2014

NATIONALE BORG ANNUAL REPORT

NATIONALE BORG

ANNUAL REPORT

FIVE YEAR FIGURES

€ '000	2014	2013	2012	2011	2010
Gross premiums earned	**89,901**	93,544	91,773	88,407	79,952
Net premium earned	**77,888**	79,314	76,034	72,267	64,095
Net claims incurred	**28,713**	39,284	35,264	31,267	26,420
Investment portfolio*	**156,662**	142,179	135,536	137,227	135,807
Investment income	**559**	5,181	4,163	(1,522)	8,511
Balance sheet Total	**209,657**	197,478	204,783	205,272	202,342
Gross technical provisions	**91,050**	94,145	90,846	89,686	81,737
Net technical provisions	**84,589**	84,150	80,799	78,965	69,323
Claim ratio in %	**36.9%**	49.5%	46.4%	43.3%	41.2%
Shareholders information					
Equity	**95,354**	85,182	83,410	81,051	81,340
Result after tax	**16,305**	8,843	9,944	7,971	17,939

* Investment portfolio excludes cash received as collateral.

PROFILE

For more than 120 years, Nationale Borg has been a specialized issuer of bonds and guarantees. As a specialist in these products, we the company has achieved a special position in a market that is dominated by banks.
Nationale Borg is also a reinsurer of surety bond and credit insurance portfolios of other insurance companies.
Nationale Borg employs 74 people in four locations. At our Amsterdam headoffice, we underwrite guarantees and provide central services to our group companies. Nationale Borg has a branch office in Belgium (Antwerp) to provide guarantees to the Belgian market, and three subsidiaries. Its subsidiary Nationale Borg Reinsurance NV based in Willemstad (Curaçao), provides reinsurance capacity to bond and credit insurance companies. Another subsidiary is Nationale Waarborg, based in Nieuwegein, which is active in the field of home purchase bonds. The last subsidiary is NV Belegging- en Beheermaatschappij Keizersgracht, an inactive company.
Nationale Borg is an independent insurance company. Through Nationale Borg Beheer BV 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 NV is supervised by the Central Bank for Curaçao 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 22 January 2015 Standard & Poor's reconfirmed once again the group's existing 'A-'rating representing financial strength, with stable outlook.

GUARANTEES

We issue bonds and guarantees on behalf of our clients to beneficiaries anywhere in the world. These documents enable our clients to 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. In addition, we are a specialist in the Dutch niche market of bonds for corporates that elect to self-insure disability payments to employees. 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

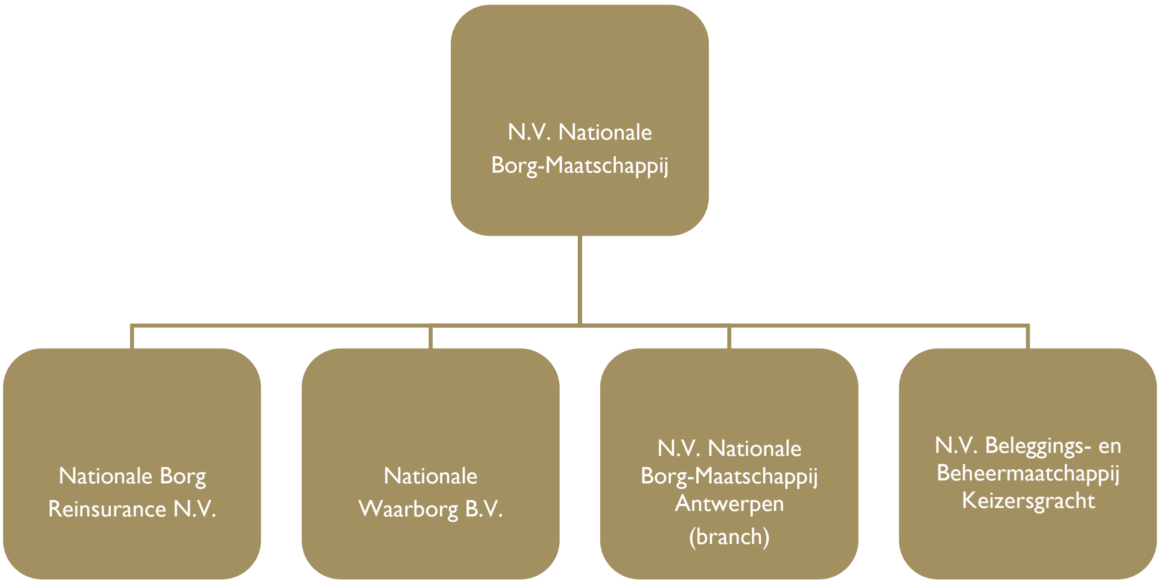
Home purchase bonds are the only guarantees provided by NV Nationale Borg-Maatschappij to private individuals. In the Netherlands, it is common for home buyers to provide these bonds when signing the purchase contract as security that they will actually pay the purchase price and take transfer of the home concerned. Nationale Waarborg BV provides the commercial presence and sales & distribution channel for home purchase bonds on behalf of Nationale Borg-Maatschappij. It acts as a service provider to intermediaries who sell home purchase bonds and it provides underwriting and claims handling services. Through Nationale Waarborg BV Nationale Borg Group has a leading position in this niche market.

PROFILE

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.
Nationale Borg itself is also active as a reinsurer of both treaty and facultative business of insurers worldwide through its subsidiary Nationale Borg Reinsurance NV. As a reinsurer, we not only underwrite the type of business that we are familiar with from our own direct operations, being guarantees, but credit insurance and political risk insurance 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 advises the General Meeting to approve the annual financial statements of NV Nationale Borg-Maatschappij for the year 2014, dated 17 March 2015, prepared by the Executive Board of the company. The annual report includes an unqualified auditors' opinion from KPMG Accountants NV. We also advise 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 5 meetings in 2014, covering all important issues based on an annual schedule as well as on the actual relevance to the company. The Supervisory Board is informed on a monthly basis of financial results and key developments of the company. The Audit Committee has held three meetings during 2014 and the Investment Committee convenes once a month. In 2014 a Remuneration Committee was installed and this committee held 2 meetings.

The Supervisory Board has been closely involved in discussions relating to strategy for the three business lines guarantees, reinsurance and home purchase bonds, including the target setting and actual budgeting process. In addition to discussing the general and strategic developments special attention is paid to large claim cases on an ongoing basis. During 2014 no new large claims have occurred and it seems that the prudent underwriting guidelines installed in 2009 are effective. On the other hand, economic circumstances for the main client base (construction industry) have not improved and the company continues with the same prudent policy, supported by the Supervisory Board.

The Supervisory Board has supported initiatives of the company to be in compliance with the corporate governance code in the Netherlands, known as 'Code Verzekeraars'. The Board confirms that certain steps will be taken in 2015 in line with recommendations and good practices of the Code, such as the appointment of another independent Supervisory Board member. The Remuneration Committee approved a new Remuneration Policy to bring policies in line with new Dutch regulation regarding remuneration within the financial industry.

During 2014, the company has continued preparations to comply with the qualitative and quantitative requirements of Solvency II, to ensure readiness for full compliance by the end of 2015. The first mandatory ORSA (called ERB according to Dutch regulation) was submitted to the Dutch Central Bank in December 2014. Particular attention was given to the further development of the company's Capital Management Policies, both in view of Solvency II and S&P requirements. To quantify the minimum capital and pricing requirements appropriate quantitative internal models need to be further developed, to ensure that we apply more than only the 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 € 8 million paid in 2014, the Supervisory Board agrees with the proposal of the Executive Board to retain all earnings and add them to the company's equity.

Amsterdam, 23 March, 2015

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

EXECUTIVE BOARD REPORT

ECONOMIC UNCERTAINTY LINGERS ON

Although the signs of recovery that became apparent in 2013 continued to perspire during 2014, there were also signals that the crisis lingers on. In addition, new uncertainties emerged, such as those caused by political turmoil in various parts of the world. Generally speaking, the general perception in the Netherlands was that positive developments outweigh the negative and that a modest economic recovery is underway.
However, positive developments may easily be crushed by uncertainty about the impact of recent European Central Bank measures, by instability in the Eurozone, or by escalation of the Ukraine conflict.
Many companies remain very vulnerable to adverse developments and depend on economic recovery for their future.
Nationale Borg Group 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 credit insurance and surety risks are equally represented. Our direct insurance activity focuses entirely on surety.
Credit insurers have seen several years of excellent results but are now face declining rates and softening conditions. Surety providers, who faced relatively heavy losses in 2013, saw results improve and begin to face a similar environment. Combined with ample supply of reinsurance capacity, this has resulted in very soft reinsurance market conditions, where commission rates are bound to rise and where loss ratios can only increase from the very low levels we saw in 2014.
On the Dutch and Belgian surety side, we continue to face challenges as order books in Construction continue to decline and options to implement counter measures, such as reducing the cost base, have been virtually depleted. Prolonged tiny or negative margins on new projects, fierce competition and restrictive lending continue to compound the problem. In this context, we manage our exposures within the narrow boundaries provided by the product characteristics, whilst maintaining both income risk and costs at acceptable levels.
At Nationale Borg we have always focused on risk management and we continued this approach during the past year. We did not actively seek growth in an environment where opportunities for quality growth are rare, although we remain open to opportunities that do occur. During 2014, our exposures continued to decline in line with our risk policy and the corresponding decline in premiums was only partly offset by price increases and revenue from new opportunities, such as the sale of WGA/WIA bonds that cover disability payment obligations of our clients. Our prudent approach to risk did pay off during the year and the results from our surety activity were excellent, as were the results from reinsurance. The performance of our investment portfolio contributed only marginally to the year's result.

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 later that year, we scaled down our organization to a sustainable cost level. In 2013, we introduced a complete overhaul of our client interface, BorgOnline, and we grouped the staff in our Guarantee activity into teams that service various industries. The Belgium team services 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 further improve the expertise of our organization in a more efficient way. The three teams focus on customs and excise related business; business from the construction sector; and on business from the capital goods, energy 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. With the team spread around the globe, but centrally managed from Willemstad (Curaçao), all cedants are visited at least on an annual basis. Meanwhile, we are present at many industry events and meetings, in order to develop a good understanding of the various markets. Each underwriting decision is taken by the Executive Board of Nationale Borg Reinsurance NV on Curaçao on the basis of a recommendation from the underwriters.

During 2014, we saw a stable premium volume in the reinsurance activity and a very satisfactory underwriting result in the absence of large individual losses. The results of all past underwriting years matured further in 2014 and all underwriting years from 2009 onwards contributed positively to the result.

NATIONALE WAARBORG

Transactions in the Dutch housing market picked up at a remarkable pace during 2014. With a slightly increasing share in a market that saw the number of transactions increasing month after month, Nationale Waarborg had a very good year.

A very low incidence of new claims, combined with continued emphasis on the recovery of older losses resulted in a negative claim ratio once again.

PREMIUM DEVELOPMENT

Total premiums earned decreased by 1.8% in 2014. In guarantees, premiums earned decreased by 4.5%. 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 some extent to the decline. In reinsurance, rates showed a slight decline. We continue to see increased exposure levels on new treaties we have written over the last years. The overall premium earned from reinsurance decreased 3.7% .

INSURANCE RESULT

The overall portfolio showed an excellent performance, with no major individual losses.

Altogether the net loss ratio for the direct guarantee business reached 10.2% (2013: 49.1%), while in reinsurance, the overall loss ratio came in at 42.0% (2013: 49.7%). Both ratios are well within our long term objective.

We are very 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.

EXECUTIVE BOARD REPORT

INVESTMENT RESULT

(amounts x € 1,000)

The composition of our investment portfolio was stable in 2014 and more or less unchanged compared to balance sheet date 2013. The total return on investments, including value adjustments through equity amounted to € 1,503 (2013: € 3,812).
The income from dividend (2014: € 700, 2013: € 697) and rental income from property (2014: €269, 2013: € 273) remained in line with 2013 figures. The interest income decreased because of lower interest rates (2014: € 892, 2013: € 1,381). The realized and unrealized gains and losses (including value adjustments through equity) decreased by €1,828 (2014: € (119), 2013: € 1,709).
The decrease in investment results was partially compensated by favourable exchange rate differences on investments. These results are taken into account under the net operating expenses.
For more information regarding risk management relating to financial instruments, we refer to the Risk Management paragraph in the notes to the financial statements.

CASH FLOW AND FUNDING REQUIREMENTS

Nationale Borg has no debt outstanding and had no funding requirements in 2014. 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 from 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.

