and loss.

Credit risk also exists with regard to deposits at cedants amounting to € 7,749 (2018: € 22,720) and credit risk with respect to outstanding premium receivables of € 7,931 (2018: € 6,090). Deposits with Nationale Borg have been repaid in 2019.

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

	2019	2018
AA	**9,097**	6,413
A	**8,953**	86,485
BB	**4,007**	6,775
Total – All Financial Assets	**22,057**	99,673

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.

Compliance risk, the threat posed to the company's financial, organizational, or reputational standing resulting from violations of laws, regulations, codes of conduct, or organizational standards of practice is managed by the Risk Management and Compliance department of Nationale Borg.

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.

CAPITAL MANAGEMENT

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

- ROE and dividend requirements from shareholders;
- Minimum regulatory requirements;
- Rating agency requirements to maintain an A rating.

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

NOTES TO THE FINANCIAL STATEMENTS

The capital needed for our business according to the standards of the regulator of Curacao is € 2.3 million. The current capital of € 28.3 million comfortably exceeds the capital level required to maintain standards under current conditions.

FAIR VALUE HIERARCHY

During 2019 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 2019.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Corporate bonds – fixed rate	22,057	_	_	**22,057**
Loans and Receivables				
• Intercompany loans	_	_	_	_
• Trade and other receivables	_	_	_	_
• Cash and cash equivalents	10,309	_	_	**10,309**
Total loans and receivables	32,366	_	_	**32,366**
Total assets	**32,366**	_	_	**32,366**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
• Payables	_	1,022	_	**1,022**
• Other liabilities	_	880	_	**880**
Total liabilities	_	**1,902**	_	**1,902**

NOTES TO THE FINANCIAL STATEMENTS

The comparative figures for 2018 are:

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
• Trade and other receivables	_	_	_	_
• 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

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

5. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2019	3	9	12
Additions	_	5	**5**
Disposals	_	(1)	**(1)**
At cost as at 31 December 2019	3	13	**16**
Accumulated depreciation and impairments at 1 January 2019	(2)	(4)	**(6)**
Depreciation charge for the year	(1)	(3)	**(4)**
Accumulated depreciation and impairments at 31 December 2019	(3)	(7)	**(10)**
Book value as at 1 January 2019	1	5	6
Book value as at 31 December 2019	_	**6**	**6**

The comparative figures for 2018 are:

	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2018	3	7	10
Additions	_	3	3
Disposals	_	(1)	(1)
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)**
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**

6. INTANGIBLE ASSETS

	IT Software
At cost as at 1 January 2019	**168**
Additions	–
At cost as at 31 December 2019	**168**
Accumulated amortization at 1 January 2019	**(75)**
Amortization charge for the year	**(34)**
Impairment charge for the year	–
Accumulated amortization and impairments at 31 December 2019	**(109)**
Book value as at 1 January 2019	**93**
Book value as at 31 December 2019	**59**

The comparative figures for 2018 are:

	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**

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL ASSETS

Financial assets classified by type and nature:

2019	**Available for sale**	**Loans**	**Total**
Bonds and other fixed income securities	22,057	_	**22,057**
	22,057	_	**22,057**

2018	**Available for sale**	**Loans**	**Total**
Bonds and other fixed income securities	26,613	_	26,613
Intercompany loans	_	73,060	73,060
	26,613	73,060	99,673

In 2019 the bond portfolio was continued. The intercompany loans have been repaid in 2019 due to the sale of Nationale Borg Reinsurance to the Liberty Mutual Group.

