

2010

NATIONALE BORG ANNUAL REPORT



ANNUAL REPORT

Five year figures	3
Profile	5
Organization	7
Supervisory board report	8
Executive board report	9
Consolidated financial statements	13
Consolidated balance sheet as at 31 December 2010	14
Consolidated income statement for the year 2010	16
Consolidated statement of comprehensive income for the year 2010	17
Consolidated changes in equity	18
Consolidated cash flow for the year 2010	19
Principles of valuation and determination of result	20
Risk management	40
Notes to the consolidated financial statements	51
Additional information	65
Company financial statements	67
Company balance sheet as at 31 December 2010	68
Company income statement for the year 2010	70
Company statement of comprehensive income for the year 2010	71
Company changes in equity	72
Company cash flow for the year 2010	73
General information	74
Notes to the company financial statements	75
Other information	87
Auditor's report	87
Profit appropriation	89

FIVE YEAR FIGURES

€ '000	2010	2009	2008	2007	2006
Gross premiums	79,952	73,571	62,420	62,982	63,323
Net premium earned	64,095	59,563	49,976	48,934	47,445
Net claims incurred	26,420	29,897	21,666	18,793	17,994
Investment portfolio*	129,156	130,345	118,590	128,272	111,729
Investment income	8,511	6,160	(6,716)	13,592	5,169
Balance sheet Total	201,077	194,169	191,947	195,082	179,985
Net technical provisions	58,782	57,044	60,418	54,004	49,551
Gross technical provisions	81,737	85,226	92,660	83,688	79,757
Claim ratio in %	41.2	50.2	43.3	38.4	37.9
Shareholders information					
Equity	81,340	82,429	78,026	79,491	80,700
Result after tax	17,939	7,614	323	19,401	15,868

* Investment portfolio includes cash investment accounts.

PROFILE

For 118 years, Nationale Borg has been a specialized issuer of bonds and guarantees and a reinsurer of these instruments and of credit insurance. As a specialist in these products, we have earned a special position among banks and insurance companies.

Nationale Borg employs 96 people in four locations. At our Amsterdam head office, we underwrite guarantees and provide central services to our group companies. We have a branch office in Belgium (Antwerp) to provide guarantees to the Belgian market, and two subsidiaries. One subsidiary is Nationale Borg Reinsurance, based in Willemstad, Curaçao. It provides reinsurance capacity to bond and credit insurance companies. The other is Nationale Waarborg, based in Nieuwegein, which is active in the field of home purchase bonds.

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

The company is supervised by the De Nederlandsche Bank, the Dutch bank and insurance supervisor. Our subsidiary Nationale Borg Reinsurance 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 Panamerican Surety Association, which unite surety and credit insurance providers from around the world. These memberships give us access to an international network of correspondents.

On 31 January 2011 Standard & Poor's confirmed the group's 'A'-rating for financial strength, with stable outlook.

GUARANTEES

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

HOME PURCHASE BONDS

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

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

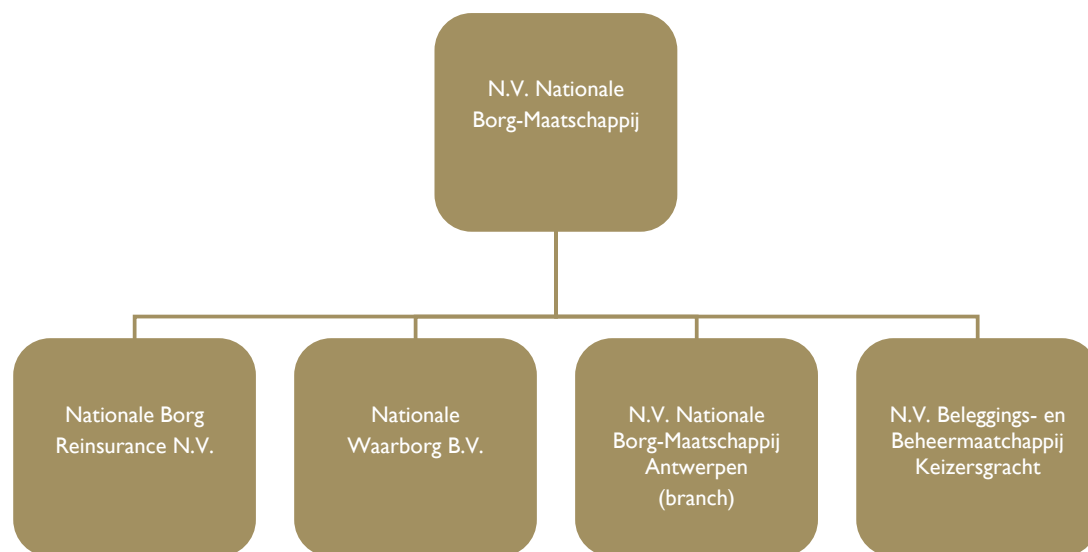
REINSURANCE

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

PROFILE

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

ORGANIZATION



Supervisory Board:

A. Tukker

P.E. Visser

J.N. van Wiechen

Executive Board:

A.P.J.C. Kroon

P. Lanzillotta

A. Nederlof (from 1 December 2010)

SUPERVISORY BOARD REPORT

On December 1, 2010, a new member joined the Executive Board of Nationale Borg. Mr. A. Nederlof joined the company as the Executive Board member with a special focus on the commercial activities in the Dutch guarantee market.

There have been no changes in the composition of the Supervisory Board in 2010.

The Supervisory Board has held six meetings in 2010, covering all important issues based on an annual schedule as well as on their actual relevance to the company. The Audit Committee has held three meetings during 2010. The financial statements of Nationale Borg for the year 2010 have been presented to our board by the Executive Board. These accounts have been audited by KPMG Accountants N.V. We advise the shareholders to approve the accounts and to discharge the Executive Board in accordance with the bylaws of the company.

With respect to the distribution of the result and retained earnings, the Supervisory Board agrees with the proposal of the Executive Board to the shareholders to pay a final dividend of € 8,000,000. Because of the uncertain economic environment, the Supervisory Board recommends that the shareholders review this recommendation in the light of the market conditions and other circumstances prevailing at the time of the annual shareholders meeting.

Amsterdam, 22 March 2011

A. Tukker

P.E. Visser

J.N. van Wiechen

EXECUTIVE BOARD REPORT

A YEAR OF UNCERTAINTY

2010 was a year of continued uncertainty, not only for Nationale Borg, but for all financial services providers and their clients. There were signs that world economies and enterprises were entering a phase of recovery from the economic crisis, but these signals did not provide convincing evidence that the recovery would last. At the same time, the crisis shifted to the financing of national governments, a shift that continues until today and that can lead to even more uncertainty.

Nationale Borg operates in various segments of the business community and it depends on their position in the economic cycle how these segments are affected by the crisis. Transportation and logistics companies are among the first to benefit from a recovery, while capital goods manufacturers and especially construction companies usually follow at a later stage. It remains very difficult to predict where the economy is headed and what will be the outlook for our business partners, although most of them are cautiously optimistic about the longer term. It may well be, however, that our clients have not yet hit the bottom before they start their recovery. This may be especially true in the construction sector, where the asset base of clients has been eroded to such an extent that recovery is now needed quickly.

At the onset of the crisis, Nationale Borg put adequate and continued focus on risk management in 2010. In the meantime, we remain fully alert to opportunities that occur and we stay true to our adage that we want to support our clients both in good and bad times. We thank our clients for their continued trust in Nationale Borg.

Looking back at 2010, we have once again generated strong growth in premiums while exposures declined slightly. The result on our insurance activities was very satisfactory and our investment portfolio, which had a limited risk profile, produced an excellent return.

CONTINUED FOCUS ON GUARANTEES AND REINSURANCE

After the strategic review that occurred after the transition of ownership of Nationale Borg, we started the execution of this strategy: focus on our commercial efforts in our two product lines: Guarantees and Reinsurance. This focus has not shifted in 2010, although we closely monitored the economic conditions. These conditions forced us to keep a continued sharp eye on risk management in order to prevent losses, but throughout the year, we have kept our eyes on the goals of strengthening our market position in the Dutch and Belgian Guarantee markets, as well as on maintaining our position in the Reinsurance market.

The appointment of a third Executive Board member, who heads the client relationship team for Guarantees in the Netherlands, underscores our strong and constant focus on our clients in line with the strategy we outlined in 2008: to grow our business in market share in our two home markets.

We have well-trained commercial relationship managers and professional risk management teams both in Amsterdam and Antwerp. This set-up allows us to be close to the market both in servicing our clients and in assessing risk. The shift of tasks from the commercial departments to the back office was completed and we started preparations for a complete overhaul of our IT systems to remain in the forefront in terms of service to our clients. Close cooperation between our commercial teams and the back-office results in timely service, based on expertise and focus, which is highly appreciated by our clients.

Meanwhile, quarterly reviews of all risks in the portfolio continued and we took further actions to bring rates in line with the risks to which our clients are exposed and with the anticipated capital requirements Solvency II will impose. Based on the input of the commercial departments, our risk management department continues to

EXECUTIVE BOARD REPORT

screen risks to have an up-to-date overview of the risk in our guarantee portfolio and it ascertains that sufficient and timely action is taken.

In the Reinsurance activity, our team of underwriters has remained unchanged during 2010. Each underwriter is assigned to a particular geographic area and although we have a relatively small team, we visit all cedants on at least an annual basis. Meanwhile, we are present at many industry events and meetings, in order to develop a good understanding of the various markets. Each underwriting decision is taken by the management board of Nationale Borg Reinsurance on the basis of a recommendation from the underwriting team .

During the year, we saw a continued decline in exposures and increased rate levels at many of our credit insurance cedants, as a result of the portfolio restructuring many of them implemented in response to the economic conditions that affect their clients. Similar actions at bonding cedant began to have their first sizeable impact, because such impact occurs after a significant time lag due to the longer term of bonding commitments, the results for the underwriting year 2008 showed no improvement in 2010, but after 2009 the underwriting year 2010 also showed a promising start.

During 2010, we started preparations for the transfer of our reinsurance portfolio to Nationale Borg Reinsurance in Curaçao. By legally separating reinsurance from direct business, our EU cedants will not suffer from additional capital requirements they would incur under Solvency II if they do business with a “hybrid” insurer like Nationale Borg-Maatschappij. As from January 2011, Nationale Borg Reinsurance is licensed as a professional reinsurer.

NATIONALE WAARBORG

We continue to further integrate Nationale Waarborg into our group. Since we acquired the company in 2008, more and more functions are taken over by our Amsterdam office, allowing Nationale Waarborg to focus on the expansion of its share of the home purchase bond market. Nationale Waarborg sells and services the product as an independent provider, while Nationale Borg issues the actual bonds and provides back-office services.