FINANCIAL INSTRUMENTS

The assets opposite the technical provisions and equity attributable to the shareholders include investments like equity and bonds.
The market risk associated with investments, includes interest rate risk, currency risk, concentration risk, ALM risk and equity risk. It also includes counterparty risk and liquidity risk. With respect to market risk we have a moderately risky investment policy.
Market risk is centrally managed by 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 rates, equity price changes and counterparty defaults or downgrades. We have limited equity risk with an option strategy and a significant part of the equities portfolio consists of low risk, high dividend yield shares.
In addition to the above mentioned Market risks the Nationale Borg Group 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.

EXECUTIVE BOARD REPORT

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

The composition of the board remained unchanged compared to 2013 (2013 and 2014: 33% female and 67% male). Also with regard to the Supervisory Board the composition has not changed in 2014 (2013 and 2014 100% male). There were no vacancies. The preference for a balanced composition will be taken into consideration when a new vacancy becomes available.

PERSONNEL

In 2014 74 (2013: 76) employees where employed by Nationale Borg Group. The average number of FTE amounted to 66.4 (2013: 65.6). Most of the employees within Nationale Borg Group are on the payroll of NV Nationale Borg-Maatschappij. For these employees the collective labour agreement (in Dutch 'Collectieve Arbeids-Overeenkomst', CAO) for insurance companies is applicable. In December 2014 the CAO was finalized for the period 1 January 2015 untill 30 June 2016.
At year end 2014 there were 4 vacancies in total; 2 vacancies in the guarantee department in the Netherlands, one in the guarantee department in Belgium and one position for a compliance officer.

RISK MANAGEMENT

RISK GOVERNANCE

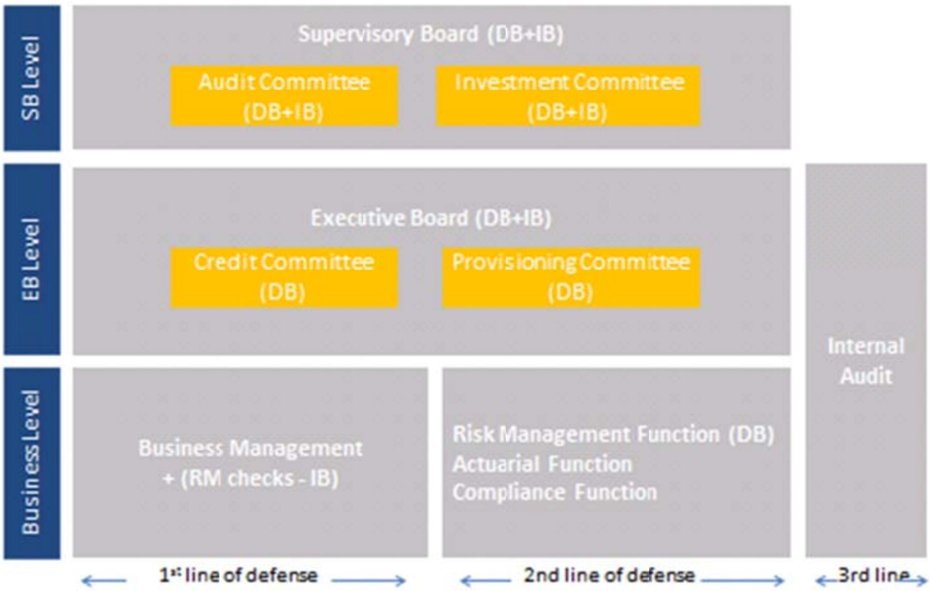
As an insurance company, Nationale Borg cannot operate without taking measured and managed risks. To ensure risk-taking is properly controlled, Nationale Borg has risk management integrated into its daily business activities and strategic planning.

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.
Business Management (the commercial departments) forms 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 for direct business and home purchase bonds are involved in issuing guarantees and setting up facilities and as such and directly related to the risks we assume. Therefore we regard risk management as an integral part of our business processes/decisions.
The Risk Management function is part of the second line of defense. Risk Management is headed by the Chief Risk Officer (CRO). The CRO is also the CFO. The CRO manages the functional, independent risk function 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.

EXECUTIVE BOARD REPORT

Internal Audit forms the third line of defense, providing independent and objective assurance on the overall efficiency and effectiveness of the risk management function and risk governance framework (design and implementation; e.g. the embedding in the first line).



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 approving large transactions in the investment portfolio that impact the risk profile.

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

1. The **Credit Committee**. The primary responsibility of the committee is to approve reviews and proposals for the Direct Business for exposures in excess of € 10 million. The committee includes the CEO and CFO/CRO. They decide together when they are both present and alone when only of them is present.

- The **Provisioning Committee.** The primary responsibility of the committee is to (re)assess the adequacy of provisions and set new provisions for the Direct Business. This committee also reviews provisions for large claim cases. The committee comprises of the CEO, CRO/CFO, Finance Manager and Risk Manager Direct Business.

EXECUTIVE BOARD REPORT

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:

- Non-life Underwriting risk (Insurance risk);
- Market risk (risks associated with investments, Asset Liquidity Management (ALM) risk and liquidity risk);
- Operational risk;
- Strategic risk.

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.

This paragraph contains a more details description of the non-life underwriting risk / insurance risk. The other risk areas are descripted in the risk management paragraph in the notes to the financial statements.

Non-life Underwriting risk / insurance risk

New business is usually acquired without intermediaries, therefore 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 that consists of the CEO and CFO/CRO. Meetings of the Credit Committee are attended by the managers of the Risk Management and the Finance 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.

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 January 1st 2011. It was renewed as per July 1st 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. As from January 1st 2015 it is no longer required by law to provide this explanation, however based on self-regulation within the industry we are still obligated to do so.
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 and financial reporting. Decision making and assessments take place in the Board itself.
- The Supervisory Board is supported by the Remuneration Committee. The committee prepares Board decisions with respect to remuneration of board members, key personnel (individual level) and personnel (general level).
- 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 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.
- 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 quarterly 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.

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 is in 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.

EXECUTIVE BOARD REPORT

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 income items and it ensures that the Executive Board assesses whether variable incomes are consistent with the remuneration policy adopted by Nationale Borg.

OUTLOOK 2015

As encouraging signs about economic recovery continue to emerge, it remains uncertain whether the recovery is going to endure. 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. While we have stated for several years 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 statement is more true every time we repeat it. 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 2015.

Once again, in 2014, 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, 23 March 2015

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

2014

CONSOLIDATED FINANCIAL STATEMENTS

NATIONALE BORG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Before appropriation of result

€ '000	Note		**31 December 2014**		**31 December 2013**
ASSETS					
Property, plant and equipment	*6*		**8,292**		7,367
Intangible assets	*7*		**2.796**		2,744
Financial assets	*8*		**54,456**		54,854
Reinsurance contracts	*9*		**19,524**		23,754
Trade and other receivables:	*10*				
• Accounts receivable on insurance and reinsurance business		**10,150**		14,019	
• Other accounts receivables		**116**		125	
			10,266		14,144
Other assets:	*11*				
• Deferred acquisition costs		**5,685**		5,207	
• Miscellaneous assets and accruals		**1,086**		1,305	
			6,771		6,512
Cash and cash equivalents	*12*				
• Cash		**94,204**		80,263	
• Cash received as collateral		**13,348**		7,840	
			107,552		88,103
TOTAL ASSETS			**209,657**		197,478

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000	Note	31 December 2014		31 December 2013	
EQUITY					
Capital and reserves attributable to the equity holders of the company	*13*		**95,354**		85,182
LIABILITIES					
Technical provisions	*14*		**91,050**		94,145
Payables:	*15*				
• Accounts payable on insurance and reinsurance business		**13,341**		7,833	
• Trade and other payables		**5,664**		3,927	
			19,005		11,760
Other liabilities:	*16*				
• Deposits received from reinsurers		**17**		82	
• Profit commission payable		**69**		955	
• Miscellaneous liabilities and accruals		**2,068**		1,992	
			2,154		3,029
Deferred income tax liabilities	*17*	**2,597**		2,097	
Current income tax liabilities	*18*	**(503)**		1,265	
			2,094		3,362
TOTAL LIABILITIES			**114,303**		112,296
TOTAL EQUITY AND LIABLITIES			**209,657**		197,478

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000		**2014**	**2013**
Insurance premium revenue		**89,901**	93,544
Insurance premium ceded to reinsurers		**(12,013)**	(14,230)
NET PREMIUMS EARNED	*19*	**77,888**	79,314
Service income		**1,302**	862
Reinsurance commission received		**3,849**	3,525
Net income from investments	*20*	**559**	5,181
TOTAL INCOME AFTER REINSURANCE		**83,598**	88,882
Insurance claims and loss adjustment expenses		**(27,546)**	(62,307)
Insurance claims and loss adjustment expenses recovered from reinsurers		**(1,167)**	23,023
NET INSURANCE CLAIMS	*21*	**(28,713)**	(39,284)
Acquisition cost	*22*	**(26,010)**	(25,881)
Net operating expenses	*23*	**(11,266)**	(12,864)
Profit before tax		**17,609**	10,853
Income tax expenses	*24*	**(1,304)**	(2,010)
PROFIT FOR THE YEAR FROM OPERATIONS		**16,305**	8,843
Attributable to:			
Equity holders of the company		**16,305**	8,843
Basic earnings per share from continuing operations (euro)	*25*	**20.29**	11.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

€ '000		**2014**	**2013**
Profit for the year		**16,305**	8,843
Other comprehensive income:	26		
Net fair value gains/(losses) on available for sale financial investments		**944**	(1,369)
Net revaluation property for own use		**923**	253
Foreign exchange results on assets		–	45
Total other comprehensive income		**1,867**	(1,071)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,172**	7,772
Attributable to:			
Equity holders of the company		**18,172**	7,772

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 2014	4,019	824	5,280	_	72,216	2,843	**85,182**
Result income statement	_	_	_	_	_	16,305	**16,305**
Other comprehensive income	_	_	1,867	_	_	_	**1,867**
Total comprehensive income for the year	_	_	1,867	_	_	16,305	**18,172**
Dividend distribution	_	_	_	_	_	(8,000)	**(8,000)**
Appropriations to reserves	_	_	_	_	2,843	(2,843)	_
Other movements	_	_	(1,272)	_	1,272	_	_
BALANCE AT 31 DECEMBER 2014	**4,019**	**824**	**5,876**	_	**76,330**	**8,305**	**95,354**

€ '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)	_
Other movements	_	_	_	_	_	_	_
BALANCE AT 31 DECEMBER 2013	4,019	824	5,280	_	72,216	2,843	85,182

CONSOLIDATED CASH FLOW FOR THE YEAR

€ '000	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**17,609**	10,853
Adjustments for:		
• Realized capital (gains) in investments	**680**	_
• Realized capital (gains) and losses on property own use	**(107)**	_
• Unrealized capital (gains) and losses on investments	**14**	(2,280)
• Depreciation and amortization (including impairments)	**734**	733
• Foreign exchange result	**(638)**	270
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**(3,095)**	3,299
• Reinsurance assets (net)	**4,230**	(1,370)
• Deferred acquisition costs	**(478)**	(227)
• Accounts receivable and payable on insurance and reinsurance business	**9,377**	(7,988)
• Changes in other assets and liabilities	**1,071**	(3,288)
Income taxes paid	**(2,835)**	(2,982)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**26,562**	(2,980)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments	**(3,911)**	(4,524)
• Property, plant and equipment and intangible fixed assets	**(483)**	(408)
Divestments, redemptions and disposals (cash inflows);		
• Financial investments	**5,281**	5,913
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**887**	981
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(8,000)**	(6,000)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**(8,000)**	(6,000)
Foreign exchange results	_	45
CHANGES IN CASH AND CASH EQUIVALENTS	**19,449**	(7,954)

CONSOLIDATED CASH FLOW FOR THE YEAR

	2014	2013
Cash and cash equivalents at the end of the preceding year	**88,103**	96,057
Cash and cash equivalents at the end of the financial year	**107,552**	88,103

	2014	2013
Cash at banks and at hand	**40,954**	31,927
Cash investment accounts	**53,250**	48,336
Cash received as collateral	**13,348**	7,840
Total cash and cash equivalents	**107,552**	88,103

NOTES TO THE CONSOLIDATED 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 foreign markets.

2. GENERAL

NV Nationale Borg-Maatschappij is fully owned by Nationale Borg Beheer BV which is owned and managed by HAL Investments BV and fund Egeria Capital 2 (Egeria Capital Management BV). Both HAL and Egeria own 46.7% of the ordinary shares, the remaining 6.6% of the ordinary shares are owned by management.
NV Nationale Borg-Maatschappij is a joint-stock company and is located (also registered office) at Keizersgracht 165, Amsterdam, The Netherlands.

3. PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

BASIS OF PRESENTATION

The financial statements 2014 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 standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements.
Amendments to IFRSs that were issued during 2014 as separate documents relate to IAS 10, 12, 27, 32, and 36. There was no impact related to these amendments on these financial statements.

