2013

NATIONALE BORG ANNUAL REPORT

NATIONALE BORG

ANNUAL REPORT

FIVE YEAR FIGURES

€ '000	2013	2012	2011	2010	2009
Gross premiums earned	93,544	91,773	88,407	79,952	73,571
Net premium earned	79,314	76,034	72,267	64,095	59,563
Net claims incurred	39,284	35,264	31,267	26,420	29,897
Investment portfolio*	135,117	135,536	137,227	135,807	133,092
Investment income	5,181	4,163	(1,522)	8,511	6,160
Balance sheet Total	197,478	204,783	205,272	202,342	194,169
Net technical provisions	85,330	80,799	78,965	69,323	67,940
Gross technical provisions	94,145	90,846	89,686	81,737	85,226
Claim ratio in %	49.5%	46.4%	43.3%	41.2%	50.2%
Shareholders information					
Equity	85,182	83,410	81,051	81,340	82,429
Result after tax	8,843	9,944	7,971	17,939	7,614

* Investment portfolio excludes cash received as collateral.

PROFILE

For more than 120 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 in a market that is dominated by banks and insurance companies.
Nationale Borg employs 76 people in four locations. At our Amsterdam head office, we underwrite guarantees and provide central services to our group companies. We have a branch office in Belgium (Antwerp) to provide guarantees to the Belgian market, and three subsidiaries. Our subsidiary Nationale Borg Reinsurance, based in Willemstad (Curacao), provides reinsurance capacity to bond and credit insurance companies. The second is Nationale Waarborg, based in Nieuwegein, which is active in the field of home purchase bonds. The last subsidiary is NV Beleggings- en Beheermaatschappij Keizersgracht, an inactive company.
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 involvement in the company.
The company is supervised by De Nederlandsche Bank, the Dutch bank and insurance supervisor. Our subsidiary Nationale Borg Reinsurance is supervised by the Central Bank for Curacao and Sint Maarten. Nationale Borg is an active member of ICISA, the International Credit Insurance and Surety Association, and of PASA, the Pan-American Surety Association, which unite surety and credit insurance providers from around the world. These memberships give us access to an international network of correspondent insurers. On 30 January 2014 Standard & Poor's confirmed the group's '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 and Belgium, 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 and beverage sector. Our most common guarantees are bid, performance, advance payment and maintenance bonds, together with customs bonds and EU subsidy guarantees. Our commercial departments in Amsterdam and Antwerp service our customer base, which consists of business clients only, most of them 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.

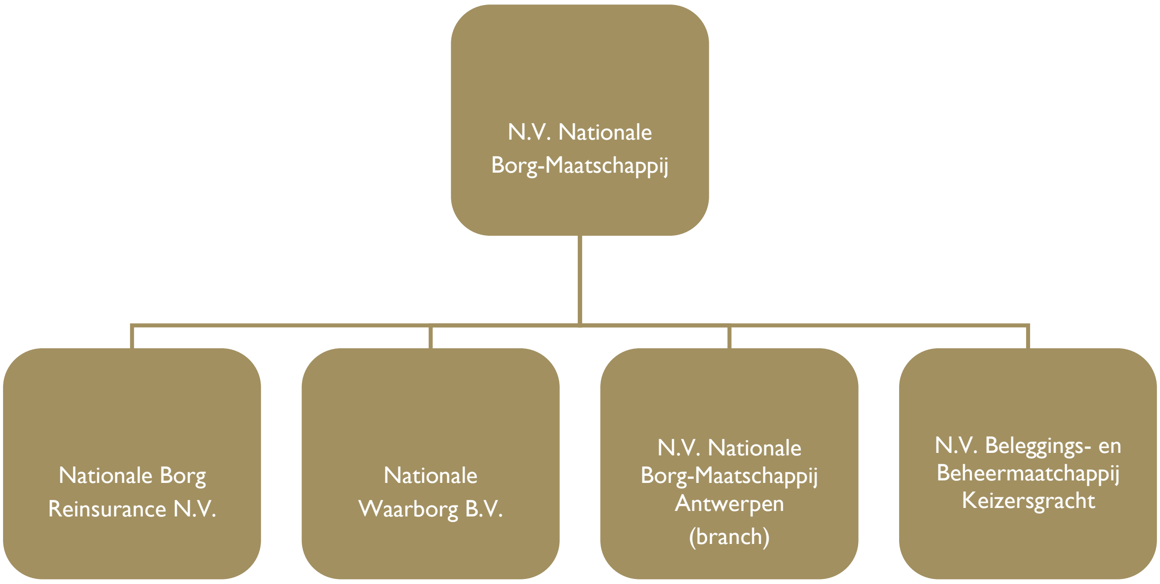
REINSURANCE

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 guarantees.

PROFILE

Nationale Borg itself is also active as a reinsurer of both treaty and facultative business of insurers worldwide through its subsidiary Nationale Borg Reinsurance. As a reinsurer, we not only underwrite the type of business that we are familiar with from our own direct operations, guarantees, but credit insurance and political risk business as well.

GROUP STRUCTURE



Supervisory Board:
A. Tukker
M.J.J. Wetzels
J.N. van Wiechen

Executive Board:
A.P.J.C. Kroon
A. Nederlof
L.L. Pool

SUPERVISORY BOARD REPORT

The Supervisory Board advices the General Meeting to approve the annual financial statements of Nationale Borg NV for the year 2013, dated 18 March 2014, prepared by the Executive Board of the Company. The annual report includes an unqualified opinion auditors' opinion from KPMG Accountants NV We also advice the General Meeting to discharge the Executive Board in accordance with the Bylaws of the Company and the Supervisory Board for its supervision.

The Supervisory Board has held seven meetings in 2013, covering all important issues based on an annual schedule as well as on the actual relevance to the company. The Audit Committee has held three meetings during 2013 and the Investment Committee convenes once a month. In addition, The Supervisory Board is informed on a monthly basis about the results and key developments on the main exposures of the company.

In May 2013, Mr. Pietro Lanzillotta resigned as CFO and was succeeded by Mrs. Laura Pool. We thank Mr. Lanzillotta for his contribution to the company over the past years.

The Supervisory Board has been closely involved in discussions relating to the strategic decisions, including the target setting and actual budgeting process and the major claim issues as presented by the Executive Board during the year. The Supervisory Board has supported initiatives to of the Company to be in the compliance with the corporate governance code in the Netherlands, known as "Code Verzekeraars'.

Special attention has been paid to the preparations made to be in compliance with both the qualitative and quantitative requirements of Solvency II, to ensure readiness for full compliance in 2015. Particular attention was given to the further development of the Company's ORSA and the progress made in defining the minimum capital requirements for the company. To quantify the minimum capital requirements appropriate actuarial models need to be developed, instead of applying generic assumptions derived from the insurance industry outside the niche in which the Company operates.

With respect to the distribution of the result and retained earnings, considering the interim dividend of € 6 million paid during 2013, the Supervisory Board agrees with the proposal of the Executive Board to the shareholders to retain all earnings and add them to the company's equity.

Amsterdam, 18 March, 2014

A. Tukker
M.J.J. Wetzels
J.N. van Wiechen

EXECUTIVE BOARD REPORT

ANOTHER YEAR OF ECONOMIC UNCERTAINTY

During the year, the extreme uncertainty about the Euro ebbed away and as the year progressed, there were some early signs of recovery in many markets. In the Netherlands, however, pessimism continued to dominate and it was not until the end of the year that signals about a fragile recovery began to prevail.
This is not to say that the crisis is over, far from it. Positive developments may easily be crushed by the increasing uncertainty about the impact of tighter monetary policies and in Europe, the effect of drastic cuts in government budgets is just beginning to be felt. Many companies' reserves have been drained by years of crisis and they have become extremely vulnerable to any adverse developments.
Nationale Borg is exposed to risks from countries all around the globe, but the majority of its risks are concentrated in Europe and within Europe, the focus is on The Netherlands and Belgium. Within our reinsurance portfolio there is a balance between credit insurance and surety risks, but our direct insurance activity focuses entirely on surety. While credit insurers were hit hard at the beginning of the crisis, they have recovered quickly and have since done well, although we see rates going down and conditions softening again. Surety providers were spared from heavy losses at the onset of the crisis, but in many markets we have seen significant losses this past year, often involving larger bankruptcies. Many companies had full order books at the start of the crisis and they managed to survive on revenues from existing projects, while trimming their cost base. Meanwhile, prolonged tiny or negative margins on new projects, fierce competition and restrictive lending have led to an increase in the number of bankruptcies. In these times, surety companies have to manage their risk exposures within the narrow boundaries provided by the product characteristics, whilst maintaining both income and costs at acceptable levels.
While at Nationale Borg we have always focused on risk management, and although this approach paid off in terms of losses on the newer underwriting years, we ended the year with a significant loss relating to the 2008 underwriting year. During 2013, we did not actively seek growth and opportunities for quality growth were rare. We remain open to opportunities that do occur and we begin to see more of them. During 2013, our exposures continued to decline in line with our risk policy and the corresponding decline in premiums was only partly offset by price increases. The results on our total insurance activities, as well as on our investment portfolio, were positive.

FOCUS ON GUARANTEES AND REINSURANCE

In the strategy we laid out at the end of the last decade, we anticipated growth opportunities for our surety business within a tightly controlled risk environment and we had since built the organization needed to pursue this strategy. As the crisis forced us to tighten our risk management policy, it became clear that we had to prepare for a longer period of declining guarantee and premium volumes. In 2012, we introduced a new IT system for guarantees that boosted efficiency and towards year-end, we scaled down our organization to a sustainable cost level. This past year, we have come to digest these changes and we feel that once again, our operation is up to the challenges it faces. In the spring, we introduced a complete overhaul of our client interface, BorgOnline, and we completed the transition of the Guarantee activity to one department for the Netherlands and Belgium. The Belgium team continues to service the market from its location in Antwerp, while the Dutch market is serviced from Amsterdam by three teams that work along product lines rather than geographical lines. This has helped us to preserve the expertise of our organization more efficiently. The three teams focus on customs and excise related business; business from the construction sector; and on business from the capital goods and other sectors, respectively. Although our risk appetite remains prudent, we maintain our market share and the close relationship with our client base.

In the reinsurance activity the organisation has not changed, but our team of underwriters has been expanded during 2013. We hired a senior underwriter who works from Italy and a junior associate who works from Amsterdam. With the team spread around the globe, but centrally managed from Willemstad (Curacao), all cedants are visited at least on 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 Executive Board of Nationale Borg Reinsurance on Curacao on the basis of a recommendation from the underwriters.

During 2013, we saw an increasing premium volume in the reinsurance activity and a satisfactory underwriting result, despite large individual surety losses from markets around the world. With an abundance of capacity available to write cedants' business, the market is softening. As long as insurance results remain relatively good, we do not anticipate an improvement in rates in the short term. The results of all past underwriting years matured further in 2013 and although 2009 deteriorated slightly, 2009 and 2010 turned out to be excellent underwriting years. The 2012 and 2013 underwriting years were affected by the mentioned surety claims, but overall they show a satisfactory development.

NATIONALE WAARBORG

Transactions in the Dutch housing market continued to decline to a new record low during the first three quarters of 2013. During the year, Nationale Waarborg lost some market share, partly due to the dynamics of competition, but mostly due to the fact that sellers are so eager to sell that they are sometimes willing to waive the bond requirement.

The year ended well as a result of a remarkable rebound of the number of transactions as at the same time the prices seemed to bottom out. Considerable emphasis on the recovery of losses resulted in a negative claim ratio and the year ended with a higher market share than it had started.

Nationale Waarborg celebrated its tenth anniversary and published a book to mark the occasion

PREMIUM DEVELOPMENT

Total premiums earned increased by 1.9% in 2013. In Guarantees however, premiums earned decreased by 7.6%. We saw slightly higher rates once again, but exposure levels were 10% below their 2013 levels. The exposure reductions occurred mostly with clients where our risk appetite decreased, but a lower activity level at good clients also contributed to the decline. In Reinsurance, rates seem stable at best. We continue to see increased exposure levels on new treaties we have written over the last years. The overall premium earned from Reinsurance increased 6.0% .

INSURANCE RESULT

While the overall portfolio showed an excellent performance, with no losses from recent underwriting years, there was one major loss on a bond from the 2008 underwriting year that had been a continuous worry for years. Our loss payment took the form of a loan, which was immediately revalued at nil. The transaction was part of a restructuring of the client's financing scheme. We decided to settle the loss in this particular way in consultation with our reinsurers, who agreed that it put us in the best position to benefit from substantial recoveries, although they will take years to realize.

EXECUTIVE BOARD REPORT

Altogether the net loss ratio for the direct guarantee business reached 48%.
In Reinsurance, the overall loss ratio reached 49%. Although this is again somewhat higher than in the previous year, it still meets our long term objective.
With the exception of the surety loss mentioned above, we can only be satisfied with the result achieved. It demonstrates that our prudent underwriting approach is paying off. During this year our staff once again demonstrated their commitment to high quality service for our clients and to a focus on a good balance between risk and return. We like to thank all our employees for their continued commitment.

INVESTMENT RESULT

By the end of 2012, we reduced our exposure to regular equities and we expanded our portfolio of high quality, high dividend shares as a substitute for a bond portfolio. Both portfolios have performed remarkably well in 2013 as they generated € 2.3 million in unrealized gains. Other investment income remains marginal in today's low interest rate environment.

CASH FLOW AND FUNDING REQUIREMENTS

Nationale Borg has no debt outstanding and had no funding requirements in 2013. In our Risk Management framework we also take into account liquidity management in order to ensure that we are always able to meet the payment obligations arising form claims in our insurance business. For more information regarding our liquidity risk management we refer to the Risk Management paragraph in the notes to the financial statements.

ENVIRONMENT

Nationale Borg has a sustainability policy in place. According to this policy we monitor our consumption of water, electricity, paper and other materials closely. Given the nature of our business the environmental impact of our consumption is limited.

COMPOSITION OF THE BOARD

Nationale Borg appointed a new CRO/CFO in 2013. As this new Executive Board member is a woman, the gender composition of the Executive Board has changed (2013: 33% female and 67% male, 2012: 100% male) . With regard to the Supervisory Board the composition has not changed in 2013, as there were no vacancies (2012 and 2013 100% male). When a new vacancy occurs, an effort will be made to achieve a more balanced gender composition.