Although the number of bonds sold through Nationale Waarborg has not increased over the past two years, this is a significant feat in a market that has declined dramatically since its peak in 2008. Since that year, the number of homes sold has decreased by 40%. Although no change in market conditions is expected anytime soon, our increased market share holds a promise for the future when the market does recover.

PREMIUM DEVELOPMENT

Total premium volume grew by almost 18% in 2010. This growth occurred at slightly declining exposure levels, related to the economic circumstances. In the direct portfolio, rate increases were justified by the default probabilities in the current circumstances and by the anticipated capital requirements Solvency II will impose. In Belgium we remained strongly focused on our target client group as well, but we have ended our relationship with a number of clients who did not meet our minimum exposure threshold. This has contributed to the decline in exposure.

The price level was stable in home purchase bonds, while total premium was up in line with the growing number of bonds we saw in 2010 relative to 2009.

In Reinsurance, rate actions by our cedants continued to contribute to higher premium income, although declining exposures undid some of the increase. The addition of several new cedants to our portfolio provided additional income growth, even beyond budgeted levels.

EXECUTIVE BOARD REPORT

INSURANCE AND INVESTMENT RESULTS

The loss ratios in our guarantee portfolio were low in 2010. There were no major losses and the settlement of outstanding losses has made a positive contribution to the bottom line. We feel this is a consequence of our prudent underwriting. Our Risk Management department once again spent a fair share of its time on the management of so-called intensive care and watch list clients, which results in close monitoring of our portfolio. In Reinsurance, the overall loss ratio improved as the year went on. Initially, we saw continued loss development on the 2008 underwriting year, but as we moved on, the impact of the 2009 and 2010 underwriting years started to weigh in more heavily.

We continue to benefit from the elimination of our investment portfolio at the end of 2008, when we moved almost completely into liquid assets, with the exception of a limited amount of government bonds and a small share portfolio. In 2009 and 2010, we have expanded the investment in this share portfolio to € 8,5 million and we have converted some of the liquid assets into mainly Dutch and German government bonds. While most of the portfolio generated a very low return as a consequence of this low risk profile, the share portfolio reached a value of over € 21 million at year-end 2010.

Once again, we are proud of the overall result achieved, especially against the backdrop of continued uncertainty in financial markets and in the economy in general. Our staff has demonstrated their continued commitment to maintaining our customer service level while improving efficiency and keeping our focus on an adequate ratio between risk and return. We like to thank all our employees for this strong commitment and hard work.

RISK MANAGEMENT

Key to our mission and continuity is prudent risk management.

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

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

Credit risk is the risk of loss resulting from a client or counter party default or downgrade and in our business it arises not only from normal credit exposure, but it is the core of our insurance risk. For this reason we continued to invest in it in 2010.

After further expansion of the Amsterdam-based Risk Management department which evaluates commercial proposals and which is involved in dealing with threatening and pending claims cases, we set up a Risk Management unit in our Antwerp office to handle the majority of the Belgian business. We set up an Internal Control function to monitor adherence to the procedures that were documented earlier. This past year we focused even more on the analysis of our risks by building models to capture it analytically. Not only does this become ever more important because of the upcoming introduction of Solvency II; it also provides us with insights we can use to better tailor our product offer to different clients and client groups. Both our clients and our shareholders benefit from these insights because they allows us to make the best possible use of the capital available to us.

NATIONALE BORG REINSURANCE

In December 2010, our subsidiary Antilliaanse Borg Maatschappij was renamed Nationale Borg Reinsurance in preparation for its new role within our group. During 2010 however, the company was still active as a direct surety company in the Netherlands Antilles, which ceased to exist on October 10, 2010. Curaçao, where the company is established, now continues as an independent country within the Kingdom of the Netherlands. In its direct business Antilliaanse Borg incurred several claims. Our cessions to Antilliaanse Borg Maatschappij

EXECUTIVE BOARD REPORT

continued until 30 December 2010, when all contracts between Antilliaanse Borg and Nationale Borg were commuted in order to get ready for the new role of Nationale Borg Reinsurance. We thank the board and management of the company for their commitment to a continued prudent risk management in order to achieve good results and for their efforts to roll out the new structure in a timely manner.

OUTLOOK 2011

Although the sources of uncertainty may have changed somewhat over the last year, the world remains full of it as we enter into the fourth year of unprecedented instability. As mentioned before, as a company 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. 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 valuable today than they were in the past. We will continue to execute the plan we outlined in 2009, which calls for continued growth of 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 intend to seize them as best we can with a staff that will remain relatively stable in size.

There is no doubt in our minds that today there is even more of a *raison d'être* for our company than there was in the past. 2010 has provided evidence once again that we can withstand adverse circumstances and that we provide services that benefit all our stakeholders.

Amsterdam, 22 March 2011

A.P.J.C. Kroon

P. Lanzillotta

A. Nederlof

2010

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010

Before appropriation of result

		2010		2009
ASSETS				
Property, plant and equipment	1	8,823		9,702
Intangible assets	2	2,858		3,819
Financial assets	3	59,460		45,052
Reinsurance contracts	4	22,955		28,182
Receivables:	5			
• Accounts receivable on insurance and reinsurance business		10,287		7,638
• Other accounts receivables		523		983
		<u>10,810</u>		<u>8,621</u>
Other assets:	6			
• Deferred acquisition costs		1,922		1,923
• Miscellaneous assets and accruals		1,395		994
		<u>3,317</u>		<u>2,917</u>
Cash and cash equivalents	7			
• Cash		76,347		88,387
• Cash received as collateral		16,507		7,489
		<u>92,854</u>		<u>95,876</u>
TOTAL ASSETS		<u>201,077</u>		<u>194,169</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010

		2010	2009
EQUITY			
Capital and reserves attributable to the equity holders of the company	8	81,340	82,429
LIABILITIES			
Technical provisions	9	81,737	85,226
Payables:	10		
• Accounts payable on insurance and reinsurance business		16,868	10,581
• Trade and other payables		9,483	7,070
		26,351	17,651
Other liabilities:			
• Deposits received from reinsurers		233	270
• Miscellaneous liabilities and accruals	11	5,120	3,416
		5,353	3,686
Employee benefit liabilities	12	657	668
Deferred income tax liabilities	13	2,714	3,248
Current income tax liabilities	14	2,925	1,261
		119,737	111,740
TOTAL LIABILITIES		119,737	111,740
TOTAL EQUITY AND LIABILITIES		201,077	194,169

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2010

		2010	2009
Insurance premium revenue		79,952	73,571
Insurance premium ceded to reinsurers		(15,857)	(14,008)
NET PREMIUMS EARNED	<i>15</i>	64,095	59,563
Service income		1,124	1,084
Reinsurance commission received		4,877	4,458
Reinsurance commission paid		(1,339)	(1,111)
Net income from investments	<i>16</i>	8,511	6,160
TOTAL INCOME AFTER REINSURANCE		77,268	70,154
Insurance claims and loss adjustment expenses		(29,159)	(37,200)
Insurance claims and loss adjustment expenses recovered from reinsurers		2,739	7,303
NET INSURANCE CLAIMS	<i>17</i>	(26,420)	(29,897)
Net operating expenses	<i>18</i>	(30,310)	(29,517)
Total expenses after reinsurance		(56,730)	(59,414)
Other Income	<i>19</i>	216	0
Profit before tax		20,754	10,740
Income tax expenses	<i>20</i>	(2,815)	(3,126)
PROFIT FOR THE YEAR FROM OPERATIONS		17,939	7,614
Attributable to:			
Equity holders of the company		17,939	7,614
Basic earnings per share from continuing operations (euro)	<i>21</i>	22,32	9,48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2010

	2010	2009
Available for sale investments:		
Valuation gains/losses taken to equity	99	2,330
Transferred to profit and loss on sale	(368)	850
Exchange differences on translation of foreign operations	241	109
	<hr/>	<hr/>
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	(28)	3,289
Profit for the period	17,939	7,614
	<hr/>	<hr/>
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	17,911	10,903
	<hr/>	<hr/>
Attributable to:		
Equity holders of the company	17,911	10,903

CONSOLIDATED CHANGES IN EQUITY

Attributable to the equity holders of the company

	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Undistri- buted profits	Total
EQUITY AT 1 JANUARY 2009	4,019	824	3,246	(311)	23,580	46,668	78,026
Property, plant and equipment							
• Valuation gains/losses taken to equity	–	–	2,352	–	–	–	2,352
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(22)	–	–	–	(22)
• Transferred to profit or loss on realization of result	–	–	850	–	–	–	850
Exchange differences on translation of foreign operations	–	–	–	109	–	–	109
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	3,180	109	–	–	3,289
Profit for the period	–	–	–	–	–	7,614	7,614
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	3,180	109	–	7,614	10,903
Dividends	–	–	–	–	(6,500)	–	(6,500)
EQUITY AS PER 31 DECEMBER 2009	4,019	824	6,426	(202)	17,080	54,282	82,429
EQUITY AT 1 JANUARY 2010	4,019	824	6,426	(202)	17,080	54,282	82,429
Property, plant and equipment							
• Valuation gains/losses taken to equity	–	–	(656)	–	–	–	(656)
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	755	–	–	–	755
• Transferred to profit or loss on realization of result	–	–	(368)	–	–	–	(368)
Exchange differences on translation of foreign operations	–	–	–	241	–	–	241
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	(269)	241	–	–	(28)
Profit for the period	–	–	–	–	–	17,939	17,939
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	(269)	241	–	17,939	17,911
Dividends	–	–	–	–	(10,000)	(9,000)	(19,000)
EQUITY AS PER 31 DECEMBER 2010	4,019	824	6,157	39	7,080	63,221	81,340

CONSOLIDATED CASH FLOW FOR THE YEAR 2010

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period after tax	17,939	7,614
Adjustments for:		
• Realized capital (gains) and losses on investments	(2,452)	(929)
• Share in income from investments in associates	-	-
• Depreciation and amortization	1,282	1,025
Changes in operational assets and liabilities:		
• Underwriting provisions, gross	(2,912)	(7,434)
• Reinsurance assets, net	5,188	4,082
• Deferred acquisition costs	1	844
• Accounts receivable and payable on insurance and reinsurance business	3,638	(1,844)
Other operating assets and liabilities:		
• Cash (used in)/generated by operating activities	6,888	10,420
Income taxes paid	(2,228)	(3,928)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	27,344	9,850
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments available for sale and through profit and loss	(28,041)	(25,499)
• Property, plant and equipment and intangible fixed assets	(322)	(610)
Divestments, redemptions and disposals (cash inflows):		
• Financial investments available for sale and through profit and loss	16,999	5,400
• Property, plant and equipment and intangible fixed assets	-	-
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	(11,364)	(20,709)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(19,000)	(6,500)
Interest paid	-	-
Redemptions of debt instruments	-	-
Payments on outstanding debt	-	-
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	(19,000)	(6,500)
CHANGES IN CASH AND CASH EQUIVALENTS	(3,022)	(17,359)
Cash and cash equivalents at the end of the preceding year	95,876	113,235
Cash and cash equivalents at the end of the financial year	92,854	95,876

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

ACTIVITIES OF NATIONALE BORG

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

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

BASIS OF PRESENTATION

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

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

(a) Standards, amendments to published standards and interpretations effective on or after 1 January 2010

There are no new standards, amendments to published standards and interpretations effective on or after 1 January 2010 that have an impact on the group's financial statements 2010.

