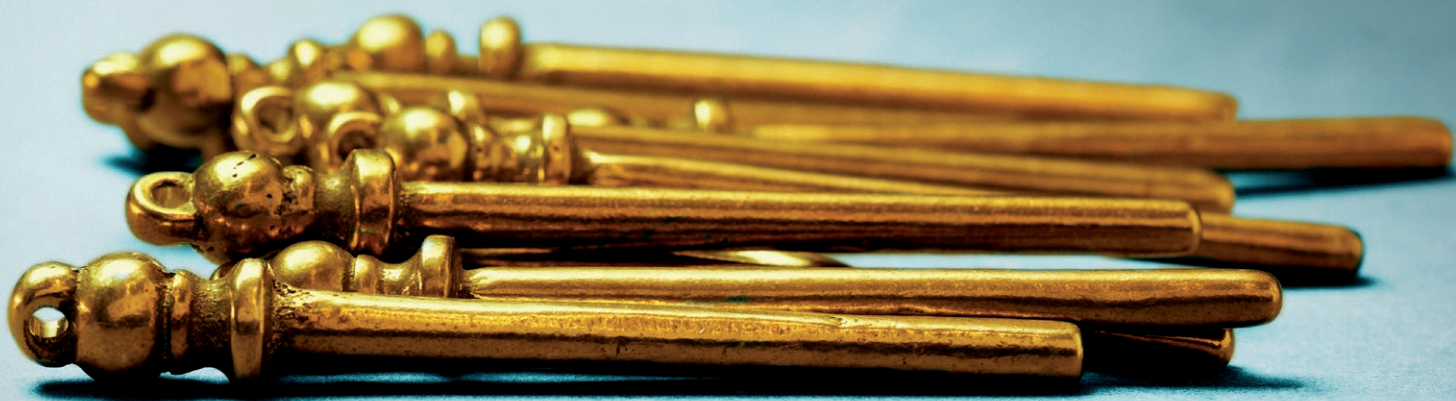


2008

NATIONALE BORG ANNUAL REPORT



NATIONALE | BORG

ANNUAL REPORT

Five year figures	3
Profile	5
Organization	7
Supervisory board report	8
Executive board report	9
Consolidated financial statements	13
Consolidated balance sheet as at 31 December 2008	14
Consolidated income statement for the year 2008	16
Consolidated statement of recognized income and expenses for the year 2008	17
Consolidated changes in equity	18
Consolidated cash flow for the year 2008	19
Accounting policies	20
Principles of valuation and determination of result	21
Risk management	35
Notes to the consolidated financial statements	44
Additional information	59
Company financial statements	61
Company balance sheet as at 31 December 2008	62
Company income statement for the year 2008	64
Company statement of recognized income and expenses for the year 2008	65
Company changes in equity	66
Company cash flow for the year 2008	67
General information	68
Notes to the company financial statements	69
Other information	81
Auditor's report	81
Profit appropriation	83

FIVE YEAR FIGURES

€ '000	IFRS			Dutch GAAP		
	2008	2007	2006	2006	2005	2004
Gross premiums	62,420	62,982	63,323	62,232	60,572	55,044
Net premium earned*	49,976	48,934	47,445	47,445	42,764	46,480
Net claims incurred	21,666	18,793	17,994	17,571	19,397	21,990
Investment portfolio**	118,590	128,272	111,729	135,581	130,187	106,051
Investment income	(6,716)	13,592	5,169	8,444	7,606	7,610
Balance sheet Total	191,947	195,082	179,985	155,219	150,559	128,547
Net technical provisions	60,418	54,004	49,551	61,836	60,927	55,267
Gross technical provisions	92,660	83,688	79,757			
Claim ratio in %	43.3	38.4	37.9	37.0	45.4	47.3
Shareholders information						
Equity***	78,026	79,491	80,700	79,508	61,697	50,675
Result after tax	323	19,401	15,868	15,219	11,076	9,808

Figures for 2006, 2007 and 2008 are IFRS, 2006 and older years are Dutch GAAP for comparison reasons. Definitions of headings under IFRS are different from Dutch GAAP, which causes differences between the two 2006 columns. The IFRS-figures have been presented gross of reinsurance and on a consolidated basis.

* Change in estimation method for earned premium had a one time positive effect of € 4,9 million in 2004.

** Investment portfolio includes cash investment accounts. Dutch GAAP figures include a.o. assets in own use.

*** Adoption of IFRS caused an increase in equity, as Dutch GAAP provisioning rules are more conservative than IFRS.

PROFILE

For 116 years, Nationale Borg has been a specialized issuer of bonds and guarantees and a reinsurer of these instruments and of credit insurance. As a specialist in these products, we have earned a special position among banks and insurance companies.

Nationale Borg employs 83 people in four locations. At our Amsterdam head office, they work together in two commercial and four support departments. We have a branch office in Belgium (Antwerp) and two subsidiaries. One subsidiary is Antillaanse Borg Maatschappij, based in the Netherlands Antilles (Willemstad, Curaçao). It provides bonds and guarantees in its local market and acts as a reinsurer to Nationale Borg. The other is Nationale Waarborg, based in Nieuwegein, which is active in the field of home purchase bonds.

Nationale Borg is an independent insurance company. Through an intermediate holding company, its shares are owned by Egeria and HAL Investments, two investors with a long-term commitment to the company.

The company is supervised by the Autoriteit Financiële Markten, the Dutch financial markets authority, and De Nederlandsche Bank, the Dutch bank and insurance supervisor.

Nationale Borg is an active member of ICISA, the International Credit Insurance and Surety Association, and of PASA, the Panamerican Surety Association, which unite surety and credit insurance providers from around the world. These memberships give us access to an international network of correspondents.

Standard & Poor's has assigned the company an 'A-' rating for financial strength, with stable outlook.

GUARANTEES

We issue bonds and guarantees on behalf of our clients to beneficiaries anywhere in the world. These documents guarantee that our clients will meet their legal or contractual obligations. In the Netherlands, Nationale Borg is one of the best known issuers of bonds and guarantees. We are a well-known brand, particularly in the transportation, construction and logistics sectors. We also hold a prominent position in the world of capital goods manufacturers, as well as in the import and export business and the food & beverage sector. Our most common guarantees are advance payment, performance, maintenance and bid bonds, together with customs bonds and EU guarantees. Our commercial departments in Amsterdam and Antwerp service our customer base, which consists only of business clients in the Netherlands and Belgium.

HOME PURCHASE BONDS

Home purchase bonds are the only guarantees provided by Nationale Borg to private individuals. In the Netherlands, it is common for home buyers to provide these bonds when signing the purchase contract as security that they will actually pay the purchase price and take transfer of the home concerned.

Nationale Waarborg provides the commercial presence of Nationale Borg in this market. It acts as a service provider to intermediaries who sell home purchase bonds and it provides underwriting and claims handling services. Through Nationale Waarborg, Nationale Borg has a leading position in this niche market.

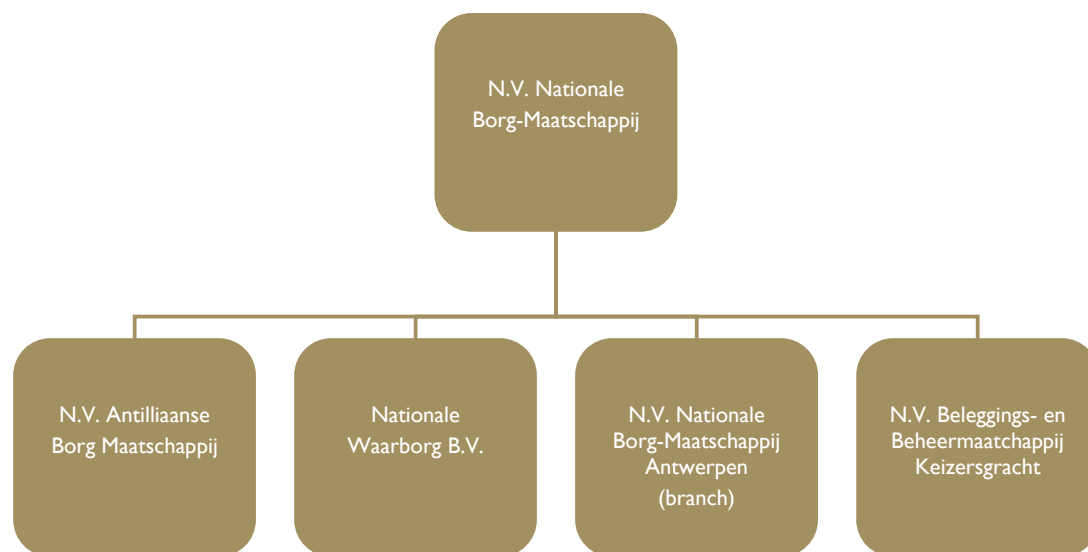
REINSURANCE

A substantial part of the risks we assume is reinsured in the international reinsurance market. This allows us to take on relatively large exposures without jeopardizing our financial position. Our international panel of the world's most respected reinsurers provides excellent security to the beneficiaries of our policies and guarantees.

PROFILE

Nationale Borg itself is also active as a reinsurer of both treaty and facultative business of insurers worldwide. We mainly underwrite the type of business that we are familiar with from our own direct operations: guarantees, as well as credit insurance.

ORGANIZATION



Supervisory Board:

A. Tukker

P.E. Visser

J.N. van Wiechen

Executive Board:

A.P.J.C. Kroon

P. Lanzillotta

SUPERVISORY BOARD REPORT

In October 2008, Mr. F.A. Elias stepped down from the Supervisory Board after assisting the company through the transition of ownership during the preceding year. As per the same date, Mr. A. Tukker was appointed to the board.

On October 1, 2008, Mr. K.S. Visser resigned from the Executive Board. He was succeeded as per the same date by Mr. P. Lanzillotta.

We thank Mr. Visser and Mr. Elias for their contribution to the company and for the way they have steered the company through a period of change.

As per April 1, 2009, Mr. J.G.H.M. Niessen resigned from his position as partner at our shareholder, Egeria, and consequently he gave up his position as chairman of the Supervisory Board. He was succeeded as per that same date by Mr. P.E. Visser. Mr. Niessen played an important role in the acquisition of Nationale Borg by Egeria and HAL and in many of the changes that have occurred since then. We thank Mr. Niessen for this important contribution.

The Supervisory Board has held six meetings in 2008, covering all important issues based on an annual schedule as well as on their actual relevance to the company.

The financial statements of N.V. Nationale Borg-Maatschappij for the year 2008 have been presented to our board by the Executive Board. These accounts have been audited by KPMG Auditors. We advise the shareholders to approve the accounts and to discharge the Executive Board in accordance with the bylaws of the company.

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 pay a dividend of € 6.500.000. Since the annual meeting of shareholders will not be held before July 2009 and because of the highly uncertain economic environment, the Supervisory Board recommends that the shareholders review this recommendation in the light of the market conditions and other circumstances prevailing at the time of that meeting.

Amsterdam, 28 April 2009

A. Tukker

P.E. Visser

J.N. van Wiechen

EXECUTIVE BOARD REPORT

ANOTHER YEAR OF CHANGE

2008 was another year of change for Nationale Borg, like it was for the entire world as it moved into a recession of which we cannot yet estimate the full consequences. While we started the year with a focus on the implementation of our commercial strategy and on the improvement of internal processes, the financial crisis developed and deepened. Towards the end of the year, our focus had shifted entirely to risk management and the management of our investment portfolio.

Looking back, we can only say that the result of our insurance activities was excellent and that we have kept losses on our investment portfolio relatively limited.

FOCUS ON GUARANTEES AND REINSURANCE

Once the transition of ownership of Nationale Borg had been completed, we carefully reviewed our strategy and concluded that the company should direct all its commercial efforts at two product lines: Guarantees and Reinsurance.

In our Guarantee activity, this meant a reorganization of our commercial departments in Amsterdam and Antwerp along geographic lines. In Amsterdam, we have set up four teams, each headed up by a principal relationship manager and serving a part of the country as their territory: Southwest with Rotterdam at its core, Northwest with Amsterdam at its core, and two teams to cover the northern and southern parts of the remainder of the Netherlands. In Antwerp, we also set up teams. One team covers Flanders and we started a second team that covers Brussels and Wallonia. With the introduction of the new setup we increased our commercial presence by hiring additional commercial staff, which was virtually completed by year-end. The teams are supported by a new CRM system and procedures have been streamlined. To allow our commercial staff to spend as much of their time as possible on client contacts and portfolio management, we have transferred many support tasks to our back-office. Meanwhile, we have started to use imaging systems to optimize workflows. Our risk management department has worked carefully with the commercial departments to screen risks and to have an up-to-date overview of the risk in our guarantee portfolio. During the fourth quarter, we have initiated a procedure that will provide a full review of all risks in this portfolio on a quarterly basis. Rates charged to clients are fully based on a pricing model based on the type of guarantees the clients needs and on the assessment of the risk they represent.