Movements in available-for-sale assets:

	2019	**2018**
Book value at 1 January	**26,613**	_
Additions	_	27,813
Disposals	**(5,404)**	(1,041)
Revaluations	**848**	(159)
Effects of movements in foreign exchange	_	_
Book value at 31 December	**22,057**	26,613

NOTES TO THE FINANCIAL STATEMENTS

8. REINSURANCE CONTRACTS

	2019	2018
Deposits with cedants	**7,749**	22,720
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premium	**16,785**	15,416
• Claims and loss adjustment expenses	**59,555**	56,576
Balance as at 31 December	**84,089**	94,712

The reinsurers' share of insurance liabilities mainly relates to the 75% Quota Share reinsurance agreement between Nationale Borg Reinsurance and Liberty Mutual Insurance Company which replaced, as per October 2019, the reinsurance agreement with AmTrust International Insurance. Deposits with Nationale Borg have been repaid in 2019.

9. TRADE AND OTHER RECEIVABLES

	2019	2018
Accounts receivable on reinsurance business:		
• Amounts owed by cedants	**4,985**	6,090
• Other accounts receivable	**4,209**	1,063
Balance as at 31 December	**9,194**	7,153

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 receivable from AmTrust International Underwriters DAC (€ 806) and AmTrust International Insurance (€ 3,559).

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:

	2019	2018
Balance as at 1 January	_	180
Additions and (releases) during the year	**243**	104
Ceded to internal reinsurer	_	(284)
Balance as at 31 December	**243**	_

Based on the reinsurance agreement with AmTrust International Insurance the bad debt provision was fully ceded in 2018. The reinsurance agreement with Liberty Mutual Insurance Company does no include such cession. 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.

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER ASSETS

	2019	2018
Accrued interest	**97**	3,036
Deferred acquisition costs	**6,348**	5,778
Profit commission receivable	**1,147**	478
Other	**19**	178
Balance as at 31 December	**7,611**	9,470

As a result of increasing loss ratios, and its impact on siding scale commission agreement, the profit commission receivable increased to € 1,147. Accrued interest is related to the bond portfolio. Accrued interest decreased due to the repayment of the Loans to AmTrust Equity Solutions and AmTrust International Insurance. 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:

	2019	2018
Balance as at 1 January	**5,778**	5,225
Change in deferred acquisition costs	**570**	553
Balance as at 31 December	**6,348**	5,778

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

	2019	2018
Cash at banks	**9,955**	10,426
Cash savings and deposit accounts	**354**	99
Balance as at 31 December	**10,309**	10,525

NOTES TO THE FINANCIAL STATEMENTS

12. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2019	2018
Balance as at 31 December	**2,000**	2,000

The share capital of € 2,000 (2018: € 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

	2019	2018
Balance as at 31 December	**2,000**	2,000

AVAILABLE FOR SALE RESERVE

	2019	2018
Balance as at 1 January	**(159)**	–
Change in revaluation reserve	**820**	(159)
Balance as at 31 December	**661**	(159)

RETAINED EARNINGS

	2019	2018
Balance as at 1 January	**87,274**	87,134
Dividend distribution	**(80,000)**	–
Appropriations to reserve	**8,998**	140
Balance as at 31 December	**16,272**	87,274

PROFIT FOR THE YEAR

	2019	2018
Balance as at 1 January	**8,998**	140
Appropriations to revenue reserve	**(8,998)**	(140)
Profit for the year	**7,382**	8,998
Balance as at 31 December	**7,382**	8,998

TOTAL EQUITY

	2019	2018
Subscribed capital	**2,000**	2,000
Capital reserve	**2,000**	2,000
Available for sale reserve	**661**	(159)
Retained earnings	**16,272**	87,274
Profit for the year	**7,382**	8,998
Balance as at 31 December	**28,315**	100,113

In September 2019 the loans receivable of € 73,9 million were fully repaid by AmTrust Equity Solutions through a non-cash dividend payment of € 80 million. The difference of € 6.1 million was paid in cash.