(b) Standards, amendments to published standards and interpretations early adopted by the group

In 2010, the group did not early adopt any new, revised or amended standards

(c) Standards, amendments and interpretations effective in 2010 but not relevant to the group's operations

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 3	IFRS 3 (revised), 'Business combinations' (and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures')	1 July 2009
IFRIC 17	IFRIC 17, 'Distribution of non-cash assets to owners'	1 July 2009
IFRIC 18	IFRIC 18, 'Transfers of assets from customers'	1 July 2009
IFRIC 9	IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'	1 July 2009
IFRIC 16	IFRIC 16, 'Hedges of a net investment in a foreign operation'	1 July 2009

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

IAS 1	IAS 1 (amendment), 'Presentation of financial statements'	1 January 2010
IAS 36	IAS 36 (amendment), 'Impairment of assets'	1 January 2010
IFRS 2	IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'	1 January 2010
IFRS 5	IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'	1 January 2010

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. In 2010 no such transactions took place within the group.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as noncurrent (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published but are not effective for the financial year beginning 1 January 2010 and not early adopted:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 9	Financial instruments	1 January 2013
IAS 24	Related party disclosures (revised)	1 January 2011
IAS 32	Classification of rights issues (amendment)	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

The group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The group will apply the amended standard from 1 January 2011.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from 1 January 2011, subject to endorsement by the EU. It is not expected to have any impact on the group or the parent entity's financial statements.

CONSOLIDATION

The consolidated financial statements of Nationale Borg comprise the accounts of N.V. Nationale Borg-Maatschappij and each of those entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations. The group in 2009 (and 2008) included the following entities: N.V. Nationale Borg-Maatschappij, including its Antwerp branch, N.V. Beleggings- en beheersmaatschappij "Keizersgracht", Nationale Borg Reinsurance N.V. (previously known as Antilliaanse Borg Maatschappij) and Nationale Waarborg B.V.

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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 €	
	2010	2009	2010	2009
USD	0,754	0,695	0,724	0,700
CAD	0,754	0,667	0,710	0,624
GBP	1,167	1,111	1,139	1,072
AUD	0,766	0,620	0,693	0,554

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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.

PROPERTY, PLANT AND EQUIPMENT

PROPERTY IN OWN USE

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

COMPUTER SOFTWARE

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

EQUIPMENT

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment 2 to 5 years, and 4 to 10 years for fixtures and fittings. Expenditures for maintenance and repairs are charged to the profit and loss account as incurred. Expenditure incurred on major improvements is capitalized and depreciated.

The depreciation period is based on the estimated economic useful life of the asset. Land is not depreciated. All other assets are depreciated using the straight-line depreciation method over the estimated economic useful lives presented below:

Asset category:	Years
Property in own use	40

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

Computer software	3
Computer hardware	2 to 5
Fixtures and fittings	4 to 10

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

INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in equity and other non-fixed-interest-bearing certificates are valued at net asset value. The net asset value of non-listed companies is derived from the financial statements of these companies, according to IFRS accounting policies. Realized gains on these investments are reported in the profit and loss account. Unrealized value changes are accounted for in the revaluation reserves. In case of negative revaluations, impairment tests are carried out to determine if a loss has to be taken in the result.

FINANCIAL ASSETS

The group classifies its 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. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit and loss.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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. The group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity like options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any 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 fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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 – 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

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

EQUITY

The share capital of Nationale Borg consists of 803.760 shares with a nominal value of € 5, which have been fully paid.

SUBSCRIBED CAPITAL

The share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issues of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

CAPITAL RESERVE

Capital reserve is the amount of share premium received by the company in excess of the nominal value of the shares it had issued.

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.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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 (law on financial supervision). The required and available solvency margin is disclosed under Risk Management on page 48.

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.

PROVISIONS

PROVISION FOR UNEARNED PREMIUMS

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

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

PROVISION FOR OUTSTANDING CLAIMS

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

REINSURANCE CONTRACTS

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

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

group remains liable to its policyholders for the portion reinsured. Consequently, provisions will be made, if necessary, for receivables on reinsurance contracts which are deemed uncollectible.

LIABILITY ADEQUACY TEST

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs and intangible assets related to insurance portfolios. Any deficiency is immediately charged to the profit and loss account, initially by writing off the intangible assets related to insurance portfolios and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). The provisions are prudently determined based on years of experience and considered adequate based on the positive run-off results.

REINSURERS' SHARE OF UNDERWRITING PROVISIONS

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

The group assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. The group gathers the objective evidence that a reinsurance asset is impaired by applying similar procedures adopted for financial assets held at amortized costs. The impairment loss is calculated under the same method used for these financial assets.

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

INCOME FROM REINSURANCE CONTRACTS

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

RECEIVABLES AND PAYABLES RELATED TO INSURANCE CONTRACTS

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

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement. The group gathers the objective evidence that an insurance receivable is impaired by applying procedures similar to those adopted for loans and receivables. The impairment loss is also calculated under the same method used for financial assets.

SALVAGE AND SUBROGATION REIMBURSEMENTS

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

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the goods required.

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

DEPOSITS RECEIVED FROM REINSURERS

Deposits received from reinsurers represent amounts received from reinsurance companies in respect to ceded claims and premium provisions and are stated at amortized costs using the effective interest method. Interest expense is recognized on a straight-line basis.

EMPLOYEE BENEFIT LIABILITIES

PENSION OBLIGATIONS

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

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

The pension obligations from the period when the group was part of ING are insured by ING. Consequently, no obligations or future claims for this period have to be provided for by Nationale Borg.

PROFIT SHARING AND BONUS PLANS

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

TAX LIABILITIES

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

DEFERRED INCOME TAX LIABILITIES

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

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

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

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 value added tax, after eliminating revenue within the group.

Revenue is recognized as follows:

NET PREMIUMS EARNED

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

- Guarantees
- Money and Fraud insurance; and
- Reinsurance

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

Part of the insurance premium is ceded to reinsurers to diversify risk and to reduce the risk of catastrophic loss on insurance assumed. Amounts recoverable for ceded unearned premiums under cession agreements are reported as assets in the accompanying consolidated balance sheet.

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

NET INCOME FROM INVESTMENTS

Net investment income is the result of investment income minus investment expenses, including interest income, dividend income from available-for-sale equities, impairment and depreciation of investment property. Dividend income from available-for-sale equities is recognized when payment is received.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

EXPENSES

NET INSURANCE CLAIMS

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

Claims ceded under cession contracts are recorded as reductions of gross claims.

NET OPERATING EXPENSES

Net operating expenses comprise administrative expenses, gross acquisition costs, gross change in deferred acquisition costs and the change in reinsurance share of deferred acquisition costs.

INCOME TAX

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

CASH FLOW STATEMENT

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

- Cash comprises cash on hand and demand deposits.
- Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue-producing activities of the group and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the group.

The cash flow statement has been drawn up in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flows from operating activities, the profit before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.

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

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of accounts receivables only relates to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

advances to customers in the balance sheet has been adjusted accordingly from the profit before tax and is shown separately in the cash flow statement.

The difference between the net cash flow in accordance with the cash flow statement and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is separately accounted for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

ESTIMATION TECHNIQUES

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

LOSS RESERVES

The following overview outlines the loss reserve estimation process.

Guarantee Insurance	<p>A strict procedure for setting up reserves is followed, taking into account various factors, such as type of bonds, duration, counter indemnities and collateral. The objective is to reserve adequately.</p> <p>The company usually sets up reserves before the client becomes insolvent, estimating the risk of claiming in the light of the specific guarantees issued. Reserves may exist for a significant time before being utilized or released.</p>
Credit and Surety Reinsurance	<p>Reserves are set up on the basis of the most recent outstanding loss information supplied by the ceding company, individual policy loss information, market developments and account experience. Given the time lag in reporting by cedants to insurers, the company aims to reserve the estimated losses one year after the end of any underwriting year. It should be mentioned that during the underwriting year a large proportion of the premium is set aside as a loss reserve, as claims relating to the underwriting year usually are incurred with a significant time lag. Time lags vary per ceding company, treaty and country.</p>
Money and Fraud Insurance	<p>Each eligible claim is reserved, The reserve is used for payment of the claim or is released 6 months after its rejection, unless the insured appeals the (partial) rejection decision.</p> <p>Most reserves are short-term with losses settled within a few months. In some cases reserves remain in existence for a longer period. This holds, for example, when claims are rejected or when a large investigation is followed by a legal procedure.</p>

At year-end 2009 and 2010 the provision for unexpired risk was nil based on a premium deficiency test.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULT

INCURRED BUT NOT REPORTED (IBNR) RESERVE

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

REINSURANCE

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

MONEY AND FRAUD INSURANCE

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

As per year-end 2010 the IBNR reserves are € 3,798 (2009: € 2,522).

RISK MANAGEMENT

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

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

INSURANCE RISK

GUARANTEES

OBJECTIVES, POLICIES AND PROCESS

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

TYPE OF RISK

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

MONEY AND FRAUD INSURANCE

OBJECTIVES, POLICIES AND PROCESS

The acceptance of insurance risk for money and fraud was based on the long-time experience of Nationale Borg with this risk. As per January 1, 2009, Nationale Borg no longer underwrites this type of insurance.

RISK MANAGEMENT

Based on its history Nationale Borg had an extensive loss history for each of the separate risk types that could be included in a policy. The company had a reputation for being conservative in its underwriting and acceptance of a risk was often conditional on the implementation of strict prevention measures. Non-adherence to these conditions would void the policy.

Risk was managed by assigning underwriting limits per risk type and per policy to each underwriter. Above certain limits the executive board needed to approve underwriting decisions.

TYPE OF RISK

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

REINSURANCE

OBJECTIVES, POLICIES AND PROCESS

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

RISK EXPOSURE

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

Contracts can be separated into treaty, excess of loss and facultative contracts. In treaty business Nationale Borg participates for a certain fixed percentage in all business risks underwritten by the cedant within the limits of the treaty. In excess of loss contracts Nationale Borg provides a fixed percentage of losses in excess of a hurdle amount up to a contract limit. Depending on contract conditions the cover can have one or more reinstatements.