In the Reinsurance activity, we have continued to work with the team of underwriters we had in place. Each underwriter is assigned to a particular geographic area and although we have a relatively small team, we visit all cedents on at least an annual basis. Meanwhile, we are present at many industry events and meetings, in order to develop a good understanding of the various markets. Each underwriting decision is taken by the team together with the executive board.

NATIONALE WAARBORG

Although Nationale Borg has always been a provider of guarantees to business clients, the company has gradually moved into a market of private clients over the past decade. It is a niche particular to the Dutch market, where home buyers are often required by the seller to provide security that, after signing the purchase contract, they will also take actual delivery and transfer of the property at the agreed future date. In most cases, this security is provided through a bond given in escrow to the notary public who will register the transfer. The underwriting is done by the intermediaries who already involved in arranging the mortgage loans for the clients and it is partly based on the underwriting of the mortgage providers who have approved the mortgage loan requests. Because

EXECUTIVE BOARD REPORT

of the ever-increasing number of these bonds issued by Nationale Borg, we have developed an electronic guarantee that is delivered directly to the notaries through the internet portal of their professional association. Notaries can also submit claims via the portal, which makes the process very efficient. Once this infrastructure had been set up, we looked for ways to further expand our market share in order to create economies of scale. However, our business-to-business organization was not well-equipped to deal with large volumes of small guarantees for individuals.

In September 2008 we have acquired Nationale Waarborg, a small organization that has earned a significant market position by acting as a service provider to intermediaries and by bundling their volumes. Nationale Waarborg now acts as the commercial and underwriting arm of Nationale Borg for products in market for private clients.

MONEY AND FRAUD INSURANCE

Nationale Borg has been active in the money and fraud insurance market for many years as a small niche player with a team of experienced staff. It is, however, a small niche and one that required a significant investment of time and effort if we were to remain a serious player. Given the priorities of the company, we decided not to make that investment. As a consequence, we have transferred our portfolio in the Netherlands to Delta Lloyd towards the end of the year. This transfer provides our clients with continuity of coverage by a quality insurer and it provides several of our staff the opportunity to remain active in their field of expertise. Our Belgian portfolio went into run-off during the fourth quarter of 2008.

PREMIUM DEVELOPMENT

Total premium volume remained stable in 2008. There was significant growth in our Belgian guarantee activity, while the Dutch guarantee activity remained stable due to reduced guarantee demand in several market segments. The slowdown in the real estate market during the last quarter of 2008 caused a significant reduction in the demand for home purchase bonds. Following our decision to no longer actively pursue money and fraud insurance business, our turnover in this business decreased slightly. Our reinsurance activity increased in terms of premium volume, adding new cedents to the portfolio and further spreading the risk.

Given the transformation of our guarantee activity to an efficient organization that is even more customer-focused than before, and considering the market conditions of the last part of the year, we have once again shown that Nationale Borg has a rightful market position among larger providers and that it serves a real need among an expanding client base, both in guarantees and reinsurance.

CONTINUED GOOD INSURANCE RESULT, NEGATIVE INVESTMENT RESULT

In this year of unprecedented rapid changes in the economic conditions, the technical result from our insurance and reinsurance remained relatively stable. Despite a very high loss ratio in money and fraud insurance, which caused a negative result for this entire line, the overall result was very good, mostly because of historically low loss levels in the guarantee line. These were caused by a favourable development of old claims and very few new claims. While this result is partly caused by the positive economic conditions of the past, we should also credit our prudent underwriting strategy for the achieved result. In reinsurance, incurred losses were very low as well, despite the fact that we have strengthened loss reserves in anticipation of high losses for the 2008 underwriting year in many markets.

EXECUTIVE BOARD REPORT

While the result was impacted positively by the proceeds of the sale of the Dutch money and fraud insurance portfolio, it was impacted very negatively by the losses on the investment portfolio, even though we have been able to limit these losses through some drastic actions. Towards the end of the second quarter, we have sold off our entire corporate bond portfolio and have kept the proceeds in liquid cash deposits. In September, we have divested our equities portfolio. The proceeds were again kept in liquid funds. Towards the end of the year, we have sold our portfolio of government bonds, with the exception of a few bonds that are close to expiration and a small new portfolio of equity investments. By taking these actions, we have become very liquid with cash deposits spread among a number of banks to reduce counterparty risk. Despite these actions, we have incurred losses of almost € 6 million on our investments.

Considering the turmoil in the financial markets and in the economy in general, we feel proud of the overall result achieved. Our staff has demonstrated its commitment to maintaining our customer service level while improving efficiency and focusing more than ever on an adequate ratio between risk and return. We like to thank all our employees for this commitment and their hard work.

RISK MANAGEMENT

As we mentioned in our previous report, managing risk is one of the key activities of the company and it is the reason why we continuously update and improve our policies and procedures and educate our staff. This has never been more true than it is today. Our staff has worked hard to set up a procedure to screen our entire guarantee portfolio every quarter. This was done for the first time during the fourth quarter of 2008, when the financial crisis caused great uncertainty about the ability of our clients to cope with its consequences.

ANTILLIAANSE BORG MAATSCHAPPIJ

Antilliaanse Borg Maatschappij had a good year in its direct operations on Curacao with a stable premium turnover and low incurred losses. Starting from 2008, we have increased our cessions to Antilliaanse Borg Maatschappij to better reflect the company's share in the financial strength of our group.

We thank the board and management of the company for their commitment to a continued prudent risk management in order to achieve good results.

OUTLOOK 2009

This year, more than ever, it is difficult to anticipate what the world will look like in the future. We can only say that our prudent underwriting of the past will certainly not be relaxed, that we will continue to carefully screen the risks in our portfolio and that we will take all measures required to mitigate the risks once they are on our books. We do feel, however, that we should, to a certain extent, continue our business as usual. Not only do we have a commitment to our clients and cedents, but we feel that – now that the financial world is fully aware of the risk of the current situation – we may well be better prepared to deal with it than we were just before the start of the credit crisis. We will carefully screen new opportunities and we have raised our prices because of higher anticipated loss ratios and stricter solvency requirements.

Most of all, we feel certain that, more than ever, there is a *raison d'être* for relatively small companies like ourselves and that we are in a good position to withstand adverse circumstances.

Amsterdam, 28 April, 2009

A.P.J.C. Kroon

P. Lanzillotta

2008

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

		2008	2007
ASSETS			
Property, plant and equipment	1	6,634	6,398
Intangible assets	2	4,144	–
Financial assets	3	20,580	128,272
Reinsurance contracts	4	32,242	29,684
Receivables:	5		
• Accounts receivable on insurance and reinsurance business		5,240	7,044
• Other accounts receivables		1,500	1,554
		<u>6,740</u>	<u>8,598</u>
Other assets:	6		
• Deferred acquisition costs		2,767	2,725
• Miscellaneous assets and accruals		5,605	5,998
		<u>8,372</u>	<u>8,723</u>
Cash and cash equivalents	7		
• Cash		104,527	5,148
• Cash received as collateral		8,708	8,259
		<u>113,235</u>	<u>13,407</u>
TOTAL ASSETS		<u>191,947</u>	<u>195,082</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

		2008	2007
EQUITY			
Capital and reserves attributable to the equity holders of the Company	8	78,026	79,491
LIABILITIES			
Technical provisions	9	92,660	83,688
Payables:	10		
• Accounts payable on insurance and reinsurance business		10,027	12,488
• Trade and other payables		2,065	10,479
		12,092	22,967
Other liabilities:			
• Deposits received from reinsurers		248	298
• Miscellaneous liabilities and accruals	11	3,166	4,277
		3,414	4,575
Employee benefit liabilities	12	626	865
Deferred income tax liabilities	13	449	(94)
Current income tax liabilities	14	4,680	3,590
TOTAL LIABILITIES		113,921	115,591
TOTAL EQUITY AND LIABILITIES		191,947	195,082

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2008

		2008	2007
Insurance premium revenue		62,420	62,982
Insurance premium ceded to reinsurers		(12,444)	(14,048)
NET PREMIUMS EARNED	<i>15</i>	49,976	48,934
Service income		333	-
Reinsurance commission received	<i>16</i>	4,132	4,380
Net income from investments	<i>17</i>	(6,716)	13,592
TOTAL INCOME AFTER REINSURANCE		47,725	66,906
Insurance claims and loss adjustment expenses		(28,616)	(19,995)
Insurance claims and loss adjustment expenses recovered from reinsurers		6,950	1,202
NET INSURANCE CLAIMS	<i>18</i>	(21,666)	(18,793)
Net operating expenses	<i>19</i>	(25,563)	(24,587)
Total expenses after reinsurance		(47,229)	(43,380)
Other Income	<i>20</i>	2,145	-
Profit before tax		2,641	23,526
Income tax expenses	<i>21</i>	2,318	4,125
PROFIT FOR THE YEAR FROM OPERATIONS		323	19,401
Attributable to:			
Equity holders of the Company		323	19,401
Basis earnings per share from continuing operations	<i>22</i>	0,00	0,02

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES FOR THE YEAR 2008

	2008	2007
Available for sale investments:		
Valuation gains/losses taken to equity	(827)	(2,422)
Transferred to profit and loss on sale	2,151	(7,496)
Exchange differences on translation of foreign operations	(112)	(42)
	<hr/>	<hr/>
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	1,212	(9,960)
Profit for the period	323	19,401
	<hr/>	<hr/>
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	1,535	9,441
	<hr/>	<hr/>
Attributable to:		
Equity holders of the Company	1,535	9,441

CONSOLIDATED CHANGES IN EQUITY

Attributable to the equity holders of the Company

	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Undistri- buted profits	Total
EQUITY AT 1 JANUARY 2007	4,019	824	11,840	(157)	37,230	26,944	80,700
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(2,422)	–	–	–	(2,422)
• Transferred to profit or loss on sale	–	–	(7,496)	–	–	–	(7,496)
Exchange differences on translation of foreign operations	–	–	–	(42)	–	–	(42)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	(9,918)	(42)	–	–	(9,960)
Profit for the period	–	–	–	–	–	19,401	19,401
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	(9,918)	(42)	–	19,401	9,441
Dividends	–	–	–	–	(10,650)	–	(10,650)
EQUITY AS PER 31 DECEMBER 2007	4,019	824	1,922	(199)	26,580	46,345	79,491
EQUITY AT 1 JANUARY 2008	4,019	824	1,922	(199)	26,580	46,345	79,491
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(827)	–	–	–	(827)
• Transferred to profit or loss on sale	–	–	2,151	–	–	–	2,151
Exchange differences on translation of foreign operations	–	–	–	(112)	–	–	(112)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	1,324	(112)	–	–	1,212
Profit for the period	–	–	–	–	–	323	323
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	1,324	(112)	–	323	1,535
Dividends	–	–	–	–	(3,000)	–	(3,000)
EQUITY AS PER 31 DECEMBER 2008	4,019	824	3,246	(311)	23,580	46,668	78,026

CONSOLIDATED CASH FLOW FOR THE YEAR 2008

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	2,641	23,526
Adjustments for:		
• Realized capital (gains) and losses on investments	1,212	(9,959)
• Share in income from investments in associates	-	7,252
• Depreciation and amortization	554	254
Changes in operational assets and liabilities:		
• Underwriting provisions, gross	8,972	3,931
• Reinsurance assets, net	(2,608)	444
• Deferred acquisition costs	(42)	(95)
• Accounts receivable and payable on insurance and reinsurance business	(657)	1,271
Other operating assets and liabilities:		
• Cash (used in)/generated by operating activities	(9,317)	9,534
Income taxes payable	(1,577)	(4,125)
Income taxes paid	892	(234)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	70	31,799
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments available for sale	(13,702)	(66,434)
• Property, plant and equipment and intangible fixed assets	(4,934)	(595)
Divestments, redemptions and disposals (cash inflows):		
• Financial investments available for sale	121,394	49,891
• Property, plant and equipment and intangible fixed assets	-	-
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	102,758	(17,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(3,000)	(10,650)
Interest paid	-	-
Redemptions of debt instruments	-	-
Payments on outstanding debt	-	-
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	(3,000)	(10,650)
CHANGES IN CASH AND CASH EQUIVALENTS	99,828	4,011
Cash and cash equivalents at the end of the preceding year	13,407	9,396
Cash and cash equivalents at the end of the financial year	113,235	13,407

ACCOUNTING POLICIES

ACTIVITIES OF NATIONALE BORG

Nationale Borg is an insurance company, active in guarantees in its domestic markets (the Netherlands, Belgium and Dutch Antilles). During the reporting year, it was also active in money and fraud insurance in the Netherlands and Belgium. All of these risks are partly reinsured in the international reinsurance market. In addition, the company reinsures risks similar to the ones it underwrites in its domestic markets, as well as risk emanating from credit insurance. Reinsurance clients are mainly companies which have their business in other markets.