RISK MANAGEMENT

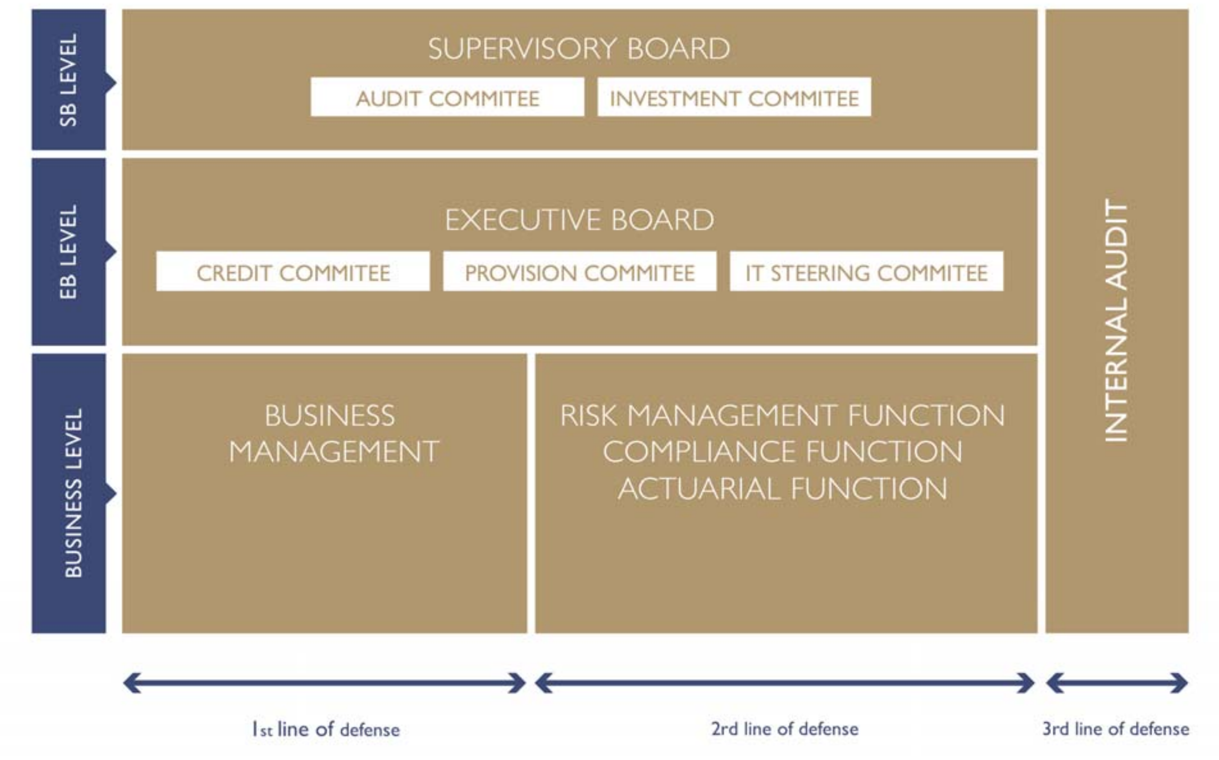
RISK GOVERNANCE

As an insurance company, Nationale Borg cannot operate without taking measured and managed risks. To ensure risk-taking is properly controlled, Nationale Borg has risk management integrated into its daily business activities and strategic planning.

EXECUTIVE BOARD REPORT

THREE LINES OF DEFENSE

Nationale Borg's risk management framework is based on the 'three lines of defense' governance model, whereby ownership for risk is taken at three levels in the organization. This governance framework ensures that risk is managed in line with risk appetite as defined by the Executive Board.



The commercial guarantee teams form the first line of defense. They have primary responsibility for day-to-day risk management and ensure that the business is managed within the agreed risk appetite. Virtually all employees in the non-support functions are involved in relationship management, issuing guarantees and setting up facilities and as such are directly involved with the risks we assume. Therefore, we regard risk management as an integral part of our business processes and decisions.

The second line of defense consists of the Risk Management function, headed by the Chief Risk Officer (CRO). The CRO/CFO is an integrated function which ensures that risk management issues are heard and discussed at Executive Board level, thus establishing the appropriate tone at the top. The CFO/CRO steers a functional, independent finance and risk organization which supports the commercial departments in their decision making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of excessive risks.

The Risk Management function is involved in the assessment of all prospects, the review of existing clients and the assessment of requests for guarantees that are not compliant with internal guidelines and policies (country, wordings or expiry period). Furthermore, Risk Management monitors on the risk limits agreed, makes proposals for the technical provisions, monitors on the risk profile of the portfolio and reports on the progress of all intensive care and claim cases.

Internal audit forms the third line of defense, providing independent and objective assurance on the overall effectiveness of the risk governance framework, both in its design and implementation.

EXECUTIVE BOARD REPORT

COMMITTEE STRUCTURE

For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists the Supervisory Board in supervising and advising the Executive Board with respect to the structure and operation of internal risk management and control systems, as well as compliance with legislation and regulations applicable to Nationale Borg and its subsidiaries.
- The Investment Committee assists the Supervisory Board in supervising and advising the Executive Board with respect to the investment strategy, including the approval of large transactions in the investment portfolio that impact the risk profile.

The Executive Board is supported by two committees with regard to risk management:

- Credit Committee
  The primary responsibility of the committee is to approve reviews and proposals in excess of € 10 million. The committee includes the CEO and CFO/CRO (who decide together.
- Provision Committee
  The primary responsibility of the committee is to (re)assess the adequacy of provisions and set new provisions. This committee also reviews provisions for large claim cases.

RISK MANAGEMENT FUNCTION

The CFO/CRO has the overall responsibility for the Risk Management function, which identifies, measures, monitors and reports risk within Nationale Borg. The risk function maintains and updates the policy framework, develops risk methodologies and advises on the risk appetite and risk profile. It also monitors the existing risks and reports on the development in the portfolio. The CFO/CRO delegates day-to-day risk management to the risk managers who focus on specific risk areas, such as underwriting risk, market risk and operational risk.

RISK POLICIES

Our basic risk philosophy is laid down in our Risk Management Policy. In this policy we set the basic understanding/rules for all risks we run as a company. The Risk Management Policy covers the following areas:

- Underwriting and reserving for guarantees
- Investments, asset and liability management and liquidity management
- Operational risk management
- Compliance
- Underwriting and reserving for inbound reinsurance

This Risk Management Policy and our underwriting guidelines for guarantees have been posted on our intranet and as such are available to all employees.

It is important to stress that most of our underwriting guidelines are integrated in our IT system to ensure that only applications that fit within the existing guidelines or within specific arrangements at a client level can be authorized. Any deviations from these standards need escalation to receive approval as an exception.

Besides the Risk Management Policy, there are written policies for Capital Management and ORSA. Furthermore for all key functions (Risk Management, Actuarial, Compliance, Internal Audit) a written policy is prepared that addresses the object, scope, role and responsibility of the function.

PRODUCT APPROVAL

In our niche market, product development is not a daily routine. All acceptable types of guarantees are included in our product model and any changes to or additions need the specific approval of the Head Risk Department, Manager Operations and the IT Manager. In case of a new product, or a major change to an existing product, a commercial business case and a recommendation of Risk Management must be submitted to the Credit Committee in case of a guarantee product or to the Executive Board in case of any other product for final approval.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE FOR INSURANCE COMPANIES

The focus on corporate governance in financial institutions has increased since the start of the financial crisis. Therefore the Verbond van Verzekeraars, the Dutch association of insurance companies, introduced Governance Principles on 15 December 2010. These principles are called "Code Verzekeraars". The code applies to all insurance companies with a license to operate in the Netherlands as from 1 January 2011. It was renewed as per July 1, 2013.
Entities subjected to application of the Code, must state in their annual report whether the Code is adhered to and where that is not the case, an explanation must be provided as to why there has been a deviation from it. Although the assumption is that in principle each insurer applies the code, its application depends on the activities and other specific characteristics of the insurer and the group to which it belongs. It is important that the insurer's conduct follows the intentions of the code, where substance is more important than form. Below we provide an actual description about the way we apply the Code in Nationale Borg according to its chapters.

SUPERVISORY BOARD

COMPOSITION AND EXPERTISE

- Nationale Borg has a Supervisory Board consisting of three members with a broad and diverse background. The members do not only bring financial and industry expertise and experience to the Board, but a broad management and commercial knowledge as well.
- The remuneration of the members of the Board is set by the general meeting of shareholders. This remuneration does not depend on the result of Nationale Borg or any of its subsidiaries. The remuneration of the Board members is on the agenda of the annual meeting of shareholders every second year.
- In accordance with the Code, Board members are encouraged to keep their expertise up to standards and to broaden it where necessary. To add to their general financial knowhow and their general knowledge and experience, Board members are presented with detailed information on a monthly basis that allows them to learn more in-depth about the risk aspects that are specific to Nationale Borg. Wherever necessary, Board members take educational courses and hire external expertise.
- Every year the Supervisory Board evaluates its own performance and the relationship between the Supervisory Board and Executive Board and it assesses the need for actions required for improvements. So far, the Supervisory Board has felt this internal evaluation to be adequate and there has not been any reason to involve outside expertise.

TASKS AND PROCEDURES

- The Supervisory Board regulations and those of its committee are in agreement with the Code.
- The Supervisory Board is supported by the Audit Committee. The committee prepares Board decisions in the field of auditing. Given the size of Nationale Borg decision making in all other areas takes place in the Board itself.

- The Supervisory Board receives the monthly reporting package which contains several analyses of the composition of the risk undertaken by the company including the claims data. During the Board meetings the contents of the reporting is discussed. Risk Management is an agenda item at each meeting.

EXECUTIVE BOARD

COMPOSITION AND EXPERTISE

- The Executive Board of Nationale Borg and the Boards of its subsidiaries consist of members with a broad and diverse background, experience and knowledge. A Executive Board of three members covers all important areas of expertise.
- Executive Board members are encouraged to keep their expertise up to standards and to broaden it where necessary. Wherever necessary, Board members can take educational courses and hire external expertise. In the annual performance evaluation of the Board members, the effectiveness of the Board and of each individual member is assessed with the purpose to determine the need for actions to improve the members' expertise.
- Preparation for decisions regarding risk management is the task of the CFO/CRO, who is supported in this part of his work by the Risk Management department. The CFO/CRO is closely involved in the preparation of decisions that have a material impact on the risk profile of Nationale Borg. The CFO/CRO operates independent of the commercial tasks and responsibilities.

TASKS AND PROCEDURES

- The principles in the Code regard corporate culture and form an integral part of the culture of Nationale Borg. As such, the principles have been included in the Compliance Manual, which serves as a guideline to weigh the interests of all stakeholders in the company.
- Putting the client's interest first is a principle that Nationale Borg includes in its approval process in an indirect way. Overextension of credit lines and excessive conditions are not an issue because of the product sold by Nationale Borg and because the way clients are facilitated. In addition, Nationale Borg continuously works on ways to serve its clients better and more efficiently and effectively. This is a continuous process where new initiatives are taken and process changes already initiated are further improved and optimized.
- The Executive Board and senior management of Nationale Borg have signed a moral and ethical statement. The principles included in this statement apply to all employees of Nationale Borg and serve as the guiding principles for their behaviour on the basis of the applicable Compliance Manual. The contract of each new employee refers to the Compliance Manual of Nationale Borg which includes a code of conduct and which states that this code should be adhered to. The manual is accessible for each employee through the company's intranet.

RISK MANAGEMENT

- Risk management in Nationale Borg is set up in accordance with the principles of the code. Although not yet captured in separate regulations, the tasks and responsibilities of each of the relevant bodies and functions (Commerce, Risk Management, Executive Board) have been described in work processes that are at the basis of the Risk Manual. The Risk Manual is accessible to all employees through intranet and they are assumed to have an active knowledge of its content. In more general terms, risk appetite is set periodically by the Executive Board in consultations with the Supervisory Board.

EXECUTIVE BOARD REPORT

- In the framework of the credit risk Nationale Borg incurs as a result of issue guarantees, a separate Provisioning Committee has been constituted. The Committee meets at least once a month and its task is to decide on the basis of available information whether claims provisions are sufficient and adequate. The information is provided by the Risk Management department. Formal decisions of the committee are taken by the CEO and CFO.
- The Investment Committee assists the Supervisory Board in supervising and advising the Executive Board with respect to the investment strategy, including approving large transactions in the investment portfolio that impact the risk profile. The Investment Committee is supported by the actuarial function.
- The process of approval of new products (which in the case of Nationale Borg is a process that mostly runs parallel to the request for a guarantee facility) is in accordance with the Code. Because Nationale Borg does not know any product development that requires new structures, no product approval process has been described yet. Such a description has not yet been produced. It is expected this will be made in 2014 upon which it will be reviewed by the audit function.

INTERNAL AUDIT

Nationale Borg has set up an independent internal audit function that reports to the Executive Board of NV Nationale Borg-Maatschappij and its Audit Committee. Taking into account the size of Nationale Borg Group, its mandate, structure and governance are in line with the principles of the Code and its scope covers all activities. The internal audit function reports on a regular basis about its findings and audits to the Executive Board of NV Nationale Borg-Maatschappij and its Audit Committee.
To the extent that it is necessary, the internal audit function has a regular contact with the external auditors and it will take the initiative for contact between the external accountants and the supervisor of NV Nationale Borg-Maatschappij, De Nederlandsche Bank.

REMUNERATION POLICY

- Nationale Borg's remuneration policy for its Executive Board and senior management meets the principles of the Code and did so even before the Code was implemented.
- Governance with respect to remuneration of the Board of supervisors is included in the Supervisory Board regulations in line with the principles of the Code.
- The Supervisory Board is responsible for the implementation and evaluation of the remuneration policy adopted with regard to the members of the Executive Board, it approves the remuneration policy for senior management and it oversees its implementation by the Executive Board. Additionally, the Supervisory Board approves the principles of the remuneration policy for other employees of Nationale Borg.
- The Supervisory Board annually discusses the highest variable incomes and it ensures that the Executive Board assesses whether variable incomes are consistent with the remuneration policy adopted by Nationale Borg.

OUTLOOK 2014

As encouraging signs about economic recovery become more frequent, there is also concern about the sustainability of the recovery. It remains uncertain whether we are headed for recovery or whether we will revert to the instability of the past years.

EXECUTIVE BOARD REPORT

We depend to a large extent on the economic circumstances in the outside world, as these impact the risks to which our clients are exposed. Where we said last year that our clients and those of our cedants had been exposed to a harsh economic climate for years and that their resilience had been eroded, this is even more true today. We will continue to monitor these risks closely through adequate and timely risk reviews and by taking appropriate measures to mitigate risks, while maintaining our commercial focus. We highly value our clients' business and feel that relationships built on mutual trust and support are even more meaningful today than they were in the past.

Whenever possible in a responsible manner, we will grow our presence in our two home markets for guarantees, the Netherlands and Belgium, as well as in the international reinsurance market. We are open to sound new business opportunities and we will seize them as best we can.

We do not anticipate major changes in the number of staff we employ or changes nor in the way we finance ourselves. Apart from regular investments to secure the quality of processes and IT systems, we do not foresee major investments in 2014.

Once again, in 2013, we have demonstrated that we can withstand adverse conditions in the world around us. In our previous reports, we have stated that there was no doubt in our minds that there was even more of a raison d'être for our company than there had been before; we see every reason to state it once again.