Underwriting of treaty and excess of loss business is based on the evaluation of the ceding company.

Facultative contracts provide coverage for a fixed share of a named risk. Generally, such coverage is provided for limited risks in case a company has exhausted its treaty capacity. Underwriting of facultative business is based on the individual merits of the underlying risk.

RISK EXPOSURE

GUARANTEES

The ten largest clients account for approximately 19,8 % of premium income, while the twenty largest clients together account for approximately 30,2 % 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.

RISK MANAGEMENT

Guarantees:

	2010			2009		
	Exposure	Number	Average exposure per guarantee	Exposure	Number	Average exposure per guarantee
	€ '000		€	€ '000		€
Belgium						
• Construction	893,464	8,502	105,089	977,724	9,342	104,659
• Other types	181,273	466	388,998	237,238	538	440,963
Netherlands:						
• Construction	1,646,229	6,824	241,241	1,644,673	7,094	231,840
• Other types*	1,330,909	5,700	233,493	1,457,693	6,280	231,117
Total	4,051,875	21,492	188,529	4,317,328	23,254	185,660

* Other types includes House Purchase Bonds

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

€ '000	2010	2009
Belgium		
• Construction	6,716	6,286
• Other types	1,472	1,822
Netherlands		
• Construction	12,316	9,576
• Other types	12,067	9,428
Netherlands Antilles		
• Construction	129	151
Total Premium from Guarantees	32,699	27,263

REINSURANCE

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

	2010	2009
Treaty		
• Number of countries	50	51
• Number of cedants	100	98
• Total amount (PML basis, in € millions)*	4,096	4,910

RISK MANAGEMENT

	2010	2009
Facultative:		
• Number of countries	18	18
• Number of guarantees	61	53
• Total nominal amount (in € thousands)	103,444	81,900
• Average amount per guarantee (in € thousands)	1,696	1,545

* Total exposure amount is an estimate based on information supplied by cedants. We have started to improve the estimation process as cedants are capable of providing more detailed portfolio information in a timely manner and Nationale Borg is capable of more efficient processing of this information.

CLAIM DEVELOPMENT

GUARANTEES AND 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:

€ '000	2010	2009	2008	2006	2005
Business line/year					
Guarantee	1.591	2.999	-2.062	2,565	369
Money and Fraud	304	39	4.095	212	395

At the end of 2010 Nationale Borg had earmarked 78 (2009: 79) guarantee risks as cases that require special attention from Risk Management.

Of these risks 4 (2009: 6) cases have a nominal exposure in excess of € 5 million. In the highly unlikely event that all bonds currently outstanding to these parties would lead to full claims, such claims would have an impact on the net result of Nationale Borg of € 15.6 million (2009: € 20 million). By comparison the company anticipates to collect more than this amount in net premiums from in-force exposures, of which € 20 million will be collected in 2011 alone.

REINSURANCE

The development of reinsurance contracts provides a measure of the ability of Nationale Borg to estimate the ultimate value of claims. The top of the table shows the accounting years when premiums were booked for the different underlying underwriting years. This table is presented on a consolidated basis for Nationale Borg's reinsurance contracts. A change in loss ratio of 1% (up or down) has an impact of 489 on our loss expenses. The gross figures are equal to net, because there is no external reinsurance on these contracts:

RISK MANAGEMENT

UW year 2003	2003	2004	2005	2006	2007	2008	2009	2010
Premium	13,119	30,412	34,136	35,610	36,944	37,762	38,262	38,622
Losses paid	954	5,718	10,817	13,029	14,446	15,875	16,510	16,932
Recoveries	7	213	546	932	1,358	1,581	1,780	1,878
Loss reserves	2,484	6,947	5,641	5,151	6,136	5,570	5,818	5,970
Loss incurred	3431	12,452	15,912	17,248	19,224	19,864	20,548	21,024
Loss ratio	26.2%	40.9%	46.6%	48.4%	52.0%	52.6%	53.7%	54.4%
UW year 2004		2004	2005	2006	2007	2008	2009	2010
Premium		12,266	27,741	30,412	31,689	32,674	33,311	33,696
Losses paid		653	4,021	8,089	9,326	10,332	11,265	11,600
Recoveries		3	83	332	575	830	1,042	1,128
Loss reserves		5,654	7,298	4,765	3,260	3,011	2,859	2,541
Loss incurred		6,304	11,236	12,522	12,011	12,513	13,082	13,013
Loss ratio		51.4%	40.5%	41.2%	37.9%	38.3%	39.3%	38.6%
UW year 2005			2005	2006	2007	2008	2009	2010
Premium			14,131	30,822	33,768	35,236	36,268	36,952
Losses paid			718	5,448	9,237	10,788	11,796	12,618
Recoveries			7	133	462	746	881	1,041
Loss reserves			3,574	7,258	4,774	3,602	3,280	3,256
Loss incurred			4,285	12,573	13,549	13,644	14,195	14,833
Loss ratio			30.3%	40.8%	40.1%	38.7%	39.1%	40.1%
UW year 2006				2006	2007	2008	2009	2010
Premium				13,727	31,206	33,341	34,641	35,580
Losses paid				509	4,608	8,779	10,780	12,278
Recoveries				23	177	505	637	793
Loss reserves				3,355	7,042	4,981	3,890	3,154
Loss incurred				3841	11,473	13,255	14,033	14,639
Loss ratio				28.0%	36.8%	39.8%	40.5%	41.1%
UW year 2007					2007	2008	2009	2010
Premium					12,876	28,011	30,128	31,104
Losses paid					514	4,860	9,850	12,555
Recoveries					7	214	612	796
Loss reserves					2,997	6,803	4,641	4,264
Loss incurred					3,504	11,449	13,879	16,023
Loss ratio					27.2%	40.9%	46.1%	51.5%
UW year 2008						2008	2009	2010
Premium						17,149	34,862	38,085
Losses paid						1,199	11,878	26,214
Recoveries						15	297	1,514
Loss reserves						6,076	12,229	4,784
Loss incurred						7,260	23,810	29,484
Loss ratio						42.3%	68.3%	77.4%
UW year 2009							2009	2010
Premium							19,116	40,409
Losses paid							657	5,483
Recoveries							19	366
Loss reserves							5,450	8,205
Loss incurred							6,088	13,322
Loss ratio							31.8%	33.0%
UW year 2010								2010
Premium								21,629
Losses paid								446
Recoveries								8
Loss reserves								4,495
Loss incurred								4,933
Loss ratio								22.8%

RISK MANAGEMENT

Based on the expected claims ratio of a contract, the actual loss reserve is strengthened by the difference between the actual reported ratio and the expected ratio in relation to the premium income on the contract. The expected loss ratios are adjusted periodically, based on newer insights as the contract develops.

GENERAL REINSURANCE AGREEMENT

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

The General Reinsurance Agreement is a fixed quota share treaty with 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 2010 limit of the quota share treaty was € 75 million, while special limits of € 100 million were subject to approval by the treaty leader. The excess of loss cover insured losses over € 5 million up to an amount of € 45 million.

REINSURERS PANEL

In 2010, Nationale Borg made no material changes to its panel of reinsurers. In general the panel for the different underwriting years consists of 15 to 20 members.

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

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

FRONTING

In order to service customers for whom bonds need to be issued to beneficiaries who do not accept Nationale Borg as a guarantor, the company has fronting arrangements with several parties. Common reasons for non-acceptance are requirements by the beneficiary that the bond must be issued by a party that is incorporated or regulated locally or simply by a bank. Outside the Netherlands, Belgium and Curaçao, Nationale Borg may not always be a familiar name to beneficiaries. In these cases the ultimate guarantee is issued by a correspondent who meets the beneficiary's requirements. The correspondent receives a back-to-back guarantee from Nationale Borg. Total exposure from such guarantees, is € 175 million, divided among guarantee insurance companies and banks on the basis of bilateral agreements. This exposure includes € 36 million of guarantees issued through a committed facility with a limit of € 150 million, provided by a syndicate of five banks. Because this facility was no longer available for new guarantees as from June 1, 2009, we have negotiated several new facilities with individual members of the previous syndicate. As per end of the year we have three bilateral facilities for a total limit of €123 million.

FINANCIAL RISKS

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

RISK MANAGEMENT

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

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

MARKET RISK

Market risk is the risk of economic losses triggered by changes in market prices. In 2010, Nationale Borg was exposed to currency, interest and equity price risk. At the beginning of the year, Nationale Borg had a moderate sized portfolio that consisted of a few sovereign bonds as well as some equity positions (28,172 and 11,729 respectively) and investments in real estate. During 2010, we have moved our portfolio out of French government bonds and moved into Dutch and German government bonds, as well as purchase of approximately 5,000 in additional bonds. This year, our equity portfolio manager realized 6,682 in market value gains as well as moved an additional 2,613 from the un-invested balance into additional equity investments. By keeping the remainder of our investment portfolio liquid and spread across multiple banks, we contained our market risk at a time when the insurance risk was perceived to be more volatile than normal. The foreign currency risk of the company emanates predominantly from the indirect business, as claims of international cedants are paid in USD. For the year 2010, the technical provisions included an exposure of approximately USD 8.6 million. It is the company policy to balance this exposure to a large extent through holding USD depots of an amount of USD 13.3 million as at the end of December 2010. As a result of this matching policy, a change in USD exchange rate does not lead to a significant FX result for the balance sheet positions. During the year, the USD positions do not differ significantly.

LIQUIDITY RISK

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

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

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

In the current environment, Nationale Borg keeps a substantial share of its assets in cash. However, in normal circumstances, the company still keeps a buffer of cash on call to provide itself the necessary liquidity and investments in bonds and equities are made only in categories which are very liquid and can be marketed overnight. This provides more than enough capacity to meet the demand for liquidity within the time frames specified for our business.