Nationale Borg is owned by HAL Investments and Egeria Capital 2, via Nationale Borg Beheer B.V. Apart from the shares owned by management, both companies have an equal stake in the company. HAL and Egeria have both invested with the intention to remain involved in Nationale Borg for the medium to long term.

BASIS OF PRESENTATION

Nationale Borg applies International Financial Reporting Standards (IFRS) as adopted by the European Union ('EU'). Nationale Borg's accounting policies under International Financial Reporting Standards as adopted by the EU and its decision on the options available are set out in the section 'Principles of valuation and determination of results' below.

At the date of authorisation of these financial statements, the following Standards which are applicable to Nationale Borg were in issue but not yet effective:

- IAS I (Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009) and
- IAS 23 (Revised) Borrowing costs (effective for accounting periods beginning on or after 1 January 2009);
and

The company anticipates that all of the above interpretations and standards will be adopted when effective and that the adoption will have no material impact on the financial statements of the company in the period of initial application.

All amounts in these statements are in thousands of euro, unless specified otherwise.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

CONSOLIDATION

The consolidated financial statements of Nationale Borg comprise the accounts of N.V. Nationale Borg-Maatschappij and each of those entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations. The Group in 2008 (and 2007) included the following entities: N.V. Nationale Borg-Maatschappij, including its Antwerp branch, N.V. Beleggings- en beheersmaatschappij "Keizersgracht" and Antilliaanse Borg Maatschappij. As from September 16, 2008, Nationale Waarborg B.V. is consolidated as well.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets, given equity instruments issued, liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intra-group transactions, balances and unrealized gains on intra-group transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policy adopted by the Group.

The reporting dates of subsidiaries are the same as the reporting date of N.V. Nationale Borg-Maatschappij. There are no material restrictions on subsidiaries to transfer funds to N.V. Nationale Borg-Maatschappij.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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. Non-monetary items are retranslated at the date fair value is determined.

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 group are presented below:

Currency	End rate in €		Average rate in €	
	2008	2007	2008	2007
USD	0,705	0,693	0,680	0,730
CAD	0,580	0,704	0,641	0,681
GBP	1,033	1,373	1,256	1,463
AUD	0,487	0,605	0,574	0,612

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 Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

INTANGIBLE ASSETS

GOODWILL

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. It is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

PROPERTY, PLANT AND EQUIPMENT

PROPERTY IN OWN USE

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognized in net profit are recognized in the profit and loss account. Depreciation is recognized based on the fair value and the estimated useful life. Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

COMPUTER SOFTWARE

Computer software that has been purchased is stated at cost less amortization and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. Amortisation is included in other operating expenses.

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 2 to 5 years, and 4 to 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. Land is not depreciated. All other assets are depreciated using the straight-line depreciation method over the estimated economic useful lives presented below:

Asset category:	Years
Property in own use	40
Computer software	3
Computer hardware	2 to 5
Fixtures and fittings	4 to 10

The fair values of land and buildings are based on regular appraisals by an independent qualified valuator. 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 Group and the cost of the item can be measured reliably.

INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in equity and other non-fixed-interest-bearing certificates are valued at net asset value. The net asset value of non-listed companies is derived from the financial statements of these companies, according to IFRS accounting policies. Realized gains on these investments are reported in the profit and loss account.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

Unrealized value changes are accounted for in the revaluation reserves. In case of negative revaluations, impairment tests are carried out to determine if a loss has to be taken in the result.

FINANCIAL ASSETS

The Group classifies its investments in two categories: financial assets available-for-sale and those designated at fair value in the income statement at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it 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 the Group. Investments designated at fair value in the income statement at inception include only direct investments in shares. Investments that are classified as available-for-sale are initially recognized at fair value plus transaction costs directly attributable to their acquisitions.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

For available-for-sale debt securities, the difference between cost and redemption value is amortized. Interest income is recognized using the effective interest method. Available-for-sale financial assets are measured at fair value. Interest income from debt securities classified as Available-for-sale is recognized in Interest income and Investment income in the profit and loss account using the effective interest method.

Dividend income from equity instruments classified as Available-for-sale is recognized in Investment income in the profit and loss account generally when the dividend has been declared. Unrealized gains and losses arising from changes in the fair value are recognized in equity net of deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as investment income (net realized gains/losses). For impairments of available-for-sale financial assets reference is made to the section 'Impairment'.

SHARES AND DEBENTURES

Shares, debentures and other fixed income certificates are valued at market prices on balance sheet date, if available. For non-listed assets the valuation is determined through comparison with recent market prices. Valuation changes are accounted for in the revaluation reserve. If the market for a financial asset is not active, the Group establishes the 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 buy-back prices.

If a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired (see below), the cumulative loss that had been recognized directly in equity will be removed from equity and will be recognized in the profit and loss account. This amount will be the difference between the acquisition cost (net of repayments and amortizations) and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss. Impairment losses recognized in the profit and loss account for an investment in an equity instrument shall not be reversed through the profit and loss account. However, if a debt instrument increases in value in a subsequent period, and the increase can be related to an event occurring after the impairment loss was recognized in the profit and loss account, the impairment will be reversed with the amount of the reversal recognized in the profit and loss account.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs directly attributable to their acquisition. Subsequently, they are carried at amortized cost using the effective interest method less any impairment losses.

Interest income from loans and receivables is recognized in Interest income and Investment income in the profit and loss account using the effective interest method.

REALIZED GAINS AND LOSSES ON INVESTMENTS

Realized gains and losses on investments are determined as the difference between the sale proceeds and (amortized) cost. For equity securities the cost is determined using a weighted average per portfolio. For debt securities the cost is determined by specific identification.

IMPAIRMENT

The Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (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. The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or to delays in the repayment of the financial asset.
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period.
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset.
- The credit obligation has been restructured for non-commercial reasons. Concessions were granted, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset.

If there is objective evidence that an impairment loss on an asset carried at amortized cost has been incurred, 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 not 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 ('Loan loss provision') and the amount of the loss is recognized in the profit and loss account under 'Addition to loan loss provision'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

FINANCIAL ASSETS CARRIED AT FAIR VALUE

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including 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. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

current fair value, less any impairment loss on the financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not subsequently reversed.

For a debt instrument classified as available-for-sale, the impairment loss is reversed through the income statement, but only up to the amortized cost price if during a subsequent period the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

Subsequent increases above amortized cost price are credited against the revaluation reserves.

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 in hand, deposits held at call with banks, 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 consists of 803.760 shares with a nominal value of € 5, 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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

REVALUATION RESERVE

The revaluation reserve comprises the unrealized gains/losses of real estate in own use and the securities available-for-sale after the deduction of deferred taxes, except for impairments that are charged directly in the income statement.

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

REVENUE RESERVE

Revenue reserve is the accumulated amount of profits and losses at balance sheet date, which have not been distributed to shareholders. The distribution of retained earnings is restricted by the requirements imposed by the Wet op het financieel toezicht (law on financial supervision). This law states that equity should be maintained at a level of at least the sum of the required solvency margin and the equalisation reserve as required by article 114, paragraph 2.

INSURANCE CONTRACTS

The Group only 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.

Nationale Borg's insurance contracts can be classified in three categories:

- Guarantee / bonding contracts.
- Money and fraud insurance contracts (Fidelity).
- Reinsurance contracts.

The contracts issued by Nationale Borg qualify for Dutch regulatory purposes as insurance contracts and have been accounted for as such under IFRS.

PROVISIONS

PROVISION FOR UNEARNED PREMIUMS

For guarantees and money and fraud insurance, premiums are recognized as earned premium proportionally to the insurance risk of the contract. The provision for unearned premiums represents the unearned share of premiums for own account, for both guarantee businesses and money and fraud insurance.

The unearned premium and commission reserves for assumed guarantee reinsurance is calculated on the basis of a 'one-eighth' system. This system calculates the premium reserve on the basis of respectively 7/8, 5/8, 3/8 and 1/8 of the premiums booked in the current and respective previous three quarters.

The premium reserve for credit reinsurance reflects the relatively short-term nature of credit insurance policies. The average term of these policies is set at 4.5 months. Therefore, Nationale Borg reserves two-thirds of the last quarter's premium income.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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 Group has taken up to balance sheet date. The Group does not discount its liabilities given the cycle of the Group's business. The claims provision is calculated either on a case-by-case basis (guarantees, money and fraud insurance) or by approximation on the basis of experience (reinsurance). When appropriate, deductions are made for salvage, subrogation and other expected recoveries from third parties. Provisions have also been made for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the claims provision is evaluated each year using standard techniques. In addition, 'IBNR' reserves are set to recognize the estimated cost of losses that have occurred but which have not yet been notified to the Group.

REINSURANCE CONTRACTS

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in the same way as the original contracts for which the reinsurance was concluded. In the case and to the extent that the assuming reinsurers are unable to meet their obligations, the Group 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.

LIABILITY ADEQUACY TEST

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs and intangible assets related to insurance portfolios. Any deficiency is immediately charged to the profit and loss account, initially by writing off the intangible assets related to insurance portfolios and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

For the liability adequacy test Nationale Borg does not use stochastic models. The provisions are prudently determined based on years of experience and considered adequate based on the positive run-off results.

REINSURERS' SHARE OF UNDERWRITING PROVISIONS

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

These assets consist of short term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. The Group 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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

The Group has profit commission arrangements with its reinsurance companies that are based on the loss ratio per underwriting year. The Group accounts for these commissions based on detailed assessments of the expected loss ratios.

INCOME FROM REINSURANCE CONTRACTS

The Group recognizes the gains and losses on buying reinsurance directly in the income statement.

RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement. The Group 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.

SALVAGE AND SUBROGATION REIMBURSEMENTS

Some insurance contracts permit the Group to sell goods acquired to settle a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims.

The allowance is the amount that can reasonably be recovered from the disposal of the goods required.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

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.

EMPLOYEE BENEFIT LIABILITIES

PENSION OBLIGATIONS

The pension reserve relates to the various defined pension schemes and consists of:

- actuarial gains and losses that arise in calculating the Group's pension obligations at fair value of the plan assets in respect to a defined benefit plan in the period in which they occur; and

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

- the derecognition of assets that can occur when the plan assets are higher than the projected benefit obligation and the Group cannot recover any surplus through refunds from the pensions vehicle due to solvency and/or control requirements.

Nationale Borg operates two pension schemes, one defined benefit and one defined contribution scheme. Both schemes are funded through payments to insurance companies, determined by periodic actuarial calculations.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as staff expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

For defined benefits plans, the liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and unrecognized past service costs. The defined benefit obligation is calculated annually by external actuaries using the project unit credit method. The Group has a legal or constructive obligation to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The expected value of the assets is calculated using the expected rate of return on plan assets. The actuarial gains and losses are the differences between the expected return and the actual return on these plan assets and actuarial changes in the deferred benefit obligation are recognized in the profit and loss account.

The pension obligations from the period when the Group was part of ING are insured by ING and have not been taken over by Nationale Borg when its shares were transferred from ING to the current shareholders. Consequently, no obligations or future claims for this period have to be provided for by Nationale Borg.

PROFIT SHARING AND BONUS PLANS

The Group recognizes a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration, amongst others, individual targets and the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

TAX LIABILITIES

Income tax on the net profit for the year comprises current and deferred tax.

DEFERRED INCOME TAX LIABILITIES

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the profit and loss account together with the deferred gain or loss.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

CURRENT INCOME 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 comprises the fair value for services, net of value added tax, after eliminating revenue within the Group.

Revenue is recognized as follows:

NET PREMIUMS EARNED

Written premiums include both direct and assumed insurance business and are defined as all premiums invoiced to third parties and the premium assumed, excluding tax, in respect to:

- Guarantees
- Money and Fraud insurance; and
- Reinsurance

Written premiums include an estimate of not yet invoiced premium for which the Group is at risk. Accruals for premium refunds are charged against premiums written. Premiums earned include an adjustment for the unearned share of premiums, matching risks and rewards.

Part of the insurance premium is ceded to reinsurers to diversify risk and to reduce the risk of catastrophic loss on insurance assumed. Premiums ceded under cession contracts are reported as premiums earned.

Amounts recoverable for ceded unearned premiums under cession agreements are reported as assets in the accompanying consolidated balance sheet.