13. TECHNICAL PROVISIONS

	2019	2018
Provision for claims	**79,407**	75,434
Provision for unearned premium	**22,391**	20,551
Total underwriting provisions at 31 December	**101,798**	95,985

The movement schedule of technical provisions:

	2019	2018
Opening provision for claims	**75,434**	62,162
Change in provision	**3,566**	13,175
Effects of changes in foreign exchange	**407**	97
Ending provision for claims	**79,407**	75,434
Provision for unearned premium	**20,551**	17,414
Change in provision	**1,840**	3,137
Ending provision for unearned premium	**22,391**	20,551

14. PAYABLES

	2019	2018
Trade and other accounts payable:		
Accounts payable	**4**	(5)
Debtors with credit balance	**1,018**	1,646
Internal reinsurance	**613**	22,426
Other accounts payable	**_**	4
Balance as at 31 December	**1,635**	24,071

The funds held position with AmTrust International Insurance turned from a payable amount of € 22,426 at 31 December 2018 into a receivable amount of € 3,559 due to the negative insurance results ceded to AmTrust International Insurance under the 75% quota share reinsurance agreement. The funds held position with Liberty

Mutual Insurance Company amounting to a payable of € 613 is the result of positive insurance results ceded to Liberty Mutual Insurance Company under the 75% quota share reinsurance agreement. The AmTrust receivable of € 3,559, has been presented under Other receivables in the financial statements.

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

15. OTHER LIABILITIES

	2019	**2018**
Miscellaneous liabilities and accruals:		
Payroll and other accruals	**733**	527
Sundry creditors	**147**	308
Balance as at 31 December	**880**	835

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

	2019	**2018**
Current income tax liabilities	**697**	**628**

The current income tax liabilities consist of corporate income taxes payable for 2019.

17. NET PREMIUM EARNED

		2019			2018	
	Gross	**Reinsurers' Share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Written premium	92,731	(69,548)	**23,183**	87,335	(65,500)	21,835
Change in provision for unearned premium	(1,840)	1,369	**(471)**	(3,137)	2,354	(783)
Premium earned	**90,891**	**(68,179)**	**22,712**	84,198	(63,146)	21,052

Since 1 June 2016 Nationale Borg Reinsurance operated 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. This agreement was replaced on 2 October 2019 with a similar reinsurance agreement with Liberty Mutual Insurance Company. The earned premium ceded to AmTrust International Insurance amounted to € 49,892 (2018: € 63,146). The earned premium ceded to Liberty Mutual Insurance Company amounted to € 18,277 (2018: € 0)

NOTES TO THE FINANCIAL STATEMENTS

18. REINSURANCE COMMISSION RECEIVED

	2019	2018
Reinsurance commission received	**33,827**	**32,106**

The amount of reinsurance commission received (€ 33,827) relates to the commission received from AmTrust International Insurance (€ 25,844) and the commission received from Liberty Mutual Insurance Company (€ 7,983) under the internal reinsurance agreement.

19. NET INVESTMENT INCOME

Net investment income by type of investment:

	2019	2018
Income/expense from:		
• Bonds and other fixed rate securities	**265**	78
• Loans	**1,749**	2,409
• Interest deposits and LOC costs	**(716)**	(719)
• Other investments	**(99)**	(67)
Net income/(expense) from investments	**1,199**	1,701

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

	2019	2018
Income/(expense) from:		
Interest	**1,226**	1,703
Realized gains	**28**	(4)
Investment handling expenses	**(55)**	2
Net income/(expense) from investments	**1,199**	1,701

NOTES TO THE FINANCIAL STATEMENTS

20. NET INSURANCE CLAIMS

	2019			2018		
	Gross	**Re-insurers' share**	**Net**	**Gross**	**Re-insurers' share**	**Net**
Claims paid in the year	40,650	(30,488)	**10,162**	27,348	(20,511)	**6,837**
Change in provision for outstanding claims	3,566	(2,675)	**891**	13,175	(9,881)	**3,294**
Total insurance claims and loss adjustment expenses	**44,216**	**(33,163)**	**11,053**	**40,523**	**(30,392)**	**10,131**