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

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

RISK MANAGEMENT

CREDIT RISK

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

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

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

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

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

	2010		2009			
	Purchases	Gains/ (losses)	Total	%	Total	%
Government bonds (AAA sovereign) - fixed rate	17,708	(526)	22,604	59%	5.422	16%
Government bonds (AAA sovereign) - indexed rate	(13,261)	778	10,266	27%	22.750	68%
Real Estate Fund units	-	140	5,290	14%	5.150	15%
Total - Available for Sale	4,447	392	38,161	100%	33.322	100%
Equity and Preferred shares	3,191	6,379	21,299	100%	11.729	100%
Total - To / From P&L	3,191	6,379	21,299	100%	11.729	100%
Total - All Financial Securities	7,638	6,771	59,460		45.051	

Duration and Maturity profile of the financial investment portfolio:

Years	2010		2009	
	amount	%	amount	%
0 – 1	-	-	-	-
1 – 3	10,251	31%	7.916	28%
3 – 5	4,990	15%	2.505	9%
5 – 10	15,133	46%	10.125	36%
10+	2,495	8%	7.626	27%
Total	32,870	100%	28.172	100%
Duration	4,94 years		6,18 years	
Average Maturity	5,73 years		7,12 years	

RISK MANAGEMENT

CLIENT DEPOSITS

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

OPERATIONAL RISKS

CUSTOMER DUE DILIGENCE AND CHECKS ON BENEFICIARIES

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

The processes in operation within Nationale Borg have been laid down in procedures. These procedures have been refined based on previous experiences and assessment. Via our operational audits management certify that these procedures are upheld. All claims and complaints are analyzed. Structural part of this analysis is the question if procedures have to be further strengthened. Furthermore we use all publicly reported operational issues in the market to test our systems, effectively by asking ourselves, if such issues could occur in our group. This analyses is discussed by the management.

BUSINESS CONTINUITY

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

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

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

CAPITAL MANAGEMENT

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

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

The capital needed for our business according to the standards of the regulator is € 10.8 million and the available capital according to this measurement is € 46.7 million on consolidated basis. In addition, Nationale Borg aims to preserve an S&P rating in the A range. The minimum capital as required by S&P for such a rating

RISK MANAGEMENT

is approximately € 53.1 million. Nationale Borg preserves a solid safety margin above this standard, so it can meet the standard even in extremely adverse conditions. Given the current uncertain economic conditions, which increases the downside risk in our insurance portfolio by nature of the risks we insure against, we have opted to keep the risk in our investment portfolio at a low level.

The current capital of € 73.3 million (after the payment of dividend) far exceeds the capital level required to maintain standards under current conditions.

FAIR VALUE HIERARCHY

At 31 December 2010, investments classified as Level 1 comprised approximately 91,1 % of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices (i.e. quoted market prices in an active market) of fixed maturities, equity securities and derivative contracts.

At 31 December 2010, investments classified as Level 2 comprised the remaining part of 8,9% of the financial assets measured at fair value on a recurring basis. This relates to investments in units of a real estate fund. A market quote for this fund is not readily available or accessible. The fair value of this investment is based on the net asset value of the fund. This valuation methodology has been evaluated by the company and the resulting prices were determined to be representative of exit values.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, see “Principles of valuation and determination of result”

The following table presents the group’s assets measured at fair value at 31 December 2010. There are no financial liabilities.

Assets	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
• Shares and other variable yield securities		5,290		5,290
• Bonds and other fixed income securities	32,870			32,870
Financial assets at fair value through P&L				
• Shares and other variable yield securities	21,300			21,300
• Bonds and other fixed income securities				
Total assets	54,170	5,290	-	59,460

The comparative figures for 2009 are:

Assets	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
• Shares and other variable yield securities		5,150		5,150
• Bonds and other fixed income securities	28,173			28,173
Financial assets at fair value through P&L				
• Shares and other variable yield securities	11,729			11,729

RISK MANAGEMENT

- Bonds and other fixed income securities

Total assets	39,902	5,150	-	45,052
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During 2010 there were no transfers of financial assets between the Level 1, 2 and 3 fair value hierarchy classifications. As all financial assets and liabilities are classified in the Level 1 or 2 fair value hierarchy, the fair value of these assets and liabilities are not sensitive to possible favourable or unfavourable changes in the assumptions used to determine the fair value (for example, discount rate, credit rating assumptions).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon- structions	Fixtures and Fittings	IT hardware	Total
At cost as at 1 January 2009	5,640	1,182	657	1,491	8,970
Additions		280	46	60	386
Revaluations	3,157				3,157
At cost as at 31 December 2009	8,797	1,462	703	1,551	12,513
Accumulated depreciation and impairments at 1 January 2009	141	943	383	1,206	2,673
Depreciation charge for the year	175	111	57	112	455
Accumulated depreciation and impairments at 31 December 2009	316	1,054	440	1,317	2,986
Book value as at 1 January 2009	5,640	239	274	286	6,438
Book value as at 31 December 2009	8,797	408	263	234	9,702
At cost as at 1 January 2010	8,797	1,462	703	1,551	12,513
Additions/disposals		190	21	80	291
Revaluations	(881)				(881)
At cost as at 31 December 2010	7,916	1,652	724	1,631	11,923
Accumulated depreciation and impairments at 1 January 2010	316	1,054	440	1,317	3,127
Depreciation charge for the year	232	131	54	104	521
Accumulated depreciation and impairments at 31 December 2010	548	1,185	494	1,421	3,648
Book value as at 1 January 2010	8,797	408	263	234	9,702
Book value as at 31 December 2010	7,916	467	230	210	8,823

Land and buildings relate only to property for own use. Depreciation expense on land and buildings for property for own use of 232 (2009: 175) has been charged to the net operating expenses.

The market value of land and buildings for own use is 7,916 as at 31 December, 2010 and the historical cost price was 1,061 in 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REAL ESTATE IN OWN USE

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

2. INTANGIBLE ASSETS

Intangible assets refer to 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 2009	1,456	2,809	264	4,529
Additions	–	–	49	49
At cost as at 31 December 2009	1,456	2,809	313	4,578
Accumulated depreciation and impairments at 1 January 2009	121	–	68	189
Depreciation/impairment charge for the year	485	–	85	570
Accumulated depreciation and impairments at 31 December 2009	606	–	153	759
Book value as at 1 January 2009	1,335	2,809	196	4,340
Book value as at 31 December 2009	850	2,809	160	3,819
At cost as at 1 January 2010	1,456	2,809	313	4,578
Additions	–	–	32	32
At cost as at 31 December 2010	1,456	2,809	345	4,610
Accumulated depreciation and impairments at 1 January 2010	606	–	153	759
Depreciation/impairment charge for the year	486	416	91	993
Accumulated depreciation and impairments at 31 December 2010	1,092	416	244	1,752
Book value as at 1 January 2010	850	2,809	160	3,819
Book value as at 31 December 2010	364	2,393	101	2,858

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL ASSETS

Financial assets classified by type and nature 2010 and 2009:

2010	Available for sale	Asset at Fair Value Through P&L	Total
Shares and other variable yield securities	5,290	21,300	26,590
Bonds and other fixed income securities	32,870		32,870
	38,160	21,300	59,460

2009	Available for sale	Asset at Fair Value Through P&L	Total
Shares and other variable yield securities	5,150	11,729	16,879
Bonds and other fixed income securities	28,173		28,173
	33,323	11,729	45,052

Movements in available-for-sale assets:

	2010	2009
Book value at 1 January	33,323	16,586
Additions	20,184	22,397
Disposals / Maturity	(15,203)	(5,400)
Revaluations	(144)	(260)
Effects of movements in foreign exchange	-	-
Book value at 31 December	38,160	33,323

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

	2010	2009
Book value at 1 January	11,729	3,994
Additions	7,857	3,103
Disposals	(1,495)	-
Revaluations	3,209	4,632
Effects of movements in foreign exchange	-	-
Book value at 31 December	21,300	11,729

The total carrying amount of the financial assets that have been pledged as collateral for liabilities at 31 December 2010 was 10,400 (2009: 10,400). The estimated fair values of these financial assets are comparable with the carrying amount due to the short term nature of the balance. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. REINSURANCE CONTRACTS

	2010	2009
Deposits at insurers	10,541	10,896
Reinsurers' share of insurance liabilities:		
• Provisions for unearned premiums	5,006	4,911
• Claims and loss adjustment expenses	7,408	12,375
	<u>22,955</u>	<u>28,182</u>

5. RECEIVABLES

	2010	2009
Accounts receivable on insurance and reinsurance business:		
• Amounts owed by policy holders and direct insurance operations	5,824	5,154
• Receivables arising out of reinsurance	4,463	2,484
• Other accounts receivable	523	983
Total receivables	<u>10,810</u>	<u>8,621</u>

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

There is no concentration of credit risk with respect to receivables as the group has a large number of internationally dispersed debtors. All receivables are considered on an individual basis for impairment testing. The group does not hold any collateral over these balances.

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

	2010	2009
Balance as at 1 January	471	298
Provision for receivables impairment	459	173
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Balance as at 31 December	<u>930</u>	<u>471</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER ASSETS

	2010	2009
Accrued interest	442	176
Accrued acquisition costs	1,922	1,923
Other	953	818
	<u>3,317</u>	<u>2,917</u>

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

Movements on the deferred acquisition costs are as follows:

	2010	2009
Balance as at 1 January	1,923	2,767
Change in deferred acquisition costs	(1)	(844)
Balance as at 31 December	<u>1,922</u>	<u>1,923</u>

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

7. CASH AND CASH EQUIVALENTS

	2010	2009
Cash at banks and in hand	6,651	3,094
Cash investment accounts	69,696	85,293
Cash received as collateral	16,507	7,489
Total cash and cash equivalents	<u>92,854</u>	<u>95,876</u>

8. CAPITAL AND RESERVES

The Capital and Reserves are further disclosed in note 10 to the company financial statements on page 81.

9. TECHNICAL PROVISIONS

	2010	2009
Total		
Provision for unearned premium	20,578	18,023
Provision for claims	57,361	64,682
Claims incurred but not reported	3,798	2,521
Total underwriting provisions at 31 December	<u>81,737</u>	<u>85,226</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Guarantees

Provision for unearned premium	9,713	8,589
Provision for claims	9,851	9,410
Claims incurred but not reported	1,357	-
Total technical provisions at 31 December	<u>20,921</u>	<u>17,999</u>

Money and Fraud Insurance*

Provision for unearned premium	-	-
Provision for claims	1,000	6,626
Claims incurred but not reported	225	225
Total technical provisions at 31 December	<u>1,225</u>	<u>6,851</u>

Reinsurance

Provision for unearned premium	10,865	9,434
Provision for claims	46,510	48,646
Claims incurred but not reported	2,216	2,296
Total technical provisions at 31 December	<u>59,591</u>	<u>60,376</u>

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

The movement schedule of technical provisions:

	Gross	Reinsured	Net
Total			
Opening provision for claims	66,628	12,375	54,253
Change in provision	(4,710)	(4,967)	257
Effects of changes in foreign exchange	(759)	-	(759)
Ending provision for claims	<u>61,159</u>	<u>7,408</u>	<u>53,751</u>
Provision for unearned premium	18,023	4,911	13,112
Change in provision	2,555	610	1,945
Other adjustments	-	(515)	515
Ending provision for unearned premium	<u>20,578</u>	<u>5,006</u>	<u>15,572</u>
Guarantees			
Opening provision for claims	9,409	4,781	4,628
Change in provision	1,798	99	1,699
Ending provision for claims	<u>11,207</u>	<u>4,880</u>	<u>6,327</u>
Provision for unearned premium	8,588	4,374	4,212
Change in provision	1,124	582	542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other adjustments	-	(515)	515
Ending provision for unearned premium	9,712	4,441	5,271