Regular fees charged to the customer periodically (monthly, quarterly or annually) and billed in advance are recognized on a straight-line basis over the billing period, which is deemed to be equivalent to the period over which the service is rendered. Fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

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, impairment and depreciation of investment property.

Dividend income from available-for-sale equities is recognized when payment is received.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

EXPENSES

NET INSURANCE CLAIMS

Claims charges include paid claims, the change in claims provisions net of recoveries, 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.

INCOME TAX

The total sum of income tax expense recognized in the income statement is the sum of current tax expense (or recovery) plus the change in deferred tax liabilities and assets during the period, net of tax amounts recognized directly in equity or arising from a business combination.

CASH FLOW STATEMENT

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

- Cash comprises cash on hand and demand deposits.
- 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 Group 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 Group.

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.

For the purpose of the cash flow statement, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with banks, treasury bills and other eligible bills, amounts due from banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency 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 loan loss provision which is deducted from the item Loans and

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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.

ESTIMATION TECHNIQUES

Nationale Borg 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. The most important estimates are elaborated below.

LOSS RESERVES

The following overview outlines the loss reserve estimation process.

Guarantee Insurance	<p>A strict procedure for setting up reserves is followed, taking into account various factors, such as type of bonds, duration, counter indemnities and collateral. The objective is to reserve adequately.</p> <p>The Company usually sets up reserves before the client becomes insolvent, estimating the risk of claiming in the light of the specific guarantees issued. Reserves may exist for a significant time before they can be released.</p>
Credit and Surety Reinsurance	<p>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. Given the time lag in reporting by cedents to insurers, the Company aims to reserve the estimated losses one year after the end of any underwriting year. 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.</p>
Money and Fraud Insurance	<p>Each eligible claim is reserved, The reserve is used for payment of the claim or is released 6 months after its rejection, unless the insured appeals the (partial) rejection decision.</p> <p>Most reserves are short-term with losses settled within a few months. In some cases reserves remain in existence for a longer period. This holds, for example, when claims are rejected or when a large investigation is followed by a legal procedure.</p>

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

Based on the assumption that actual default rates may exceed the default rates that were used to set premium rates, the provision for claims in Guarantees includes a provision for unexpired risk of 4,091.

INCURRED BUT NOT REPORTED (IBNR) RESERVE

Nationale Borg maintains IBNR reserves for Reinsurance and Money and Fraud Insurance:

REINSURANCE

The IBNR reserve is set at 5% of total loss reserves for each individual contract, in line with international practice.

MONEY AND FRAUD INSURANCE

The IBNR reserve is based on booked premiums and actual loss experience. There is a general reserve pool available for any contract or claim.

As per year-end 2008 the IBNR reserves amounted to € 2,591 (2007: € 6,545).

RISK MANAGEMENT

As an insurance company, Nationale Borg by definition assumes risk against a premium. The risk Nationale Borg incurs, can be broken down into several categories:

- Insurance risk: the risk we run on a professional basis as an insurance company, which is the risk that the premiums, which were calculated on the basis of expected risk, do not adequately cover the actual risk incurred. We distinguish from a risk perspective between guarantees, money & fraud insurance, and assumed reinsurance.
- Financial risks: the risk associated with investments, including credit risk, market risk and liquidity risk.
- Operational risk: the risks associated with people, processes and systems. The risk we run as a company in general, which we control via a control frame work.

INSURANCE RISK

GUARANTEES

OBJECTIVES, POLICIES AND PROCESS

The insurance risk accepted in the guarantee business is controlled through a multi-layer control structure. First of all, a relationship manager writes a proposal to take an exposure on a perspective client. The relationship manager must convince himself of the soundness of the risk before submitting his proposal to the manager of the guarantee department. He must consider the credit risk involved as well as the risk associated with the specific obligations insured by the bond types needed. The relationship manager's team principal and the department manager in turn must support the submission of the proposal to the risk committee of the company. The composition of this committee depends on the size and type of risk and can include risk management staff, the manager of the risk department and members of the executive board. The risk management department is not only involved in guarantee underwriting decisions; it also manages intensive care and claim cases. This way, commercial activities are controlled by strict risk management. Intensive care and claim cases are discussed in the risk committee on a regular basis. The committee also discusses general policy with respect to risk limitation and claims settlement and recovery.

TYPE OF RISK

The main factor in the underwriting process is the creditworthiness of the client. It determines whether Nationale Borg is willing to take on any exposure and if yes, how much. In addition, exposure limits are then determined by factors like the tenor of the guarantees, the number of guarantees per client (risk spread), specific conditions such as collateral or group guarantees, and by the type of guarantees to be issued. Nationale Borg assures the beneficiaries of its bonds that its clients will perform according to contract conditions, such as timely delivery of goods and delivery of goods according to specifications. Contract conditions can also mean the timely payment of import, export or excise duties or the fulfilment of conditions that will void this obligation. Payment of a claim under a guarantee by Nationale Borg automatically gives the company a claim of the same amount against its client. In most cases this recourse offsets the claim completely or at least reduces it materially.

RISK MANAGEMENT

MONEY AND FRAUD INSURANCE

OBJECTIVES, POLICIES AND PROCESS

The acceptance of insurance risk for money and fraud is based on the long-time experience of Nationale Borg with this risk. Based on its history Nationale Borg has an extensive loss history for each of the separate risk types that can be included in a policy. The company has a reputation for being conservative in its underwriting and acceptance of a risk is often conditional on the implementation of strict prevention measures. Non-adherence to these conditions voids the policy.

Risk is managed by assigning underwriting limits per risk type and per policy to each underwriter. Above certain limits the executive board needs to approve underwriting decisions. As per January 1, 2009, Nationale Borg no longer underwrites this type of insurance

TYPE OF RISK

Nationale Borg insures its policyholders against the loss and theft of cash money or securities, while in a safe, during transport, or at named locations. The risk of accepting counterfeit money can also be insured. Fraud coverage offers protection against losses arising from fraud, embezzlement or other acts of dishonesty committed by administrative staff of the insured.

REINSURANCE

OBJECTIVES, POLICIES AND PROCESS

As a reinsurer Nationale Borg assumes risks similar to the ones it takes in its direct business – risks from guarantees – as well as risk from money and fraud insurance and credit insurance. The specific competence accumulated in the fields of guarantees can be applied to evaluate the underwriting performance of cedents of this business. Nationale Borg has set up a framework to monitor the operational and financial performance of prospective reinsurance clients. Regular visits are made to assess the cedent and its business. The opportunities are assessed by an underwriter together with his colleagues. All underwriting decisions are subject to approval by the executive board. By nature of the activity, the spread of risk is very broad. Not only does Nationale Borg participate for a small share in all underlying risks in the cedents' portfolios, but also the geographic spread of the cedents and contracts provides additional diversification.

RISK EXPOSURE

Nationale borg only participates in the reinsurance for guarantee, money and fraud insurance and credit insurance.

Contracts can be separated into treaty, excess of loss and facultative contracts. In treaty business Nationale Borg participates for a certain fixed percentage in all business risks underwritten by the cedent within the limits of the treaty. In excess of loss contracts Nationale Borg provides a fixed percentage 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 high quality risks in case a company has exhausted its treaty capacity. Underwriting of facultative business is based on the individual merits of the underlying risk.

RISK MANAGEMENT

RISK EXPOSURE

GUARANTEES

The ten largest clients account for approximately 16% of premium income, while the twenty largest clients together account for approximately 21% of premium income. This demonstrates that Nationale Borg has a diverse client base and that there is no significant exposure concentration.

To give an impression of the overall risk, the following table shows the nominal amounts of outstanding guarantees per year-end and the number of guarantees outstanding.

Guarantees:

	2008			2007		
	Exposure	Number	Average exposure per guarantee	Exposure	Number	Average exposure per guarantee
	€ '000		€	€ '000		€
Belgium						
• Construction	1,029,000	9,991	102,993	737,041	9,483	77,722
• Other types	243,593	578	421,441	206,270	566	364,434
Netherlands:						
• Construction	1,656,926	11,588	142,986	1,438,314	13,565	106,031
• Other types	1,316,227	2,145	613,626	1,289,437	2,120	608,224
Total	4,245,746	24,302	174,708	3,671,061	25,734	142,654

The gross premium income from Guarantees can be further specified as follows:

€ '000	2008	2007
Belgium		
• Construction	4,979	4,258
• Other types	1,210	1,050
Netherlands		
• Construction	10,402	9,680
• Other types	5,695	6,460
Netherlands Antilles		
• Construction	115	73
Total Premium from Guarantees	22,400	21,521

RISK MANAGEMENT

REINSURANCE

The reinsurance portfolio is distributed as shown in the table below:

	2008	2007
Treaty		
• Number of countries	47	43
• Number of contracts	96	81
• Total amount (PML basis, in € millions)	5,734	4,776
• Approximate number of risks (in thousands)	5,655	4,957
• Average amount per risk (in € thousands)	1,014	963
Facultative:		
• Number of countries	18	14
• Number of guarantees	46	26
• Total nominal amount (in € millions)	77	47
• Average amount per guarantee (in € thousands)	1,671	1,808

CLAIM DEVELOPMENT

GUARANTEES AND MONEY AND FRAUD INSURANCE

In its direct business, Nationale Borg keep track of its claims on an individual basis. Each case is unique and is considered individually. Guarantee claims are evaluated by the risk management department and after discussion in the risk committee the claim provision is set, taking into account all relevant information. Periodically, these provisions are evaluated based on new information and estimation of the likelihood of recovery. For money and fraud insurance, a similar process takes place, involving underwriters and executive board. The magnitude of claim cases during the last five years for Guarantees and Money and Fraud Insurance are shown in the following table.

The net losses incurred for Guarantees and Money and Fraud were as follows:

€ '000	2008	2007	2006	2005	2004
Business line/year					
Guarantee	-2.062	2,565	369	2,461	2,244
Money and Fraud	4.095	212	395	378	808

REINSURANCE

The development of reinsurance contracts provides a measure of the ability of Nationale Borg to estimate the ultimate value of claims. The top of the table shows the bookyears when premiums were booked for the different underlying underwriting years. This table is presented on a consolidated basis for Nationale Borg's reinsurance contracts. A change in loss ratio of 1% (up or down) has an impact of 378 on our loss expenses. The gross figures are equal to net, because there is no external reinsurance on these contracts:

RISK MANAGEMENT

	Accounting year					
U/W year 2003	2003	2004	2005	2006	2007	2008
Premium	13,119	30,412	34,136	35,610	36,944	37,762
Losses paid	954	5,718	10,817	13,029	14,446	15,875
Recoveries	7	213	546	932	1,358	1,581
Loss reserves	2,484	6,947	5,641	5,151	6,136	5,570
Loss incurred	3,430	12,452	15,912	17,248	19,223	19,864
Loss ratio	26%	41%	47%	48%	52%	53%
U/W year 2004		2004	2005	2006	2007	2008
Premium		12,266	27,741	30,412	31,689	32,674
Losses paid		653	4,021	8,089	9,326	10,332
Recoveries		3	83	332	575	830
Loss reserves		5,654	7,298	4,765	3,260	3,011
Loss incurred		6,304	11,235	12,522	12,011	12,513
Loss ratio		51%	41%	41%	38%	38%
U/W year 2005			2005	2006	2007	2008
Premium			14,131	30,822	33,768	35,236
Losses paid			718	5,448	9,237	10,788
Recoveries			7	133	462	746
Loss reserves			3,574	7,258	4,774	3,602
Loss incurred			4,285	12,574	13,549	13,644
Loss ratio			30%	41%	40%	39%
U/W year 2006				2006	2007	2008
Premium				13,727	31,206	33,341
Losses paid				509	4,608	8,779
Recoveries				23	177	505
Loss reserves				3,355	7,042	4,981
Loss incurred				3,840	11,474	13,256
Loss ratio				28%	37%	40%
U/W year 2007					2007	2008
Premium					12,876	28,011
Losses paid					514	4,860
Recoveries					7	214
Loss reserves					2,997	6,803
Loss incurred					3,505	11,449
Loss ratio					27%	41%
U/W year 2008						2008
Premium						17,149
Losses paid						1,199
Recoveries						15
Loss reserves						6,076
Loss incurred						7,260
Loss ratio						42%

RISK MANAGEMENT

Based on the expected claims ratio of a contract, the actual loss reserve is strengthened 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 newer insights as the contract develops.

GENERAL REINSURANCE AGREEMENT

Nationale Borg has a General Reinsurance Agreement ('GRA') with a panel of reinsurers that allows the Company to transfer to these reinsurers part of the risk from its direct business with the exception of home purchase bonds, as well as from facultative acceptance of reinsurance risk. This allows Nationale Borg to take on larger exposures than would be justified by its own net equity position.