Amsterdam, 18 March 2014

A.P.J.C. Kroon
A. Nederlof
L.L. Pool

2013

CONSOLIDATED FINANCIAL STATEMENTS

NATIONALE BORG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Before appropriation of result € '000			31 December 2013		31 December 2012
ASSETS					
Property, plant and equipment	*4*		**7,367**		7,542
Intangible assets	*5*		**2,744**		2,614
Financial assets	*6*		**54,854**		55,602
Reinsurance contracts	*7*		**23,754**		22,384
Receivables:	*8*				
• Accounts receivable on insurance and reinsurance business		**14,019**		14,316	
• Other accounts receivables		**125**		139	
			14,144		14,455
Other assets:	*9*				
• Deferred acquisition costs		**5,207**		4,980	
• Miscellaneous assets and accruals		**1,305**		1,149	
			6,512		6,129
Cash and cash equivalents	*10*				
• Cash		**80,263**		79,934	
• Cash received as collateral		**7,840**		16,123	
			88,103		96,057
TOTAL ASSETS			**197,478**		204,783

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000		31 December 2013		31 December 2012	
EQUITY					
Capital and reserves attributable to the equity holders of the company	*11*		**85,182**		83,410
LIABILITIES					
Technical provisions	*12*		**94,145**		90,846
Payables:	*13*				
• Accounts payable on insurance and reinsurance business		**7,833**		16,118	
• Trade and other payables		**3,927**		6,129	
			11,760		22,247
Other liabilities:	*14*				
• Deposits received from reinsurers		**82**		191	
• Profit commission payable		**955**		1,483	
• Miscellaneous liabilities and accruals		**1,992**		2,300	
			3,029		3,974
Deferred income tax liabilities	*15*	**2,097**		2,496	
Current income tax liabilities	*16*	**1,265**		1,810	
			3,362		4,306
TOTAL LIABILITIES			**112,296**		121,373
TOTAL EQUITY AND LIABLITIES			**197,478**		204,783

CONSOLIDATED INCOME STATEMENT FOR THE YEAR

€ '000		2013	2012
Insurance premium revenue		**93,544**	91,773
Insurance premium ceded to reinsurers		**(14,230)**	(15,739)
NET PREMIUMS EARNED	*17*	**79,314**	76,034
Service income		**862**	935
Reinsurance commission received		**3,525**	4,290
Net income from investments	*18*	**5,181**	4,163
TOTAL INCOME AFTER REINSURANCE		**88,882**	85,422
Insurance claims and loss adjustment expenses		**(62,307)**	(76,627)
Insurance claims and loss adjustment expenses recovered from reinsurers		**23,023**	41,363
NET INSURANCE CLAIMS	*19*	**(39,284)**	(35,264)
Acquisition cost	*20*	**(25,881)**	(24,768)
Net operating expenses	*21*	**(12,864)**	(13,985)
Profit before tax		**10,853**	11,405
Income tax expenses	*22*	**(2,010)**	(1,461)
PROFIT FOR THE YEAR FROM OPERATIONS		**8,843**	9,944
Attributable to:			
Equity holders of the company		**8,843**	9,944
Basic earnings per share from continuing operations (euro)	*23*	**11.00**	12.37

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

€ '000	**2013**	**2012**
Result for the year	**8,843**	9,944
Other comprehensive income:		
Net fair value gains/(losses) on available for sale financial investments	**(1,369)**	333
Net revaluation property for own use	**253**	102
Foreign exchange results on assets	**45**	(20)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,772**	10,359
Attributable to:		
Equity holders of the company	**7,772**	10,359

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the equity holders of the company:

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency Translation reserve	Revenue reserve	Profit for the year	Total
BALANCE AT 1 JANUARY 2013	4,019	824	6,396	(45)	62,272	9,944	83,410
Result income statement	_	_	_	_	_	8,843	8,843
Other comprehensive income	_	_	(1,116)	45	_	_	(1,071)
Total comprehensive income for the year	_	_	(1,116)	45	_	8,843	7,772
Dividend distribution	_	_	_	_	_	(6,000)	(6,000)
Appropriations to reserves	_	_	_	_	9,944	(9,944)	_
BALANCE AT 31 DECEMBER 2013	4,019	824	5,280	_	72,216	2,843	85,182

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency Translation reserve	Revenue reserve	Profit for the year	Total
BALANCE AT 1 JANUARY 2012	4,019	824	5,961	(25)	62,301	7,971	81,051
Result income statement	_	_	_	_	_	9,944	9,944
Other comprehensive income	_	_	435	(20)	_	_	415
Total comprehensive income for the year	_	_	435	(20)	_	9,944	10,359
Dividend distribution	_	_	_	_	(8,000)	_	(8,000)
Appropriations to reserves	_	_	_	_	7,971	(7,971)	_
BALANCE AT 31 DECEMBER 2012	4,019	824	6,396	(45)	62,272	9,944	83,410

CONSOLIDATED CASH FLOW FOR THE YEAR

€ '000	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**10,853**	11,405
Adjustments for:		
• Realized capital (gains) and losses on investments	**(2,280)**	(2,331)
• Depreciation and amortization (including impairments)	**733**	711
• Foreign exchange result	**270**	73
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**3,299**	1,160
• Reinsurance assets (net)	**(1,370)**	(462)
• Deferred acquisition costs	**(227)**	(1,012)
• Accounts receivable and payable on insurance and reinsurance business	**(7,988)**	(1,980)
• Changes in other assets and liabilities	**(3,288)**	(1,933)
Income taxes paid	**(2,982)**	(2,264)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**2,980**	3,367
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments	**(4,524)**	(13,418)
• Property, plant and equipment and intangible fixed assets	**(408)**	(639)
Divestments, redemptions and disposals (cash inflows);		
• Financial investments	**5,913**	17,215
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**981**	3,158
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(6,000)**	(8,000)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**(6,000)**	(8,000)
Foreign exchange results	**45**	(20)
CHANGES IN CASH AND CASH EQUIVALENTS	**(7,954)**	(1,495)
Cash and cash equivalents at the end of the preceding year	**96,057**	97,552
Cash and cash equivalents at the end of the financial year	**88,103**	96,057

NOTES TO THE CONSOLIDATE FINANCIAL STATEMENTS

1. ACTIVITIES OF NATIONALE BORG

Nationale Borg is an insurance company, active in guarantees in its domestic markets (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 BV. Apart from the shares owned by management, both companies have an equal stake in the Group.

2. PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

BASIS OF PRESENTATION

The financial statements 2013 of Nationale Borg have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ('EU') and Part 9 of Book 2 of the Netherlands Civil Code. Nationale Borg'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.
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements.
New is IFRIC 21,this contains an interpretation regarding IAS 37. Amendments to IFRSs that were issued as separate documents relate to IAS 10, 12, 27, 32, 36, and 39. None of these is expected to have a significant effect on these financial statements.
All amounts in these statements are in thousands of euro, unless specified otherwise.
The financial statements were authorised for issue by the Executive Board on 18 March 2014.

CONSOLIDATION

The consolidated financial statements of Nationale Borg comprise the accounts of NV 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 2013 (and 2012) included the following entities: NV Nationale Borg-Maatschappij, including its Antwerp branch, NV Beleggings- en beheersmaatschappij "Keizersgracht", Nationale Borg Reinsurance NV (previously known as Antilliaanse Borg Maatschappij) and Nationale Waarborg BV.
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 Nationale Borg. There are no material restrictions on subsidiaries to transfer funds to Nationale Borg.

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.

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 €	
	2013	**2012**	**2013**	**2012**
AUD	**0.645**	0.785	**0.722**	0.803
CAD	**0.679**	0.759	**0.727**	0.773
GBP	**1.978**	1.223	**1.176**	1.233
USD	**0.726**	0.757	**0.752**	0.776

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 recognized 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.

COMPUTER SOFTWARE

Computer software that has been purchased is stated at cost less amortization and any impairment losses. Amortization is calculated on a straight-line basis over its useful life. The amortization period has been set to 3 years. Amortization is included in other operating expenses.

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.

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 - 5 years, and 4 - 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
Land and buildings	40
Reconstructions	5
Computer software	4 - 5
Computer hardware	2 - 5
Fixtures and fittings	4 - 10
Company cars	4

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.

FINANCIAL ASSETS

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

CLASSIFICATION

I) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit and loss' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit and loss at inception are those that are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management personnel. The group's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Investments in equity that are part of these portfolios are recognized at fair value through profit and loss.

II) Loans and receivables

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

III) Available-for-sale financial assets

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

RECOGNITION AND MEASUREMENT

Regular-way purchases and sales of financial assets are recognized on trade-date – the date on which the group commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flows from them have expired or where they have been transferred and the group has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognized in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as net realized gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the group's right to receive payments is established. Both are included in the investment income line.

DETERMINATION OF FAIR VALUE

The fair values of financial instruments traded in active markets (such as publicly traded available-for-sale securities) are based on quoted market prices at balance sheet date. The quoted market price used for financial assets by the group is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the

consolidated statement of financial position. In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairments. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

RECLASSIFICATION OF FINANCIAL ASSETS

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

IMPAIRMENT OF ASSETS

I) FINANCIAL ASSETS CARRIED AT AMORTIZED COST

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of issuers or debtors in the group; or
    - national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improved credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

II) ASSETS CLASSIFIED AS AVAILABLE FOR SALE

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

III) IMPAIRMENT OF OTHER NON-FINANCIAL ASSETS

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

DEFERRED ACQUISITION COSTS

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

OFFSETTING FINANCIAL INSTRUMENTS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, bank deposits on demand, 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.

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.
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.

CURRENCY TRANSLATION RESERVE

The currency translation reserve comprises the unrealized foreign exchange gains/losses of non-monetary items measured at fair value through the revaluation reserve.

REVENUE RESERVE

Revenue reserve is the accumulated amount of profits and losses at balance sheet date, which have not been distributed to shareholders (i.e. retained earnings). The distribution of retained earnings is restricted by the requirements imposed by the Wet op het Financieel Toezicht (Act on financial supervision). The required and available solvency margin is disclosed under the Capital Management paragraph.

INSURANCE CONTRACTS

The group 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 two categories:

- Guarantee / bonding contracts.
- 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.

The group assesses at the end of each reporting period whether there is objective evidence that reinsurance assets are impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset or group of that can be reliably estimated.

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

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). 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.

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 assumed reinsurance directly in the income statement.

RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

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

If there is objective evidence that the insurance receivable is impaired, the 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 an straight-line basis.

EMPLOYEE BENEFIT LIABILITIES

PENSION OBLIGATIONS

Up till 2013 Nationale Borg operates two pension schemes. Both are defined contribution schemes that are funded through payments to insurance companies, determined by periodic actuarial calculations.
For these 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.
As from 2014 Nationale Borg will enter into a new pension scheme that also qualifies as a defined contribution scheme.

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.

RESTRUCTURING PROVISION

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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 utilized. Deferred income tax is provided on temporary differences arising from investments in subsidiaries.
Deferred tax related to fair value re-measurement 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 utilized.

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 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

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. 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. This line also includes the realized revaluations on available for sale financial assets and the realized and unrealized revaluations on financial assets at fair value.

EXPENSES

NET INSURANCE CLAIMS

Claims charges include paid claims, 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 at hand and deposits on demand.
- Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue-producing activities of the 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.

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 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	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. 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 being utilized or released.
Credit and Surety Reinsurance	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 cedants to insurers, the company aims to reserve the estimated losses on continuous basis. 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.
Money and Fraud Insurance	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. 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.

At year-end 2012 and 2013 the provision for unexpired risk was nil based on a premium deficiency test.

INCURRED BUT NOT REPORTED (IBNR) RESERVE

Nationale Borg maintains IBNR reserves for 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.

With regard to the Reinsurance business no IBNR as such is formed. As the company uses the Ultimate Loss Ratio technique for the provisioning on the indirect business, estimates of incurred but not reported losses by the cedants are included as part of the claim provisioning.

3. RISK MANAGEMENT

RISK PROFILE AND RISK APPETITE

RISK PROFILE

Nationale Borg is a specialized issuer of bonds and guarantees and its subsidiary Nationale Borg Re is a reinsurer of these risks as well as of credit insurance risks. For the long term, we want to grow our market share in our two home markets and make use of opportunities to write profitable business in the reinsurance market.

Key to our mission and continuity is prudent risk management. As an insurance company, Nationale Borg by definition assumes risk against a premium. The risks Nationale Borg is exposed to 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 and assumed reinsurance.

Market risk

Credit risk on (re)insurance assets and the risk associated with investments, including market risk (interest rate, currency, real estate & equity risk) and liquidity risk.

Operational risk

The risk associated with people, processes and systems. This risk we run as a company in general and it is managed via a control framework.

At least every two years we update our risk profile with Risk Assessments.

RISK APPETITE

Our risk appetite defines our attitude to risk we would like to and are able to take in the near future. Nationale Borg has the ambition to increase its market share in its home markets and to write profitable business in the reinsurance market. In order to achieve this (risk) ambition, Nationale Borg has the following targets:

- Regulatory requirements: be in a position to meet current and forthcoming regulatory targets
- Rating: maintain at least an A- rating (S&P)
- ROE of 12.5%
- Earnings based: reducing earnings volatility and limit the maximum loss per event at EUR 5 million (net) for direct business and EUR 10 million (net) for Nationale Borg Reinsurance.
- Only when all "business related" risks (insurance risks and operational risks) are covered by our available capital, we can assume additional risks in our investment portfolio.

For insurance risk, Nationale Borg expresses its risk appetite in the direct business as a "zero-loss" philosophy. This implies that by the time of issuing a guarantee we have to ascertain that based on current knowledge the guarantee will not be claimed. Subsequent claims can only be realized by mistakes in underwriting decisions or subsequent negative developments. For the indirect insurance business the risk appetite is related to the so called combined ratio. This is a combination of the loss ratio and the cost ratio which should not exceed 75% of guarantee business and 90% of credit insurance business over the cycle. Underwriting decisions are predominantly based on this principle. Furthermore, we take all our underwriting decisions ourselves without the use of intermediaries. In the direct business we underwrite only guarantees. In the indirect business we underwrite only bonds, credit insurance and political risks.

For market risks, Nationale Borg express its risk appetite as follows. A maximum of 20% (+10% margin) of the amount of the technical reserve is kept in medium-long term investments. Additional funds are available to invest in other financial securities, including bonds, equity shares, real estate funds, etc.; provided that the investments are in line with the investment policy in place. Derivatives may be used to hedge a portion of the risk, particularly for the equity portfolio, or to manage the interest rate and / or foreign exchange risk while

optimizing returns. Tactical direction and larger transactional decisions are approved by the Investment Committee.
For operational risks there is currently no specific risk appetite set, because in a small organization, working in a (business to business) niche market, we consider these risks limited. We manage the risks through a control framework. In the bi yearly Risk Assessments we specifically look at all operational risks and the measures we have to take to mitigate them.

REINSURANCE PROTECTION

Nationale Borg has a General Reinsurance Agreement ('GRA') in place that allows the company to spread the risk of its guarantee business over a number of reputable reinsurers. This allows Nationale Borg to take on relatively large exposures without jeopardizing its financial position.
Since 2007, the GRA is a fixed quota share treaty with retention of 50% with an excess-of-loss cover attached, which limits the net loss to Nationale Borg to € 5 million per risk. The cover has two layers (2013), totaling € 45 million, so that there is no gap between this cover and the quota share cover, not even in the highly unlikely event of a 100% loss on a client with an exposure of € 100 million.

RISK MANAGEMENT PROCESS

Ownership for risk is taken at several levels in the organization. Due to the specific characteristics of the risks (insurance, market, operational) each risk has a specific risk management approach:

- Insurance risk is initially managed by the departments in cooperation with the Risk Department and Credit Committee;
- Market risk is managed by the Finance department and by the Investment Committee;
- Operational risk is managed by the departments in cooperation with the Operations Department and the Compliance officer.