Money and Fraud Insurance

Opening provision for claims	6,851	5,474	1,377
Change in provision	(5,626)	(4,681)	(945)
Ending provision for claims	1,225	793	432

Provision for unearned premium	-	-	-
Change in provision	-	-	-
Ending provision for unearned premium	0	0	0

Reinsurance

Opening provision for claims	50,367	2,120	48,247
Change in provision	(882)	(385)	(497)
Effects of changes in foreign exchange	(758)		(758)
Ending provision for claims	48,727	1,735	46,992

Provision for unearned premium	9,435	537	8,898
Change in provision	1,431	28	1,403
Ending provision for unearned premium	10,866	565	10,301

10. PAYABLES

	2010	2009
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	361	3,092
Amounts due to policy holders*	16,507	7,489
	16,868	10,581
Trade and other accounts payable		
Accounts payable	116	205
Other accounts payable**	9,367	6,865
	9,483	7,070
Total accounts payable	26,351	17,651

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

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

The payables due are substantially all current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. MISCELLANEOUS LIABILITIES AND ACCRUALS

	2010	2009
Payroll and other accruals	1,801	1,293
Sundry creditors	3,319	2,123
Balance as at 31 December	5,120	3,416

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

12. EMPLOYEE BENEFIT LIABILITIES

	2010	2009
Retirement benefits	657	668
Other long-term employee benefits	-	-
	657	668

13. DEFERRED INCOME TAX LIABILITIES

	2010	2009
Deferred income tax assets	(948)	(642)
Deferred income tax liabilities	3,662	3,890
	2,714	3,248

The movement on the deferred income taxes is as follows:

	2010	2009
Balance as at 1 January	3,248	449
Charge/(credit) to equity for the year	(211)	1,282
Charge/(credit) to the income statement for the year	(323)	1,517
Balance as at 31 December	2,714	3,248

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

i. Deferred tax assets

	Technical provisions	Total
Balance as at 1 January 2009	(662)	(662)
Charge/(credit) to equity for the year	-	-
Charge/(credit) to the income statement for the year	20	20
Balance as at 31 December 2009	(642)	(642)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance as at 1 January 2010	(642)	(662)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	(306)	20
Balance as at 31 December 2010	<u>(948)</u>	<u>(642)</u>

ii. Deferred tax liabilities

	First time adoption	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	Total
Balance as at 1 January 2009	–	1,362	(251)	–	–	1,111
Charge/(credit) to equity for the year	–	771	511	–	–	1,282
Charge/(credit) to the income statement for the year	–	43	(142)	1,106	490	1,497
Balance as at 31 December 2009	–	2,176	118	1,106	490	3,890
Balance as at 1 January 2010	–	2,176	118	1,106	490	3,890
Charge/(credit) to equity for the year	–	(221)	10	–	–	(211)
Charge/(credit) to the income statement for the year	–	15	(4)	(18)	(10)	(17)
Balance as at 31 December 2010	–	1,970	124	1,088	480	3,662

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

	2010	2009
Reserves in shareholders' equity:		
Revaluation reserve	(211)	1,282

14. CURRENT INCOME TAX LIABILITIES

	2010	2009
Current income tax liabilities	2,925	1,261

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. NET PREMIUM EARNED

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Guarantees						
Written premium	32,708	16,200	16,508	27,263	13,859	13,404
Change in provision for unearned premium	(1,126)	(582)	(544)	(1,518)	(805)	(713)
Earned premium	31,582	15,618	15,964	25,745	13,054	12,691
Insurance						
Written premium	(2)	1	(3)	221	109	112
Change in provision for unearned premium	-	-	-	500	450	50
Earned premium	(2)	1	(3)	721	559	162
Reinsurance						
Written premium	50,316	266	50,050	43,066	234	42,832
Adjustment prior year	(514)	-	(514)	-	-	-
Change in provision for unearned premium	(1,430)	(28)	(1,402)	4,039	162	3,877
Earned premium	48,372	238	48,134	47,105	396	46,709
Total earned premium	79,952	15,857	64,095	73,571	14,008	59,563

16. NET INVESTMENT INCOME

NET INVESTMENT INCOME BY TYPE OF INVESTMENT

	2010	2009
Income/expense from:		
• Property	246	262
• Bonds and other fixed rate securities	2,237	1,650
• Shares and other variable yield securities	6,028	4,248
Net income/(expense) from investments	8,511	6,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NET INVESTMENT INCOME BY NATURE OF INCOME/(EXPENSE)

	2010	2009
Income/(expense) from:		
Interest	1,934	1,650
Dividends	303	-
Realized gains	3,522	118
Unrealized gains	2,505	4,130
Rental income from property	247	262
Net income/(expense) from investments	8,511	6,160

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

17. NET INSURANCE CLAIMS

	2010			2009		
	Gross	Re- insurers' share	Net	Gross	Re- insurers' share	Net
Total						
Claims paid in the year	34,306	7,707	26,599	40,031	12,866	27,165
Change in provision for outstanding claims	(6,803)	(4,967)	(1,836)	(4,302)	(5,563)	1,261
Claims handling expenses	1,656	-	1,656	1,471	-	1,471
Total insurance claims and loss adjustment expenses	29,159	2,740	26,419	37,200	7,303	29,897
Guarantees						
Claims paid in the year	3,531	1,762	1,769	11,685	5,827	5,858
Change in provision for outstanding claims	1,798	99	1,699	(2,850)	(184)	(2,666)
Claims handling expenses	462	-	462	715	-	715
Total insurance claims and loss adjustment expenses	5,791	1,861	3,930	9,550	5,643	3,907
Money/Fraud Insurance						
Claims paid in the year	7,021	5,728	1,293	8,283	7,027	1,256
Change in provision for outstanding claims	(5,626)	(4,681)	(945)	(6,779)	(5,421)	(1,358)
Claims handling expenses	918	-	918	511	-	511
Total insurance claims and loss adjustment expenses	2,313	1,047	1,266	2,015	1,606	409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reinsurance

Claims paid in the year	23,754	217	23,537	20,063	12	20,051
Change in provision for outstanding claims	(2,975)	(385)	(2,590)	5,327	42	5,285
Claims handling expenses	276	-	276	245	-	245
Total insurance claims and loss adjustment expenses	21,055	(168)	21,223	25,635	54	25,581

18. NET OPERATING EXPENSES

	2010	2009
Staff expenses	10,239	8,886
Depreciation	1,514	1,024
Other expenses	1,370	1,923
Total administrative expenses	13,123	11,833
Gross acquisition costs	17,277	15,489
Gross change in deferred acquisition costs	1	844
Total acquisition costs	17,278	16,333
Other	(90)	1,351
Net operating expenses	30,311	29,517

19. OTHER INCOME

There have been no significant amounts booked as other income during the year.

20. INCOME TAX EXPENSES

	2010	2009
Current tax	2,992	1,609
Deferred tax	(177)	1,517
	2,815	3,126

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:

	2010	2009
Profit before tax	20,754	10,740
Tax calculated at domestic tax rates applicable to profits in the respective	2,053	3,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

countries

Tax exempt income and other permanent differences	762	(470)
Tax charge for the year	2,815	3,126

The weighted average effective tax rate is 14% (2009: 29%). The 2010 rate is significant lower compared to 2009 due to the relatively high portion of profit of the group attributed to Nationale Borg Reinsurance and the applicable tax regime in the Antilles, where taxes are based on total premiums received. In Belgium, taxable income was taxed at 33%. The applicable tax rate in The Netherlands is 25,5%

21. EARNINGS AND DIVIDENDS PER SHARE

BASIS EARNINGS PER SHARE

	2010	2009
Continuing operations:		
Profit attributable to the company's equity holders (euro '000)	17,939	7,614
Number of ordinary shares issued as per 31 December	803,760	803,760
Earnings per share (in euro)	22,32	9,48

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

DIVIDEND PER SHARE

The dividend paid in 2010 amounted to 19,000 (2009: 6,500).

22. 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.

23. CAPITAL COMMITMENTS

None.

24. PERSONNEL

The number of employees working for the group:	2010	2009
Total average number of employees (full-time equivalent)	90,2	84,3
Total year-end number of employees (full-time equivalent)	94,2	86,2
Total year-end number of employees	96	89

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. REMUNERATION MANAGEMENT BOARD AND SUPERVISORY BOARD

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

The Management Board consists of 3 members (2009: 2 members). The Supervisory Board consists of 3 members (2009: 3 members).

	2010	2009
Short-term employee benefits	425	412
Bonus payments	141	73
Termination benefits	-	-
Total compensation paid to the Management Board	566	485
Short-term benefits	23	6
Total compensation paid to the Supervisory Board	23	6

26. EVENTS AFTER THE BALANCE SHEET DATE

As per January 1, 2011, Nationale Borg-Maatschappij intends to transfer its entire reinsurance portfolio to Nationale Borg Reinsurance N.V. This transfer of contracts is subject to the approval of each individual cedant. Pending the approval of its license as a reinsurance company Nationale Borg Reinsurance has requested Nationale Borg-Maatschappij to underwrite 2011 contracts on its behalf as a service for which a fee will be charged.