The General Reinsurance Agreement is a fixed quota share treaty with a retention at 50%, in combination with an excess of loss treaty on the retention, which limits the retention of Nationale Borg to € 5 million per risk in guarantees. As from 2009, the treaty no longer applies to direct money and fraud insurance risks. The limit of the quota share treaty is € 80 million, while special limits of € 100 million are subject to approval by the treaty leader. The excess of loss cover insures losses over € 5 million up to an amount of € 35 million.

REINSURERS PANEL

In 2009, Nationale Borg expanded its panel of reinsurers in order to further spread its risk. In general the panel for the different underwriting years consist of 15 to 20 members.

The quality of the panel is very high, with a mix of general reinsurers and specialist reinsurers. Virtually all reinsurers have an S&P rating of A or better. Reinsurers with a rating below that level are required to provide additional comfort, such as a letter of credit.

The share of the largest reinsurer, which is a AA- rated company, is well below 20% . There is only one other reinsurer with a share between 10 and 15%. The share of all others is below 10%.

FRONTING

In order to service customers for whom bonds need to be issued to beneficiaries who do not accept Nationale Borg as a guarantor, the company has fronting arrangements with several parties. Common reasons for non-acceptance are requirements by the beneficiary that the bond must be issued by a party that is incorporated or regulated locally or simply by a bank. Outside the Netherlands, Belgium and Curacao, Nationale Borg may not always be a familiar name to beneficiaries. In these cases the ultimate guarantee is issued by a correspondent who meets the beneficiary's requirements. The correspondent receives a back-to-back guarantee from Nationale Borg. Total exposure from such guarantees, is € 195 million, divided among guarantee insurance companies and banks on the basis of bilateral agreements. This exposure includes € 82 million of guarantees issued through a committed facility with a limit of € 150 million, provided by a syndicate of five banks.

FINANCIAL RISKS

Financial risk is centrally managed by the Finance department and CFO. Control measures are basically designed to fit the need, which is dependent on the scale and volatility of the specific risk.

RISK MANAGEMENT

The core components of this financial risk are credit risk, liquidity risk and market risk.

- Market risk is the risk of loss from adverse movements in market variables, such as interest rates, currency exchange rates and equity prices.
- Liquidity risk is the risk that Nationale Borg is unable to meet its payment obligations.
- Credit risk is the risk of loss resulting from a client or counter party default or downgrade and arises on credit exposure.

MARKET RISK

Market risk is the risk of economic losses triggered by changes in market prices. In 2008, Nationale Borg was exposed to currency, interest and equity price risk. Given the turmoil in the markets during the year and the downside potential, Nationale Borg decided to eliminate market risk as much as practically possible, by liquidating most of its investment portfolio. The portfolio that remained at year-end consisted of relatively small bond and share positions (10,400 and 4,100 respectively) and investments in real estate. By divesting most of its investment portfolio and keeping the sales proceeds completely liquid and spread across multiple banks, we reduced our market risk at a time when the insurance risk was perceived to be higher than normal.

LIQUIDITY RISK

Nationale Borg must be prepared for the requirement of liquidity to fund items such as claims, reinsurance flows and operational cost. Premiums, fees, investment income, incoming reinsurance flows and recoveries in general are the main source to service the daily needs for ongoing liquidity.

Nationale Borg would be exposed to liquidity risk if there is insufficient cash available to pay its (insurance) obligations.

This could be the case if there were to be an unanticipated large outflow of cash as the result of claims. On average, the liabilities resulting from provisions have a tenor of more than a year.

In the current environment, Nationale Borg keeps a substantial share of its assets in cash. However, in normal circumstances, the company still keeps a buffer of cash on call to provide itself the necessary liquidity and investments in bonds and equities 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.

In addition, the reinsurance treaties of Nationale Borg include simultaneous settlement clauses, so Nationale Borg can request payment from its reinsurers of their share in any large claims prior to effecting the claims to beneficiaries or policyholders.

Moreover, Nationale Borg has a small committed credit line of € 500.000, which has not been used for many years.

CREDIT RISK

In our lines of business, credit risk is the main insurance risk we assume and evaluating credit risk is a critical skill. The insurance risk section above describes how Nationale Borg deals with the credit risk component in its products.

RISK MANAGEMENT

There is also credit risk incorporated in our investment portfolio. The management of the risks associated with this portfolio has been described in the respective paragraph.

This leaves the credit risk we incur in the ordinary course of business with regard to premium income from insurance policies. We use ageing analyses of the outstandings to monitor the risk on outstandings and the associated credit risk.

For money and fraud insurance the risk is mitigated by the fact that we can suspend coverage if premiums are not paid in time. For guarantees this is impossible, because the beneficiary of the policy is not the party responsible for premium payment. If customers are late with premium payments we cease to issue new guarantees. Furthermore, in case of continuous guarantees, we can recall the guarantee at relatively short notice. Monitoring outstandings closely and taking effective measures in case of non-payment have led to low losses and write-offs of bad debt.

The following table gives insight in the credit ratios of the bond portfolio.

	2008	2007
AAA	10,760	45,595
AA	-	14,941
A	-	15,233
BBB	-	2,743
BB	-	48
B	-	53
Non-rated	-	-
Total bond portfolio	10,760	78,613

CLIENT DEPOSITS

Nationale Borg normally starts doing business with its clients without asking for collateral. During the course of business it occasionally happens that the creditworthiness of client deteriorates and Nationale Borg has to ask for extra security to be willing to extend the issuing of guarantees. In this case Nationale Borg receives cash collateral, that is put on direct callable deposits, as the money will be returned to customers as the guarantee is received back, or as the client creditworthiness improves again. Interest received on these separated deposits is transferred to the respective clients.

OPERATIONAL RISKS

CUSTOMER DUE DILIGENCE AND CHECKS ON BENEFICIARIES

All customers have been checked and future customers / beneficiaries will be checked on the basis of local regulatory and legal requirements (i.e. in line with the Dutch 'Wet Financiële Dienstverlening'.)

The processes in operation within Nationale Borg have been laid down in procedures. These procedures have been refined based on previous experiences and assessment. Via our operational audits management certify that these procedures are upheld. All claims and complaints are analyzed. Structural part of these analysis is the question if procedures have to be further strengthened. Furthermore we use all publicly reported

RISK MANAGEMENT

operational issues in the market to test our systems, effectively by asking ourselves, if such issues could occur in our Group. This analysis is discussed by the management.

BUSINESS CONTINUITY

Nationale Borg has set itself as standard that after a major disaster, the core business has to be up and running again within 24 hours. All necessary measures have been taken to achieve this standard. Data is backed up and stored off site. Furthermore in personnel planning it is made sure that at least multiple members are capable and knowledgeable in every field of experience utilized. Basis for the business continuity is the fact that we try to reduce the chance of ever having to use the disaster recovery site. By doing so we enlarge the up-time of systems and operations and prevent the costs and hassle of really moving out to the recovery site.

The contracted disaster recovery site is tested twice a year with representatives from all departments. Results of the test are reviewed and if necessary changes are made.

Furthermore business is analyzed for changes and their impact on business continuity. If the inherent risks rise we look for measures to reduce them

CAPITAL MANAGEMENT

Nationale Borg considers it its ultimate goal to always preserve enough capital to meet all possible claims of the beneficiaries. To be able to meet this standard it is important to have a strong capital base. Nationale Borg preserves this capital base by prudent underwriting and prudent investment policies, which have been elaborated on in the risk management paragraphs of this report.

The minimum standards to be met are the capital requirements of the regulators of our insurance entities. In addition, Nationale Borg wants to preserve a rating from independent rating agencies in the A range.

The capital needed for our business according to the standards of the regulator is € 10 million and the available capital according to this measurement is € 24 million. In addition, Nationale Borg aims to preserve an S&P rating in the A range. The minimum capital needed for such an external rating is approximately € 40 million. However, Nationale Borg preserves a solid safety margin above this standard, so it can meet the standard even in extremely adverse conditions. Given the current uncertain economic conditions, which increases the downside risk in our insurance portfolio by nature of the risks we insure against, we have opted to drastically reduce the risk in our investment portfolio

The current capital of € 78 million far exceeds the capital level required to maintain standards under such conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Reconstructions	Fixtures and fittings	IT hardware	Total
At cost as at 1 January 2007	5,640	904	455	1,150	8,149
Additions		178	92	325	598
At cost as at 31 December 2007	5,640	1,082	547	1,475	8,744
Accumulated depreciation and impairments at 1 January 2007	–	707	303	1,082	2,092
Depreciation charge for the year	–	130	36	88	254
Accumulated depreciation and impairments at 31 December 2007	–	837	339	1,170	2,346
Book value as at 1 January 2007	5,640	197	152	68	6,057
Book value as at 31 December 2007	5,640	245	208	305	6,398
At cost as at 1 January 2008	5,640	1,082	547	1,478	8,747
Additions/revaluations	141	100	110	316	667
At cost as at 31 December 2008	5,640	1,182	657	1,794	9,273
Accumulated depreciation and impairments at 1 January 2008	–	837	340	1,170	2,347
Depreciation charge for the year	141	106	43	143	433
Accumulated depreciation and impairments at 31 December 2008	141	943	383	1,313	2,780
Book value as at 1 January 2008	5,640	245	207	308	6,400
Book value as at 31 December 2008	5,640	239	274	481	6,634

Land and buildings relate only to property for own use. Depreciation expense on land and buildings for property for own use of 141 (2007: 0) has been charged to the net operating expenses.

The market value of land and buildings for own use is 5,640 as at 31 December, 2008 and the historical cost price was 1,061 in 2008 and 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REAL ESTATE IN OWN USE

This property is owned directly by Nationale Borg for own (future) use.

2. INTANGIBLE ASSETS

Intangible assets refer to brand name of Nationale Waarborg and goodwill paid at acquisition date:

Purchase price	5,442
Net asset value on 30 September, 2009	(1,177)
Value of the brand (to be depreciated over 3 years)	(1,456)
Goodwill	2,809
Total intangible assets acquired	4,265
Accumulated depreciation on 31 December 2009	121
Total intangible assets on 31 December 2009	4,144

The purchase price partly consists of a deferred consideration, which has been included in other liabilities.

3. FINANCIAL ASSETS

Financial assets classified by type and nature 2008 and 2007:

2008	Available for sale	Asset at Fair Value Through P&L	Total
Shares and other variable yield securities	5,826	3,994	9,820
Bonds and other fixed income securities	10,760		10,760
	16,586	3,994	20,580

2007	Available for sale	Total
Shares and other variable yield securities	49,658	49,658
Bonds and other fixed income securities	78,614	78,614
	128,272	128,272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movements in available-for-sale assets:

	2008	2007
Book value at 1 January	128,272	111,729
Additions	10,964	75,418
Disposals	(121,394)	(49,891)
Amortization charge for the year	-	(185)
Revaluations	(1,256)	(8,750)
Effects of movements in foreign exchange	-	(49)
Book value at 31 December	16,586	128,272

There has not been any impairment on financial assets in 2008 or 2007.

The total carrying amount of the financial assets that have been pledged as collateral for liabilities at 31 December 2008 was 10,400 (2007: 10,400). The estimated fair values of these financial assets are comparable with the carrying amount due to the short term nature of the balance. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as intermediary. The duration of our portfolio goes from 1 to 4 years at year end 2008 and average interest rate is 4.35%. The financial fixed assets consist of government bonds, shares in a real estate fund and shares in individual companies.

4. REINSURANCE CONTRACTS

	2008	2007
Deposits at insurers	9,587	10,763
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premiums	4,717	4,672
• Claims and loss adjustment expenses	17,938	14,249
	32,242	29,684

5. RECEIVABLES

	2008	2007
Accounts receivable on insurance and reinsurance business:		
• Amounts owed by policy holders and direct insurance operations	3,548	4,612
• Receivables arising out of reinsurance	1,692	2,432
• Other accounts receivable	1,500	1,554
Total receivables	6,740	8,598

The outstanding receivables are substantially all current and consequently their fair values do not materially defer from its book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There is no concentration of credit risk with respect to receivables as the group has a large number of internationally dispersed debtors.

All receivables are considered on an individual basis for impairment testing. The Group does not hold any collateral over these balances.

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

	2008	2007
Balance as at 1 January	157	140
Provision for receivables impairment	141	17
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Balance as at 31 December	298	157

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

6. OTHER ASSETS

	2008	2007
Accrued interest	-	2,156
Accrued acquisition costs	2,767	2,725
Other	5,605	3,842
	8,372	8,723

The miscellaneous assets and accruals are substantially all current and consequently their fair values do not materially defer from their book value.