INSURANCE RISK

From a risk perspective we distinguish Guarantees, Home Purchase Bonds and Reinsurance.

GUARANTEES

Policy and procedure

Nationale Borg in its role as Surety company focuses on profitable, financially sound clients (B-to-B) requiring guarantees/bonds directly related to the core activity/contractual obligations of the company. In order to prevent the risk of anti-selection Nationale Borg is active in branches in which bonds are part of regular business (Building & Construction, Capital Goods and Transport & Logistics). Depending on the type of the bond the validity period in general is limited to a 2-5 years timespan. In case of a longer underlying contractual obligation, or even a total absence of such a self-liquidating character linked to contract expiration dates, such bond should include a clause allowing Nationale Borg to cancel the bond when needed. In the event that such cancellation clause is lacking and the final expiry date included based on the linked (trade) obligation might give reason for an 'extend or pay' situation conditions should be agreed to prevent such forced position.
Home markets of Nationale Borg comprise of companies established in both the Netherlands and Belgium and/or subsidiaries of foreign (Corporate) companies having a direct link to the Netherlands or Belgium. Furthermore Nationale Borg decided upon a more international strategy, focusing on large, listed corporates in European countries to be served in cooperation with well known financial (surety) partners.

Bonds might be issued worldwide, either direct or through fronting, subject to internal country and underwriting policies in place. Financial guarantees are excluded. 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 fulfillment of conditions that will void this obligation. Nationale Borg makes sure the bonds being issued are directly linked to the client's core activity/operations. In order to prevent losses occurring from claims payments in an intended 'sterfhuisconstructie' Nationale Borg focuses on client commitment and recourse obligations at adequate client group level. Besides the existing legal right of subrogation vis-à-vis the legal entity on which behalf a claim should be paid, bonding facilities in general are offered at client parent level including 'compte joint' agreements with material subsidiaries.
The insurance risk accepted in the bonding business comprising of both non performance by our clients in combination with credit risk (default) is controlled through a multi-layer control structure. A structure specifically designed to secure Nationale Borg's 'zero loss' underwriting policy. Preventing 'anti selection' (Nationale Borg being offered a credit risk deemed insufficiently solid by the contractual counterparty and beneficiary 'to be' of the bond) is a key element in this respect.

Underwriting

Since new business is usually acquired without intermediaries, our Relationship Managers are the first to look at new clients. In order to be able to form a solid judgment, we only employ Relationship managers with sufficient financial analytical skills. We only pursue cases which fit our criteria sufficiently.
All underwriting decisions – both concerning the underwriting of new risks as well as the continuation of existing facilities (credit reviews) – are made in accordance with an authorization matrix that determines who should be involved in the decision. This is based on size and type of the risk. All files in excess of € 10 million limit (on ultimate parent level) are discussed in the Credit Committee formed by the CEO, CFO/CRO, the heads of the Commercial departments and the head of the Risk Management department. This is also the case for files subject to the "escalation procedure" where the Committee is requested to give the final decision on a case in the event of an opposing view between the Commercial and Risk Management departments.
The Commercial department submits a credit proposal with recommendations, which is reviewed by Risk Management. Under normal circumstances, each client group is reviewed at least once a year; the frequency may be set at shorter intervals however, if Risk Management deems this necessary.
The use of a pricing tool, which includes aspects such as the expected default probability (PD), probable mean loss in the event of claim (PML), cost of capital and organizational costs in general; is a required part of each assessment. This has notably increased the awareness that pricing, in addition to market factors, also needs an explicit point-in-time evaluation of the underlying risk. These factors combined together ensure adequate pricing, independent of others. The model effectively provides the tool to steer the portfolio towards a suitable risk-reward region, subject to overall risk constraints (sector, product type, etc.).
Part of the input of the pricing model is the RCS (Risk Classification System) code we assign to each client. The RCS code is derived from Finan, a software program that processes a company's financials and assigns a rating based on ratios. We keep close track of changes in the composition of ratings that prevail in our client portfolio as an indicator of changes in the portfolio.
As a consequence we calculate the Economic Value Added (EVA) for each risk individually and for the portfolio as a whole.

Fronting

In order to service customers for whom guarantees 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 guarantee must be issued by a party that is incorporated or regulated locally or simply by a bank.

Outside the Netherlands and Belgium, 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 € 161 million, of which € 110 million is fronted by guarantee insurance companies and the remainder of € 51 million by banks on the basis of bilateral agreements. We have active agreements with two banks for a total limit of €110 million. Several old agreements that still have some exposure, are in run-off.

Monitoring

From the moment we are at risk we track the clients continuously and when needed we intensify the surveillance by changing the regime of supervision (normal, watchlist, intensive care).

For clients in risk category 1 and 2 (normal and watchlist) we apply a full review at least once a year. On a quarterly basis we apply so-called quick scans. Clients in Intensive care are handled within the Risk Department and specifically discussed on a case by case basis every month within the so-called provision committee.

Reporting

In monthly reports the development of the business and the risk component is reported to the Executive Board, the Board of Directors and the Audit Committee. The Board meets 6 to 7 times a year and the Audit Committee 3 times. In these monthly reports all relative movements within the risk portfolio (exposures, RCS, EVA) are monitored and commented upon.

Over the past years, we have increased the number of reports from our Data warehouse and developed several models/reports to estimate the capital need for our business, focusing on the estimation of the capital required to cover insurance risk.

All risk exposure components are back tested each year and main drivers of the business are reported to the Executive Board and the Board of Directors on a monthly basis.

Given the nature of the business covered, loss reserves are set on a case by case best estimate basis, taking into account the nature of the exposure and available recovery possibilities. All losses are discussed between the Manager Risk management, the CEO and the CRO/CFO on a monthly basis. The adequacy of the reserves is back tested once a year.

For the risks emanating from the business, all employees with access to our Columbus IT system have access to the real time exposures of all our clients. If our exposure on a client/risk changes as a result of an authorized process, this exposure is updated automatically and online.

The system also provides a complete overview of all facilities and all guarantees outstanding.

In addition to this various reports are produced on a monthly basis (or ad hoc when requested) which provide a large number of details on the overall exposure and the exposure per client, underwriter, team etc. As such all movements in exposure per risk client are monitored on a daily basis. The main report is the EVA report, which provides client/risk details on the movement of exposures, ratings, rates and EVA over time. These reports are also part of our monthly reporting package.

Risk exposure

The ten largest guarantee clients account for approximately 26% (2012: 23%) of premium income, while the twenty largest clients together account for approximately 40% (2012: 36%) of premium income. This demonstrates that Nationale Borg has a diverse client base and that there is no significant concentration exposure.

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:

	2013			**2012**		
	Exposure	**Number**	**Average exposure per guarantee**	**Exposure**	**Number**	**Average exposure per guarantee**
	€ '000		**€ '0**	**€ '000**		**€ '0**
Belgium						
• Construction	**835,702**	**8,391**	**99,595**	876,847	8,834	99,258
• Other types	**121,345**	**316**	**384,003**	124,523	343	363,041
Netherlands						
• Construction	**1,250,345**	**4,787**	**261,196**	1,432,816	5,097	281,110
• Other types	**894,275**	**4,031**	**221,849**	1,011,443	3,892	259,877
Total	**3,101,667**	**17,525**	**176,985**	3,445,629	18,166	189,675

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

€ '000	**2013**	**2012**
Belgium		
• Construction	**5,786**	5,792
• Other types	**898**	901
Netherlands		
• Construction	**10,162**	11,406
• Other types	**7,623**	9,436
Netherlands Antilles		
• Construction	**_**	70
Total Premium from Guarantees	**24,469**	27,605

Claim development (including Money and Fraud Insurance)

In its direct business, Nationale Borg keeps 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:

Business line/year	**2013**	**2012**	**2011**	**2010**	**2009**
Guarantee	4,656	4,144	8,795	3,513	2,999
Money and Fraud	(55)	(12)	(35)	304	39

At the end of 2013 Nationale Borg had earmarked clients with a nominal exposure of € 57 million (2012: € 49 million) that require special attention from Risk Management.

Of these risks 3 (2012: 2) cases have a nominal exposure in excess of € 5 million. In the unlikely event that all earmarked guarantees currently outstanding to these parties would lead to full claims (without any recovery), such claims would have an impact on the result of Nationale Borg (net of reinsurance) of € 23 million (2012: € 22 million).

HOME PURCHASE BONDS

Underwriting

Via its 100% subsidiary, Nationale Waarborg, Nationale Borg also operates (indirectly) in the retail market. Through various 'framework arrangements' agreed with large financial parties and intermediaries, Nationale Borg provides so called '10% aankoopgaranties' on behalf of a private person vis-à-vis a public notary related to the process of buying a house.

Clear underwriting guidelines and rules have been defined in this respect related to maximum amounts to be guaranteed and information needed in order to accept individual requests received. When dealing with intermediaries Nationale Waarborg makes sure the underwriting terms and conditions are closely followed. Non compliance with terms and conditions agreed (if not explicitly accepted by Nationale Waarborg following various procedures in place) will result in non-acceptance of such request and might ultimately result in cancellation/renegotiation of the underlying framework arrangement.

Monitoring & reporting
Since home purchase bonds are automatically booked on a daily basis within our system we can closely follow the developments. The same applies to the development of losses. A Nationale Borg employee has to authorize all claim bookings. As such we have a close view on the developments, which are officially reported on a monthly and discussed on a regular basis.

REINSURANCE

Underwriting
Through its reinsurance subsidiary, Nationale Borg Re, Nationale Borg assumes risks similar to the ones it takes in its direct business - risks from guarantees - as well as risk from Credit insurance and Political risk cover [1)]. The specific competence accumulated in the fields of guarantees are applied to evaluate the underwriting performance of cedants of this business.
Nationale Borg Re has set up a framework based on which the operational and financial performance of prospective reinsurance clients are monitored. Regular visits are made to assess the cedant and its business. The opportunities are assessed by a team of underwriters. All underwriting decisions are subject to approval by the executive Board of Nationale Borg Re.
By nature of the activity, the spread of risk is very high. Not only does Nationale Borg Re participate for a small share in all underlying risks in the cedants' portfolios, but also the geographic spread of the cedants and contracts provides additional diversification.
Contracts can (f.i.) be clustered into proportional treaty, excess of loss and facultative contracts. In proportional treaty business Nationale Borg Re participates for a certain fixed percentage in all business risks underwritten by the cedant within the limits and conditions of the treaty. In excess of loss contracts Nationale Borg Re provides a fixed cover of losses in excess of a hurdle amount up to a contract limit. Depending on contract conditions the cover can have one or more reinstatements.
Underwriting of treaty and excess of loss business is based on the evaluation of the ceding company. Facultative contracts provide coverage for a fixed share of a named risk. Generally, such coverage is provided for a limited number of risks in case a cedant has exhausted its treaty capacity. Underwriting of facultative business is based on the individual merits of the underlying risk.

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

[1] Political risk cover is insurance against political risk - the risk that revolution or other political conditions will result in a loss. Political risk cover is available for several different types of political risk, including: (1) Political violence, such as revolution, insurrection, civil unrest, terrorism or war; (2) Governmental expropriation or confiscation of assets; (3) Governmental frustration or repudiation of contracts; (4) Wrongful calling of letters of credit or on-demand guarantees; (5) Business Interruption; and (6) Inconvertibility of foreign currency or the inability to repatriate funds

Risk Exposure

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

	Percentage Novated	2013	2012
Treaty			
• Number of countries		**47**	50
• Number of cedants	**92%**	**97**	114
• Total amount (PML basis, in € millions)*	**99%**	**4,810**	5,533
o Bond	**98%**	**3,223**	4,063
o Credit	**99%**	**1,587**	1,468
o Other	**100%**	_	2

	Novated	2013	2012
Facultative			
• Number of countries		**16**	23
• Number of risks	**96%**	**82**	116
• Total nominal amount (in € thousands)	**89%**	**62,092**	118,183
• Average amount per risk (in € thousands)		**757**	1,019

* Total exposure amount is an estimate based on information supplied by cedants.

Claim development

The development of reinsurance contracts provides a measure of the ability of Nationale Borg Reinsurance to estimate the ultimate value of claims. The top of the table shows the accounting years when premiums were booked for the different underlying underwriting years. This table is presented on a consolidated basis for all the reinsurance contracts. A change in loss ratio of 1% (up or down) has an impact of € 680 on our loss expenses. The gross figures are equal to net, because there is neither external reinsurance nor any external retrocession on these contracts:

UW Year	Accounting Year									
2004	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Premium	12,266	27,741	30,412	31,689	32,674	33,311	33,696	34,056	34,311	34,387
Losses paid	653	4,021	8,089	9,326	10,332	11,265	11,600	11,909	12,277	12,591
Recoveries	3	83	332	575	830	1,042	1,128	1,360	1,411	1,553
Loss reserves	5,654	7,298	4,765	3,260	3,011	2,859	2,541	2,491	2,386	1,836
Loss incurred	6,304	11,236	12,522	12,011	12,513	13,082	13,013	13,040	13,252	12,874
Loss ratio	51.4%	40.5%	41.2%	37.9%	38.3%	39.3%	38.6%	38.3%	38.6%	37,4%
2005		**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Premium		14,131	30,822	33,768	35,236	36,268	36,952	37,498	37,849	38,021
Losses paid		718	5,448	9,237	10,788	11,796	12,618	13,314	14,123	14,897
Recoveries		7	133	462	746	881	1,041	1,325	1,495	1,571
Loss reserves		3,574	7,258	4,774	3,602	3,280	3,256	3,005	2,356	3,327
Loss incurred		4,285	12,573	13,549	13,644	14,195	14,833	14,994	14,984	16,653
Loss ratio		30.3%	40.8%	40.1%	38.7%	39.1%	40.1%	40.0%	39.6%	43,8%

UW Year			**Accounting Year**					
2006	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Premium	13,727	31,206	33,341	34,641	35,580	36,224	36,694	36,923
Losses paid	509	4,608	8,779	10,780	12,278	13,717	14,376	15,329
Recoveries	23	177	505	637	793	978	1,169	1,273
Loss reserves	3,355	7,042	4,981	3,890	3,154	3,361	3,310	2,625
Loss incurred	3,841	11,473	13,255	14,033	14,639	16,099	16,517	16,681
Loss ratio	28.0%	36.8%	39.8%	40.5%	41.1%	44.4%	45.0%	45,2%
2007		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Premium		12,876	28,011	30,128	31,104	32,087	32,574	32,786
Losses paid		514	4,860	9,850	12,555	15,856	17,454	18,001
Recoveries		7	214	612	796	1,159	1,293	1,436
Loss reserves		2,997	6,803	4,641	4,264	2,627	1,889	1,949
Loss incurred		3,504	11,449	13,879	16,023	17,324	18,050	18,514
Loss ratio		27.2%	40.9%	46.1%	51.5%	54.0%	55.4%	56,5%
2008			**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Premium			17,149	34,862	38,085	39,593	40,066	40,551
Losses paid			1,199	11,878	26,214	30,938	32,232	33,695
Recoveries			15	297	1,514	2,398	3,874	4,377
Loss reserves			6,076	12,229	4,784	2,781	2,902	2,771
Loss incurred			7,260	23,810	29,484	31,320	31,259	32,089
Loss ratio			42.3%	68.3%	77.4%	79.1%	78.0%	79,1%
2009				**2009**	**2010**	**2011**	**2012**	**2013**
Premium				19,116	40,409	43,811	45,401	46,384
Losses paid				657	5,483	9,572	12,474	14,104
Recoveries				19	366	926	1,331	1,522
Loss reserves				5,450	8,205	5,907	4,266	3,926
Loss incurred				6,088	13,322	14,552	15,409	16,508
Loss ratio				31.8%	33.0%	33.2%	33.9%	35,6%
2010					**2010**	**2011**	**2012**	**2013**
Premium					21,629	47,406	51,568	53,649
Losses paid					446	5,511	11,402	14,838
Recoveries					8	566	939	1,450
Loss reserves					4,495	10,446	8,034	4,769
Loss incurred					4,933	15,391	18,498	18,157
Loss ratio					22.8%	32.5%	35.9%	33,8%
2011						**2011**	**2012**	**2013**
Premium						25,518	57,180	63,939
Losses paid						724	10,125	18,716
Recoveries						43	472	1,057
Loss reserves						6,099	12,900	10,100
Loss incurred						6,780	22,553	27,758
Loss ratio						26.6%	39.4%	43,4%
2012							**2012**	**2013**
Premium							25,861	58,851
Losses paid							2,058	10,916
Recoveries							42	607
Loss reserves							6,411	13,575
Loss incurred							8,427	23,884
Loss ratio							32.6%	40,6%
2013								**2013**
Premium								23,850
Losses paid								1,185
Recoveries								26
Loss reserves								7,621
Loss incurred								8,781
Loss ratio								36,8%

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. The table above is supplied on a pro forma basis. At the aggregate level, the percentage of this portfolio novated to Nationale Borg Reinsurance represents 97.6% of the Premium, 91.2% of the Losses paid net of recovery and 74.3% of the Loss Reserves.