27. AUDITOR FEES

The following amounts have been paid to KPMG Accountants N.V. during the year:

	2010	2009
Financial statement audit	137	157
Other assurance services	-	-
Other non-assurance services	-	-
Tax advise	-	-
Total fees paid to KPMG Accountants N.V. during the year	137	157

ADDITIONAL INFORMATION

TAX OBLIGATIONS

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

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

2010

COMPANY FINANCIAL STATEMENTS



COMPANY BALANCE SHEET AS AT 31 DECEMBER 2010

Before appropriation of result	Note	2010	2009
ASSETS			
Property, plant and equipment	1	8,742	9,597
Investments in associated companies and joint ventures	2	52,165	38,452
Intangible assets	3	2,856	3,819
Financial assets	4	23,312	18,180
Reinsurance contracts	5	22,955	42,772
Receivables:	6		
• Accounts receivable on insurance and reinsurance business		9,414	5,166
• Other accounts receivables		128	613
		<u>9,542</u>	<u>5,779</u>
Other assets:			
• Deferred acquisition costs	7	1,922	1,923
• Miscellaneous assets and accruals	8	23,607	12,689
		<u>25,529</u>	<u>14,612</u>
Cash and cash equivalents:	9		
• Cash		52,959	65,433
• Cash received as collateral		16,507	7,489
		<u>69,466</u>	<u>72,922</u>
TOTAL ASSETS		<u>214,567</u>	<u>206,133</u>

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	2010	2009
EQUITY			
Subscribed capital		4,019	4,019
Capital reserve		824	824
Revaluation reserve		6,157	6,426
Revenue reserve (including currency)		52,401	63,546
Undistributed profits		17,939	7,614
Capital and reserves attributable to the equity holders of the company	10	81,340	82,429
TOTAL EQUITY		81,340	82,429
LIABILITIES			
Technical provisions	11	81,726	85,208
Payables:	12		
• Accounts payable on insurance and reinsurance business		16,865	10,581
• Trade and other payables		9,390	15,670
		26,255	26,251
Other liabilities:			
• Deposits received from reinsurers		232	1,891
• Miscellaneous liabilities and accruals	13	19,762	5,897
		19,994	7,788
Employee benefit liabilities	14	633	623
Deferred income tax liabilities	15	2,658	3,192
Current income tax liabilities	16	1,962	642
TOTAL LIABILITIES		133,228	123,704
TOTAL EQUITY AND LIABILITIES		214,567	206,133

COMPANY INCOME STATEMENT FOR THE YEAR 2010

	2010	2009
Share of income from group companies	13,706	2,939
Other income and expense	6,287	7,154
	<hr/>	
PROFIT BEFORE TAX	19,993	10,093
Income tax expenses	2,054	2,476
	<hr/>	
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	17,939	7,614
	<hr/> <hr/>	

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2010

	2010	2009
Available for sale investments:		
• Valuation gains/losses taken to equity	99	2,330
• Transferred to profit and loss on sale	(368)	850
Exchange differences on translation of foreign operations	241	109
	<hr/>	<hr/>
NET INCOME DIRECTLY RECOGNIZED IN EQUITY	(28)	3,289
Profit for the period	17,939	7,614
	<hr/>	<hr/>
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	17,911	10,903
	<hr/>	<hr/>

COMPANY CHANGES IN EQUITY

Attributable to the equity holders of the company

	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Revenue reserve	Undistri- buted Profits	Total
EQUITY AT 1 JANUARY 2009	4,019	824	3,246	(311)	23,580	46,668	78,026
Property, plant and equipment							
• Valuation gains/losses taken to equity	–	–	2,352	–	–	–	2,352
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	(22)	–	–	–	(22)
• Transferred to profit or loss on realization of result	–	–	850	–	–	–	850
Exchange differences on translation of foreign operations	–	–	–	109	–	–	109
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	3,180	109	–	–	3,289
Profit for the period	–	–	–	–	–	7,614	7,614
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	3,180	109	–	7,614	10,903
Dividends	–	–	–	–	(6,500)	–	(6,500)
EQUITY AS PER 31 DECEMBER 2009	4,019	824	6,426	(202)	17,080	54,282	82,429
EQUITY AT 1 JANUARY 2010	4,019	824	6,426	(202)	17,080	54,282	82,429
Property, plant and equipment							
• Valuation gains/losses taken to equity	–	–	(656)	–	–	–	(656)
Available for sale investments:							
• Valuation gains/losses taken to equity	–	–	755	–	–	–	755
• Transferred to profit or loss on realization of result	–	–	(368)	–	–	–	(368)
Exchange differences on translation of foreign operations	–	–	–	241	–	–	241
NET INCOME RECOGNIZED DIRECTLY IN EQUITY	–	–	(269)	241	–	–	(28)
Profit for the period	–	–	–	–	–	17,939	17,939
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE PERIOD	–	–	(269)	241	–	17,939	17,911
Dividends	–	–	–	–	(10,000)	(9,000)	(19,000)
EQUITY AS PER 31 DECEMBER 2010	4,019	824	6,157	39	7,080	63,221	81,340

COMPANY CASH FLOW FOR THE YEAR 2010

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period after tax	17,939	7,614
Adjustments for:		
• Realized capital (gains) and losses on investments	862	(929)
• Share in income from investments in associates	(13,706)	(3,099)
• Depreciation and amortization	1,245	993
Changes in operational assets and liabilities:		
• Underwriting provisions, gross	(2,906)	(7,433)
• Reinsurance assets, net	18,159	(1,058)
• Deferred acquisition costs	1	844
• Accounts receivable and payable on insurance and reinsurance business	3,634	(2,879)
Other operating assets and liabilities:		
• Cash (used in)/generated by operating activities	(3,070)	1,988
Income taxes paid	(921)	(3,524)
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	21,237	(7,483)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investments and acquisition (cash outflows):		
• Financial investments available for sale	(11,240)	(7,467)
• Property, plant and equipment and intangible fixed assets	(309)	(555)
Divestments, redemptions and disposals (cash inflows):		
• Financial investments available for sale	5,856	5,400
• Property, plant and equipment and intangible fixed assets	-	-
NET CASH (USED IN)/GENERATED BY INVESTMENT ACTIVITIES	(5,693)	(5,061)
CASH FLOWS FROM FINANCING ACTIVITIES		
• Dividend paid	(19,000)	(6,500)
NET CASH (USED IN)/GENERATED BY FINANCING ACTIVITIES	(19,000)	(6,500)
CHANGES IN CASH AND CASH EQUIVALENTS	(3,456)	(16,604)
Cash and cash equivalents at the end of the preceding year	72,922	89,526
Cash and cash equivalents at the end of the financial year	69,466	72,922

GENERAL INFORMATION

N.V. Nationale Borg-Maatschappij, based in Amsterdam (the Netherlands) is the parent company of Nationale Borg group. The company statements are part of the 2010 financial statements, which also include the consolidated annual accounts. The company statement has been rendered in abbreviated form pursuant to Book 2, section 402 of the Netherlands Civil Code.

ACCOUNTING PRINCIPLES

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

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

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

SUBSIDIARIES

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

TRANSACTIONS WITH RELATED PARTIES

Nationale Borg had a reinsurance relation with its subsidiary Nationale Borg Reinsurance. On December 30, 2010 Nationale Borg commuted such reinsurance relationship transferring an amount of € 1.2 million. In 2010 Nationale Borg booked premiums of 97 as reinsurer of the direct business generated by Nationale Borg Reinsurance.

The Nationale Borg has provided a loan of € 12 million to Nationale Borg Reinsurance

As per January 1, 2011, Nationale Borg intends to transfer its entire reinsurance portfolio to Nationale Borg Reinsurance. This transfer of contracts is subject to the approval of each individual cedant. Pending the approval of its license as a reinsurance company Nationale Borg Reinsurance has requested Nationale Borg, to underwrite 2011 contracts on its behalf as a service for which a fee will be charged.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

I. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Recon- structions	Fixtures and fittings	IT hardware	Total
At cost as at 1 January 2009	5,640	1,182	651	1,391	8,863
Additions/disposals		271	13	46	330
Revaluations	3,157				3,157
At cost as at 31 December 2009	8,797	1,453	664	1,437	12,350
Accumulated depreciation and impairments at 1 January 2009	141	943	383	1,180	2,506
Depreciation charge for the year	175	109	50	90	423
Accumulated depreciation and impairments at 31 December 2009	316	1,052	433	1,270	2,930
Book value as at 1 January 2009	5,640	239	267	211	9,513
Book value as at 31 December 2009	8,797	401	231	168	9,597
At cost as at 1 January 2010	8,797	1,453	664	1,437	12,350
Additions/disposals		188	20	71	279
Revaluations	(881)				(881)
At cost as at 31 December 2010	7,916	1,641	684	1,508	11,748
Accumulated depreciation and impairments at 1 January 2010	316	1,052	433	1,270	3,071
Depreciation charge for the year	232	123	46	83	484
Accumulated depreciation and impairments at 31 December 2010	548	1,175	479	1,353	3,555
Book value as at 1 January 2010	8,797	401	231	168	9,597
Book value as at 31 December 2010	7,916	466	205	155	8,742

NOTES TO THE COMPANY FINANCIAL STATEMENTS

2. INVESTMENTS IN ASSOCIATED COMPANIES

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

	2010	2009
Balance as at 1 January	38,452	35,353
Share of (loss)/profit	13,707	2,939
Additions	–	–
Disposal	–	–
Revaluations	6	160
Effect of movements in foreign exchange	–	–
Balance as at 31 December	52,165	38,452

2009	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Nationale Borg Reinsurance N.V.	Dutch Antilles, Curaçao	57,605	28,566	16,222	3,170	100.00
N.V. Beleggings- en beheermaatschappij “Keizersgracht”	The Netherlands, The Amsterdam	8,667	–	–	–	100.00
Nationale Waarborg B.V.	The Netherlands, Nieuwegein	1,355	500	1,372	(231)	100.00
Total at the end of 2009		<u>67,627</u>	<u>29,066</u>	<u>17,594</u>	<u>2,939</u>	

2010	Country of incorporation	Assets	Liabilities	Revenues	Shares of profit/(loss)	Interest held %
Nationale Borg Reinsurance N.V.	Dutch Antilles, Curaçao	57,849	14,794	20,219	14,010	100.00
N.V. Beleggings- en beheermaatschappij “Keizersgracht”	The Netherlands, The Amsterdam	8,667	–	–	–	100.00
Nationale Waarborg B.V.	The Netherlands, Nieuwegein	1,387	944	1,124	(303)	100.00
Total at the end of 2010		<u>67,903</u>	<u>15,738</u>	<u>21,343</u>	<u>13,707</u>	

On 1 December 2010 Antilliaanse Borg-maatschappij N.V. was renamed to Nationale Borg Reinsurance N.V.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

3. 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 2009	1,456	2,809	264	4,529
Additions	–	–	49	49
At cost as at 31 December 2009	1,456	2,809	313	4,578
Accumulated depreciation and impairments at 1 January 2009	121	–	68	189
Depreciation/impairment charge for the year	485	–	85	570
Accumulated depreciation and impairments at 31 December 2009	606	–	153	759
Book value as at 1 January 2009	1,335	2,809	196	4,340
Book value as at 31 December 2009	850	2,809	160	3,819
At cost as at 1 January 2010	1,456	2,809	313	4,578
Additions	–	–	30	30
At cost as at 31 December 2010	1,456	2,809	343	4,608
Accumulated depreciation and impairments at 1 January 2010	606	–	153	759
Depreciation/impairment charge for the year	486	416	91	993
Accumulated depreciation and impairments at 31 December 2010	1,092	416	244	1,752
Book value as at 1 January 2010	850	2,809	160	3,819
Book value as at 31 December 2010	364	2,393	99	2,856

NOTES TO THE COMPANY FINANCIAL STATEMENTS

4. FINANCIAL ASSETS

Financial assets classified by type and nature 2010:

2010	Available for sale	Asset at Fair Value Through P&L	Total
Shares and other variable yield securities	5,290	275	5,565
Bonds and other fixed income securities	17,747	-	17,747
	23,037	275	23,312

All financial assets are listed.