All amounts in these statements are in thousands of euro, unless specified otherwise.
The financial statements were authorised for issue by the Executive Board on March 23rd 2015.

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 2014 (and 2013) included the following entities:

Name	**Country of incorporation**	**Interest held %**
Nationale Borg Reinsurance NV	Dutch Antilles, Curaçao	100.00
NV Belegging- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	100.00
Nationale Waarborg BV	The Netherlands, Nieuwegein	100.00

NV Nationale Borg-Maatschappij, including its Antwerp branch, NV Belegging- en beheermaatschappij ”Keizersgracht”, Nationale Borg Reinsurance NV 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 other than the capital restrictions regarding Nationale Borg Reinsurance NV The capital needed for the business of this subsidiary according to the standards of the Antilles regulator amounts to € 7 million.

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 €	
	2014	**2013**	**2014**	**2013**
AUD	**0.671**	0.645	**0.677**	0.722
CAD	**0,708**	0,679	**0,684**	0,727
GBP	**1,278**	1,198	**1,242**	1,176
USD	**0,823**	0,726	**0,755**	0,752

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 5 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 5 years, and 5 - 10 years for fixtures and fittings. Expenditures for maintenance and repairs are charged to the profit and loss account as incurred. Expenditure incurred on major improvements is capitalized and depreciated.
The depreciation period is based on the estimated economic useful life of the asset. 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
Buildings	40
Reconstructions	5
Computer hardware	5
Fixtures and fittings	5 - 10

The fair values of land and buildings are based on regular appraisals by an independent qualified valuator. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

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

Guarantee 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.
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. 'IBNR' reserves relate to money and fraud policies only and 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 (provisions). Both for the provision for unearned premium as the provision for outstanding claims the adequacy is tested by calculating a Best Estimate reserve, which is based on future cash flows taking into account the time value of money (i.e. discounting). This Best Estimate reserve is compared with the reserves at balance sheet date. Any deficiency is immediately charged to the profit and loss account, initially by writing off the intangible assets (deferred acquisition costs) related to insurance portfolios and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

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 operated 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 entered into a new pension scheme that also qualifies as a defined contribution scheme. A settlement with the employees for the change in premium contribution in relation to the transition from the previous to the new pension scheme, has been agreed upon. The transitional arrangements are conditional and end after 2016.

PROFIT SHARING AND BONUS PLANS

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

TAX LIABILITIES

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

DEFERRED INCOME TAX LIABILITIES

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.
Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be 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; and
- Reinsurance

Accruals for premium refunds are charged against premiums written. Premiums earned include an adjustment for the unearned share of premiums, 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.
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.

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 through profit and loss'.

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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Nationale Borg Group 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.

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 money and fraud portfolio is in run-off. The remaining reserves relate to claims cases that are rejected, investigated or subject of a legal procedure.

At year-end 2014 and 2013 the provision for unexpired risk was nil based on a premium deficiency test.

Incurred but not reported	Nationale Borg Group 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

Estimated impairment of goodwill

Nationale Borg Group tests annual whether the goodwill related to the home purchase bonds has suffered any impairment. The recoverable amounts of cash generating units have been determined bases on value in use calculations. These calculations require the use of estimates.
In order to test the value in use against the recognised goodwill, the group has stress tested the carrying amount to the discounted value of the sum of the projected results for a period of 5 years. The discount rate is set at 15.6%. This percentage is based on the ROE of 12.5% taking into account the applicable tax rate. Based on these assumptions there is no indication of any potential impairment of the goodwill.

Impairment of available-for-sale financial investments

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

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

4. RISK MANAGEMENT

RISK PROFILE AND RISK APPETITE

RISK PROFILE
Nationale Borg-Maatschappij is a specialized issuer of bonds and guarantees. Nationale Borg Reinsurance is a reinsurer of these risks as well as of credit insurance risks. For the long term NV Nationale Borg-Maatschappij wants to grow its market share in our two home markets and make use of opportunities to write profitable business in the global reinsurance market.
Key to our mission and continuity is prudent risk management. As an insurance company, Nationale Borg Reinsurance by definition assumes risk against a premium. The risks Nationale Borg Reinsurance is exposed to can be broken down into several categories:

Non-life underwriting risk (insurance risk)
This is described as the risk we run on a professional basis as an insurance company, which is the risk that the premiums and provisions, which were calculated on the basis of expected risk, do not adequately cover the actual losses incurred.
We distinguish from a risk perspective between guarantees (also referred to as “direct business” (DB), home purchase bonds (HPB), and assumed reinsurance (also referred to as “indirect business” (IB)); The Risk Manual details the desired process and checklists we need to apply to sufficiently mitigate the risks in the direct business. The full manual is available through the intranet site of Nationale Borg. For IB activities and for HPB separate guidelines and instructions are available within that team.
In reinsurance we only participate in treaties which historically have shown combined ratio levels within our guidelines and thus leaving ample profit margins. Bottom line result is the key target.

Market risk
The risk associated with investments, including market risk (interest rate, currency, concentration, real estate & equity risk) and liquidity risk. Possible risks associated with differences in duration (ALM risk) are included in Market Risk as well. A sub-category of Market risk is Credit risk (counterparty default): this is the risk associated with the default of a counterparty (not being a client of the direct business), whether this arises from insolvency, dispute or another reason.
With respect to market risk we have a moderately conservative investment policy with approximately 60% (2013: 56%) in cash and deposits, 15% (2013: 17%) in Dutch and German government bonds, 17% (2013: 19%) in equities and 7% (2013: 8%) in real estate(funds). We have limited the equity risk with an option strategy and a significant part of the equity portfolio consists of low risk, high dividend yield shares. These

risks are monitored and managed by the investment committee, which meets every month or more frequently when it is deemed necessary.

Operational risk
The risks associated with people, processes and systems. The risk we run as a company in general, which we control via process risk-control frameworks.
At least every two years we update our risk profile with Risk Assessments.

Strategic risk
Strategic risks are those risks that are most consequential to Nationale Borg's ability to execute its strategies and achieve its business objectives.

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 per cedant, maximized at € 20 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 (effectively this means that our investment risks are covered by excess capital).
- Maintaining our long standing and good reputation as a specialized provider of guarantees and reinsurance coverage.

For market risks, Nationale Borg has defined its risk appetite as follows:

- Maximize the return on the investment portfolio for the longer term with a low risk appetite whilst taking into considerations the requirements with respect to keeping liquidity, regulations and capital adequacy.
- Nationale Borg's return-to-risk appetite is defined by way of a range of permitted exposure in various investment risk categories (segregated into 3 broad categories by levels of risk-return).
- 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 current Investment Policy.
- Ensure availability (at all times) of liquid financial assets sufficient to cover NB's technical liabilities, while optimizing returns.
- Tactical direction and larger (more than € 1 million) transactional decisions are approved by the Investment Committee.

For operational risks the risks identified in the risk assessment will be scored on likelihood and impact. Likelihood: the probability that an occurrence will take place:

0	- 1,67	: small/ very small	= low:	later than in the coming 5 years
1,68	- 3,35	: average	= medium:	between 1 and 5 years
3,36	- 5	: large/very large	= high:	within the coming 1 year

Impact: the amount in Euro's by which the company is negatively impacted:

0	- 1,67	: small/ very small	= low:	smaller than € 100.000
1,68	- 3,35	: average	= medium:	between € 100.000 and € 500.000
3,36	- 5	: large/very large	= high:	larger than € 500.000

The impact could also be qualitative; e.g. on reputation; this is not yet defined in scales; but plotted on a case by case basis.

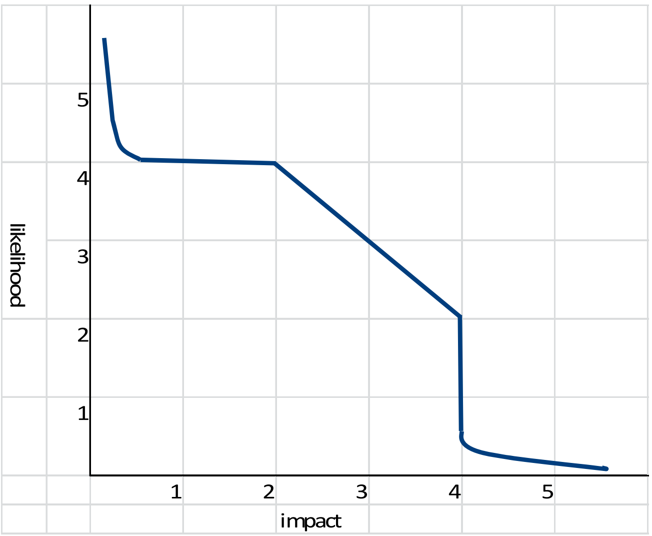
Risk appetite operational risks:

Two scores are given for the individual risks, one for the likelihood and one for the impact, on a scale from 1 to 5.

Not acceptable risks:

- Total score 6 or higher.
- Individual score 4 or higher.

In the figure below the blue line indicates the risk appetite of Nationale Borg.



In our opinion strategic risk appetite, though set by the Executive and the Supervisory Board, is an important topic for all employees. We all have to contribute in day-to-day business to the mitigation of such risks; hence we include strategic risk in the operational risk category. Because of Nationale Borg's small size everyone involved is very close to the daily business operations and (adverse) market developments are quickly noticed. It is obviously the task of the Executive and the Supervisory Board to monitor strategy, Nationale Borg's market position and potential changes in product offering and competition.

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 nonperformance 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. This implies that at the time of issuing the guarantee we anticipate (= we ascertain that based on current knowledge) the guarantee will not be claimed. In addition we make sure a valid exit scenario is available. Subsequent claims can only be realized by mistakes in underwriting decisions or subsequent negative developments. In the direct business we underwrite only guarantees. Furthermore, we take all our underwriting decisions ourselves without the use of intermediaries Our maximum loss for any risk not to exceed € 5 million. Our reinsurance protection is set up accordingly.

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, the head 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 fronted through other insurers is € 77,139 (2013: € 115,761) and through banks is € 4,563 (2013: € 5,759).

At 31st December 2014 we have active agreements for a limit with ING Bank NV amounting to € 10 million and with Deutsche Bank Nederland NV for € 60 million. We are currently negotiating the renewal of our fronting lines with the banks, in order to increase the capacity we can provide to our clients. This may lead to an obligation to pledge a part of our assets as collateral.

We also make use of bank facilities in relation to incoming reinsurance business. Cedants demand cash deposits or Letters of Credit (LOC's) as a security for our potential obligations under the respective treaties. The total LOC's at 31st December 2014 amounted to € 57,180 (2013: € 47,851). As the LOC's relate to obligations that are already taken into account in the technical provisions we do not state these LOC's as contingencies.

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 quarterly within the so-called provisioning committee.

Reporting

In monthly reports the development of the business and the risk component is reported to the Executive Board, the Supervisory Board and the Audit Committee. The Supervisory Board meets 5 to 6 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 Supervisory Board 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. All losses are discussed regularly between the Manager Risk management and the CEO. On a quarterly basis the claims are discussed within the Provisioning Committee, in which the CEO, the CRO/CFO and Manager Risk Management participate. The adequacy of the reserves is back tested once a year by the Actuary.

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 the monthly reporting package. These reports are also part of the monthly reporting package.

Risk exposure
The ten largest guarantee clients account for approximately 26% (2013: 26%) of premium income, while the twenty largest clients together account for approximately 39% (2013: 40%) 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:

	2014			2013		
	Exposure € '000	**Number**	**Average exposure per guarantee € '0**	**Exposure € '000**	**Number**	**Average exposure per guarantee € '0**
Belgium						
• Construction	753,159	8,727	86,302	835,702	8,391	99,595
• Other types	119,183	312	381,997	121,345	316	384,003
Netherlands						
• Construction	1,019,548	3,804	268,020	1,250,345	4,787	261,196
• Other types	902,986	4,730	190,906	894,275	4,031	221,849
Total	**2,794,876**	**17,573**	**159,044**	3,101,667	17,525	176,985

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

€ '000	2014	2013
Belgium		
• Construction	**5,523**	5,786
• Other types	**860**	898
Netherlands		
• Construction	**9,849**	10,162
• Other types	**8,087**	7,623
Total Premium from Guarantees	**24,319**	24,469

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	2014	2013	2012	2011	2010
Guarantee	**23**	4,656	4,144	8,795	3,513
Money and Fraud	**(54)**	(55)	(12)	(35)	304

At the end of 2014 Nationale Borg had earmarked clients with a nominal exposure of € 69 million (2013: € 57 million) that require special attention from Risk Management.

Of these risks 4 (2013: 3) cases have a nominal gross 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 € 26 million (2013: € 23 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' (Home Purchase Bonds (HPB)) 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. Noncompliance 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.

- In HPB the risks are very short term (a few months) and very limited per contract (10% of the amount of the purchase price (average value € 25).
- The focus is on standard products for the Dutch market.