MARKET RISK

Market risk is centrally managed by the Finance department and the CFO/CRO. Control measures also being part of Nationale Borg Investment Policy are designed to fit the need, which is dependent on the scale and volatility of the specific risk.
Market risk is considered to be the risk of economic losses triggered by changes in currency rates, interest and equity price changes due to counter party default or downgrades. In relation to market circumstances foreseen and encountered Nationale Borg pro-actively monitors and manages its investment portfolio according to the investment policy agreed by the Investment Committee. All financial risks relating to all (re) insurance assets are covered by Insurance Risk.
In addition to Market risk Nationale Borg is exposed to Liquidity risk. Nationale Borg must be capable at all times 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. Taking into consideration various economical and market circumstances the company makes sure to keep a sufficient buffer of cash on call to provide itself the necessary liquidity, if there were to be an unanticipated large outflow of cash as the result of claims. Investments in bonds and equities are made only in categories which are very liquid and can be marketed overnight, as such providing sufficient payment capacity to meet the demand for liquidity within the time frames specified for our business.
Furthermore, Nationale Borg makes sure the reinsurance treaties include simultaneous settlement clauses (cash call), enabling Nationale Borg to request payment from its reinsurers of their share in any large claims prior to effecting the claims to beneficiaries or policyholders.

MARKET RISK IN INVESTMENT PORTFOLIO

Investments are held in euro and US dollar denominated financial instruments. The currency risk associated with these investments are explained in the paragraph here after. Investment risk is the risk of economic losses triggered by changes in prices of investments. In 2013, Nationale Borg was exposed to interest and equity price risk. At balance sheet date Nationale Borg had a fair sized investment portfolio that consisted of real estate (2013: € 4,254, 2012: 4,924), sovereign bonds (2013: € 23,559, 2012: 27,096), equity portfolio (2013: € 27,041, 2012: € 23,582), and cash & deposits (2013: € 80,263, 2012: 79,934).
In order to reduce our liquidity risk, a substantial part of the total investment portfolio is put into cash and deposits. The cash and cash equivalents are spread across multiple banks. This way we contain our liquidity risk at a time when the insurance risk is perceived to be more volatile than normal.
Risk of loss due to stress movements (i.e. decline or adverse movement in the market value of the securities under stress conditions) in market rates is estimated to be € 14.6 million. A more refined method to measure market risks is being developed as part of the preparation for Solvency II.
The stress movement is measured by applying stress loss rates to the various categories of investments, per the table below:

Risk category	**Amount in € million**	**Proportion**	**Stress rate**	**Stress loss in € million**
Low	103.8	77%	5%	5.2
Medium	0.0	0%	15%	0.0
High	31.3	23%	30%	9.4
Total	135.1	100%		14.6

Low	:	Cash, deposits with banks up to 1 year, Sovereign bonds and corporate bonds with a duration of less than 1 year
Medium	:	Deposits between 1 and 10 years and Corporate Bonds with a duration between 1 and 15 years
High	:	Equity and property (funds), Deposits greater than 10 years duration, Corporate Bonds with a duration longer than 15 years

Though Nationale Borg runs the counterparty default risk regarding to the deposits outstanding with banks, the cash collateral received from customers is excluded in the table above. In the Investment Committee the property own use (our office buildings) is also taken into account as an investment. This investment of € 7.1 million is classified as risk category high by the Investment Committee.
In addition to the asset management being outsourced to a professional asset manager of repute, stock index derivatives are also managed by the asset manager in order to protect the portfolio against a potential massive impairment. The stock markets indices have, in the past 15 years, observed drops (losses) in excess of the 30% value that is used for the market risk estimate. In order to limit exposure to such a possibility, Put options are purchased in such a way as to offer protection for the major part of the equity portfolio (up to € 16.3 million). Because of this, the total loss on this part of the equity portfolio is limited to a maximum of 37%.

CURRENCY RISK

The foreign currency risk emanates on account of claims of international cedants that are paid in non-euro currencies. For the purpose of managing this risk, all material loss provisions in currencies closely correlated with the USD are deemed to be managed on an equivalent 'USD' basis. Non-'USD' currencies are managed on a deemed 'euro' basis.
For the year 2013 the technical provisions included an exposure of approximately USD 22.2 million (2012: USD 16.9 million). It is the company policy to balance this exposure to a large extent by keeping USD bank deposits amounting to USD 25.8 million (2012: USD 23.4 million) and equity investments amounting to USD 6.3 (2012: USD 5.1 million). Besides the bank deposits we also keep USD and other currencies positions in deposits with reinsurers. The carrying amount in currencies other than euro of these deposits was € 5,252 (2012: € 2,566) at balance sheet date.
As a result of this matching policy, a change in USD exchange rate does not lead to a significant foreign exchange result for the balance sheet positions. However in 2013 foreign currency exchange results other than USD had a relatively large impact.

LIQUIDITY RISK

Premiums, fees, investment income, incoming reinsurance flows and recoveries in general are the main source to service the daily needs for ongoing liquidity. Taking into consideration various economical and market circumstances the company makes sure to keep a sufficient buffer of cash on demand to provide itself the

necessary liquidity, if there were to be an unanticipated large outflow of cash as the result of claims. Investments in bonds and equities are made only in categories which are very liquid and can be marketed overnight, as such providing sufficient payment capacity to meet the demand for liquidity within the time frames specified for our business.
Furthermore, Nationale Borg makes sure the reinsurance treaties include simultaneous settlement clauses (cash call), enabling Nationale Borg to request payment from its reinsurers of their share in any large claims prior to effecting the claims to beneficiaries or policyholders.
Nationale Borg is exposed to liquidity risk if there is insufficient cash available to pay its (insurance) obligations. Using the chain ladder method to project the cash flows for Nationale Borg, we find that 33% of the best estimate of the 2013 loss reserve will need to be paid in the first 12 months; and, similarly, 71% of the best estimate will be paid in 36 months. The net premium (i.e. premium minus commission and brokerage) is also projected using the same method and the cumulative premium exceeds the cumulative losses by 79%. Around 48% of the future net premium will be received in the first 12 months and 76% in 36 months.
The average duration of the projected claims is 2.99 years; while the duration for the projected net premium is 2.53 years indicating that, in aggregate, the premiums are received earlier than the claims. Thus, we find that the cumulative net premium always exceeds the cumulative claims for the projected years
During the year liquidity shortfall could occur if there were to be an unanticipated large outflow of cash as the result of claims. As a result, the potential for liquidity shortfall is estimated by examining the claims cash flows in a quarter relative to the size of the reserve at the beginning of the quarter. The mean plus standard deviation of cash outflow on account of claims is estimated over the past 20 quarters and applied to the loss reserve at 31 December 2013 as follows:

Loss reserve in € million	**Stress outflow**	**Liquidity needed in € million**
69.8	26.9%	18.8

In the current environment, Nationale Borg keeps a substantial share of its assets in cash. In addition, the company keeps a buffer of cash on demand to provide itself the necessary liquidity. 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.
Simple addition (ignoring possible diversification effects) of the calculation of the cash outflow from claims (€ 18.8 million) with the stress loss in investments (€ 14.6 million) provides an estimate of the minimum liquidity requirements to be € 33.4 million. The investments in the Low Risk category represent the safest and most liquid assets for coverage of this amount of worst case liquidity needs. As a matter of policy the amount of investments in this category always cover the liquidity requirements with a conservative margin (€ 103.8 million in December 2013).

CREDIT RISK

Investments

Credit risk in government bonds has been kept to a minimum by investing in AAA bonds; whereas the remaining investments are in the equity portfolio. The management of the market risk associated with this portfolio has been described in the respective paragraph.
The following table gives insight in the profile of the investment portfolio.

	2013						2012	
	Opening	Pur-chases / sales	Matured	Gains/ losses	Total		Total	
Government bonds (AAA sovereign) - fixed rate	16,279	–	–	(759)	15,520	56%	16,279	51%
Government bonds (AAA sovereign) - indexed rate	10,817	–	(2,479)	(299)	8,039	29%	10,817	34%
Equity and Preferred shares	4,924	(359)	–	(311)	4,254	15%	4,924	15%
Total - Available for Sale	32,020	(359)	(2,479)	(1,369)	27,813	100%	32,020	100%
Equity and Preferred shares	23,582	1,448	–	2,011	27,041	100%	23,582	100%
Total - To / From P&L	23,582	1,448	–	2,011	27,041	100%	23,582	100%
Total - All Financial Securities	55,602	1,089	(2,479)	642	54,854		55,602	

In 2013, the split of investments (excluding Put option and Equity/Preferred shares available for sale) by country of risk is provided in the following table:

Country	**Equity**	**Bonds**	**Total**	**%**
Belgium	4,381	–	4,381	9%
Germany	9,651	8,040	17,691	35%
Luxembourg	1,940	–	1,940	4%
Netherlands	6,362	15,519	21,881	43%
United States	4,583	–	4,583	9%
Total	26,917	23,559	50,476	100%

The duration and Maturity profile of the financial investment portfolio (excluding PUT option and Equity/Preferred shares available for sale) is as follows:

	2013		**2012**	
Years	**Amount**	**%**	**Amount**	**%**
0 – 1	–	**0%**	2,521	9%
1 – 3	**12,978**	**55%**	5,100	19%
3 – 5	**2,436**	**10%**	10,843	40%
5 – 10	**5,478**	**23%**	5,725	21%
10+	**2,667**	**11%**	2,907	11%
Total	**23,559**	**100%**	27,096	100%
Duration	**5,58 years**		4,47 years	
Average Maturity	**4,25 years**		5,15 years	

In addition, credit risk also exists with regard to deposits at cedants amounting to € 14,936 (2012: € 12,356) and credit risk with respect to outstanding premium receivables of € 3,781 (2012: € 3,744).

Counterparty default risk of reinsurers

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 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 applied to direct money and fraud insurance risks.

The 2013 limit of the quota share treaty was € 100 million. The excess of loss cover insured losses over € 5 million up to an amount of € 45 million.

Counterparty risk

The counterparty risk of the reinsurers is peculiar in that it represents a case of double default. The risk arises when both, claims arise in the Guarantees portfolio in conjunction with some failure in the panel of reinsurers to cover the ceded portion of these claims.

The gross exposure (at risk) from the ceded portion of the Guarantees portfolio is calculated as the sum of: outbound loss reserve on existing claims and worst case gross loss estimate (expected loss + 99.50% loss level) per the prevailing pricing method, on the ceded exposure.

The product of each reinsurer's share in the panel with the gross exposure yields the exposure to each entity. This is multiplied by the probability of default for the S&P 'A-' rating, to yield the estimate of counterparty risk. The sum of this risk across the whole panel is € 0.07 million.

Reinsurance Counterparty Risk	**€ million**
Total Exposure	2,975
Ceded Exposure	2,264
Ceded Stress loss (SL)	33.2
Outbound Loss Reserve (LR)	2.9
Counterparty risk	0.07

Clients 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 a client deteriorates and Nationale Borg requires collateral to be willing to extend the issuing of guarantees. Any cash collateral received is put into bank deposits on demand. This collateral will be returned to customers as soon as guarantees expire or when the client creditworthiness improves again. Interest received on these separated deposits is transferred to the respective clients.

OPERATIONAL RISK

Operational risk is managed by the departments in cooperation with the Risk Department and Compliance. In case a new risk occurs / is identified this risk shall be discussed with Risk Management. The bi-yearly Risk

Assessment session contribute to the identification and analysis of risks. The Risk Assessment is facilitated by Risk Management and attended by key employees of the business departments. During this Risk Assessment risks are analyzed and assessed. Risk analysis consist of describing the risk on a detailed level including assigning a risk owner (management level). Risk assessment consists of the assessment of 'impact' and 'likelihood' for each risk. We distinguish the assessment of the inherent risk, which is the impact x probability in a situation where no internal controls exists. Residual risk is the risks after internal controls. Before assessing residual risk the internal controls should be identified.
The identification of controls is also part of the risk assessment. Each control should be linked to a risk and should be described in detail. Controls should be assigned to a control owner (first line: management level). Management of the business is responsible for effectively operating internal controls and keep documentation in order to proof existence and operating effectiveness. It is the responsibility of business management to set up new internal controls (agreed during risk sessions).
Risk Management is responsible to monitor the implementation of new controls and to monitor the operating effectiveness of existing controls. Internal Audit is responsible to evaluate the adequacy and effectiveness of the internal control system. A monitoring and reporting process still needs to be developed.

CAPITAL MANAGEMENT

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

- Minimum regulatory requirements (local, as well as Solvency I and II)
- Internal calculation of solvency needs
- Rating agency (S&P) requirements to maintain an A- rating
- ROE and dividend requirements from shareholders

The internal objective is to maintain a buffer over the greater of regulatory and rating agency requirements. Since the current solvency requirements are not risk based and Solvency II requirements are expected to be significantly higher, Solvency II requirements for calculating regulatory capital are already applied in the ORSA process.
The rating agency requirements are only applied on a consolidated basis. Because these requirements are generally significantly higher than the regulatory requirements for the respective companies, there is an "automatic" buffer over Solvency II requirements.
The solvency I capital needed for NV Nationale Borg-Maatschappij according to the standards of the regulator is € 3.7 (2012: € 3.7 million). The corresponding available capital is € 44.8 (2012: € 43.6). On a consolidated level the solvency I capital amounts to € 11.6 (2012: € 11.6 million) and the available capital according to this measurement is € 62.0 (2012: € 48,5 million) is.
Furthermore, NV Nationale Borg-Maatschappij, aims to preserve an S&P rating in the A range. This rating is applicable to all companies within the group. Nationale Borg group does not only meet the requirements of the minimum level for such a rating, it also 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 keep the risk in our investment portfolio at a low level.