Movements on the deferred acquisition costs are as follows:

	2008	2007
Balance as at 1 January	2,725	2,630
Change in deferred acquisition costs	42	95
Balance as at 31 December	2,767	2,725

The premiums are earned taking into account the duration of the risk period of the underlying insurance portfolios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. CASH AND CASH EQUIVALENTS

	2008	2007
Cash at banks and in hand	6,517	5,148
Cash investment accounts	98,010	-
Cash received as collateral	8,708	8,259
Total cash and cash equivalents	<u>113,235</u>	<u>13,407</u>
Bank overdrafts and cash pool overdraft facility	-	-
Total in balance sheet	113,235	13,407

8. CAPITAL AND RESERVES

The Capital and Reserves are further disclosed in note 10 to the Company financial statement on page 72.

9. TECHNICAL PROVISIONS

	2008	2007
Total		
Provision for unearned premium	21,443	19,679
Provision for claims	68,626	57,464
Claims incurred but not reported	2,591	6,545
Total underwriting provisions at 31 December	<u>92,660</u>	<u>83,688</u>
Guarantees*		
Provision for unearned premium	7,069	5,751
Provision for claims	12,259	9,883
Claims incurred but not reported	-	4,091
Total technical provisions at 31 December	<u>19,328</u>	<u>19,725</u>
Money and Fraud Insurance**		
Provision for unearned premium	901	1,074
Provision for claims	13,255	5,802
Claims incurred but not reported	375	375
Total technical provisions at 31 December	<u>14,531</u>	<u>7,251</u>
Reinsurance		
Provision for unearned premium	13,473	12,854
Provision for claims	43,112	41,779
Claims incurred but not reported	2,216	2,079
Total technical provisions at 31 December	<u>58,801</u>	<u>56,712</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

* IBNR for Guarantees has been reclassified in 2008 as a provision for unexpired risk, which is part of the provision for claims.

* *Part of these reserves are held to settle claims on policies that were transferred to Delta Lloyd towards the end of 2008.

The movement schedule of technical provisions:

	Gross	Reinsured	Net
Total			
Opening provision for claims	61,935	12,218	49,717
Claims paid	(17,135)	(1,147)	(15,988)
Change in provision	9,608	5,721	3,887
Change in Exchange rate	(326)		(326)
Ending provision for claims	<u>71,217</u>	<u>17,938</u>	<u>53,279</u>
Provision for unearned premium	18,643	3,615	15,028
Change in provision	2,802	1,102	1,700
Ending provision for unearned premium	<u>21,444</u>	<u>4,717</u>	<u>16,728</u>
Guarantees			
Opening provision for claims	14,335	5,088	9,247
Claims paid	(853)	(162)	(691)
Change in provision	(2,076)	(123)	(1,953)
Ending provision for claims	<u>12,259</u>	<u>4,966</u>	<u>7,294</u>
Provision for unearned premium	5,772	2,733	3,039
Change in provision	1,298	913	386
Ending provision for unearned premium	<u>7,070</u>	<u>3,646</u>	<u>3,445</u>
Money and Fraud Insurance			
Opening provision for claims	4,737	4,567	170
Claims paid	(1,300)	(569)	(731)
Change in provision	8,893	6,328	2,565
Ending provision for claims	<u>13,630</u>	<u>10,895</u>	<u>2,735</u>
Provision for unearned premium	1,074	484	590
Change in provision	(173)	(13)	(160)
Ending provision for unearned premium	<u>901</u>	<u>470</u>	<u>430</u>
Reinsurance			
Opening provision for claims	42,863	2,562	40,301
Claims paid	(14,982)	(416)	(14,566)
Change in provision	2,791	(485)	3,276
Change in Exchange rate	(326)		(326)
Ending provision for claims	<u>45,328</u>	<u>2,078</u>	<u>43,250</u>
Provision for unearned premium	11,797	398	11,399
Change in provision	1,677	203	1,474
Ending provision for unearned premium	<u>13,473</u>	<u>601</u>	<u>12,872</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PAYABLES

	2008	2007
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	1,319	4,558
Amounts due to policy holders*	8,708	7,930
	<u>10,027</u>	<u>12,488</u>
Trade and other accounts payable		
Accounts payable	1,563	235
Other accounts payable**	502	10,244
	<u>2,065</u>	<u>10,479</u>
Total accounts payable	<u>12,092</u>	<u>22,967</u>

*Amounts due to policy holders includes bank deposits of policy holders.

** Other accounts payable in 2007 relates to ING.

The payables due are substantially all current.

11. MISCELLANEOUS LIABILITIES AND ACCRUALS

	2008	2007
Bond purchase	-	2,705
Payroll and other accruals	1,168	1,397
Sundry creditors	1,998	175
Balance as at 31 December	<u>3,166</u>	<u>4,277</u>

All other liabilities are current liabilities and payable within one year.

12. EMPLOYEE BENEFIT LIABILITIES

	2008	2007
Retirement benefits	626	590
Other long-term employee benefits	-	275
	<u>626</u>	<u>865</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL DETAILS OF DEFINED BENEFIT PLANS

Pension Reserves:

	2008	2007	2006
Defined obligations	2,985	3,433	4,065
Insurance policy	2,985	2,845	3,473
Provision for pension	0	588	592
Actuarial costs	-	3	3
Total provision for pension	-	591	595

DEVELOPMENT OF PENSION PROVISION

	2008	2007	2006
Opening balance	3,433	4,065	4,320
Interest cost	167	157	173
Benefits paid	(267)	(272)	(289)
Actuarial gains and losses	(348)	(517)	(139)
Closing balance	2,985	3,433	4,065

CHANGE IN FAIR VALUE OF PLAN ASSETS

	2008	2007	2006
Opening balance	2,845	3,473	3,554
Expected return on plan assets	139	134	142
Employer's contribution	50	49	54
Benefit paid	(267)	(272)	(289)
Actuarial gains and losses	218	(539)	12
Closing balance	2,985	2,845	3,473

ACTUARIAL ASSUMPTIONS

Weighted averages of basic actuarial assumptions in annual % as at 31 December.

	2008	2007	2006
Discount rate	5.20%	5.05%	4.00%
Expected rates of salary increases	n.a.	n.a.	n.a.
Consumer price inflation	0.00%	1.75%	1.45%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. DEFERRED INCOME TAX LIABILITIES

	2008	2007
Deferred income tax assets	(662)	(1,618)
Deferred income tax liabilities	1,111	1,524
	449	(94)

The movement on the deferred income taxes is as follows:

	2008	2007
Balance as at 1 January	(94)	330
First time adoption (provision loss to revaluation)	-	-
Rate differences	-	-
Charge/(credit) to equity for the year	(215)	(593)
Charge/(credit) to the income statement for the year	758	168
Balance as at 31 December	449	(94)

The movement in deferred tax assets and liabilities is further detailed below:

	Deferred assets			Deferred liabilities				Total
	Technical balances	Tax losses carried forward	Trading assets	Shares	Invest property	First time adoption	Other	
Balance as at 1 Jan. 2007	(1,579)	-	3	172	1,326	408	-	1,909
Charge/(credit) to equity for the year			(3)	(593)				(595)
Charge/(credit) to the income statement for the year	(39)			211				211
Balance as at 31 Dec. 2007	(1,618)	-	-	(210)	1,326	408	-	1,524
Balance as at 1 Jan. 2008	(1,618)	-	-	(210)	1,326	408	-	1,524
Rate differences	-	-	-	-	-	-	-	-
Charge/(credit) to equity for the year	-	-	-	(251)	36	-	-	(215)
Charge/(credit) to the income statement for the year	956	-	-	210	-	(408)	-	(198)
Balance as at 31 Dec. 2008	(662)	-	-	(251)	1,362	-	-	1,111

The deferred income tax charged or credited to equity at the end of year is as follows:

	2008	2007
Reserves in shareholders' equity:		
Revaluation reserve	1,111	1,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. CURRENT INCOME TAX LIABILITIES

	2008	2007
Current income tax liabilities	4,680	3,590

The current income tax liabilities mainly consist of income and other local taxes payable.

15. NET PREMIUM EARNED

	2008			2007		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Guarantees						
Written premium	22,400	10,852	11,548	21,521	9,296	12,225
Change in provision for unearned premium	(1,303)	27	(1,330)	(434)	5	(439)
Earned premium	21,097	10,879	10,218	21,087	9,302	11,786
Insurance						
Written premium	4,060	2,170	1,890	4,697	2,920	1,777
Change in provision for unearned premium	173	175	(2)	421	381	40
Earned premium	4,233	2,345	1,888	5,117	3,301	1,816
Reinsurance						
Written premium	38,767	453	38,314	37,121	1,642	35,479
Change in provision for unearned premium	(1,677)	1,233	(444)	(345)	(196)	(149)
Earned premium	37,090	(780)	37,870	36,776	1,446	35,330
Total earned premium	62,420	12,444	49,976	62,982	14,048	48,934

16. REINSURANCE COMMISSION RECEIVED

	2008	2007
Commission paid	(987)	(1,074)
Commission received	5,119	5,454
	4,132	4,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. NET INVESTMENT INCOME

NET INVESTMENT INCOME BY TYPE OF INVESTMENT

Income/expense from:		
• Property	231	275
• Bonds and other fixed rate securities	4,115	5,042
• Shares and other variable yield securities	(11,062)	8,275
Net income/(expense) from investments	<u>(6,716)</u>	<u>13,541</u>

NET INVESTMENT INCOME BY NATURE OF INCOME/(EXPENSE)

€ '000	2008	2007
Income/(expense) from:		
Interest	3,465	4,841
Dividends	–	151
Realized gains	(10,762)	8,292
Unrealized gains	311	–
Rental income from property	270	275
Net income/(expense) from investments	<u>(6,716)</u>	<u>13,592</u>

The majority of the interest income and expenses reported above is related to financial assets available-for-sale. This net income is derived from government and corporate bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. NET INSURANCE CLAIMS

	Gross	2008 Rein surers' share	Net	Gross	2007 Rein surers' share	Net
Total						
Claims paid in the year	17,135	1,147	18,988	14,826	1,807	13,019
Change in provision for outstanding claims	9,608	5,803	3,805	3,791	(605)	4,396
Claims handling expenses	1,873	-	1,873	1,378	-	1,378
Total insurance claims and loss adjustment expenses	28,616	6,950	21,666	19,995	1,202	18,793
Guarantees						
Claims paid in the year	853	162	691	2,082	1,909	173
Change in provision for outstanding claims	(2,876)	(122)	(2,754)	1,369	656	713
Claims handling expenses	1,225	-	1,225	976	-	976
Total insurance claims and loss adjustment expenses	(798)	40	(838)	4,427	2,565	1,862
Money/Fraud Insurance						
Claims paid in the year	1,300	569	731	368	251	116
Change in provision for outstanding claims	9,693	6,328	3,365	(838)	(761)	(77)
Claims handling expenses	388	-	388	173	-	173
Total insurance claims and loss adjustment expenses	11,381	6,897	4,484	(298)	(510)	212
Reinsurance						
Claims paid in the year	14,982	416	14,566	10,998	(353)	11,351
Change in provision for outstanding claims	2,791	(403)	3,194	3,260	(500)	3,760
Claims handling expenses	260	-	260	230	-	230
Total insurance claims and loss adjustment expenses	18,033	13	18,020	14,487	-853	15,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. NET OPERATING EXPENSES

	2008	2007
Staff expenses	8,012	6,697
Depreciation	554	254
Other expenses	2,998	3,335
Total administrative expenses	11,564	10,286
Gross acquisition costs	14,702	14,391
Gross change in deferred acquisition costs	(42)	(95)
Total acquisition costs	14,660	14,296
Other	(661)	7
Net operating expenses	25,563	24,589

20. OTHER INCOME

Other income consists mainly of the proceeds from the sale of the Dutch money and fraud insurance portfolio, which accounted for approximately 3% of premium income. Claims incurred and reported before the end of 2008 will be settled for the account of the Group, which has set up provisions for this purpose.

21. INCOME TAX EXPENSES

	2008	2007
Current tax	1,560	3,957
Deferred tax	758	168
	2,318	4,125

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2008	2007
Profit before tax	2,641	23,526
Tax calculated at domestic tax rates applicable to profits in the respective countries	643	5,728
Tax exempt income and other permanent differences	1,675	-1,603
Tax charge for the year	2,318	4,125

The weighted average applicable tax rate is 59% (2007: 18%). It is high mainly due to the tax regime in the Antillean, where a loss has been incurred but taxes are based on total premiums received. In Belgium, taxable income was taxed at 33%. Last year income included a large amount of non taxable income on investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. EARNINGS AND DIVIDENDS PER SHARE

BASIS EARNINGS PER SHARE

	2008	2007
Continuing operations:		
Profit attributable to the Company's equity holders	323	19,401
Number of ordinary shares issued as per 31 December	803,760	803,760
Earnings per share (in euro)	0.00	0.02

Basic earnings per share are calculated dividing the net profit of the year attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

DIVIDEND PER SHARE

The dividend paid in 2008 amounted to 3,000 (2007: 10,650).