Since 1 June 2016, 75% of insurance claims are ceded to AmTrust International Insurance. This agreement was replaced on 2 October 2019 with an equal reinsurance agreement with Liberty Mutual Insurance Company

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

21. ACQUISITION COSTS

	2019	**2018**
Acquisition costs paid	**32,673**	30,474
Change in deferred acquisition costs	**(574)**	(553)
Change in profit commission payable	**(669)**	(3,082)
Profit commission paid	**2,486**	2,949
Total acquisition costs	**33,916**	29,788

22. NET OPERATING EXPENSES

	2019	**2018**
Staff expenses	**2,132**	1,894
Administrative expenses	**648**	589
Depreciation	**39**	35
Exchange rate differences	**159**	371
Other expenses	**1,644**	2,405
Total net operating expenses	**4,622**	5,294

The increase of staff expenses is caused by the increase of salaries (€ 64) and higher bonus expenses (€ 212). There is no company pension plan in place. The increase in administrative expenses is explained by higher bad debt expenses (€ 146).

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. The amount charged decreased with € 651, mainly due to less underwriting services provided.

23. INCOME TAX EXPENSES

	2019	2018
Current tax	**765**	648

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 2019 (2018: 0.5%).

	2019	2018
Gross written premium	**92,731**	87,334
Shifted to fiscal authorities in the Netherlands	**(23,207)**	(27,074)
Gross written premium Curacao	**69,524**	60,260
Tax basis Curacao (5%)	**3,476**	3,013
Tax calculated at domestic tax rate	**765**	663
Tax exempt income and permanent differences	–	–
Reassessment of prior year tax positions	–	(15)
Tax charge for the year	**765**	648

24. EARNINGS AND DIVIDENDS PER SHARE

BASIS EARNINGS PER SHARE

	2019	2018
Continuing operations:		
Profit attributable to the company's equity holders	**7,382**	8,998
Number of ordinary shares issued as per 31 December	**2,000**	2,000
Earnings per share (in €)	**3,691.00**	4,499.00

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	**7,382**
Interim dividend paid out	–
Transfer to reserves	**7,382**
Dividend to shareholders	–

DIVIDEND PER SHARE

Dividend of € 80 million was distributed in 2019. This payment however was not related to the net profit. 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 (2018: € 37). 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. RELATED PARTY TRANSACTIONS

The following table provides the total value of (re-)insurance transactions which have been entered into with related parties AmTrust International Underwriters DAC (related party until 2 October 2019), Liberty Mutual Insurance Company (related party since 2 October 2019) and AmTrust International Insurance (related party until 2 October 2019).

	2019	2018
Inward reinsurance (assumed)	**184**	527
GRA participation Nationale Borg	**159**	102
Outward reinsurance (ceded)	**(1,277)**	(705)
Service level agreement on underwriting and supporting services	**(1,357)**	(2,008)
(Interest on) outstanding intercompany balances	**350**	521
Total related party transactions	**(1,941)**	(1,563)

The net intercompany position with Nationale Borg was a payable of € 156. The net intercompany position with Liberty Mutual Insurance Company was a payable of € 613.

The inward reinsurance (assumed) business relates to the retroceded indirect business of AmTrust International Underwriters DAC for all underwriting years. This portfolio was reinsured at Nationale Borg Reinsurance at arm's-length market conditions.

The outward reinsurance relates to the outbound quota share reinsurance agreement, which was in place with AmTrust International Insurance until 2 October 2019 and replaced with a quota share reinsurance agreement with Liberty Mutual Insurance Company. Nationale Borg Reinsurance cedes 75% of any business, after any other reinsurance treaties.

A service level agreement is in place 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.