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 Reinsurance, 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). The specific competence accumulated in the fields of guarantees is applied to evaluate the underwriting performance of cedants of this business.
Nationale Borg Reinsurance has set up a framework based on which the operational and financial performance of prospective reinsurance clients is monitored. Regular visits (at least once a year) are made to assess the cedant and its business. The opportunities are assessed by a team of underwriters. All underwriting decisions are subject to approval by the executive board of Nationale Borg Reinsurance.
By nature of the activity, the spread of risk is very high. Not only does Nationale Borg 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 cedants' 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.
The monitoring and reporting process is going to be further developed, also when the internal (EVA) model has been completed.

Risk Exposure

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

	Percentage Novated	2014	2013
Treaty			
• Number of countries		**44**	47
• Number of cedants	96.6%	**94**	97
• Total amount (PML basis, in € millions)*	99.4%	**4,684**	4,810
o Bond	99.5%	**2,805**	3,223
o Credit	99.1%	**1,672**	1,587
o Other	100.0%	**207**	0

	Novated	2014	2013
Facultative			
• Number of countries		**19**	16
• Number of risks	95.0%	**79**	82
• Total nominal amount (in € thousands)	89.0%	**71,334**	62,092
• Average amount per guarantee (in € thousands)		**903**	757

* 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 € 655 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**					
2005	**2005**	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Premium	14,131	30,822	33,768	35,236	36,268	36,952	37,498	37,849	38,021	38,148
Losses paid	718	5,448	9,237	10,788	11,796	12,618	13,314	14,123	14,897	16,900
Recoveries	7	133	462	746	881	1,041	1,325	1,495	1,571	1,611
Loss reserves	3,574	7,258	4,774	3,602	3,280	3,256	3,005	2,356	3,327	1,537
Loss incurred	4,285	12,573	13,549	13,644	14,195	14,833	14,994	14,984	16,653	16,826
Loss ratio	30.3%	40.8%	40.1%	38.7%	39.1%	40.1%	40.0%	39.6%	43,8%	44,1%

2006		2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Premium		13,727	31,206	33,341	34,641	35,580	36,224	36,694	36,923	37,157
Losses paid		509	4,608	8,779	10,780	12,278	13,717	14,376	15,329	15,923
Recoveries		23	177	505	637	793	978	1,169	1,273	1,333
Loss reserves		3,355	7,042	4,981	3,890	3,154	3,361	3,310	2,625	2,510
Loss incurred		3,841	11,473	13,255	14,033	14,639	16,099	16,517	16,681	17,100
Loss ratio		28.0%	36.8%	39.8%	40.5%	41.1%	44.4%	45.0%	45,2%	46,0%

2007			**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Premium			12,876	28,011	30,128	31,104	32,087	32,574	32,786	32,964
Losses paid			514	4,860	9,850	12,555	15,856	17,454	18,001	20,847
Recoveries			7	214	612	796	1,159	1,293	1,436	3,585
Loss reserves			2,997	6,803	4,641	4,264	2,627	1,889	1,949	2,382
Loss incurred			3,504	11,449	13,879	16,023	17,324	18,050	18,514	19,644
Loss ratio			27.2%	40.9%	46.1%	51.5%	54.0%	55.4%	56,5%	59,6%

2008				**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Premium				17,149	34,862	38,085	39,593	40,066	40,551	40,800
Losses paid				1,199	11,878	26,214	30,938	32,232	33,695	35,216
Recoveries				15	297	1,514	2,398	3,874	4,377	4,757
Loss reserves				6,076	12,229	4,784	2,781	2,902	2,771	1,887
Loss incurred				7,260	23,810	29,484	31,320	31,259	32,089	32,346
Loss ratio				42.3%	68.3%	77.4%	79.1%	78.0%	79,1%	79,3%

2009					**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Premium					19,116	40,409	43,811	45,401	46,384	46,580
Losses paid					657	5,483	9,572	12,474	14,104	15,660
Recoveries					19	366	926	1,331	1,522	1,808
Loss reserves					5,450	8,205	5,907	4,266	3,926	2,426
Loss incurred					6,088	13,322	14,552	15,409	16,508	16,277
Loss ratio					31.8%	33.0%	33.2%	33.9%	35,6%	34,9%

2010						**2010**	**2011**	**2012**	**2013**	**2014**
Premium						21,629	47,406	51,568	53,649	54,614
Losses paid						446	5,511	11,402	14,838	17,165
Recoveries						8	566	939	1,450	1,807
Loss reserves						4,495	10,446	8,034	4,769	3,280
Loss incurred						4,933	15,391	18,498	18,157	18,638
Loss ratio						22.8%	32.5%	35.9%	33,8%	34,1%

2011							**2011**	**2012**	**2013**	**2014**
Premium							25,518	57,180	63,939	66,534
Losses paid							724	10,125	18,716	22,627
Recoveries							43	472	1,057	1,593
Loss reserves							6,099	12,900	10,100	7,083
Loss incurred							6,780	22,553	27,758	28,117
Loss ratio							26.6%	39.4%	43,4%	42,3%

2012	2012	2013	2014
Premium	25,861	58,851	67,752
Losses paid	2,058	10,916	21,408
Recoveries	42	607	1,481
Loss reserves	6,411	13,575	9,944
Loss incurred	8,427	23,884	29,872
Loss ratio	32.6%	40,6%	44,1%

2013	2013	2014
Premium	23,850	50,008
Losses paid	1,185	8,689
Recoveries	26	0,446
Loss reserves	7,621	12,930
Loss incurred	8,781	21,173
Loss ratio	36,8%	42,3%

2014	2014
Premium	26,196
Losses paid	0,886
Recoveries	0,046
Loss reserves	6,785
Loss incurred	7,626
Loss ratio	29,1%

Based on the expected claims ratio of a contract, the actual loss reserve is determined 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 and only contains the losses and recoveries as stated by the cedants. At the aggregate level, the percentage of this portfolio novated to Nationale Borg Reinsurance represents 98.9% (2013: 97.6%) of the Premium, 90.4% (2013: 91.2%) of the Losses paid net of recovery and 81% (2013: 74.3%) of the Loss Reserves.

MARKET RISK

Market risk is the risk associated with investments, including interest rate risk, currency risk, concentration risk, ALM risk, real estate & equity risk. It also includes counterparty risk and liquidity risk.
With respect to market risk we have a moderately risky investment policy.
Market risk is centrally managed by 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 rates, equity price changes and counterparty defaults or downgrades. We have limited equity risk with an option strategy and a significant part of the equities portfolio consists of low risk, high dividend yield shares.
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, which meets every month or more frequently when it is deemed necessary.
In addition to the above mentioned Market risks 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 2014, 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 (funds) (2014: € 11,627, 2013: 11,316), sovereign bonds (2014: € 23,862, 2013: 23,559), equity portfolio (2014: € 26,968, 2013: € 27,041), and cash & deposits (2014: € 94,204, 2013: 80,263).
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 € 14.0 million. A more refined method to measure market risks has been developed as part of the preparation for Solvency II and to monitor capital requirements. 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	41.0	26.2%	5%	2.1
Medium	77.1	49.2%	4%	3.1
High	38.5	24.6%	22-25%	8.8
Total	156.6	100.0%		14.0

Low	:	Cash (current accounts).
Medium	:	Government bonds with a duration less than15 years and Deposits with a duration less than 10 years.
High	:	Equity (stress rate 22%) and property (funds) (stress rate 25%).

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 € 8.0 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 € 16.0 million). Because of this, the total loss on this part of the equity portfolio is limited to a maximum of 40%.

Counterparty default risk related to investments

Regarding government bonds this risk has been kept to a minimum by investing in AA+ bonds; whereas the remaining investments are in the equity portfolio. The following table gives insight in the profile of the investment portfolio.

	2014					2013	
	Opening	Purchases / sales	Gains/ losses	Total		Total	
Government bonds (AA+ sovereign) - fixed rate	15,520	_	496	**16,016**	58%	15,520	56%
Government bonds (AA+ sovereign) - indexed rate	8,039	_	(193)	**7,846**	29%	8,039	29%
Equity and preferred shares	4,254	(672)	45	**3.627**	13%	4,254	15%
Total - Available for Sale	27,813	(672)	348	**27,489**	100%	27,813	100%
Equity and Preferred shares	27,041	(698)	624	**26,967**	100%	27,041	100%
Total - To / From P&L	27,041	(698)	624	**26,967**	100%	27,041	100%
Total - All Financial Securities	54,854	(1,370)	972	**54,456**		54,854	

In 2014, the split of investments (excluding put options on indices that are part of Equity and preferred shares classified as 'At fair value through profit and loss' amounting to € 201; and Equity and preferred shares classified as 'Available for sale' amounting to € 3,627) by country of risk is provided in the following table:

	Equity	**Bonds**	**Total**	%
Belgium	4,006	_	**4,006**	8%
Germany	11,293	7,846	**19,139**	38%
France	97	_	**97**	0%
Luxembourg	1,752	_	**1,752**	3%
Netherlands	4,063	16,016	**20,079**	40%
United States	5,555	_	**5,555**	11%
Total	26,766	23,862	**50,628**	100%

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

	2014		2013	
Years	**Amount**	**%**	**Amount**	**%**
0 – 1	**4,874**	**20%**	_	0%
1 – 3	**9,912**	**42%**	12,978	55%
3 – 5	_	_	2,436	10%
5 – 10	**5,867**	**24%**	5,478	23%
10+	**3,209**	**13%**	2,667	11%
Total	**23,862**	**100%**	23,559	100%
Duration	**3.85 years**		4.58 years	
Average Maturity	**8.81 years**		7.69 years	

In addition, counterparty default risk also exists with regard to deposits at cedants amounting to € 14,936 (2013: € 12,356) and credit risk with respect to outstanding premium receivables of € 3,781 (2013: € 3,744).

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 2014 the technical provisions included an exposure of approximately USD 25.3 million (2013: USD 22.2 million). It is the company policy to balance this exposure to a large extent by keeping USD bank deposits amounting to USD 28.1 million (2013: USD 25.8 million) and equity investments amounting to USD 6.8 million (2013: USD 6.3 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 € 4,308 (2013: € 5,252) at balance sheet date.

As a result of this matching policy, a change in USD exchange rate should not lead to a significant foreign exchange result for the balance sheet positions.

LIQUIDITY RISK

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 31% of the best estimate of the 2014 loss reserve will need to be paid in the first 12 months; and, similarly, 65% 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 87%. Around 48% of the future net premium will be received in the first 12 months and 77% in 36 months.

The average duration of the projected claims is 3.37 years; while the duration for the projected net premium is 2.46 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 24 quarters and applied to the loss reserve at 31 December 2014 as follows:

Loss reserve in € million	**Stress outflow**	**Liquidity needed in € million**
65.9	24.9%	16.3

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 (€ 16.3 million) with the stress loss in investments (€ 14.0 million) provides an estimate of the minimum liquidity requirements to be € 30.3 million. The investments in the Low and Medium Risk category represent relatively safe and liquid assets for coverage of this amount of worst case liquidity needs. As a matter of policy the amount of investments in these categories always cover the liquidity requirements with a conservative margin (€ 88.1 million in December 2014).

Regarding cash and cash equivalents a concentration risk is applicable. The table below provides an overview of the financial institutions were cash positions are held:

	2014	**2013**
ING	**66,506**	57,149
Rabo	**19,638**	15,412
Deutsche Bank	**11,842**	6,833
Kas Bank	**1,159**	530
SNS	**1,093**	62
Federal Government of Finance (Belgium)	**6,400**	6,400
Other	**914**	1,717
Total cash and cash equivalents	**107,552**	88,103

CREDIT RISK

Clients deposits

In case the creditworthiness of a client deteriorates Nationale Borg can decide that collateral is required in order 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.

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	2,794
Ceded Exposure	2,069
Ceded Stress loss (SL)	37.3
Outbound Loss Reserve (LR)	1.8
Counterparty risk	0.07

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 company is well on track in implementing the new solvency and reporting standards so that it will meet these standards as per January 1st 2016. In case capital requirements or interpretations change (for example based on discussions with the Dutch Central Bank), the company has sufficient flexibility in adjusting its risk profile, legal structure or capital structure to be able to meet any additional capital requirements.
The solvency I capital needed for NV Nationale Borg-Maatschappij according to the standards of the regulator is € 3.7 (2013: € 3.7 million). The corresponding available capital is € 73.5 (2013: € 57.7). On a consolidated level the solvency I capital requirement amounts to € 10.8 (2013: € 11.6 million) and the available capital according to this measurement is € 54.3 (2013: € 46,6 million).
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

During 2014 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 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).