FAIR VALUE HIERARCHY

At 31 December 2013, investments classified as Level 1 comprised approximately 92% of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices (i.e. quoted market prices in an active market) of fixed maturities, equity securities and derivative contracts.

At 31 December 2013, investments classified as Level 2 comprised the remaining part of 8% of the financial assets measured at fair value on a recurring basis. This relates to investments in units of a real estate fund. A market quote for this fund is not readily available or accessible. The fair value of this investment is based on the net asset value of the fund. This valuation methodology has been evaluated by the company and the resulting prices were determined to be representative of exit values.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, refer to "Principles of valuation and determination of result". The following table presents the group's assets and liabilities measured at fair value at 31 December 2013.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
• Shares and other variable yield securities	_	4,254	_	4,254
• Bonds and other fixed income securities	23,559	_	_	23,559
Financial assets at fair value through P&L				
• Shares and other variable yield securities	27,041	_	_	27,041
• Bonds and other fixed income securities	_	_	_	_
Total assets	**50,600**	**4,254**	_	**54,854**

The comparative figures for 2012 are:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
• Shares and other variable yield securities	_	4,924	_	4,924
• Bonds and other fixed income securities	27,096	_	_	27,096
Financial assets at fair value through P&L				
• Shares and other variable yield securities	23,582	_	_	23,582
• Bonds and other fixed income securities	_	_	_	_
Total assets	**50,678**	**4,924**	_	**55,602**

During 2013 there were no transfers of financial assets between the Level 1, 2 and 3 fair value hierarchy classifications. As all financial assets and liabilities are classified in the Level 1 or 2 fair value hierarchy, the fair value of these assets and liabilities are not sensitive to possible favorable or unfavorable changes in the assumptions used to determine the fair value (for example, discount rate, credit rating assumptions).

4. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon-structions	Fixtures & Fittings	IT hardware	Company cars	Total
At cost as at 1 January 2013 *)	6,370	2,487	748	1,869	22	11,496
Additions/disposals	_	78	(6)	34	(22)	84
Revaluations	_	_	_	_	_	_
At cost as at 31 December 2013 *)	6,370	2,565	742	1,903	_	11,580
Accumulated depreciation and impairments at 1 January 2013	(15)	(1.697)	(585)	(1,640)	(16)	(3,953)
Depreciation charge for the year through profit and loss	(168)	(271)	(38)	(78)	(5)	(560)
Revaluations through equity	279	_	_	_	_	279
Depreciation on disposals	_	_	_	_	21	21
Accumulated depreciation and impairments at 31 December 2013	96	(1,968)	(623)	(1,718)	_	(4,213)
Book value as at 1 January 2013	6,355	790	163	229	6	7,543
Book value as at 1 December 2013	6,466	597	119	185	_	7,367

	Land and buildings	Recon-structions	Fixtures & Fittings	IT hardware	Company cars	Total
At cost as at 1 January 2012 *)	6,370	2,399	746	1,804	22	11,341
Additions/disposals	-	88	2	65	-	155
At cost as at 31 December 2012 *)	6,370	2,487	748	1,869	22	11,496
Accumulated depreciation and impairments at 1 January 2012	_	(1,410)	(547)	(1,535)	(6)	(3,498)
Depreciation charge for the year through profit and loss	(168)	(287)	(38)	(105)	(10)	(608)
Revaluations through equity	153	_	_	_	_	153
Depreciation on disposals	_	_	_	_	_	_
Accumulated depreciation and impairments at 31 December 2012	15	(1,697)	(586)	(1,640)	(16)	(3,953)
Book value as at 1 January 2012	6,370	989	199	269	16	7,843
Book value as at 1 December 2012	6,355	790	163	229	6	7,543

*) For land and buildings this line item refers to the market value at the indicated date.

Land and buildings relate only to property for own use. Depreciation expense on land and buildings for property for own use of €168 (2012: €168) has been charged to the net operating expenses.
The market value of land and buildings for own use including the reconstructions is €7,062 at 31 December 2013 and determined by an independent, external valuator on the balance sheet date of 31st December 2013. The historical cost price is €1,139 (2012: €1,061).

REAL ESTATE IN OWN USE

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

5. INTANGIBLE ASSETS

Intangible assets refer to the brand name of Nationale Waarborg, goodwill paid on acquisition on the acquisition of Nationale Waarborg and software:

	Brand name	Goodwill	Software	Total
At cost as at 1 January 2013	1,456	2,809	942	5,207
Additions	_	_	303	303
At cost as at 31 December 2013	1,456	2,809	1,245	5,510
Accumulated amortization at 1 January 2013	(1,456)	(718)	(419)	(2,593)
Amortization charge for the year	_	_	(173)	(173)
Accumulated amortization and impairments at 31 December 2013	(1,456)	(718)	(592)	(2,766)
Book value as at 1 January 2013	_	2,091	523	2,614
Book value as at 31 December 2013	_	2,091	653	2,744
At cost as at 1 January 2012	1,456	2,809	458	4,723
Additions	_	_	484	484
At cost as at 31 December 2012	1,456	2,809	942	5,207
Accumulated amortization and impairments at 1 January 2012	(1,456)	(718)	(316)	(2,490)
Amortization charge for the year	_	_	(103)	(103)
Accumulated amortization and impairments at 31 December 2012	(1,456)	(718)	(419)	(2,593)
Book value as at 1 January 2012	_	2,091	142	2,233
Book value as at 31 December 2012	_	2,091	523	2,614

6. FINANCIAL ASSETS

Financial assets classified by type and nature 2013 and 2012:

2013	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	4,254	27,041	31,295
Bonds and other fixed income securities	23,559	_	23,559
	27,813	27,041	54,854

2012	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	4,924	23,582	28,506
Bonds and other fixed income securities	27,096	_	27,096
	32,020	23,582	55,602

Movements in available-for-sale assets:

	2013	**2012**
Book value at 1 January	**32,020**	39,325
Disposals / Maturity	**(2,838)**	(7,290)
Revaluations	**(1,369)**	(15)
Book value at 31 December	**27,813**	32,020

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

	2013	**2012**
Book value at 1 January	**23,582**	17,829
Additions	**4,524**	13,418
Disposals	**(3,075)**	(9,925)
Revaluations	**2,280**	2,333
Effects of movements in foreign exchange	**(270)**	(73)
Book value at 31 December	**27,041**	23,582

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.

7. REINSURANCE CONTRACTS

	2013	2012
Deposits at insurers	**14,939**	12,337
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premiums	**4,322**	4,658
• Claims and loss adjustment expenses	**4,493**	5,389
	23,754	22,384

8. RECEIVABLES

	2013	2012
Accounts receivable on insurance and reinsurance business:		
• Amounts owed by policy holders and direct insurance operations	**10,238**	**10,572**
• Receivables arising out of reinsurance	**3,781**	**3,744**
• Other accounts receivable	**125**	**139**
Total receivables	**14,144**	**14,455**

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. The group does not hold any collateral over these balances.

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

	2013	2012
Balance as at 1 January	**1,557**	894
Provision for receivables impairment	**160**	664
Receivables written off during the year as uncollectible	**(4)**	(1)
Balance as at 31 December	**1,713**	1,557

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.

9. OTHER ASSETS

	2013	2012
Accrued interest	**755**	775
Deferred acquisition costs	**5,207**	4,980
Other	**550**	374
	6,512	6,129

The miscellaneous assets and accruals are substantially all current and consequently their fair values do not materially differ from their book value.
Movements on the deferred acquisition costs are as follows:

	2013	**2012**
Balance as at 1 January	**4,980**	3,968
Change in deferred acquisition costs	**227**	1,012
Balance as at 31 December	**5,207**	4,980

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

10. CASH AND CASH EQUIVALENTS

	2013	**2012**
Cash at banks and at hand	**31,927**	34,153
Cash investment accounts	**48,336**	45,781
Cash received as collateral	**7,840**	16,123
Total cash and cash equivalents	**88,103**	96,057

The total carrying amount of the deposits that have been pledged as collateral for liabilities at 31 December 2013, was € 6,400 (2012: € 6,400). All other cash in investment accounts is freely available.

11. CAPITAL AND RESERVES

The Capital and Reserves are further disclosed in note 14 to the company financial statements.

12. TECHNICAL PROVISIONS

	2013	**2012**
Total		
Provision for unearned premium	**23,861**	24,472
Provision for claims	**70,059**	66,149
Claims incurred but not reported	**225**	225
Total underwriting provisions at 31 December	**94,145**	90,846
Guarantees		
Provision for unearned premium	**7,948**	8,945
Provision for claims	**5,817**	7,932
Claims incurred but not reported	–	–
Total technical provisions at 31 December	**13,765**	16,877

	2013	2012
Money and Fraud Insurance		
Provision for unearned premium	–	–
Provision for claims	**136**	577
Claims incurred but not reported	**225**	225
Total technical provisions at 31 December	**361**	802
Reinsurance		
Provision for unearned premium	**15,913**	15,527
Provision for claims	**64,106**	57,640
Claims incurred but not reported	–	–
Total technical provisions at 31 December	**80,019**	73,167

Due to an enhancement of the provisioning methods, as of 2011 no IBNR as such is being formed for the Reinsurance business. As the company uses the Ultimate Loss Ratio technique for the provisioning on the indirect business, estimates of incurred but not reported losses by the cedants are included as part of the claim provisioning.

The movement schedule of technical provisions:

	Gross 2013	**Reinsured 2013**	**Net 2013**
Total			
Opening provision for claims	66,374	5,389	60,985
Change in provision	5,115	(895)	6,010
Effects of changes in foreign exchange	(1,205)	–	(1,205)
Ending provision for claims	70,284	4,493	65,790
Opening provision for unearned premium	24,472	4,658	19,814
Change in provision	(611)	(336)	(275)
Other adjustments	–	–	–
Ending provision for unearned premium	23,861	4,322	19,539
Guarantees			
Opening provision for claims	7,932	4,036	3,896
Change in provision	(2,115)	(246)	(1,896)
Ending provision for claims	5,817	3,790	2,027
Opening provision for unearned premium	8,945	4,622	4,323
Change in provision	(997)	(334)	(663)
Other adjustments	–	–	–
Ending provision for unearned premium	7,948	4,288	3,660

Money and Fraud Insurance			
Opening provision for claims	802	432	370
Change in provision	(441)	(387)	(54)
Ending provision for claims	361	45	316
Opening provision for unearned premium	_	_	_
Change in provision	_	_	_
Ending provision for unearned premium	_	_	_
Reinsurance			
Opening provision for claims	57,640	921	56,719
Change in provision	7,671	(263)	7,934
Effects of changes in foreign exchange	(1,205)	_	(1,205)
Ending provision for claims	64,106	658	63,448
Opening provision for unearned premium	15,527	36	15,491
Change in provision	386	(2)	388
Ending provision for unearned premium	15,913	34	15,879

13. PAYABLES

	2013	**2012**
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	**(7)**	(5)
Amounts due to policy holders*	**7,840**	16,123
	7,833	16,118
Trade and other accounts payable		
Accounts payable	**132**	312
Other accounts payable**	**3,795**	5,817
	3,927	6,129
Total accounts payable	**11,760**	22,247

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

** Other accounts payable mainly consist of reinsurance commission reserve.

The payables due are substantially all current.

14. OTHER LIABILITIES

	2013		2012	
Deposits received from reinsurers		**82**		191
Profit commission payable		**955**		1,483
Miscellaneous liabilities and accruals:				
Payroll and other accruals	**1,481**		1,085	
Sundry creditors	**511**		1,215	
		1,992		2,300
Balance as at 31 December		**3,029**		3,974

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

15. DEFERRED INCOME TAX LIABILITIES

	2013	2012
Deferred income tax assets	**(57)**	(57)
Deferred income tax liabilities	**2,154**	2,553
	2,097	2,496

The movement on the deferred income taxes is as follows:

	2013	2012
Balance as at 1 January	**2,496**	3,010
Charge/(credit) to equity for the year	**28**	19
Charge/(credit) to the income statement for the year	**(427)**	(533)
Balance as at 31 December	**2,097**	2,496

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets	**Technical provisions**	**Total**
Balance as at 1 January 2013	(57)	**(57)**
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	–	–
Balance as at 31 December 2013	(57)	**(57)**
Balance as at 1 January 2012	(57)	**(57)**
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	–	–
Balance as at 31 December 2012	(57)	**(57)**

Deferred tax liabilities	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2013	1,479	_	918	156	**2,553**
Charge/(credit) to equity for the year	28	_	_	_	**28**
Charge/(credit) to the income statement for the year	_	_	(305)	(122)	**(427)**
Balance as at 31 December 2013	1,507	_	613	34	**2,154**

	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2012	1,433	27	1,383	224	**3,067**
Charge/(credit) to equity for the year	46	(27)	_	_	**19**
Charge/(credit) to the income statement for the year	_	_	(465)	(68)	**(533)**
Balance as at 31 December 2012	1,479	_	918	156	**2,553**

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

	2013	2012
Reserves in shareholders' equity:		
Revaluation reserve	**28**	19

16. CURRENT INCOME TAX LIABILITIES

	2013	2012
Current income tax liabilities	**1,265**	1,810

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

17. NET PREMIUM EARNED

	2013			2012		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Total						
Written Premium	**92,933**	**13,894**	**79,039**	93,723	15,757	77,966
Change in provision for unearned premium	**611**	**336**	**275**	(1.950)	(18)	(1.932)
Earned premium	**93,544**	**14,230**	**79,314**	91,773	15,739	76,034
Guarantees						
Written premium	**24,469**	**13,333**	**11,136**	27,424	15,305	12,119
Change in provision for unearned premium	**997**	**334**	**663**	145	(30)	175
Earned premium	**25,466**	**13,667**	**11,799**	27,569	15,275	12,294
Insurance						
Written premium	–	–	–	–	–	–
Change in provision for unearned premium	–	–	–	–	–	–
Earned premium	–	–	–	–	–	–
Reinsurance						
Written premium	**68,464**	**561**	**67,903**	66,299	452	65,487
Change in provision for unearned premium	**(386)**	**2**	**(388)**	(2,095)	12	(2,107)
Earned premium	**68,078**	**563**	**67,515**	64,204	464	63,740

18. NET INVESTMENT INCOME

NET INVESTMENT INCOME BY TYPE OF INVESTMENT

	2013	2012
Income/expense from:		
• Property	**273**	268
• Bonds and other fixed rate securities	**694**	628
• Shares and other variable yield securities including derivatives	**3,735**	2,185
• Other investments (deposits and receivables)	**479**	1,082
Net income/(expense) from investments	**5,181**	4,163

NET INVESTMENT INCOME BY NATURE OF INCOME/(EXPENSE)

	2013	**2012**
Income/(expense) from:		
Interest	**1,381**	2,313
Dividends	**697**	447
Realized gains	**798**	(916)
Unrealized gains	**2,280**	2,331
Rental income from property	**273**	268
Costs of investments	**(248)**	(280)
Net income/(expense) from investments	**5,181**	4,163

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.