NOTES TO THE FINANCIAL STATEMENTS

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

	2019	**2018**
Liberty Mutual Insurance Company share of UPR	**16,785**	_
Liberty Mutual Insurance Company share of Claim provision	**59,555**	_
Loan to AmTrust International Insurance	_	3,060
Loans to AmTrust Equity Solutions	_	70,000
Accrued interest intercompany loans	_	2,888
Liberty Mutual Insurance Company (funds held)	(613)	
AmTrust International Insurance (funds held)	3,559	(22,426)
AmTrust International Insurance share of UPR	_	15,405
AmTrust International Insurance share of Claim provision	_	56,576
AmTrust International Insurance share of bad debt provision	_	284
Premium deposit at Nationale Borg	_	2,852
Claim deposit at Nationale Borg	_	12,214

OTHER

- Until 2018 Nationale Borg Reinsurance participated (for 3%) in the General Reinsurance Agreement of AmTrust International Underwriters DAC;
- Nationale Borg Reinsurance and Liberty Mutual Group Asset Management Inc. entered into an investment management agreement pursuant to which Liberty Mutual Group Asset Management Inc. manages the investments of Nationale Borg Reinsurance.

27. PERSONNEL

The number of employees working for the company:

	2019	**2018**
Total average number of employees (full-time equivalent)	**5.7**	6.0
Total year-end number of employees (full-time equivalent)	**4.1**	6.0
Total year-end number of employees	**5**	7

NOTES TO THE FINANCIAL STATEMENTS

28. 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 (2018: 3 members). The Supervisory Board consists of 3 members (2018: 4 members).

	2019	**2018**
Short term employee benefits	**832**	779
Bonus payments	**458**	211
Long term benefits (deferred compensation)	**0**	119
Pension and other benefits	**13**	19
Total remuneration Executive Board and Supervisory Board	**1,303**	1,128

	2019	**2018**
Supervisory Board	**27**	41
Total compensation paid to the Supervisory Board	**27**	41

The yearly compensation was increased in Q4 2018 but paid in 2019 (impact in 2018: € 14).

Willemstad, 29 June 2020

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

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

Ernst & Young Dutch Caribbean
Zeelandia Office Park
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Independent auditor's report

To: the shareholders and management of Nationale Borg Reinsurance N.V.

Report on the audit of the financial statements 2019 included in the annual report 2019

Our opinion

We have audited the financial statements 2019 of Nationale Borg Reinsurance N.V. (the 'Company'), based in Curacao, which comprise of the statement of financial position as at 31 December 2019, the statement of profit and loss, statement of comprehensive income, statement of changes in total equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 2019, and of its result for 2019 in accordance with Book 2 of the Curacao Civil Code and International Financial Reporting Standards ('IFRS').

Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Nationale Borg Reinsurance N.V. for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2019.

Report on other information included in the annual report

Management is responsible for the other information. The other information comprises of Profile, Group structure, Supervisory Board Report and Executive Board Report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Book 2 of the Curacao Civil Code and International Financial Reporting Standards ('IFRS'). Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error 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 these 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 judgment and have maintained professional skepticism throughout the audit, in accordance with International Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, 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 error, 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 company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the Supervisory Board 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.