At 31 December 2014, investments classified as Level 1 comprised 100 % of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices (i.e. quoted market prices in an active market) of fixed maturities, equity securities and derivative contracts.
For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, reference is made to the "Principles of valuation and determination of result".
The following table presents the group's assets and liabilities measured at fair value at 31 December 2014.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale assets				
• Shares and other variable yield securities	_	3,627	_	**3,627**
• Bonds and other fixed income securities	23,862	_	_	**23,862**
Total available-for-sale assets	23,862	**3,627**	_	**27,489**
Financial assets at fair value through P&L				
• Shares and other variable yield securities	26,967	_	_	**26,967**
• Bonds and other fixed income securities				
Loans and Receivables				
• Reinsurance contracts (deposits only)	_	13,063	_	**13,063**
• Trade and other receivables	_	10,266	_	**10,266**
• Other assets	_	6,771	_	**6,771**
• Cash and cash equivalents	107,552	_	_	**107,552**
Total loans and receivables	107,552	30,100	_	**137,652**
Total assets	158,381	33,727	_	**192,108**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at amortized costs				
• Payables	_	19,005	_	**19,005**
• Other liabilities	_	4,248	_	**4,248**
Total liabilities	_	23,253	_	**23,253**

The comparative figures for 2013 are:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale assets				
• Shares and other variable yield securities	_	4,254	_	**4,254**
• Bonds and other fixed income securities	23,559	_	_	**23,559**
Total available-for-sale assets	23,.559	**4,254**	_	**27,813**
Financial assets at fair value through P&L				
• Shares and other variable yield securities	27,041	_	_	**27,041**
• Bonds and other fixed income securities				
Loans and Receivables				
• Reinsurance contracts (deposits only)	_	14,939	_	**14,939**
• Trade and other receivables	_	14,144	_	**14,144**
• Other assets	_	6,512	_	**6,512**
• Cash and cash equivalents	88,103	_	_	**88.103**
Total loans and receivables	88,103	35,595	_	**123,698**
Total assets	138,703	**39,849**	_	**178,552**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at amortized costs				
• Payables	_	11,760	_	**11,760**
• Other liabilities	_	6,391	_	**6,391**
Total liabilities	_	18,151	_	**18,151**

5. TRANSACTIONS WITH RELATED PARTIES

FOUNDATION 'STICHTING ENBEMIJ'

Stichting Enbemij is considered a related party, as 2 out of 4 members of the board are appointed by directors of Nationale Borg Group. In 2014 there were no transactions in relation to this foundation.

OTHER

One director of subsidiary Nationale Borg Reinsurance NV is the owner of Gilhol Management and Consulting NV (Gilhol). NV Nationale Borg-Maatschappij offers guarantees to customers located at the Antilles. Regarding these guarantees Gilhol serves as a local intermediary. The total receivable of NV

Nationale Borg-Maatschappij at year end amounts to € 287. For administrative reasons a part of the turnover of 2014 and previous years must be reversed. Therefore a provision regarding this receivable is taken into account amounting to € 120.
HAL Investments BV (shareholder in parent company Nationale Borg Beheer BV) provides Nationale Borg Group with assistance regarding the internal audit function by making one of their employees partially available at no charge.
NV Nationale Borg-Maatschappij rents out parts of its property for own use for housing purposes. It concerns 6 apartments and one house. These apartments and the house are rented out on an 'at arms length' bases to (former) employees, a third party, and relatives of 2 executive board members of the Nationale Borg Group. For 2014 the rent charged amounted to € 51 in total and was fully paid at year end.
The director of subsidiary National Waarborg BV holds 33% of the share capital of Flexfront BV. Both companies are located at the same address and therefore costs for housing and office facilities are shared. The costs charged by Flexfront BV amounted to € 58 in 2014 (2013: € 74).

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon-structions	Fixtures & Fittings	IT hardware	Company cars	Total
At cost as at 1 January 2014 *)	6,370	2,565	742	1,903	_	**11,580**
Additions/disposals	_	126	4	93	_	**223**
At cost as at 31 December 2014 *)	6,370	2,691	746	1,996	_	**11,803**
Accumulated depreciation and impairments at 1 January 2014	96	(1,968)	(623)	(1,718)	_	**(4,213)**
Depreciation charge for the year through profit and loss	(168)	(247)	(31)	(80)	_	**(526)**
Revaluations through equity	1,228	_	_	_	_	**1,228**
Depreciation on disposals	_	_	_	_	_	_
Accumulated depreciation and impairments at 31 December 2014	1,156	(2,215)	(654)	(1,798)	_	**(3,511)**
Book value as at 1 January 2014	6,466	597	119	185	_	**7,367**
Book value as at 31 December 2014	**7,526**	**476**	**92**	**198**	_	**8,292**

	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
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 31 December 2013	6,466	597	119	185	–	7,367

*) 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 (2013: €168) has been charged to the net operating expenses.
The market value of land and buildings for own use including the reconstructions is €8,002 at 31st December 2014 and determined by an independent, external valuator as per the balance sheet date. The historical cost price is €2,839 (2013: € 2,713). The gross revaluation reserve related to the property for own use amounts to € 6,772 (2013: € 5,688).

The land and buildings classified as property for own use are mainly in use as office building for business activities of the Nationale Borg Group. Besides NV Nationale Borg-Maatschappij rents out parts of its property for own use for housing purposes. It concerns 6 apartments and one house. Four of the apartments are earmarked as social housing.

REAL ESTATE IN OWN USE

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

7. INTANGIBLE ASSETS

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

	Brand name	Goodwill	Software	Total
At cost as at 1 January 2014	1,456	2,809	1,245	**5,510**
Additions acquired separately	–	–	260	**260**
At cost as at 31 December 2014	1,456	2,809	1,505	**5,770**
Accumulated impairments at 1 January 2014	(1,456)	(718)		**(2,174)**
Accumulated amortization at 1 January 2014			(592)	**(592)**
Amortization charge for the year	–	–	(208)	**(208)**
Accumulated amortization and impairments at 31 December 2014	(1,456)	(718)	(800)	**(2,974)**
Book value as at 1 January 2014	–	2,091	653	**2,744**
Book value as at 31 December 2014	–	**2,091**	**705**	**2,796**
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 impairments at 1 January 2013	(1,456)	(718)		(2,174)
Accumulated amortization at 1 January 2013			(419)	(419)
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

The amortization charge for the year is taken into account in the net operating expenses in the line Depreciation.

8. FINANCIAL ASSETS

Financial assets classified by type and nature 2014 and 2013:

2014	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	3,627	26,967	**30,594**
Bonds and other fixed income securities	23,862	–	**23,862**
	27,489	26,967	**54,456**

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

Movements in available-for-sale assets:

	2014	**2013**
Book value at 1 January	**27,813**	32,020
Disposals / Maturity	**(672)**	(2,838)
Revaluations through equity	**944**	(1,369)
Revaluations income statement	**(596)**	–
Book value at 31 December	**27,489**	27,813

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

	2014	**2013**
Book value at 1 January	**27,041**	23,582
Additions	**3,911**	4,524
Disposals	**(4,609)**	(3,075)
Revaluations	**(14)**	2,280
Effects of movements in foreign exchange	**638**	(270)
Book value at 31 December	**26,967**	27,041

The 'at fair value through profit and loss' assets also contain derivatives for an amount of € 201.4 (2013: € 124.2). These derivatives expire within one year after balance sheet date.

9. REINSURANCE CONTRACTS

	2014	2013
Deposits at insurers	**13.063**	14,939
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premiums	**4,307**	4,322
• Claims and loss adjustment expenses	**2,154**	4,493
	19,524	23,754

All assets related to reinsurance contracts are current and collectible within one year.

10. TRADE AND OTHER RECEIVABLES

	2014	2013
Accounts receivable on insurance and reinsurance business:		
• Amounts owed by policy holders and direct insurance operations	**4,618**	10,238
• Receivables arising out of reinsurance	**5,532**	3,781
• Other accounts receivable	**116**	125
Total receivables	**10,266**	14,144

The outstanding receivables are substantially all current and consequently their fair values do not materially defer from its book value. All trade and other receivables are collectible within one year.
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:

	2014	2013
Balance as at 1 January	**1,713**	1,557
Provision for receivables impairment	**519**	160
Receivables written off during the year as uncollectible	**(65)**	(4)
Balance as at 31 December	**2,167**	1,713

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

11. OTHER ASSETS

	2014	2013
Accrued interest	**561**	755
Deferred acquisition costs	**5,685**	5,207
Other	**525**	550
	6,771	6,512

The miscellaneous assets and accruals are substantially all current and consequently their fair values do not materially differ from their book value. Depending on their nature other assets are collectible or will be realized within a period of one year.

Movements on the deferred acquisition costs are as follows:

	2014	2013
Balance as at 1 January	**5,207**	4,980
Change in deferred acquisition costs	**478**	227
Balance as at 31 December	**5,685**	5,207

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

12. CASH AND CASH EQUIVALENTS

	2014	2013
Cash at banks and at hand	**40,954**	31,927
Cash investment accounts	**53,250**	48,336
Cash received as collateral	**13,348**	7,840
Total cash and cash equivalents	**107,552**	88,103

The total carrying amount of the deposits that has been pledged as collateral for liabilities at 31 December 2014, was € 6,400 (2013: € 6,400). All other cash in investment accounts are available without restrictions.

13. CAPITAL AND RESERVES

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

14. TECHNICAL PROVISIONS

	2014	2013
Total		
Provision for claims	**66,196**	70,059
Claims incurred but not reported	**225**	225
Provision for unearned premium	**24,629**	23,861
Total underwriting provisions at 31 December	**91,050**	94,145

Guarantees		
Provision for claims	**3,937**	5,817
Claims incurred but not reported	**–**	–
Provision for unearned premium	**7,923**	7,948
Total technical provisions at 31 December	**11,860**	13,765

	2014	2013
Money and Fraud Insurance		
Provision for claims	**121**	136
Claims incurred but not reported	**225**	225
Provision for unearned premium	**–**	–
Total technical provisions at 31 December	**346**	361
Reinsurance		
Provision for claims	**62,138**	64,106
Claims incurred but not reported	**–**	–
Provision for unearned premium	**16,706**	15,913
Total technical provisions at 31 December	**78,844**	80,019

The movement schedule of technical provisions:

	Gross 2014	**Reinsured 2014**	**Net 2014**
Total			
Opening provision for claims	**70,284**	4,493	65,791
Change in provision	**(5,321)**	(2,373)	(2,948)
Effects of changes in foreign exchange	**1,458**	–	1,458
Ending provision for claims	**66,421**	2,120	64,301
Opening provision for unearned premium	**23,861**	4,322	19,539
Change in provision	**768**	(15)	783
Ending provision for unearned premium	**24,629**	4,307	20,322
Guarantees			
Opening provision for claims	**5,817**	3,790	2,027
Change in provision	**(1,880)**	(1,749)	(131)
Ending provision for claims	**3,937**	2,041	1,896
Opening provision for unearned premium	**7,948**	4,288	3,660
Change in provision	**(25)**	(9)	(16)
Ending provision for unearned premium	**7,923**	4,279	3,644

Money and Fraud Insurance			
Opening provision for claims	**361**	45	316
Change in provision	**(15)**	34	(49)
Ending provision for claims	**346**	79	267
Opening provision for unearned premium	_	_	_
Change in provision	_	_	_
Ending provision for unearned premium	_	_	_
Reinsurance			
Opening provision for claims	**64,106**	658	63,448
Change in provision	**(3,426)**	(658)	(2,768)
Effects of changes in foreign exchange	**1,458**	_	1,458
Ending provision for claims	**62,138**	_	62,138
Opening provision for unearned premium	**15,913**	34	15,879
Change in provision	**793**	(6)	799
Ending provision for unearned premium	**16,706**	28	16,678

In 2014 we commuted the remaining outwards treaty retrocession arrangements.

15. PAYABLES

	2014	2013
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	**(7)**	(7)
Amounts due to policy holders*	**13,348**	7,840
	13,341	7,833
Trade and other accounts payable		
Accounts payable	**182**	132
Other accounts payable**	**5,482**	3,795
	5,664	3,927
Total accounts payable	**19,005**	11,760

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

** Other accounts payable consist of the reinsurance commission reserve amounting to € 1,593 (2013: € 1,608) and current accounts with credit balances in relation to cedants, reinsurers and policy holders. The payables are all current and consequently their fair value does not materially differ from their book value.

16. OTHER LIABILITIES

	2014		2013	
Deposits received from reinsurers		**17**		82
Profit commission payable		**69**		955
Miscellaneous liabilities and accruals:				
Payroll and other accruals	**1,677**		1,481	
Sundry creditors	**391**		511	
		2,068		1,992
Balance as at 31 December		**2,154**		3,029

All other liabilities are current liabilities and payable within one year, consequently their fair value does not materially differ from their book value.