Financial assets classified by type and nature 2009:

2009	Available for sale	Asset at Fair Value Through P&L	Total
Shares and other variable yield securities	5,150	-	5,150
Bonds and other fixed income securities	13,030	-	13,030
	18,180	-	18,180

All financial assets are listed.

Movements in financial assets available for sale:

	2010	2009
Book value at 1 January	18,180	16,586
Additions	11,240	7,467
Disposals	(5,233)	(5,400)
Amortization charge for the year	-	-
Revaluations	52	(473)
Effects of movements in foreign exchange	-	-
Book value at 31 December	23,037	18,180

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

	2010	2009
Book value at 1 January	-	-
Additions	1,201	-
Disposals	(623)	-
Revaluations	(303)	-
Effects of movements in foreign exchange	-	-
Book value at 31 December	275	-

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The total carrying amount of the financial assets that have been pledged as collateral for liabilities at 31 December 2010, was 10,400 (2009: 10,400). The estimate fair values of these financial assets are comparable with the carrying amount due to the short-term nature of the balance. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

SHARES AND OTHER VARIABLE YIELD SECURITIES

	2010	2009
Shares	275	–
Investment funds	5,290	5,150
	<u>5,565</u>	<u>5,150</u>

BONDS AND OTHER FIXED INCOME SECURITIES

	2010	2009
Government bonds	17,747	13,030
Corporate bonds	-	-
	<u>17,747</u>	<u>13,030</u>

5. REINSURANCE CONTRACTS

	2010	2009
Deposits at insurers	10,541	10,896
Reinsurers' share of insurance liabilities:		
Provisions for unearned premiums	5,006	10,366
Claims and loss adjustment expenses	7,408	21,510
	<u>22,955</u>	<u>42,772</u>

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

6. RECEIVABLES

	2010	2009
Accounts receivable on insurance and reinsurance business:		
Amounts owed by policy holders and direct insurance operations	5,991	4,439
Receivables arising out of reinsurance	3,423	727
Other accounts receivable	128	613
Total receivables	<u>9,542</u>	<u>5,779</u>

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

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

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

	2010	2009
Balance as at 1 January	471	298
Provision for receivables impairment	459	173
Balance as at 31 December	<u>930</u>	<u>471</u>

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

7. DEFERRED ACQUISITION COSTS

	2010	2009
Balance as at 1 January	1,923	2,767
Change in deferred acquisition costs	(1)	(844)
Balance as at 31 December	<u>1,922</u>	<u>1,923</u>

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

8. MISCELLANEOUS ASSETS AND ACCRUALS

	2010	2009
Accrued interest	442	176
Other	23,165	12,513
	<u>23,607</u>	<u>14,689</u>

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

The majority of the balances are related to Nationale Borg Reinsurance N.V.

9. CASH AND CASH EQUIVALENTS

	2010	2009
Cash at bank and in hand	34,390	3,094
Cash investment accounts	18,569	62,339
Cash received as collateral	16,507	7,489
Total cash and cash equivalents	<u>69,466</u>	<u>72,922</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS

10. CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

	2010	2009
Balance as at 31 December	4,019	4,019

The total authorized share capital is € 11,000 million (2009: € 11,000 million).

The share capital of € 4,019 million (2009: € 4,019 million) is divided into 803,760 fully paid ordinary shares of € 5. The fully paid shares carry one vote per share and carry the rights to dividends.

CAPITAL RESERVE

	2010	2009
Balance as at 31 December	824	824

REVALUATION RESERVE

	2010	2009
Balance as at 1 January	6,426	3,246
Change in revaluation reserve – gross	133	3,321
Change in revaluation reserve – tax	(34)	(991)
Net gains/losses transferred to net profit on disposal – gross	(494)	1,141
Net gains/losses transferred to net profit on disposal – tax	126	(291)
Balance as at 31 December	6,157	6,426

The revaluation reserve consists of € 5,569 (2009: € 6,226) for real estate and € 588 (2009: € 200) for financial fixed assets (all net of tax).

CURRENCY TRANSLATION RESERVE

	2010	2009
Balance as at 1 January	(202)	(311)
Currency translation	241	109
Balance as at 31 December	39	(202)

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

REVENUE RESERVE

	2010	2009
Balance as at 1 January	71,362	70,248
Currency translation	–	–
Dividends	(19,000)	(6,500)
Profit for the year	17,939	7,614
Balance as at 31 December	70,301	71,362

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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.

II. TECHNICAL PROVISIONS

	2010	2009
Total		
Provision for unearned premium	20,567	18,023
Provision for claims	57,361	64,682
Claims incurred but not reported	3,798	2,521
Total underwriting provisions at 31 December	<u>81,726</u>	<u>85,226</u>
Guarantees		
Provision for unearned premium	9,702	8,589
Provision for claims	9,851	9,410
Claims incurred but not reported	1,357	-
Total technical provisions at 31 December	<u>20,910</u>	<u>17,999</u>
Money and Fraud Insurance*		
Provision for unearned premium	-	-
Provision for claims	1,000	6,626
Claims incurred but not reported	225	225
Total technical provisions at 31 December	<u>1,225</u>	<u>6,851</u>
Reinsurance		
Provision for unearned premium	10,865	9,434
Provision for claims	46,510	48,646
Claims incurred but not reported	2,216	2,296
Total technical provisions at 31 December	<u>59,591</u>	<u>60,376</u>

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The movement schedule of technical provisions:

	Gross	Reinsured	Net
Total			
Opening provision for claims	66,628	12,374	54,253
Change in provision	(4,709)	(4,967)	258
Effects of changes in foreign exchange	(758)	-	(758)
Ending provision for claims	61,160	7,407	53,753
Provision for unearned premium	18,006	4,910	13,096
Change in provision	2,560	610	1,950
Other adjustments	-	(514)	514
Ending provision for unearned premium	20,566	5,006	15,560
Guarantees			
Opening provision for claims	9,409	4,781	4,628
Change in provision	1,799	100	1,699
Ending provision for claims	11,208	4,881	6,327
Provision for unearned premium	8,571	4,374	4,197
Change in provision	1,130	582	548
Other adjustments	-	(514)	514
Ending provision for unearned premium	9,701	4,442	5,259
Money and Fraud Insurance			
Opening provision for claims	6,851	5,474	1,377
Change in provision	(5,626)	(4,681)	(945)
Ending provision for claims	1,225	793	432
Provision for unearned premium	-	-	-
Change in provision	-	-	-
Ending provision for unearned premium	0	0	0
Reinsurance			
Opening provision for claims	50,368	2,119	48,248
Change in provision	(882)	(385)	(497)
Effects of changes in foreign exchange	(758)	-	(758)
Ending provision for claims	48,728	1,734	46,994
Provision for unearned premium	9,435	536	8,899
Change in provision	1,430	28	1,402
Ending provision for unearned premium	10,865	564	10,301

NOTES TO THE COMPANY FINANCIAL STATEMENTS

12. PAYABLES

	2010	2009
Accounts payable on insurance and reinsurance business		
Payables arising out of reinsurance operations	358	3,092
Amounts due to policy holders	16,507	7,489
	16,865	10,581
Trade and other accounts payable		
Accounts payable	116	170
Other accounts payables	9,274	15,500
	9,390	15,670
Balance as at 31 December	26,255	26,251
The payables due are substantially all current.		

13. MISCELLANEOUS LIABILITIES AND ACCRUALS

	2010	2009
Bond purchase	-	-
Payroll and other accruals	1,803	1,296
Sundry creditors	17,959	4,601
	19,762	5,897
Balance as at 31 December	19,762	5,897
All other liabilities are current liabilities and payable within 1 year.		
The majority of the balances are related to Nationale Borg Reinsurance N.V.		

14. EMPLOYEE BENEFIT LIABILITIES

	2010	2009
Retirement benefits	633	623
Other long-term employee benefits	-	-
	633	623

15. DEFERRED INCOME TAX LIABILITIES

	2010	2009
Deferred income tax assets	(948)	(642)
Deferred income tax liabilities	3,606	3,834
	2,658	3,192

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The movement on the deferred income taxes is as follows:

	2010	2009
Balance as at 1 January	3,192	449
Charge/(credit) to equity for the year	(215)	1,227
Charge/(credit) to the income statement for the year	(319)	1,516
Balance as at 31 December	<u>2,658</u>	<u>3,192</u>

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

i. Deferred tax assets

	Technical provisions	Total
Balance as at 1 January 2009	(662)	(662)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	20	20
Balance as at 31 December 2009	<u>(642)</u>	<u>(642)</u>

Balance as at 1 January 2010	(642)	(662)
Charge/(credit) to equity for the year	–	–
Charge/(credit) to the income statement for the year	(306)	247
Balance as at 31 December 2010	<u>(948)</u>	<u>(395)</u>

ii. Deferred tax liabilities

	First time adoption	Unrealized appreciation of investment property	Unrealized appreciation of other investments	Equalization reserve	Deferred acquisition cost	Total
Balance as at 1 January 2009	–	1,362	(251)	–	–	1,111
Charge/(credit) to equity for the year	–	771	511	–	–	1,282
Charge/(credit) to the income statement for the year	–	43	(198)	1,106	490	1,441
Balance as at 31 December 2009	<u>–</u>	<u>2,176</u>	<u>62</u>	<u>1,106</u>	<u>490</u>	<u>3,834</u>
Balance as at 1 January 2010	–	2,176	62	1,106	490	3,834
Charge/(credit) to equity for the year	–	(220)	5	–	–	(215)
Charge/(credit) to the income statement for the year	–	15	–	(18)	(10)	(13)
Balance as at 31 December 2010	<u>–</u>	<u>1,971</u>	<u>67</u>	<u>1,088</u>	<u>480</u>	<u>3,606</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

	2010	2009
Reserves in shareholders' equity:		
Revaluation reserve	(215)	1,282

16. CURRENT INCOME TAXES

	2010	2009
Current income tax liabilities	1,962	642

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

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To: General meeting of shareholders of N.V. Nationale Borg-Maatschappij

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2010 of N.V. Nationale Borg-Maatschappij, Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of N.V. Nationale Borg-Maatschappij as at 31 December 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of N.V. Nationale Borg-Maatschappij as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

OTHER INFORMATION

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.
Amstelveen, 22 March 2011

KPMG ACCOUNTANTS N.V.

F.M. van den Wildenberg RA

OTHER INFORMATION

PROFIT APPROPRIATION

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

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

The Executive Board proposes to the annual shareholders’ meeting to declare a dividend of € 8.000.000.

PROPOSED PROFIT APPROPRIATION

Net profit	17,939
Interim dividend paid out	9,000
Transfer to reserves	939
Dividend to shareholders	<u>8,000</u>

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