Curaçao, 29 June 2020
12043982 120/23063

for Ernst & Young Accountants

signed by
C. Smorenburg RA AA

OTHER INFORMATION

PROFIT APPROPRIATION

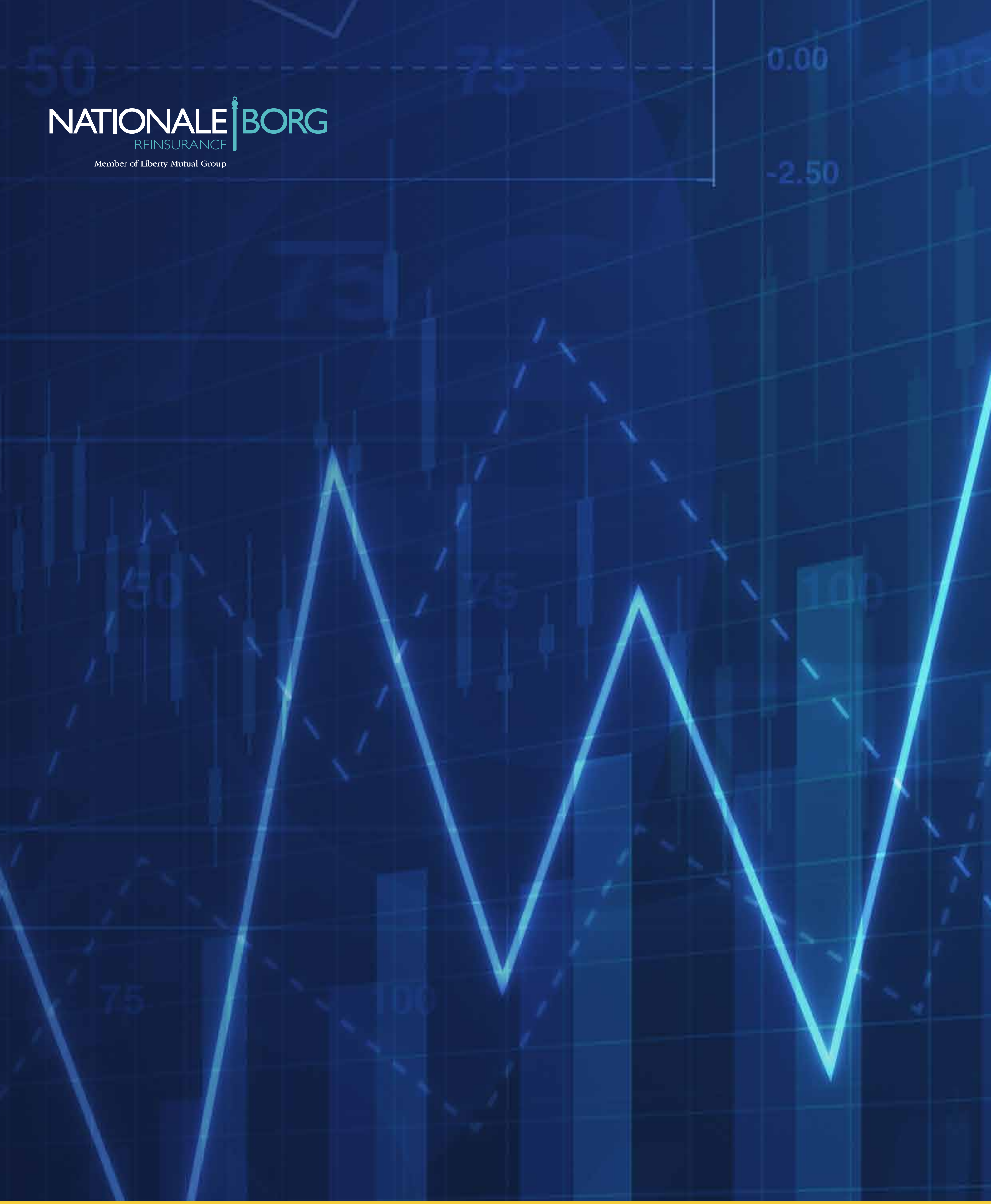
The profit is appropriated according to Article 12 of the articles of Association of Nationale Borg Reinsurance the relevant stipulations of which state:
“The profit as included in the statement of profit & loss is available for distribution at the discretion of the shareholders. As far as the profit 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

COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The COVID-19 crisis will have a serious impact on the surety, trade credit and political risk insurance world wide. Although the economy of most countries in the world is developing unfavourably, we are confident about our financial position, also in view of the 75% QS in place with LMIC. At this stage, the impact on our business and results is limited. Covid-19 also has limited impact on the company’s day-to-day operations.

NATIONALE BORG
REINSURANCE
Member of Liberty Mutual Group



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Trade register Curaçao nr. 3970