23. CONTINGENCIES

The Group, like all other insurers, is subject to litigation in the normal course of business. The Group does not believe that such litigation will have a material effect on its profit or loss and financial condition.

24. CAPITAL COMMITMENTS

None.

25. PERSONNEL

The number of employees working for the Group:

	2008	2007
Total average number of employees (full-time equivalent)	69,6	70,8
Total year-end number of employees (full-time equivalent)	78,7	72,8
Total year-end number of employees	83	74

26. REMUNERATION MANAGEMENT BOARD AND SUPERVISORY BOARD

The following table provides details regarding the remuneration of the Management Board and Supervisory Board.

The Management Board consists of 2 members (2007: 2 members). The Supervisory Board consists of 3 members (2007: 3 members).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
Short-term employee benefits	473	430
Bonus payments	198	480
Termination benefits	400	-
Total compensation paid to the Management Board	<u>1,071</u>	<u>910</u>
Short-term benefits	11	8
Total compensation paid to the Supervisory Board	<u>11</u>	<u>8</u>

27. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after the balance sheet date to be reported.

ADDITIONAL INFORMATION

TAX OBLIGATIONS

N.V. Nationale Borg-Maatschappij together with N.V. Beleggings- en beheersmaatschappij Keizersgracht, Nationale Borg Beheer B.V. and Nationale Waarborg B.V. form a fiscal unity for company tax purposes. Because of this all direct payable tax amounts of this group are recorded in the accounts of N.V. Nationale Borg Maatschappij.

All four corporate entities are fully liable for the full amount of the payable company income tax.

2008

COMPANY FINANCIAL STATEMENTS



COMPANY BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008	2007
ASSETS			
Property, plant and equipment	1	6,553	6,397
Investments in associated companies and joint ventures	2	35,353	37,350
Intangible assets	3	4,144	-
Financial assets:	4	16,586	101,527
Reinsurance contracts	5	40,939	29,683
Receivables:	6		
• Accounts receivable on insurance and reinsurance business		1,732	7,044
• Other accounts receivables		1,500	1,554
		<u>3,232</u>	<u>8,598</u>
Other assets:			
• Deferred acquisition costs	7	2,767	2,725
• Miscellaneous assets and accruals	8	5,592	1,964
		<u>8,359</u>	<u>4,689</u>
Cash and cash equivalents:	9		
• Cash		80,818	4,757
• Cash received as collateral		8,708	8,259
		<u>89,526</u>	<u>13,016</u>
TOTAL ASSETS		<u>204,692</u>	<u>201,260</u>

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008	2007
EQUITY			
Subscribed capital		4,019	4,019
Capital reserve		824	824
Revaluation reserve		3,246	1,922
Revenue reserve (including currency)		69,614	53,325
Undistributed profits		323	19,401
Capital and reserves attributable to the equity holders of the Company	10	<u>78,026</u>	<u>79,491</u>
TOTAL EQUITY		78,026	79,491
LIABILITIES			
Technical provisions	11	92,641	80,557
Payables:	12		
• Accounts payable on insurance and reinsurance business		10,026	12,488
• Trade and other payables		<u>10,548</u>	<u>19,456</u>
		20,574	31,944
Other liabilities:			
• Deposits received from reinsurers		1,116	631
• Miscellaneous liabilities and accruals	13	<u>6,964</u>	<u>4,276</u>
		8,080	4,907
Employee benefit liabilities	14	634	865
Deferred income tax liabilities	15	449	(94)
Current income tax liabilities	16	<u>4,288</u>	<u>3,590</u>
TOTAL LIABILITIES		126,666	121,769
TOTAL EQUITY AND LIABILITIES		<u>204,692</u>	<u>201,260</u>

COMPANY INCOME STATEMENT FOR THE YEAR 2008

	2008	2007
Share of income from associated companies	(2,974)	2,057
Other income and expense	5,243	21,399
	<hr/>	
PROFIT BEFORE TAX	2,269	23,456
	<hr/>	
Income tax expenses	1,946	4,055
	<hr/>	
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	323	19,401
	<hr/> <hr/>	

COMPANY STATEMENT OF RECOGNIZED INCOME AND EXPENSES FOR THE YEAR 2008

	2008	2007
Available for sale investments:		
• Valuation gains/losses taken to equity	(827)	(2,422)
• Transferred to profit and loss on sale	2,151	(7,496)
Exchange differences on translation of foreign operations	(112)	(42)
	<hr/>	<hr/>
NET INCOME DIRECTLY RECOGNIZED IN EQUITY	1,212	(9,960)
Profit for the period	323	19,401
	<hr/>	<hr/>
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	1,535	9,441
	<hr/>	<hr/>

COMPANY CHANGES IN EQUITY

Attributable to the equity holders of the Company

	Subscribed capital	Capital reserve	Revaluation Reserve	Currency translation reserve	Revenue reserve	Undistri- buted profits	Total
EQUITY AT 1 JANUARY 2007	4,019	824	11,840	(157)	37,230	26,944	80,700
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(2,422)	–	–	–	(2,422)
• Transferred to profit or loss on sale	–	–	(7,496)	–	–	–	(7,496)
Exchange differences on translation of foreign operations	–	–	–	(42)	–	–	(42)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	(9,918)	(42)	–	–	(9,960)
Profit for the period	–	–	–	–	–	19,401	19,401
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	(9,918)	(42)	–	19,401	9,441
Dividends	–	–	–	–	(10,650)	–	(10,650)
EQUITY AS PER 31 DECEMBER 2007	4,019	824	1,922	(199)	26,580	46,345	79,491
EQUITY AT 1 JANUARY 2008	4,019	824	1,922	(199)	26,580	46,345	79,491
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(826)	–	–	–	(826)
• Transferred to profit or loss on sale	–	–	2,151	–	–	–	2,151
Exchange differences on translation of foreign operations	–	–	–	(112)	–	–	(112)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	1,324	(112)	–	–	1,212
Profit for the period	–	–	–	–	–	323	323
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	1,324	(112)	–	323	1,535
Dividends	–	–	–	–	(3,000)	–	(3,000)
EQUITY AS PER 31 DECEMBER 2008	4,019	824	3,246	(311)	23,580	46,668	78,026

COMPANY CASH FLOW FOR THE YEAR 2008

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	2,268	23,456
Adjustments for:		
• Realized capital (gains) and losses on investments	1,212	(9,213)
• Share in income from investments in associates	1,997	7,273
• Depreciation and amortization	549	254
Changes in operational assets and liabilities:		
• Underwriting provisions, gross	12,084	3,737
• Reinsurance assets, net	(10,771)	458
• Deferred acquisition costs	(42)	(96)
• Accounts receivable and payable on insurance and reinsurance business	2,850	1,271
Other operating assets and liabilities:		
• Cash (used in)/generated by operating activities	(10,024)	11,240
Income taxes payable	(1,597)	(4,055)
Income taxes paid	892	(234)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	(582)	32,599
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments available for sale	(9,713)	(47,258)
• Property, plant and equipment and intangible fixed assets	(4,849)	(594)
Divestments, redemptions and disposals (cash inflows):		
• Financial investments available for sale	94,654	29,577
• Property, plant and equipment and intangible fixed assets	-	-
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	80,092	(18,275)
CASH FLOWS FROM FINANCING ACTIVITIES		
• Dividend paid	(3,000)	(10,650)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	(3,000)	(10,650)
CHANGES IN CASH AND CASH EQUIVALENTS	76,510	3,674
Cash and cash equivalents at the end of the preceding year	13,016	9,342
Cash and cash equivalents at the end of the financial year	89,526	13,016

GENERAL INFORMATION

N.V. Nationale Borg-Maatschappij, based in Amsterdam (the Netherlands) is the parent company of Nationale Borg Group. The company statements are part of the 2008 financial statements, which also include the consolidated annual accounts. The company statement has been rendered in abbreviated form pursuant to Book 2, section 402 of the Netherlands Civil Code.

ACCOUNTING PRINCIPLES

The company annual accounts have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

In the preparation of the company annual accounts, the provisions of Article 362, subsection 8 of Book 2 of the Netherlands Civil Code have been applied.

The accounting principles for the Company financial statements are the same as for the consolidated financial statement. Therefore we refer to Chapter 13.

The only addition for the Company financial statements is the fact that in the statements the item subsidiaries exists, which is eliminated via consolidation in the Consolidated accounts.

SUBSIDIARIES

Subsidiaries are valued at net asset value, Subsidiaries have the same accounting principles and reporting period as N.V. Nationale Borg-Maatschappij. Value changes are accounted via the revaluation reserve.

TRANSACTIONS WITH RELATED PARTIES

Nationale Borg has a reinsurance relation with its subsidiary Antilliaanse Borg-Maatschappij. As one of Nationale Borg's reinsurers, Antilliaanse Borg Maatschappij in 2008 10,865 in premiums from Nationale Borg. Reverseely, Nationale Borg booked premiums of 115 as reinsurer of the direct business generated by Antilliaanse Borg Maatschappij.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

I. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon- structions	Fixtures and fittings	IT hardware	Total
At cost as at 1 January 2007	5,640	904	455	1,130	8,129
Additions	-	178	92	328	598
At cost as at 31 December 2007	5,640	1,082	547	1,458	8,727
Accumulated depreciation and impairments at 1 January 2007	-	707	303	1,062	2,072
Depreciation charge for the year	-	130	36	88	254
Accumulated depreciation and impairments at 31 December 2007	-	837	340	1,150	2,327
Book value as at 1 January 2007	5,640	197	152	68	6,057
Book value as at 31 December 2007	5,640	245	207	308	6,400
At cost as at 1 January 2008	5,640	1,082	547	1,458	8,727
Additions/revaluations	141	100	103	237	581
At cost as at 31 December 2008	5,640	1,182	651	1,695	9,167
Accumulated depreciation and impairments at 1 January 2008	-	837	340	1,150	2,327
Depreciation charge for the year	141	106	43	138	428
Accumulated depreciation and impairments at 31 December 2008	-	943	383	1,288	2,614
Book value as at 1 January 2008	5,640	245	207	308	6,400
Book value as at 31 December 2008	5,640	239	267	407	6,553

NOTES TO THE COMPANY FINANCIAL STATEMENTS

2. INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The following table shows the changes in investments in associated companies and joint ventures valued by the equity:

	2008	2007
Balance as at 1 January	37,350	43,877
Share of (loss)/profit	(3,174)	2,057
Additions	1,177	-
Disposal	-	(7,303)
Revaluations	-	(1,281)
Effect of movements in foreign exchange	-	-
Balance as at 31 December	35,353	37,350

2007	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Antilliaanse Borg-Maatschappij N.V.	Dutch Antilles, Curaçao	31,933	3,250	3,753	2,006	100.00
ING Real Estate International Investment I B.V.*	The Netherlands, The Hague	-	-	-	51	0.20
N.V. Beleggings- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	8,667	-	-	-	100.00
Total at the end of 2007		40,600	3,250	3,753	2,057	

2008	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Antilliaanse Borg-Maatschappij N.V.	Dutch Antilles, Curaçao	34,822	9,108	7,682	(2,929)	100.00
N.V. Beleggings- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	8,667	-	-	-	100.00
Nationale Waarborg B.V.	The Netherlands, Nieuwegein	1,619	642	333	(200)	100.00
Total at the end of 2008		45,108	9,750	8,015	(3,129)	

* Sold in 2007

NOTES TO THE COMPANY FINANCIAL STATEMENTS

3. INTANGIBLE ASSETS

	2008	2007
At cost as at 1 January	-	-
Additions	4,265	-
At cost as at 31 December	4,265	-
Accumulated depreciation and impairments at 1 January	-	-
Depreciation charge for the year	121	-
Accumulated depreciation and impairments at 31 December	121	-
Book value as at 1 January	-	-
Book value as at 31 December	4,144	-

4. FINANCIAL ASSETS

Financial assets classified by type and nature 2008:

	Available for sale	Total
Shares and other variable yield securities	5,826	5,826
Bonds and other fixed income securities	10,760	10,760
	16,586	16,586
Listed	16,586	16,586

Financial assets classified by type and nature 2007:

	Available for sale	Total
Shares and other variable yield securities	30,034	30,034
Bonds and other fixed income securities	71,493	71,493
	101,527	101,527
Listed	101,527	101,527

NOTES TO THE COMPANY FINANCIAL STATEMENTS

MOVEMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008	2007
Book value at 1 January	101,527	83,846
Additions	10,964	55,048
Disposals	(94,654)	(29,577)
Amortisation charge for the year	-	147
Revaluations	(1,251)	(7,601)
Effects of movements in foreign exchange	-	(42)
Book value at 31 December	16,586	101,527

The total carrying amount of the financial assets that have been pledged as collateral for liabilities at 31 December 2008, was 10,400 (2007: 10,400). The estimate fair values of these financial assets are comparable with the carrying amount due to the short-term nature of the balance. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

SHARES AND OTHER VARIABLE YIELD SECURITIES

	2008	2007
Shares	-	-
Investment funds	5,826	30,034
	5,826	30,034

BONDS AND OTHER FIXED INCOME SECURITIES

	2008	2007
Government bonds	10,760	47,685
Corporate bonds	-	23,808
	10,760	71,493

5. REINSURANCE CONTRACTS

	2008	2007
Deposits at insurers	9,587	10,763
Reinsurers' share of insurance liabilities:		
Provisions for unearned premiums	8,893	4,672
Claims and loss adjustment expenses	22,459	14,249
	40,939	29,683

Amounts due from reinsurers in respect to claims already paid by the Group on the contracts that are reinsured are included in receivables.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

6. RECEIVABLES

	2008	2007
Accounts receivable on insurance and reinsurance business:		
Amounts owed by policy holders and direct insurance operations	40	4,612
Receivables arising out of reinsurance	1,692	2,432
Other accounts receivable	1,500	1,554
Total receivables	3,232	8,598

The outstanding receivables are substantially all current and consequently their fair values do not materially defer from its book value.