17. DEFERRED INCOME TAX LIABILITIES

	2014	2013
Deferred income tax assets	**(231)**	(57)
Deferred income tax liabilities	**2,828**	2,154
	2,597	2,097

The movement on the deferred income taxes is as follows:

	2014	2013
Balance as at 1 January	**2,097**	2,496
Charge/(credit) to equity for the year	**307**	28
Charge/(credit) to corporate tax payable for the year	**(44)**	–
Charge/(credit) to the income statement for the year	**237**	(427)
Balance as at 31 December	**2,597**	2,097

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 2014	(57)	**(57)**
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	(174)	**(174)**
Balance as at 31 December 2014	(231)	**(231)**
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)**

Deferred tax liabilities	Unrealized appreciation of investment property	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2014	1,507	613	34	**2,154**
Charge/(credit) to equity for the year	307	–	–	**307**
Charge/(credit) to corporate tax payable for the year	(42)	–	(2)	**(44)**
Charge/(credit) to the income statement for the year	–	381	30	**411**
Balance as at 31 December 2014	1,772	994	62	**2,828**

	Unrealized appreciation of investment property	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 corporate tax payable for the year	–	–	–	–
Charge/(credit) to the income statement for the year	–	(305)	(122)	**(427)**
Balance as at 31 December 2013	1,507	613	34	**2,154**

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

	2014	2013
Reserves in shareholders' equity:		
Revaluation reserve	**307**	28

18. CURRENT INCOME TAX LIABILITIES

	2014	2013
Current income tax liabilities	**(503)**	1,265

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

19. NET PREMIUM EARNED

	2014 Gross	2014 Reinsurers' share	2014 Net	2013 Gross	2013 Reinsurers' share	2013 Net
Total						
Written Premium	90,669	11,998	**78,671**	92,933	13,894	79,039
Change in provision for unearned premium	(768)	15	**(783)**	611	336	275
Earned premium	89,901	12,013	**77,888**	93,544	14,230	79,314
Guarantees						
Written premium	24,319	11,923	**12,396**	24,469	13,333	11,136
Change in provision for unearned premium	25	9	**16**	997	334	663
Earned premium	24,344	11,932	**12,412**	25,466	13,667	11,799
Reinsurance						
Written premium	66,350	75	**66,275**	68,464	561	67,903
Change in provision for unearned premium	(793)	6	**(799)**	(386)	2	(388)
Earned premium	65,557	81	**65,476**	68,078	563	67,515

20. NET INVESTMENT INCOME

NET INVESTMENT INCOME BY TYPE OF INVESTMENT

	2014	2013
Income/expense from:		
• Property	**269**	273
• Bonds and other fixed rate securities	**656**	694
• Shares and other variable yield securities including derivatives	**(363)**	3,735
• Other investments (deposits and receivables)	**(3)**	479
Net income/(expense) from investments	**559**	5,181

NET INVESTMENT INCOME BY NATURE OF INCOME/(EXPENSE)

	2014	**2013**
Income/(expense) from:		
Interest	**892**	1,381
Dividends	**700**	697
Realized gains	**(1,049)**	798
Unrealized gains	**(14)**	2,280
Rental income from property	**269**	273
Costs of investments	**(239)**	(248)
Net income/(expense) from investments	**559**	5,181

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 bonds.

21. NET INSURANCE CLAIMS

	2014			**2013**		
	Gross	**Re-insurers' share**	**Net**	**Gross**	**Re-insurers' share**	**Net**
Total						
Claims paid in the year	31,375	1,365	**30,010**	55,819	23,918	31,901
Change in provision for outstanding claims	(5,321)	(2,532)	**(2,789)**	5,115	(895)	6,010
Claims handling expenses	1,492	–	**1,492**	1,373	–	1,373
Total insurance claims and loss adjustment expenses	27,546	(1,167)	**28,713**	62,307	23,023	39,284
Guarantees						
Claims paid in the year	1,011	806	**205**	30,365	23,839	6,526
Change in provision for outstanding claims	(2,091)	(1,909)	**(182)**	(2,115)	(245)	(1,870)
Claims handling expenses	1,243	–	**1,243**	1,144	–	1,144
Total insurance claims and loss adjustment expenses	163	(1,103)	**1,266**	29,394	23,594	5,800
Money/Fraud Insurance						
Claims paid in the year	(5)	–	**(5)**	(1)	–	(1)
Change in provision for outstanding claims	(15)	34	**(49)**	(441)	(387)	(54)
Claims handling expenses	–	–	–	–	–	–
Total insurance claims and loss adjustment expenses	(20)	34	**(54)**	(442)	(387)	(55)

Reinsurance						
Claims paid in the year	30,369	559	**29,810**	25,455	79	25,376
Change in provision for outstanding claims	(3,215)	(657)	**(2,558)**	7,671	(263)	7,934
Claims handling expenses	249	–	**249**	229	–	229
Total insurance claims and loss adjustment expenses	27,403	(98)	**27,501**	33,355	(184)	33,539

22. ACQUISITION COST

	2014	**2013**
Acquisition costs	**24,842**	24,795
Change in deferred acquisition costs	**(544)**	(346)
Change in profit commission payable	**(886)**	(528)
Profit commission paid	**2,598**	1,960
Total acquisition costs	**26,010**	25,881

23. NET OPERATING EXPENSES

	2014	**2013**
Staff expenses	**8,871**	8,147
Administrative expenses	**3,652**	2,838
Depreciation	**736**	733
Exchange rate differences	**(1,976)**	904
Other	**(17)**	242
Total net operating expenses	**11,266**	12,864

The staff expenses contain pension charges amounting to € 830 (2013: € 786) in total.

24. INCOME TAX EXPENSES

	2014	**2013**
Current tax	**893**	2,437
Deferred tax	**411**	(427)
Total income tax expenses	**1,304**	2,010

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:

	2014	**2013**
Profit before tax	**17,609**	10,853

Overview tax calculated at domestic tax rates applicable to profits in the respective countries:

	2014			2013		
	Tax bases	**Tax rate**	**Nominal tax charge**	Tax bases	**Tax rate**	**Nominal tax charge**
Netherlands	1,942	25.00%	**486**	1,748	25.00%	(437)
Belgium	1,527	33.99%	**519**	1,169	33.00%	386
Curaçao	66,350	1.38%	**912**	68,416	2.75%	1,883
Total			**1,917**			1,832

	2014	**2013**
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,917**	1,832
Reassessment of prior year local tax positions	**(844)**	(168)
Tax exempt income and permanent differences	**231**	346
Tax charge for the year	**1,304**	2,010

The effective tax rate is 7.4% (2013: 18.5%). The effective tax rate in 2014 was mainly lower because reduction in the tax basis of Nationale Borg Reinsurance (Curaçao). This decrease was implemented in 2014 and was in force with retroactive effect as from January 1 2013. Therefore the tax basis for 2014 was reduced and 50% of the tax charges of Nationale Borg Reinsurance related to 2013 were reversed in 2014 amounting to € 941.

The applicable tax rate in the Netherlands is 25.00% and in Belgium 33.99%. In the Antilles income tax is charged at a rate of 27.5% based on 5 per cent (2013: 10 per cent) of the total written premium.

Based on a settlement agreement with the fiscal authorities of Curaçao and the Netherlands a part of the profits of Nationale Borg Reinsurance (resided in Curaçao) are taken into account in Nationale Borg Maatschappij (resided in the Netherlands). For 2014 this percentage is set at 24% (2013: 22%).

25. EARNINGS AND DIVIDENDS PER SHARE

	2014	**2013**
Continuing operations:		
Profit attributable to the company’s equity holders	**16,305**	8,843
Number of ordinary shares issued as per 31 December	**803,760**	803,760
Earnings per share (in euro)	**20.29**	11.00

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 2014 amounted to € 9.95 (2013: € 7.46).

26. OTHER COMPREHENSIVE INCOME

	2014			2013		
	Gross	**Income tax**	**Net**	**Gross**	**Income tax**	**Net**
Net fair value gains/(losses) on available-for-sale financial investments	944	_	**944**	(1,369)	_	(1,369)
Net revaluation property for own use	1,230	(307)	**923**	281	(28)	253
	2,174	(307)	**1,867**	(1,088)	(28)	(1,116)

Net fair value gains/(losses) on available-for-sale financial investments
The other comprehensive income resulting from available-for-sale financial investments contains income from financial investments on the balance sheet of subsidiary Nationale Borg Reinsurance NV as well as NV Nationale Borg-Maatschappij.

Nationale Borg Reinsurance NV
This part of the other comprehensive income relates to available-for-sale financial investments of subsidiary Nationale Borg Reinsurance NV The government bonds that are part of the investment portfolio of this subsidiary are classified as available for sale assets. Unrealized fair value changes are taken into account in the other comprehensive income. At realisation through maturity or disposal of the government bonds the fair value changes are reversed in the revaluation reserve and taken into account in the income statement.

NV Nationale Borg-Maatschappij
In 2014 no government bonds matured and there were no disposals. The income tax charges of Nationale Borg Reinsurance NV are based on a percentage of the gross written premiums. Therefore the impact of income tax on these fair value changes is zero.

The financial investments of NV Nationale Borg-Maatschappij consists of fractions in one investment fund containing participations in other real estate investment funds. This investment is classified as available-for-sale. Fair value changes are taken into account in the other comprehensive income. At realisation through disposal of fractions, the fair value changes are reversed in the revaluation reserve and taken into account in the income statement.
At year end 2011 an impairment was taken into account and therefore the negative revaluation reserve related to this asset was reversed in equity and taken into account in the income statement. The real estate market however declined even further in the period following this impairment. This caused the need to apply another impairment in 2014. The negative balance of the revaluation reserve regarding this fund amounted €

595 at year end 2014. The full amount was reversed in equity and taken into account in the income statement. We do not foresee a further decrease in the market value of this investment.

Net revaluation property for own use
Fair value changes related to property for own use are taken into account in the other comprehensive income. The revaluation reserve is released in favor of the revenue reserve on a straight line basis over a 40 years period. Only at realisation through disposal of the property, the fair value changes will be reversed in the revaluation reserve and taken into account in the income statement.

27. 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.

28. CAPITAL COMMITMENTS

There are no capital commitments.

29. PERSONNEL

The number of employees working for the group:	**2014**	**2013**
Total average number of employees (full-time equivalent)	**66,4**	65,6
Total year-end number of employees (full-time equivalent)	**64,9**	68,0
Total year-end number of employees	**74**	76

30. 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 (2013: 3 members). The Supervisory Board consists of 3 members (2013: 3 members).

	2014	**2013**
Short-term compensation	**625**	623
Bonus payments	**109**	209
Long-term employee benefits	**12**	–
Pension and other benefits	**171**	194
Total compensation paid to the Executive Board	**917**	1,026
Short-term benefits	**34**	34
Total compensation paid to the Supervisory Board	**34**	34

31. 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 2014:

	KPMG accountants NV	Other KPMG network	Total KPMG
Audit of the financial statements	143	_	**143**
Tax-related advisory services	_	273	**273**
Other non-audit services	43	8	**51**
Total fees charged during the year	**186**	**281**	**467**

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

The increase in tax-related advisory costs 2014 relates mainly to the advisory services regarding the settlement agreement with the fiscal authorities of The Netherlands and Curaçao.

32. TAX OBLIGATIONS

NV Nationale Borg-Maatschappij together with NV Belegging- en Beheermaatschappij 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.

AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Amsterdam, 23 March 2015

Supervisory Board:

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

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

2014

COMPANY FINANCIAL STATEMENTS

NATIONALE BORG

COMPANY STATEMENT OF FINANCIAL POSITION

Before appropriation of result	*Note*		**31 December 2014**		**31 December 2013**
ASSETS					
Property, plant and equipment	*5*		**8,266**		7,342
Investments in associated companies and joint ventures	*6*		**85,988**		69,909
Intangible assets	*7*		**2,717**		2,739
Financial assets	*8*		**3,627**		4,254
Reinsurance contracts	*9*		**21,725**		28,729
Trade and other receivables:	*10*				
• Accounts receivable on insurance and reinsurance business		**6,881**		11,345	
• Other accounts receivables		**53**		107	
			6,934		11,452
Other assets:					
• Deferred acquisition costs	*11*	**260**		142	
• Miscellaneous assets and accruals	*12*	**606**		431	
			866		573
Cash and cash equivalents:	*13*				
• Cash		**15,720**		20,088	
• Cash received as collateral		**13,348**		7,840	
			29,068		27,928
TOTAL ASSETS			**159,191**		152,926

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	31 December 2014		31 December 2013	
EQUITY					
Subscribed capital		**4,019**		4,019	
Capital reserve		**824**		824	
Revaluation reserve		**5,876**		5,280	
Currency translation reserve		**–**		–	
Revenue reserve		**76,330**		72,216	
Undistributed profits		**8,305**		2,843	
Capital and reserves attributable to the equity holders of the company	*14*		**95,354**		85,182
TOTAL EQUITY			**95,354**		85,182
LIABILITIES					
Technical provisions	*15*		**22,808**		28,837
Payables:	*16*				
• Accounts payable on insurance and reinsurance business		**13,341**		7,833	
• Trade and other payables		**8,460**		10,830	
			21,801		18,663
Other liabilities:					
• Deposits received from reinsurers	*17*	**10,591**		15.352	
• Profit commission payable		**(178)**		(256)	
• Miscellaneous liabilities and accruals		**5,347**		5,069	
			15,760		20,165
Deferred income tax liabilities	*18*	**2,771**		2,097	
Current income tax liabilities	*19*	**697**		(2,018)	
			3,468		79
TOTAL LIABILITIES			**63,837**		67,744
TOTAL EQUITY AND LIABILITIES			**159,191**		152,926

COMPANY INCOME STATEMENT FOR THE YEAR

	2014	2013
Share of income from group companies	**15,776**	9,729
Other income and expense	**3,341**	(752)
PROFIT BEFORE TAX	**19,117**	8,977
Income tax expenses	**(2,812)**	(134)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**16,305**	8,843

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

		2014	2013
Profit for the year		**16,305**	8,843
Other comprehensive income:	*20*		
Share in other comprehensive income of subsidiaries		**303**	(1,058)
Net fair value gains/(losses) on available for sale financial investments		**641**	(311)
Net revaluation property for own use		**923**	253
Currency translation differences assets		–	45
Total other comprehensive income		**1,867**	(1,071)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,172**	7,772
Attributable to:			
Equity holders of the company		**18,172**	7,772

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 2014	4,019	824	5,280	–	72,216	2,843	**85,182**
Result income statement	–	–	–	–	–	16,305	**16,305**
Other comprehensive income	–	–	1,867	–	–	–	**1,867**
Total comprehensive income for the year	–	–	1,867	–	–	16,305	**18,172**
Dividend distribution	–	–	–	–	–	(8,000)	**(8,000)**
Appropriations to reserves	–	–	–	–	2,843	(2,843)	–
Other movements	–	–	(1,272)	–	1,272	–	–
EQUITY AT 31 DECEMBER 2014	**4,019**	**824**	**5,876**	–	**76,330**	**8,305**	**95,354**

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 DECEMBER 31, 2013	4,019	824	5,280	–	72,216	2,843	85,182

COMPANY CASH FLOW FOR THE YEAR

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**3,341**	(752)
Adjustments for:		
• Realized capital (gains) and losses on investments	**680**	–
• Realized capital (gains) and losses on property own use	**(107)**	–
• Depreciation and amortization property, plant and equipment and intangible fixed assets (including impairments)	**724**	706
Changes in operational assets and liabilities:		
• Underwriting provisions (gross)	**(6,029)**	(7,919)
• Reinsurance assets (net)	**7,004**	6,041
• Deferred acquisition costs	**(118)**	496
• Accounts receivable and payable on insurance and reinsurance business	**9,972**	(7,363)
• Changes in other assets and liabilities	**(6,915)**	2,072
Income taxes paid	**314**	(1,537)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**8,866**	(8,256)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Property, plant and equipment and intangible fixed assets	**(398)**	(408)
Divestments, redemptions and disposals (cash inflows):		
• Dividends received from subsidiaries	**–**	3,000
• Financial investments	**672**	359
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	**274**	2,951
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(8,000)**	(6,000)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	**(8,000)**	(6,000)
Foreign exchange results	**–**	45
CHANGES IN CASH AND CASH EQUIVALENTS	**1,140**	(11,260)

COMPANY CASH FLOW FOR THE YEAR

	2014	2013
Cash and cash equivalents at the end of the preceding year	**27,928**	39,188
Cash and cash equivalents at the end of the financial year	**29,068**	27,928

	2014	**2013**
Cash at bank and in hand	**7,219**	11,171
Cash investment accounts	**8,501**	8,917
Cash received as collateral	**13,348**	7,840
Total cash and cash equivalents	**29,068**	27,928

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 2014 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 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 previous 2012. All novations in 2012 and thereafter were transferred for the entire positions (current and 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 2013, Nationale Borg Reinsurance NV in turn has retroceded the reinsurance pool 1993 to NV Nationale Borg-Maatschappij. In 2014 we commuted the remaining (treaty) outwards retrocession arrangements regarding the reinsurance pool 1993.

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

NATIONALE BORG REINSURANCE NV

The following table provides the total value of transactions between NV Nationale Borg-Maatschappij and Nationale Borg Reinsurance NV
for the financial year:

2014	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Outward reinsurance (ceded)	–	**1,662**	–	**1,662**
Inward reinsurance (assumed)	**346**	–	**346**	–
Service level agreement on underwriting and supporting services	**1,564**	–	**1,564**	–
(Interest on) outstanding intercompany balances after novation	–	**1,219**	–	**13,940**
2013				
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

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.
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 2014 this was calculated on a monthly basis at a rate of 5.95 per cent. The average applicable interest rate during 2014 was 5.95% (2013: 5.00%).

FOUNDATION 'STICHTING ENBEMIJ'

Stichting Enbemij is considered a related party, as 2 out of 4 members of the board are appointed by directors of Nationale Borg Group. In 2014 there were no transactions in relation to this foundation.

OTHER

One director of subsidiary Nationale Borg Reinsurance NV is the owner of Gilhol Management and Consulting NV (Gilhol). NV Nationale Borg-Maatschappij offers guarantees to customers located at the Antilles. Regarding these guarantees Gilhol serves as a local intermediary. The total receivable of NV Nationale Borg-Maatschappij at year end amounts to € 287. For administrative reasons a part of the turnover of 2014 and previous years must be reversed. Therefore a provision regarding this receivable is taken into account amounting to € 120.
HAL Investments BV (shareholder in parent company Nationale Borg Beheer BV) provides Nationale Borg Group with assistance regarding the internal audit function by making one of their employees partially available at no charge.
NV Nationale Borg-Maatschappij rents out parts of its property for own use for housing purposes. It concerns 6 apartments and one house. These apartments and the house are rented out on an 'at arms length' bases to (former) employees, a third party, and relatives of 2 executive board members of the Nationale Borg Group. For 2014 the rent charged amounted to € 51 in total and was fully paid at year end.
The director of subsidiary National Waarborg BV holds 33% of the share capital of Flexfront BV. Both companies are located at the same address and therefore costs for housing and office facilities are shared. The costs charged by Flexfront BV amounted to € 58 in 2014 (2013: € 74).

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon-structions	Fixtures and fittings	IT hardware	Total
At cost as at 1 January 2014 *)	6,370	2,557	706	1,757	**11,390**
Additions/disposals	–	126	(4)	85	**215**
At cost as at 31 December 2014 *)	6,370	2,683	710	1,842	**11,605**
Accumulated depreciation and impairments at 1 January 2014	96	(1,961)	(590)	(1,593)	**(4,048)**
Depreciation charge for the year through profit and loss	(168)	(247)	(31)	(73)	**(519)**
Revaluations through equity for the year	1,228	–	–	–	**1,228**
Accumulated depreciation and impairments at 31 December 2014	1,156	(2,208)	(621)	(1,666)	**(3,339)**
Book value as at 1 January 2014	6,466	596	116	164	**7,342**
Book value as at 31 December 2014	**7,526**	**475**	**89**	**176**	**8,266**

	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
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

*) 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:

	2014	2013
Balance as at 1 January	**69,909**	64,238
Share of (loss)/profit	**15,776**	9,729
Dividend payments	–	(3,000)
Revaluations	**303**	(1,058)
Balance as at 31 December	**85,988**	69,909

2014	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Shares of profit/(loss)**	**Interest held %**
Nationale Borg Reinsurance NV	Dutch Antilles, Curaçao	160,311	78,351	65,546	15,679	100.00
NV Belegging- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	3,735	–	–	–	100.00
Nationale Waarborg BV	The Netherlands, Nieuwegein	1,193	903	1,302	97	100.00
Total at the end of 2014		**165,239**	**79,254**	**66,848**	**15,776**	

2013	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Shares of profit/(loss)**	**Interest held %**
Nationale Borg Reinsurance NV	Dutch Antilles, Curaçao	151,268	85,290	68,075	9,590	100
NV Belegging- en beheermaatschappij "Keizersgracht"	The Netherlands, The Amsterdam	3,735	–	–	–	100
Nationale Waarborg BV	The Netherlands, Nieuwegein	735	539	862	139	100
Total at the end of 2013		155,738	85,829	68,937	9,729	

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 2014	1,456	2,809	1,235	**5,500**
Additions	_	_	183	**183**
At cost as at 31 December 2013	1,456	2,809	1,418	**5,683**
Accumulated impairments at 1 January 2013	(1,456)	(718)	_	**(2,174)**
Accumulated amortization at 1 January 2013	_	_	(587)	**(587)**
Amortization charge for the year	_	_	(205))	**(205))**
Accumulated amortization and impairments at 31 December 2013	(1,456)	(718)	(792)	**(2,966)**
Book value as at 1 January 2014	_	2,091	648	**2,739**
Book value as at 31 December 2014	_	**2,091**	**626**	**2,717**

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 impairments at 1 January 2013	(1,456)	(718)	_	(2,174)
Accumulated amortization at 1 January 2013	_	_	(417)	(417)
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

8. FINANCIAL ASSETS

Financial assets classified by type and nature:

2014	**Available for sale**	**Asset at Fair Value Through P&L**	**Total**
Shares and other variable yield securities	3,627	_	**3,627**
Bonds and other fixed income securities	_	_	_
	3,627	_	**3,627**

All financial assets are listed.

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.

Movements in financial assets available for sale:	**2014**	**2013**
Book value at 1 January	**4,254**	4,924
Disposals	**(672)**	(359)
Revaluations through equity	**641**	(311)
Revaluations income statement	**(596)**	_
Book value at 31 December	**3,627**	4,254

SHARES AND OTHER VARIABLE YIELD SECURITIES

	2014	**2013**
Investment funds	**3,627**	4,254

9. REINSURANCE CONTRACTS

	2014	**2013**
Deposits at insurers	**4,689**	5,882
Reinsurers' share of insurance liabilities:		
Provisions for unearned premiums	**4,587**	4,500
Claims and loss adjustment expenses	**12,449**	18,347
	21,725	28,729

Amounts due from reinsurers in respect of claims already paid by the company on the contracts that are reinsured are included in receivables. All assets related to reinsurance contracts are current and collectible within one year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

10. TRADE AND OTHER RECEIVABLES

	2014	**2013**
Accounts receivable on insurance and reinsurance business:		
Amounts owed by policy holders and direct insurance operations	**4,639**	10,286
Receivables arising out of reinsurance	**2,242**	1,059
Other accounts receivable	**53**	107
Total receivables	**6,934**	11,452

The outstanding receivables are substantially all current and consequently their fair values do not materially differ from its book value. All trade and other receivables are collectible within one year.

All receivables are considered on an individual basis for impairment testing.

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

	2014	**2013**
Balance as at 1 January	**1,703**	1,514
Provision for receivables impairment	**376**	208
Receivables written off during the year as uncollectible	**(34)**	(19)
Balance as at 31 December	**2,045**	1,703

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

	2014	**2013**
Balance as at 1 January	**142**	638
Change in deferred acquisition costs	**128**	(105)
Impact of novation	**(10)**	(271)
Balance as at 31 December	**260**	142

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

	2014	2013
Accrued interest	**11**	125
Other	**595**	306
	606	431

The miscellaneous assets and accruals are substantially all current and consequently their fair values do no materially defer from their book value. Depending on their nature other assets are collectible or will be realized within a period of one year.

13. CASH AND CASH EQUIVALENTS

	2014	2013
Cash at bank and in hand	**7,219**	11,171
Cash investment accounts	**8,501**	8,917
Cash received as collateral	**13,348**	7,840
Total cash and cash equivalents	**29,068**	27,928

The total carrying amount of the deposits that have been pledged as collateral for liabilities at 31 December 2013, was € 6,400 (2013: € 6,400). All other cash in investment accounts are available without restrictions.

14. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2014	2013
Balance as at 31 December	**4,019**	4,019

The total authorized share capital is € 11,000 (2013: € 11,000).
The share capital of € 4,019 (2013: € 4,019) is divided into 803,760 (2013: 803,760) fully paid ordinary shares of € 5.- . The fully paid shares carry one vote per share and carry the rights to dividends.

CAPITAL RESERVE

	2014	2013
Balance as at 31 December	**824**	824

REVALUATION RESERVE

	2014	2013
Balance as at 1 January	**5,280**	6,396
Change in revaluation reserve – gross	**903**	(1,088)
Change in revaluation reserve – tax	**(307)**	(28)
Balance as at 31 December	**5,876**	5,280

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The revaluation reserve consists of € 5,080 (2013: € 5,322) for real estate and € 796 (2013: (€ 42)) for financial fixed assets (all net of tax).