19. NET INSURANCE CLAIMS

	2013			**2012**		
	Gross	**Re-insurers' share**	**Net**	**Gross**	**Re-insurers' share**	**Net**
Total						
Claims paid in the year	**55,819**	**23,918**	**31,901**	75,736	42,056	33,680
Change in provision for outstanding claims	**5,115**	**(895)**	**6,010**	(796)	(693)	(103)
Claims handling expenses	**1,373**	**_**	**1,373**	1,687	_	1,687
Total insurance claims and loss adjustment expenses	**62,307**	**23,023**	**39,284**	76,627	41,363	35,264
Guarantees						
Claims paid in the year	**30,365**	**23,839**	**6,526**	53,118	41,994	11,124
Change in provision for outstanding claims	**(2,115)**	**(245)**	**(1,870)**	(7,076)	(96)	(6,980)
Claims handling expenses	**1,144**	**_**	**1,144**	1,404	_	1,404
Total insurance claims and loss adjustment expenses	**29,394**	**23,594**	**5,800**	47,446	41,898	5,548
Money/Fraud Insurance						
Claims paid in the year	**(1)**	**_**	**(1)**	**13**	**_**	**13**
Change in provision for outstanding claims	**(441)**	**(387)**	**(54)**	**(387)**	**(361)**	**(26)**
Claims handling expenses	**_**	**_**	**_**	**2**	**_**	**2**
Total insurance claims and loss adjustment expenses	**(442)**	**(387)**	**(55)**	**(372)**	**(361)**	**(11)**

Reinsurance						
Claims paid in the year	**25,455**	**79**	**25,376**	22,605	62	22,543
Change in provision for outstanding claims	**7,671**	**(263)**	**7,934**	6,667	(236)	6,903
Claims handling expenses	**229**	**_**	**229**	281	_	281
Total insurance claims and loss adjustment expenses	**33,355**	**(184)**	**33,539**	29,553	(174)	29,727

20. ACQUISITION COST

	2013	**2012**
Gross acquisition costs	**24,795**	24,589
Gross change in deferred acquisition costs	**(227)**	(1,012)
Gross change in profit commission payable	**(528)**	(443)
Change in reinsurance commission payable	**(119)**	(13)
Reinsurance commission paid	**1,960**	1,647
Total acquisition costs	**25,881**	24,768

21. NET OPERATING EXPENSES

	2013	**2012**
Staff expenses	**8,147**	8,884
Administrative expenses	**2,838**	3,484
Depreciation	**733**	714
Exchange rate differences	**904**	568
Other	**242**	335
Total net operating expenses	**12,864**	13,985

In 2012 the Group committed to a restructuring plan due to a decrease in demand as a result of deteriorated economic circumstances. As per December 31, 2012 a total of € 419 in restructuring costs has been included in the administrative expenses. A provision of € 853 still remained at year-end 2012. These costs are taken into account in the category Other in the net operating expenses. The total restructuring cost 2012 amounted to € 1,272. The restructuring was completed in 2013.

22. INCOME TAX EXPENSES

	2013	**2012**
Current tax	**2,437**	1,994
Deferred tax	**(427)**	(533)
	2,010	1,461

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:

	2013	2012
Profit before tax	**10,853**	11,405
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,832**	1,827
Tax exempt income and permanent differences	**346**	(291)
Reassessment of prior year local tax positions	**(168)**	(75)
Tax charge for the year	**2,010**	1,461

The effective tax rate is 18.5% (2012: 12.8%). The effective tax rate in 2013 was mainly higher because of lower exemptions and permanent differences. In Belgium, taxable income was taxed at 33%. The applicable tax rate in The Netherlands is 25%. In the Antilles income tax is charged at a rate of 27,5% based on 10 per cent of the total written premium.

23. EARNINGS AND DIVIDENDS PER SHARE

	2013	2012
Continuing operations:		
Profit attributable to the company's equity holders	**8,843**	9,944
Number of ordinary shares issued as per 31 December	**803,760**	803,760
Earnings per share (in euro)	**11.00**	12.37

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.
There are no equity instruments that would lead to a dilution of the earnings per share.

DIVIDEND PER SHARE

The dividend per share paid in 2013 amounted to € 7.46 (2012: € 9.95).

24. 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.

25. CAPITAL COMMITMENTS

There are no capital commitments.

26. PERSONNEL

The number of employees working for the group:	2013	2012
Total average number of employees (full-time equivalent)	**65,6**	75,8
Total year-end number of employees (full-time equivalent)	**68,0**	67,8
Total year-end number of employees	**76**	76

27. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

The table below provides details regarding the remuneration of the Executive Board and Supervisory Board. The Executive Board consists of 3 members (2012: 3 members). The Supervisory Board consists of 3 members (2012: 3 members).

	2013	**2012**
Short-term compensation	**623**	637
Bonus payments	**209**	57
Pension and other benefits	**194**	141
Total compensation paid to the Executive Board	**1,026**	835
Short-term benefits	**34**	27
Total compensation paid to the Supervisory Board	**34**	27

28. AUDITOR FEES

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

For the year 2013:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	**115**	_	**115**
Tax-related advisory services	_	**117**	**117**
Other non-audit services	_	**7**	**7**
Total fees charged during the year	**115**	**124**	**239**

For the year 2012:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	308	_	308
Tax-related advisory services	_	90	90
Other non-audit services	_	17	17
Total fees charged during the year	308	107	415

29. TAX OBLIGATIONS

NV Nationale Borg-Maatschappij together with NV Beleggings- en Beheersmaatschappij Keizersgracht, Nationale Borg Beheer BV and Nationale Waarborg BV form a fiscal unity for company tax purposes. Therefore, all direct payable tax amounts of this group are recorded in the accounts of NV Nationale Borg Maatschappij.
All four corporate entities are fully liable for the full amount of the payable company income tax.

2013

COMPANY FINANCIAL STATEMENTS

NATIONALE BORG

COMPANY STATEMENT OF FINANCIAL POSITION

Before appropriation of result	*Note*		**31 December 2013**		**31 December 2012**
ASSETS					
Property, plant and equipment	*5*		**7,342**		7,494
Investments in associated companies and joint ventures	*6*		**69,909**		64,238
Intangible assets	*7*		**2,739**		2,606
Financial assets	*8*		**4,254**		4,924
Reinsurance contracts	*9*		**28,729**		34,770
Receivables:	*10*				
• Accounts receivable on insurance and reinsurance business		**11,345**		12,267	
• Other accounts receivables		**107**		103	
			11,452		12,370
Other assets:					
• Deferred acquisition costs	*11*	**142**		638	
• Miscellaneous assets and accruals	*12*	**431**		329	
			573		967
Cash and cash equivalents:	*13*				
• Cash		**20,088**		23,065	
• Cash received as collateral		**7,840**		16,123	
			27,928		39,188
TOTAL ASSETS			**152,926**		166,557

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	31 December 2013		31 December 2012	
EQUITY					
Subscribed capital		**4,019**		4,019	
Capital reserve		**824**		824	
Revaluation reserve		**5,280**		6,396	
Currency translation reserve		**–**		(45)	
Revenue reserve		**72,216**		62,272	
Undistributed profits		**2,843**		9,944	
Capital and reserves attributable to the equity holders of the company	*14*		**85,182**		83,410
TOTAL EQUITY			**85,182**		83,410
LIABILITIES					
Technical provisions	*15*		**28,837**		36,756
Payables:	*16*				
• Accounts payable on insurance and reinsurance business		**7,833**		16,118	
• Trade and other payables		**10,830**		23,059	
			18,663		39,177
Other liabilities:					
• Deposits received from reinsurers	*17*	**15.352**		174	
• Profit commission payable		**(256)**		55	
• Miscellaneous liabilities and accruals		**5,069**		5,531	
			20,165		5,760
Deferred income tax liabilities	*18*	**2,097**		2,496	
Current income tax liabilities	*19*	**(2,018)**		(1,042)	
			79		1,454
TOTAL LIABILITIES			**67,744**		83,147
TOTAL EQUITY AND LIABILITIES			**152,926**		166,557

COMPANY INCOME STATEMENT FOR THE YEAR

	2013	2012
Share of income from group companies	**9,729**	9,598
Other income and expense	**(752)**	(4)
PROFIT BEFORE TAX	**8,977**	9,594
Income tax expenses	**(134)**	350
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**8,843**	9,944

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

	2013	2012
Result for the year	**8,843**	9,944
Other comprehensive income:		
Share in other comprehensive income of subsidiaries	**(1,058)**	494
Net fair value gains/(losses) on available for sale financial investments	**(311)**	(161)
Net revaluation property for own use	**253**	102
Currency translation differences assets	**45**	(20)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,772**	10,359
Attributable to:		
Equity holders of the company	**7,772**	10,359

COMPANY STATEMENT OF CHANGES IN EQUITY

Attributable to the equity holders of the company:

€ '000	Subscribed Capital	Capital Reserve	Revaluation Reserve	Currency translation reserve	Revenue Reserve	Profit for the Year	Total
EQUITY AT 1 JANUARY 2013	**4,019**	**824**	**6,396**	**(45)**	**62,272**	**9,944**	**83,410**
Result income statement	–	–	–	–	–	8,843	8,843
Other comprehensive income	–	–	(1,116)	45	–	–	(1,071)
Total comprehensive income for the year	–	–	(1,116)	45	–	8,843	7,772
Dividend distribution	–	–	–	–	–	(6,000)	(6,000)
Appropriations to reserves	–	–	–	–	9,944	(9,944)	–
Other movements	–	–	–	–	–	–	–
EQUITY AT 31 DECEMBER 2013	**4,019**	**824**	**5,280**	–	**72,216**	**2,843**	**85,182**

EQUITY AT 1 JANUARY 2012	**4,019**	**824**	**5,961**	**(25)**	**62,301**	**7,971**	**81,051**
Result income statement	–	–	–	–	–	9,944	9,944
Other comprehensive income	–	–	435	(20)	–	–	415
Total comprehensive income for the year	–	–	435	(20)	–	9,944	10,359
Dividend distribution	–	–	–	–	(8,000)	–	(8,000)
Appropriations to reserves	–	–	–	–	7,971	(7,971)	–
Other movements	–	–	–	–	–	–	–
EQUITY AT DECEMBER 31, 2012	**4,019**	**824**	**6,396**	**(45)**	**62,272**	**9,944**	**83,410**

COMPANY CASH FLOW FOR THE YEAR

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**(752)**	(4)
Adjustments for:		
• Depreciation and amortization property, plant and equipment and intangible fixed assets (including impairments)	**706**	677
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**(7,919)**	(12,530)
• Reinsurance assets (net)	**6,041**	(15,505)
• Deferred acquisition costs	**496**	260
• Accounts receivable and payable on insurance and reinsurance business	**(7,363)**	(2,532)
• Changes in other assets and liabilities	**2,072**	(6,807)
Income taxes paid	**(1,537)**	(1,653)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**(8,256)**	(38,094)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Property, plant and equipment and intangible fixed assets	**(408)**	(628)
Divestments, redemptions and disposals (cash inflows):		
• Dividends received from subsidiaries	**3,000**	4,932
• Financial investments	**359**	5,000
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**2,951**	9,304
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(6,000)**	(8,000)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**(6,000)**	(8,000)
Foreign exchange results	**45**	(20)
CHANGES IN CASH AND CASH EQUIVALENTS	**(11,260)**	(36,810)
Cash and cash equivalents at the end of the preceding year	**39,188**	75,998
Cash and cash equivalents at the end of the financial year	**27,928**	39,188

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. GENERAL INFORMATION

NV Nationale Borg-Maatschappij, based in Amsterdam (the Netherlands) is the parent company of Nationale Borg group. The company statements are part of the 2013 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.

IMPACT OF NOVATION

As per January 1, 2011, NV Nationale Borg-Maatschappij transferred its entire reinsurance portfolio to Nationale Borg Reinsurance NV for as far as the cedants had agreed to this. This transfer of contracts was subject to the approval of each individual cedant. In 2012 it was decided that not only current reinsurance business of the cedants novated in 2011 would be transferred from NV Nationale Borg-Maatschappij to Nationale Borg Reinsurance NV, but also the financial line items regarding previous years. This influenced the openings positions of several financial line items in 2012. All novations in 2012 and afterwards were transferred for the entire positions (current en previous years)
Furthermore, NV Nationale Borg-Maatschappij has retroceded its remaining reinsurance portfolio for all underwriting years to Nationale Borg Reinsurance. The treatment of this retrocession at Nationale Borg Reinsurance does not differ from the treatment of business assumed from 3rd parties.
As was the case in 2012, Nationale Borg Reinsurance NV in turn has retroceded the reinsurance pool 1993 to NV Nationale Borg-Maatschappij.

2. 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.

3. SUBSIDIARIES

Subsidiaries are valued at net asset value, Subsidiaries have the same accounting principles and reporting period as NV Nationale Borg-Maatschappij.

4. TRANSACTIONS WITH RELATED PARTIES

The following table provides the total value of transactions which have been entered into with related parties for the financial year:

2013	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Outward reinsurance (ceded)	_	2,239	_	2,239
Inward reinsurance (assumed)	1	_	1	_
Service level agreement on underwriting and supporting services	1,522	_	1,522	_
(Interest on) outstanding intercompany balances after novation	_	1,073	_	22,075
2012				
Outward reinsurance (ceded)	_	6,860	_	6,860
Inward reinsurance (assumed)	214	_	214	_
Service level agreement on underwriting and supporting services	1,225	_	1,225	_
(Interest on) outstanding intercompany balances after novation	_	1,415	_	11,671

All transactions relate to transactions between NV Nationale Borg-Maatschappij and Nationale Borg Reinsurance NV.
For Inward reinsurance, purchases consist of the net effect of assumed reinsurance (premiums, claims, recoveries and commission). For Outward reinsurance, sales consist of the net effect of (retro-) ceded insurance (premiums, claims, recoveries and commission).

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

As per January 1, 2011, Nationale Borg-Maatschappij transferred its entire reinsurance portfolio to Nationale Borg Reinsurance NV for as far as the cedants had agreed to this. This transfer of contracts was subject to the approval of each individual cedant. The agreed transfer price was determined as being zero as an analysis of the cash flows related to this portfolio showed a net negative outflow.
With regard to the inward reinsurance (assumed) business, this relates to the indirect business of Nationale Borg-Maatschappij for all underwriting years. This portfolio has been reinsured at Nationale Borg Reinsurance at current arm's-length market conditions.
A service level agreement has been set-up between Nationale Borg Reinsurance and Nationale Borg-Maatschappij for the services Nationale Borg-Maatschappij provides to the Company. These services are related to Underwriting, IT, Finance, Actuary and Investment management. The remuneration to Nationale Borg-Maatschappij has been set at arm's-length conditions.