There is no concentration of credit risk with respect to receivables as the group has a large number of internationally dispersed debtors.

All receivables are considered on an individual basis for impairment testing. As of 31 December 2008, receivables of 1,212 were considered to be partially impaired. In this balance it has been taken into account that a portion of the impaired receivables will be recovered. The Company does not hold any collateral over these balances.

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

	2008	2007
Balance as at 1 January	157	140
Provision for receivables impairment	141	17
Balance as at 31 December	298	157

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

7. DEFERRED ACQUISITION COSTS

	2008	2007
Balance as at 1 January	2,725	2,629
Change in deferred acquisition costs	42	96
Balance as at 31 December	2,767	2,725

The premiums are earned taking into account the duration of the risk period of the underlying insurance portfolios.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

8. MISCELLANEOUS ASSETS AND ACCRUALS

	2008	2007
Accrued interest	-	1,964
Accrued acquisition costs	2,767	2,725
Other	5,592	
	8,359	4,689

The miscellaneous assets and accruals are substantially all current and consequently their fair values do not materially differ from their book value.

9. CASH AND CASH EQUIVALENTS

	2008	2007
Cash at bank and in hand	6,517	4,757
Cash investment accounts	74,301	-
Cash received as collateral	8,708	8,259
Total cash and cash equivalents	89,526	13,016

10. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

€ '000	2008	2007
Balance as at 31 December	4,019	4,019

The total authorised share capital is € 11,000 million (2007: € 11,000 million).

The share capital of € 4,019 million (2007: € 4,019 million) is divided into 803,760 fully paid ordinary shares of € 5. The fully paid shares carry one vote per share and carry the rights to dividends.

CAPITAL RESERVE

	2008	2007
Balance as at 31 December	824	824

NOTES TO THE COMPANY FINANCIAL STATEMENTS

REVALUATION RESERVE

	2008	2007
Balance as at 1 January	1,922	11,840
Change in revaluation reserve – gross	(1,110)	(2,996)
Change in revaluation reserve – tax	283	574
Net gains transferred to net profit on disposal – gross	1,603	(5,585)
Net gains transferred to net profit on disposal – tax	548	(1,911)
Balance as at 31 December	<u>3,246</u>	<u>1,922</u>

The revaluation reserve consists of € 3.979 for real estate and a negative amount of € 733 for financial fixed assets (all net of tax).

CURRENCY TRANSLATION RESERVE

	2008	2007
Balance as at 1 January	(199)	(157)
Currency translation	(112)	(42)
Balance as at 31 December	<u>(311)</u>	<u>(199)</u>

The Group's significant foreign currencies and its sensitivity to fluctuations is set out in the notes to the consolidated balance sheet.

REVENUE RESERVE

	2008	2007
Balance as at 1 January	72,925	64,174
Currency translation	–	–
Dividends	(3,000)	(10,650)
Profit for the year	323	19,401
Balance as at 31 December	<u>70,248</u>	<u>72,925</u>

DIVIDEND DISTRIBUTION

The Group's dividend distribution is based on the Company financial statements. The Company and its subsidiaries are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the Company's shareholders' equity and reserves required by law. Additionally, certain subsidiaries are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the Company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

II. TECHNICAL PROVISIONS

	2008	2007
Total		
Provision for unearned premium	21,424	18,622
Provision for claims	68,726	55,590
Claims incurred but not reported	2,491	6,345
Total technical provisions at 31 December	<u>92,641</u>	<u>80,557</u>
Guarantees*		
Provision for unearned premium	7,050	5,751
Provision for claims	12,259	9,883
Claims incurred but not reported	-	4,091
Total technical provisions at 31 December	<u>19,309</u>	<u>19,725</u>
Money and Fraud Insurance**		
Provision for unearned premium	901	1,074
Provision for claims	13,255	5,802
Claims incurred but not reported	375	375
Total technical provisions at 31 December	<u>14,531</u>	<u>7,251</u>
Reinsurance		
Provision for unearned premium	13,473	11,797
Provision for claims	43,212	39,905
Claims incurred but not reported	2,116	1,879
Total technical provisions at 31 December	<u>58,801</u>	<u>53,581</u>

* IBNR for Guarantees has been reclassified in 2008 as a provision for unexpired risk, which is part of the provision for claims.

** Part of these reserves are held to settle claims on policies that were transferred to Delta Lloyd towards the end of 2008.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The movement schedule of technical provisions:

	Gross	Reinsured	Net
Total			
Opening provision for claims	61,935	14,249	47,686
Claims paid	(17,135)	(2,017)	(15,118)
Change in provision	9,608	8,216	1,072
Change in Exchange rate	(326)	(6)	(320)
Ending provision for claims	<u>71,217</u>	<u>22,459</u>	<u>48,758</u>
Provision for unearned premium	18,622	4,672	13,950
Change in provision	2,802	4,221	(1,420)
Ending provision for unearned premium	<u>21,423</u>	<u>8,893</u>	<u>12,530</u>
Guarantees			
Opening provision for claims	14,335	5,877	8,458
Claims paid	(853)	(379)	(474)
Change in provision	(2,076)	(212)	(1,864)
Ending provision for claims	<u>12,259</u>	<u>5,665</u>	<u>6,595</u>
Provision for unearned premium	5,751	3,532	2,219
Change in provision	1,298	1,075	223
Ending provision for unearned premium	<u>7,049</u>	<u>4,607</u>	<u>2,442</u>
Money and Fraud Insurance			
Opening provision for claims	4,737	4,708	29
Claims paid	(1,300)	(727)	(573)
Change in provision	8,893	6,651	2,241
Ending provision for claims	<u>13,630</u>	<u>11,359</u>	<u>2,270</u>
Provision for unearned premium	1,074	625	449
Change in provision	(173)	(16)	(157)
Ending provision for unearned premium	<u>901</u>	<u>609</u>	<u>292</u>
Reinsurance			
Opening provision for claims	42,863	3,664	39,199
Claims paid	(14,982)	(911)	(14,071)
Change in provision	2,791	1,777	1,014
Change in Exchange rate	(326)	(6)	(320)
Ending provision for claims	<u>45,328</u>	<u>5,435</u>	<u>39,893</u>
Provision for unearned premium	11,797	515	11,282
Change in provision	1,677	3,162	(1,485)
Ending provision for unearned premium	<u>13,473</u>	<u>3,676</u>	<u>9,797</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS

12. PAYABLES

	2008	2007
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	1,318	4,558
Amounts due to policy holders	8,708	7,930
	10,026	12,488
Trade and other accounts payable		
Accounts payable	1,542	214
Other accounts payables	9,006	19,242
	10,548	19,456
Balance as at 31 December	20,574	31,944

The payables due are substantially all current.

13. MISCELLANEOUS LIABILITIES AND ACCRUALS

	2008	2007
Bond purchase	-	2,705
Payroll and other accruals	1,109	1,397
Sundry creditors	5,855	175
Balance as at 31 December	6,964	4,2767

All other liabilities are current liabilities and payable within 1 year.

14. EMPLOYEE BENEFIT LIABILITIES

	2008	2007
Retirement benefits	634	590
Other long-term employee benefits	-	275
	634	865

NOTES TO THE COMPANY FINANCIAL STATEMENTS

15. DEFERRED INCOME TAX LIABILITIES

	2008	2007
Deferred income tax assets	(662)	(1,618)
Deferred income tax liabilities	1,111	1,524
	449	(94)

The movement on the deferred income taxes is as follows:

	2008	2007
Balance as at 1 January	(94)	330
First time adoption (provision loss to revaluation)	–	–
Rate differences	–	–
Charge/(credit) to equity for the year	(215)	(593)
Charge/(credit) to the income statement for the year	758	168
Balance as at 31 December	449	(94)

The movement in deferred tax assets and liabilities is further detailed below:

	Deferred assets			Deferred liabilities				Total
	Technical balances	Tax losses carried forward	Trading assets	Shares	Invest property	First time adoption	Other	
Balance as at 1 Jan. 2007	(1,579)	–	3	172	1,326	408	–	1,909
Charge/(credit) to equity for the year			(3)	(593)				(595)
Charge/(credit) to the income statement for the year	(39)			211				211
Balance as at 31 Dec. 2007	(1,618)	–	–	(210)	1,326	408	–	1,524
Balance as at 1 Jan. 2008	(1,618)	–	–	(210)	1,326	408	–	1,524
Rate differences	–	–	–	–	–	–	–	–
Charge/(credit) to equity for the year	–	–	–	(251)	36	–	–	(215)
Charge/(credit) to the income statement for the year	956	–	–	210	–	(408)	–	(198)
Balance as at 31 Dec. 2008	(662)	–	–	(251)	1,362	–	–	1,111

The deferred income tax charged or credited to equity at the end of year is as follows:

	2008	2007
Reserves in shareholders' equity:		
Revaluation reserve	1,111	1,116

NOTES TO THE COMPANY FINANCIAL STATEMENTS

16. CURRENT INCOME TAXES

	2008	2007
Current income tax liabilities	4,288	3,590

The current income tax liabilities mainly consist of income and other local income taxes payable.

OTHER INFORMATION

AUDITOR'S REPORT

To the Board of Directors of N.V. Nationale Borg-Maatschappij Amsterdam

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2009 of N.V. Nationale Borg-Maatschappij, Amsterdam. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2008, the company profit and loss account for the year then ended and the notes.

MANAGEMENT'S RESPONSIBILITY

Management of N.V. Nationale Borg-Maatschappij is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of N.V. Nationale Borg-Maatschappij as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

OTHER INFORMATION

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of N.V. Nationale Borg-Maatschappij as at 31 December 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 28 April 2009

KPMG ACCOUNTANTS N.V.

F.M. van den Wildenberg RA

OTHER INFORMATION

PROFIT APPROPRIATION

The profit is appropriated according to Article 21 of the articles of Association of N.V. Nationale Borg-Maatschappij, the relevant stipulations of which state:

“The profit may not be distributed until after adoption of the Annual Accounts showing that the shareholders’ equity of the Company exceeds the amount of the paid and called-up portion of the capital, plus the reserves which must be maintained pursuant to law.”

The Executive Board proposes to the annual shareholders’ meeting to declare a dividend of € 6.500.000. The Supervisory Board supports this proposal, provided that the shareholders review this recommendation in the light of the market conditions and other circumstances prevailing at the time of their annual meeting, which will not be held before July 2009.

PROPOSED PROFIT APPROPRIATION

Net profit	323
Withdrawal from reserves	(6,177)
Dividend to shareholders	<u>6,500</u>

N.V. NATIONALE BORG-MAATSCHAPPIJ
KEIZERSGRACHT 165
1016 DP AMSTERDAM
THE NETHERLANDS
PO BOX 955
1000 AZ AMSTERDAM
THE NETHERLANDS
WWW.NATIONALEBORG.NL

UITBREIDINGSTRAAT 66
2600 ANTWERP
BELGIUM
WWW.NATIONALEBORG.BE

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