CURRENCY TRANSLATION RESERVE

	2014	**2013**
Balance as at 1 January	–	(45)
Currency translation	–	45
Balance as at 31 December	–	–

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

REVENUE RESERVE

	2014	**2013**
Balance as at 1 January	**72,216**	62,272
Appropriations from Profit for the year	**2,843**	9,944
Balance as at 31 December	**75,059**	72,216

PROFIT FOR THE YEAR

	2014	**2013**
Balance as at 1 January	**2,843**	9,944
Appropriations to revenue reserve	**(2,843)**	(9,944)
Dividend distribution	**(8,000)**	(6,000)
Profit for the year	**16,305**	8,843
Balance as at 31 December	**8,305**	2,843

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

	2014	2013
Total		
Provision for claims	**14,353**	20,464
Claims incurred but not reported	**225**	225
Provision for unearned premium	**8,230**	8,148
Total underwriting provisions at 31 December	**22,808**	28,837
Guarantees		
Provision for claims	**3,937**	5,817
Claims incurred but not reported	–	–
Provision for unearned premium	**7,923**	7,936
Total technical provisions at 31 December	**11,860**	13,753
Money and Fraud Insurance*		
Provision for claims	**121**	136
Claims incurred but not reported	**225**	225
Provision for unearned premium	–	–
Total technical provisions at 31 December	**346**	361
Reinsurance		
Provision for claims	**10,295**	14,511
Claims incurred but not reported	–	–
Provision for unearned premium	**307**	212
Total technical provisions at 31 December	**10,602**	14,723

The movement schedule of technical provisions:

	Gross 2014	Reinsured 2014	Net 2014
Total			
Opening provision for claims	**20,689**	18,346	2,343
Change in provision	**(6,170)**	(5,990)	(180)
Impact of novation	**(28)**	(28)	–
Effects of changes in foreign exchange	**88**	88	–
Ending provision for claims	**14,579**	12,416	2,163
Opening provision for unearned premium	**8,148**	4,500	3,648
Change in provision	**109**	113	(4)
Impact of novation	**(27)**	(27)	–
Ending provision for unearned premium	**8,230**	4,586	3,644

Guarantees			
Opening provision for claims	**5,817**	3,790	2,027
Change in provision	**(1,880)**	(1,749)	(131)
Ending provision for claims	**3,937**	2,041	1,896
Opening provision for unearned premium	**7,936**	4,288	3,648
Change in provision	**(13)**	(9)	(4)
Ending provision for unearned premium	**7,923**	4,279	3,644
Money and Fraud Insurance			
Opening provision for claims	**361**	45	316
Change in provision	**(15)**	34	(49)
Ending provision for claims	**346**	79	267
Opening provision for unearned premium	–	–	–
Change in provision	–	–	–
Ending provision for unearned premium	–	–	–
Reinsurance			
Opening provision for claims	**14,511**	14,511	–
Change in provision	**(4,275)**	(4,275)	–
Impact of novation	**(28)**	(28)	–
Change in exchange rate	**88**	88	–
Ending provision for claims	**10,295**	10,295	–
Opening provision for unearned premium	**212**	212	–
Change in provision	**122**	122	–
Impact of novation	**(27)**	(27)	–
Ending provision for unearned premium	**307**	307	–

16. PAYABLES

	2014	2013
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	**(7)**	(7)
Amounts due to policy holders	**13,348**	7,840
	13,341	7,833
Trade and other accounts payable		
Accounts payable	**163**	114
Other accounts payables	**8,297**	10,716
	8,460	10,830
Balance as at 31 December	**21,801**	18.663

The payables are all current and consequently their fair value does not materially differ from their book value. The balance of 'Other amounts payable' contains intercompany liabilities amounting to € 3,682 (2013: € 7,505).

17. OTHER LIABILITIES

	2014	2013
Deposits received from reinsurers	**10,591**	15,352
Profit commission payable	**(178)**	(256)
Miscellaneous liabilities and accruals	**5,347**	5,069
	15,760	20,165

In order to cover the provision for unearned premium and the provision for claims related to business retroceded to Nationale Borg Reinsurance N.V, NV Nationale Borg-Maatschappij withholds a deposit amounting to :€ 10,591 (2013:€ 15,286) as per 31st December.
All other liabilities are current liabilities and payable within one year, consequently their fair value does not materially differ from their book value.

Miscellaneous liabilities and accruals		
Payroll and other accruals	**146**	611
Sundry creditors	**5,201**	4,458
Balance as at 31 December	**5,347**	5,069

18. DEFERRED INCOME TAX LIABILITES

	2014	2013
Deferred income tax assets	**(57)**	(57)
Deferred income tax liabilities	**2,828**	2,154
	2,771	2,097

The movement on the deferred income taxes is as follows:

	2014	2013
Balance as at 1 January	**2,097**	2,496
Charge/(credit) to equity for the year	**307**	28
Charge/(credit) to corporate tax payable for the year	**(44)**	–
Charge/(credit) to the income statement for the year	**411**	(427)
Balance as at 31 December	**2,771**	2,097

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

	Technical provisions	Total
Balance as at 1 January 2014	(57)	(57)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	–	–
Balance as at 31 December 2014	(57)	(57)
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)

Deferred tax liabilities	Unrealized appreciation of investment property	Equalization reserve	Deferred acquisition cost	**Total**
Balance as at 1 January 2014	1,507	613	34	**2,154**
Charge/(credit) to equity for the year	307	–	–	**307**
Charge/(credit) to corporate tax payable for the year	(42)		(2)	**(44)**
Charge/(credit) to the income statement for the year	–	381	30	**411**
Balance as at 31 December 2014	**1,772**	**994**	**62**	**2,828**

	Unrealized appreciation of investment property	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 corporate tax payable for the year	_	_	_	_
Charge/(credit) to the income statement for the year	_	(305)	(122)	(427)
Balance as at 31 December 2013	1,507	613	34	2,154

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

	2014	2013
Reserves in shareholders' equity:		
Revaluation reserve	**307**	28

19. CURRENT INCOME TAXES

	2014	2013
Current income tax liabilities	**697**	(2,018)

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

20. OTHER COMPREHENSIVE INCOME

	2014			2013		
	Gross	**Income tax**	**Net**	**Gross**	**Income tax**	**Net**
Share in other comprehensive income of subsidiaries	303	_	**303**	(1,058)	_	(1,058)
Net fair value gains/(losses) on available-for-sale financial investments	641	_	**641**	(311)	_	(311)
Net revaluation property for own use	1,230	(307)	**923**	281	(28)	253
	2,174	**(307)**	**1,867**	(1,088)	(28)	(1,116)

Share in other comprehensive income of subsidiaries

This part of the other comprehensive income relates to available-for-sale financial investments of subsidiary Nationale Borg Reinsurance NV The government bonds that are part of the investment portfolio of this subsidiary are classified as available for sale assets. Unrealized fair value changes are taken into account in the

other comprehensive income. At realisation through maturity or disposal of the government bonds the fair value changes are reversed in the revaluation reserve and taken into account in the income statement.
In 2014 no government bonds matured and there were no disposals. The income tax charges of Nationale Borg Reinsurance NV are based on a percentage of the gross written premiums. Therefore the impact of income tax on these fair value changes is zero.

Net fair value gains/(losses) on available-for-sale financial investments
The financial investments of NV Nationale Borg-Maatschappij consists of fractions in one investment fund containing participations in other real estate investment funds. This investment is classified as available-for-sale. Fair value changes are taken into account in the other comprehensive income. At realisation through disposal of fractions, the fair value changes are reversed in the revaluation reserve and taken into account in the income statement.
At year end 2011 an impairment was taken into account and therefore the negative revaluation reserve related to this asset was reversed in equity and taken into account in the income statement. The real estate market however declined even further in the period following this impairment. This caused the need to apply another impairment in 2014. The negative balance of the revaluation reserve regarding this fund amounted € 595 at year end 2014. The full amount was reversed in equity and taken into account in the income statement. We do not foresee a further decrease in the market value of this investment.

Net revaluation property for own use
Fair value changes related to property for own use are taken into account in the other comprehensive income. The revaluation reserve is released in favor of the revenue reserve on a straight line basis over a 40 years period. Only at realisation through disposal of the property, the fair value changes will be reversed in the revaluation reserve and taken into account in the income statement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

AUTHORIZATION OF THE COMPANY FINANCIAL STATEMENTS

Amsterdam, 23 March 2015

Supervisory Board:

A. Tukker

M.J.J. Wetzels

J.N. van Wiechen

Executive Board:

A.P.J.C. Kroon

A. Nederlof

L.L. Pool

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To: The General Meeting of Shareholders and supervisory board of NV Nationale Borg-Maatschappij

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OUR OPINION

We have audited the financial statements 2014 of NV Nationale Borg-Maatschappij, based in Amsterdam. The financial statements include the consolidated financial statements and the company 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 December 31, 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.
- 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.

The consolidated financial statements comprise:
1. the consolidated statement of financial position as at December 31, 2014;
2. the following statements for 2014: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:
1. the company balance sheet as at December 31, 2014;
2. the company income statement for 2014; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

BASIS FOR OUR OPINION

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

MATERIALITY

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.
Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 930.000. The materiality is determined with reference to a primary benchmark on 1% of the insurance premium revenue. Due to the nature of the insurance business we consider premium income as an important metric for Nationale Borg-Maatschappij. Furthermore we assessed the materiality compared to

the profit before tax (5%) due to the relative importance of this matrix for the shareholder and equity (1%) due to the related solvency requirements.
We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.
We agreed with the supervisory board that uncorrected misstatements in excess of EUR 45.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

NV Nationale Borg-Maatschappij is the parent company of the National Borg-Maatschappij group. The financial information of this group is included in the consolidated financial statements of NV Nationale Borg-Maatschappij.
Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and / or the risk profile of the group entities or operations. We did not use the work of other auditors, all procedures were performed by the group engagement team. We have performed a full scope audit on the figures of NV Nationale Borg-Maatschappij and Nationale Borg Reinsurance NV For NV Belegging- en Beheermaatchappij Keizersgracht we performed specified audit procedures on the intercompany reconciliations, this is an company without any activities.
By performing the procedures mentioned above at group entities, combined with analytical procedures on the figures of Nationale Waarborg BV we have covered all information included in the financial statements and have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

OUR KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.
These matters were addressed in the context of our audit on the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Subjectivity with regard to the valuation of the outstanding claims provision

The calculation of the liabilities arising from insurance contracts is complex and highly judgmental and is based on assumptions and on different sources of information. The assumptions require significant management's judgment. The Company has comprehensive procedures and internal controls in place to determine the value of the liabilities arising from insurance contracts. Internal control procedures relate to claims and loss adjustment expenses (including direct and indirect claim settlement costs arising from the risks the company has taken up to the balance sheet date).

We performed procedures to assess the accuracy, completeness and valuation of the technical provisions which consisted amongst others of an assessment of the individual claim files and assessment of manual adjustment to the claims provisions delivered by the cedants. We also involved own specialist with actuarial expertise to assess the outcome of the liability adequacy test.

We found that the assumptions used and related estimates resulted in a cautious valuation of liabilities arising from insurance contracts

Identified fraud risk with regard to Profit(commission)

Nationale Borg Reinsurance NV is a reinsurer operating with over 100 cedants in over 40 countries, including countries which are identified by the Corruption Perceptions Index as having a high perceived level of public sector corruption. Based on this inherent higher risk of corruption we identified a significant fraud risk with regard to the (profit)commission paid to reinsurers. Management established procedures to

prevent and detect possible fraud risks associated with Profit(commissions) and take remediate action when fraud is detected.
Our audit approach consisted of assessing the risks with regards to Profit(commissions) and assessing the internal control procedures established by management. We also involved own specialist with fraud risk expertise to assess risks and procedures. Based on average commission rates we selected payments which were out of the expected range of commission rates and assessed the accuracy of the commission paid with the relevant contract and confirmed that this contract was appropriately approved by at least two persons from the NBM group.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANANCIAL STATEMENTS

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

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.
We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.
We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the executive board report and the other information
Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the executive board report and other information):

- 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 the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the executive board report, to the extent we can assess, is consistent with the financial statements.

Engagement
We were reappointed as auditors for the audit of the 2014 financial statements of NV Nationale Borg-Maatschappij by the supervisory board on July 1, 2014 and have been the auditor since 2007.

Utrecht, 23 March 2015

A.J.H. Reijns 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	16,305
Interim dividend paid out	(8.000)
Transfer to reserves	8,305
Dividend to shareholders	–

With respect to the distribution of the result and retained earnings, considering the interim dividend of € 8 million paid during 2014, 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 adjusting events after the balance sheet date.

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