Interest is due on all outstanding intercompany balances including intercompany loans. During 2013 this was calculated on a monthly basis at a rate of 5 per cent. The average applicable interest rate during 2013 was 5% (2012: 5%).

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon-structions	Fixtures and fittings	IT hardware	Total
At cost as at 1 January 2013 *)	**6,370**	**2,478**	**706**	**1,731**	**11,285**
Additions/disposals	_	79	_	26	105
Revaluations	_	_	_	_	_
At cost as at 31 December 2013 *)	6,370	2,557	706	1,757	11,390
Accumulated depreciation and impairments at 1 January 2013	(15)	(1.690)	(558)	(1,528)	(3,791)
Depreciation charge for the year through profit and loss	(168)	(271)	(32)	(65)	(536)
Revaluations through equity for the year	279	_	_	_	279
Accumulated depreciation and impairments at 31 December 2013	96	(1,961)	(590)	(1,593)	(4,048)
Book value as at 1 January 2013	**6,355**	**788**	**148**	**203**	**7,494**
Book value as at 31 December 2013	**6,466**	**596**	**116**	**164**	**7,342**
At cost as at 1 January 2012 *)	**6,370**	**2,388**	**708**	**1,667**	**11,133**
Additions/disposals	_	90	(2)	64	152
At cost as at 31 December 2012 *)	6,370	2,478	706	1,731	11,285
Accumulated depreciation and impairments at 1 January 2012	_	(1,403)	(520)	(1,445)	(3,368)
Depreciation charge for the year through profit and loss	(168)	(287)	(38)	(83)	(576)
Revaluations through equity for the year	153	_	_	_	153
Book value as at 1 January 2012	**6,370**	**985**	**188**	**222**	**7,765**
Book value as at 31 December 2012	**6,355**	**788**	**148**	**203**	**7,494**

*) For land and buildings this line item refers to the market value at the indicated date.

6. INVESTMENTS IN ASSOCIATED COMPANIES

The following table shows the changes in investments in associated companies valued at equity:

	2013	2012
Balance as at 1 January	**64,238**	58,933
Share of (loss)/profit	**9,729**	9,598
Dividend payments	**(3,000)**	(4,932)
Revaluations	**(1,058)**	639
Balance as at 31 December	**69,909**	64,238

2013	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Nationale Borg Reinsurance NV	Dutch Antilles, Curacao	151,268	85,290	68,075	9,590	100.00
NV Beleggings- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	3,735	–	–	–	100.00
Nationale Waarborg BV	The Netherlands, Nieuwegein	735	539	862	139	100.00
Total at the end of 2013		**155,738**	**85,829**	**68,937**	**9,729**	

2012	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Nationale Borg Reinsurance NV	Dutch Antilles, Curaçao	138,158	77,712	64,192	9,634	100
NV Beleggings- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	3,735	_	_	_	100
Nationale Waarborg BV	The Netherlands, Nieuwegein	779	722	935	(36)	100
Total at the end of 2012		**142,672**	**78,434**	**65,127**	**9,598**	

7. INTANGIBLE ASSETS

Intangible assets refer to the brand name of Nationale Waarborg, goodwill paid on acquisition on the acquisition of Nationale Waarborg and software:

	Brand name Nationale Waarborg	Goodwill	Software	Total
At cost as at 1 January 2013	**1,456**	**2,809**	**932**	**5,197**
Additions	_	_	303	303
At cost as at 31 December 2013	1,456	2,809	1,235	5,500
Accumulated amortization and impairments at 1 January 2013	(1,456)	(718)	(417)	(2,591)
Amortization charge for the year	_	_	(170)	(170)
Accumulated amortization and impairments at 31 December 2013	(1,456)	(718)	(587)	(2,761)
Book value as at 1 January 2013	_	**2,091**	**515**	**2,606**
Book value as at 31 December 2013	_	**2,091**	**648**	**2,739**

At cost as at 1 January 2012	**1,456**	**2,809**	**456**	**4,721**
Additions	_	_	476	476
At cost as at 31 December 2012	1,456	2,809	932	5,197
Accumulated amortization and impairments at 1 January 2012	1,456	718	316	2,490
Amortization charge for the year	_	_	101	101
Accumulated amortization and impairments at 31 December 2013	1,456	718	417	2,591
Book value as at 1 January 2012	_	**2,091**	**140**	**2,231**
Book value as at 31 December 2012	_	**2,091**	**515**	**2,606**

8. FINANCIAL ASSETS

Financial assets classified by type and nature:

2013	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	4,254	–	4,254
Bonds and other fixed income securities	–	–	–
	4,254	–	4,254

All financial assets are listed.

Financial assets classified by type and nature:

2012	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	4,924	–	4,924
Bonds and other fixed income securities	–	–	–
	4,924	–	4,924

All financial assets are listed.

Movements in financial assets available for sale:	**2013**	**2012**
Book value at 1 January	**4,924**	10,433
Disposals	**(359)**	(5,000)
Revaluations	**(311)**	(509)
Book value at 31 December	**4,254**	4,924

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

	2013	**2012**
Investment funds	**4,254**	4,924

9. REINSURANCE CONTRACTS

	2013	2012
Deposits at insurers	**5,882**	6,591
Reinsurers' share of insurance liabilities:		
Provisions for unearned premiums	**4,500**	6,148
Claims and loss adjustment expenses	**18,347**	22,031
	28,729	34,770

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

10. RECEIVABLES

	2013	2012
Accountsreceivable on insurance and reinsurance business:		
Amounts owed by policy holders and direct insurance operations	**10,286**	10,672
Receivables arising out of reinsurance	**1,059**	1,595
Other accounts receivable	**107**	103
Total receivables	**11,452**	12,370

The outstanding receivables are substantially all current and consequently their fair values do not materially differ 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.

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

	2013	2012
Balance as at 1 January	**1,514**	831
Provision for receivables impairment	**208**	684
Receivables written off during the year as uncollectible	**(19)**	(1)
Balance as at 31 December	**1,703**	1,514

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.

11. DEFERRED ACQUISITION COSTS

	2013	2012
Balance as at 1 January	**638**	898
Change in deferred acquisition costs	**(105)**	11
Impact of novation	**(391)**	(271)
Balance as at 31 December	**142**	638

The premiums are earned taking into account the duration of the risk period of the underlying insurance portfolios.
Other movements relate to the impact of the transfer of the reinsurance portfolio to Nationale Borg Reinsurance.

12. MISCELLANEOUS ASSETS AND ACCRUALS

	2013	2012
Accrued interest	**125**	71
Other	**306**	258
	431	329

The miscellaneous assets and accruals are substantially all current and consequently their fair values do no materially defer from their book value.

13. CASH AND CASH EQUIVALENTS

	2013	2012
Cash at bank and in hand	**11,171**	14,142
Cash investment accounts	**8,917**	8,923
Cash received as collateral	**7,840**	16,123
Total cash and cash equivalents	**27,928**	39,188

The total carrying amount of the deposits that have been pledged as collateral for liabilities at 31 December 2013, was € 6,400 (2012: € 6,400). All other cash in investment accounts is freely available.

14. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2013	2012
Balance as at 31 December	**4,019**	4,019

The total authorized share capital is € 11,000 (2012: € 11,000).
The share capital of € 4,019 (2012: € 4,019) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CAPITAL RESERVE

	2013	2012
Balance as at 31 December	**824**	824

REVALUATION RESERVE

	2013	2012
Balance as at 1 January	**6,396**	5,961
Change in revaluation reserve – gross	**(1,088)**	454
Change in revaluation reserve – tax	**(28)**	(19)
Balance as at 31 December	**5,280**	6,396

The revaluation reserve consists of € 5,322
(2012: € 5,072) for real estate and € (42) (2012: € 1,324) for financial fixed assets (all net of tax).

CURRENCY TRANSLATION RESERVE

	2013	2012
Balance as at 1 January	**(45)**	(25)
Currency translation	**45**	(20)
Balance as at 31 December	–	(45)

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

REVENUE RESERVE

	2013	2012
Balance as at 1 January	**62,272**	62,301
Dividends	–	(8,000)
Appropriations to reserve	**9,944**	7,971
Balance as at 31 December	**72,216**	62,272

PROFIT FOR THE YEAR

	2013	2012
Balance as at 1 January	**9,944**	7,971
Appropriations to reserve	**(9,944)**	(7,971)
Dividend distribution	**(6,000)**	–
Profit for the year	**8,843**	9,944
Balance as at 31 December	**2,843**	9,944

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.

15. TECHNICAL PROVISIONS

	2013	2012
Total		
Provision for unearned premium	**8,148**	10,459
Provision for claims	**20,464**	26,072
Claims incurred but not reported	**225**	225
Total underwriting provisions at 31 December	**28,837**	36,756
Guarantees		
Provision for unearned premium	**7,936**	8,933
Provision for claims	**5,817**	7,932
Claims incurred but not reported	–	–
Total technical provisions at 31 December	**13,753**	16,865
Money and Fraud Insurance*		
Provision for unearned premium	–	–
Provision for claims	**136**	577
Claims incurred but not reported	**225**	225
Total technical provisions at 31 December	**361**	802
Reinsurance		
Provision for unearned premium	**212**	1,526
Provision for claims	**14,511**	17,563
Claims incurred but not reported	–	–
Total technical provisions at 31 December	**14,723**	19,089

The movement schedule of technical provisions:

	Gross 2013	Reinsured 2013	Net 2013
Total			
Opening provision for claims	26,297	22,031	4,266
Change in provision	(4,063)	(2,953)	(1,110)
Impact of novation	(1,460)	(1,460)	–
Effects of changes in foreign exchange	(85)	(85)	–
Ending provision for claims	20,689	17,533	3,156
Opening provision for unearned premium	10,459	6,148	4,311
Change in provision	(1,260)	(597)	(663)
Impact of novation	(1,051)	(1,051)	–
Ending provision for unearned premium	8,148	4,500	3,648
Guarantees			
Opening provision for claims	7,932	4,036	3,896
Change in provision	(2,115)	(1,059)	(1,056)
Ending provision for claims	5,817	2,977	2,840
Opening provision for unearned premium	8,933	4,622	4,311
Change in provision	(997)	(334)	(663)
Ending provision for unearned premium	7,936	4,288	3,648
Money and Fraud Insurance			
Opening provision for claims	802	432	370
Change in provision	(441)	(387)	(54)
Ending provision for claims	361	45	316
Opening provision for unearned premium	–	–	–
Change in provision	–	–	–
Ending provision for unearned premium	–	–	–
Reinsurance			
Opening provision for claims	17,563	17,563	–
Change in provision	(1,507)	(1,507)	–
Impact of novation	(1,460)	(1,460)	–
Change in exchange rate	(85)	(85)	–
Ending provision for claims	14,511	14,511	–
Opening provision for unearned premium	1,526	1,526	–
Change in provision	(263)	(263)	–
Impact of novation	(1,051)	(1,051)	–
Ending provision for unearned premium	212	212	–

16. PAYABLES

	2013	2012
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	**(7)**	(5)
Amounts due to policy holders	**7,840**	16,123
	7,833	16,118
Trade and other accounts payable		
Accounts payable	**114**	267
Other accounts payables	**10,716**	22,792
	18,830	23,059
Balance as at 31 December	**18.663**	39,177

The payables due are substantially all current.
The balance of ‘Other amounts payable’ contains intercompany liabilities amounting to € 7,505 (2012: € 17,092). In 2013 a part of the intercompany liabilities has been transferred to ‘Deposits received from reinsurers’.

17. OTHER LIABILITIES

	2013	2012
Deposits received from reinsurers	**15,352**	174
Profit commission payable	**(256)**	55
Miscellaneous liabilities and accruals	**5,069**	5,531
	20,165	5,760

In order to cover the provision for unearned premium and the provision for claims related to business retroceded to Nationale Borg Reinsurance NV, NV Nationale Borg-Maatschappij withholds a deposit amounting to € 15,286 as per 31st December 2013.

Miscellaneous liabilities and accruals		
Payroll and other accruals	**611**	645
Sundry creditors	**4,458**	4,886
Balance as at 31 December	**5,069**	5,531

18. DEFERRED INCOME TAX LIABILITES

	2013	**2012**
Deferred income tax assets	**(57)**	(57)
Deferred income tax liabilities	**2,154**	2,553
	2,097	2,496

The movement on the deferred income taxes is as follows:

	2013	**2012**
Balance as at 1 January	**2,496**	3,010
Charge/(credit) to equity for the year	**28**	19
Charge/(credit) to corporate tax payable for the year	–	–
Charge/(credit) to the income statement for the year	**(427)**	(533)
Balance as at 31 December	**2,097**	2,496

The movement in deferred tax assets and liabilities during the year is as follows:

	Technical provisions	**Total**
Balance as at 1 January 2013	(57)	(57)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	–	–
Balance as at 31 December 2013	(57)	(57)
Balance as at 1 January 2012	(57)	(57)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	–	–
Balance as at 31 December 2012	(57)	(57)

Deferred tax liabilities	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2013	**1,479**	_	**918**	**156**	**2,553**
Charge/(credit) to equity for the year	28	_	_	_	**28**
Charge/(credit) to the income statement for the year	_	_	(305)	(122)	**(427)**
Balance as at 31 December 2013	**1,507**	_	**613**	**34**	**2,154**

	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2012	**1,433**	**27**	**1,383**	**224**	**3,067**
Charge/(credit) to equity for the year	46	(27)	_	_	**19**
Charge/(credit) to the income statement for the year	_	_	(465)	(68)	**(533)**
Balance as at 31 December 2012	**1,479**	_	**918**	**156**	**2,553**

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

	2013	2012
Reserves in shareholders' equity:		
Revaluation reserve	**28**	19

19. CURRENT INCOME TAXES

	2013	2012
Current income tax liabilities	**(2,018)**	(1,042)

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

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To: General meeting of shareholders and Supervisory Board of NV Nationale Borg-Maatschappij

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2013 of NV Nationale Borg-Maatschappij, Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income for the year, the consolidated statement of changes in equity and cash flows for the year, and notes to the consolidated financial statements, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position, the company statement of comprehensive income, the company statement of changes in equity and cash flows for the year and the notes to the company financial statements, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILTY

Management 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 executive Board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

OTHER INFORMATION

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 NV Nationale Borg-Maatschappij as at 31 December 2013 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.

OPINION WITH RESPECTS TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of NV Nationale Borg-Maatschappij as at 31 December 2013 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 requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the executive Board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the executive Board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 18 March 2014

KPMG ACCOUNTANTS NV

F.M. van den Wildenberg RA

OTHER INFORMATION

BRANCHES

The company has a branch in Belgium, located at Uitbreidingstraat 66 in Antwerpen-Berchem.

PROFIT APPROPRIATION

The profit is appropriated according to Article 21 of the articles of Association of NV 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."
No dividend will be declared.

PROPOSED PROFIT APPROPRIATION

Net profit	8,843
Interim dividend paid out	(6.000)
Transfer to reserves	(2,843)
Dividend to shareholders	–

With respect to the distribution of the result and retained earnings, considering the interim dividend of € 6 million paid during 2013, the Supervisory Board agrees with the proposal of the Executive Board to the shareholders to retain all earnings and add them to the company's equity.

EVENTS AFTER BALANCE SHEET DATE

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

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