

## Nationale Borg Group

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# Nationale Borg Group

## Major Rating Factors

### Strengths:

- Strong and stable underwriting performance over the cycle.
- Solid capitalization with strong capital adequacy.
- Sound investments and liquidity position.

### Weaknesses:

- Good and defensible competitive position, but only in the narrow surety insurance market in the Benelux countries.
- Financial flexibility that we assess as only good for the rating level.

**Operating Company Covered By This Report**

**Financial Strength Rating**

*Local Currency*

A-/Stable/--

## Rationale

The ratings on Netherlands-based direct surety insurer and surety and credit reinsurer Nationale Borg Group (NB) are based on the ratings of its core operating entity, the Netherlands-based surety insurer Nationale Borg-Maatschappij N.V. (NBM; A-/Stable/--) and the Curaçao-based credit and surety reinsurer Nationale Borg Reinsurance N.V. (NBRe; A-/Stable/--).

The ratings on NB reflect Standard & Poor's Ratings Services' opinion of the group's strong operating performance, solid capitalization, and sound investments and liquidity positions. NB's financial flexibility, which we view as only good for its rating, partly offsets these strengths. We also assess the group's competitive position as good and defensible, but limited to the narrow surety insurance market.

We consider NB's operating performance to be strong over the cycle. We believe that the group's strong underwriting practices, adequate risk management, tight cost control, and the highly diversified reinsurance portfolio mitigate its concentration in a business that is highly correlated with macroeconomic cycles. Despite the global economic downturn in 2009, NB successfully contained its net combined ratio of deterioration to 6%, resulting in a net combined ratio of 91%. As we expected, the ratio improved in 2010 to 79%, reflecting the healthier performance of its primary credit insurers, which consequently benefited NB's reinsurance book, and the absence of large claims in NB's direct surety book. For the first nine months of 2011, NB's technical results continued to be resilient with a combined ratio of 82%.

NB's capitalization is strong, in our view, owing to its strong capital adequacy and prudent reserving. However, continuing high exposure to reinsurers through the group's direct surety business, which is also the case for other credit and surety insurers, to some extent offsets the group's overall capitalization.

We regard NB's investments as strong, owing to its high percentage of cash and a bond portfolio of very strong credit quality. Because equity holdings account for about 12% of the group's investments, we view market risk as high relative to the size of the group. However, derivatives contracts protect NB's shareholders' funds from massive impairments in its equity holdings.

NB's competitive position is only good, in our opinion, because the group's operations are limited to the narrow credit and surety markets. With total gross premiums written (GPW) of €82.5 million, the group's proven expertise in the Dutch and Belgian surety markets, in which we believe it has built a strong reputation as a result of its tailored products, underpins its competitive position. We also believe that NB has developed a good reputation as a reliable provider of credit and surety reinsurance capacity. By providing credit and surety reinsurance, NB diversifies its revenue sources according to business line and geography, through the cedants' portfolios. Nevertheless, we consider NB to be highly dependent on reinsurance to support its primary surety underwriting, but this dependence is in line with the surety industry practices.

We assess NB's financial flexibility as only good. The group has some capital needs from its planned organic growth. Despite the group's strong profit generation, we view its financial flexibility as only good given its shareholding structure, whereby net income is usually fully upstreamed to shareholders, and given its limited ability in the current financial environment to raise additional financing in the open market. However, the shareholders have indicated their willingness to supply additional capital through retained profits, in case of need.

## Outlook

The stable outlook reflects our expectation that NB will maintain its solid capitalization with a capital adequacy ratio that we qualify as "strong" or better, based on our risk-adjusted capital model. We also anticipate that NB will maintain its sound operating performance, transpiring in a net combined ratio below 95%, and return on revenue (ROR) of about 10% over the cycle, alongside a good position in its niche markets.

We do not expect to take a positive rating action in the upcoming year, given the group's current business profile and, in particular, its competitive position, which constrains the upside potential of its financial profile, in our view. We could consider lowering the ratings if we observe a significant deterioration of NB's long-term operating performance or capitalization.

## Corporate Profile: Well-Established Niche Insurer For Dutch And Belgian Markets And Credit And Surety Reinsurer

Founded in 1893 and based in Amsterdam, NB is an established direct surety insurer and credit and surety reinsurer. The group provides insurance to the Dutch and Belgian markets and reinsurance coverage internationally. Egeria Capital B.V. (not rated) and HAL Investments B.V. (not rated) acquired NB from ING Groep N.V. (ING; A/Stable/A-1) in July 2007.

NB posted GPW of €82.5 million in 2010, compared with €71 million in 2009. The group's 2010 GPW comprised 61% of assumed reinsurance, 36% of commercial guarantees, and 3% of purchase guarantees for private individuals. Nieuwegein-based Nationale Waarborg B.V. (NW; unrated), which NB acquired in September 2008, underwrites the group's purchase guarantee business.

NB's Curaçao-based subsidiary that has been renamed Nationale Borg Reinsurance (NBRe) underwrites new reinsurance contracts of the group retroactively from Jan. 1, 2011. Existing reinsurance contracts of the group were transferred at the same time to NBRe. NBM continues to underwrite the direct surety business of NB.

NB left the fidelity insurance business in December 2008, selling its existing portfolio in the Netherlands to Delta

Lloyd N.V. (BBB+/Stable/A-2).

## Competitive Position: Good And Defendable Competitive Position In Niche Market

**Table 1**

Nationale Borg Group Business Statistics					
-- Year ended Dec. 31 --					
(Mil. €)	2010	2009	2008	2007	2006
Gross premiums written	83.0	70.6	65.2	63.3	62.2
Annual change (%)	17.6	8.2	3	1.8	2.8
Net premiums written	66.6	56.4	51.8	49.5	43.3
Annual change (%)	18.1	8.9	4.6	14.4	2.5

NB's proven expertise in the Dutch and Belgian surety markets, in which we believe the group has built a strong reputation as a result of its tailored products, underpins its good competitive position. We also believe that NB has developed a good reputation as a reliable provider of credit and surety reinsurance capacity. By providing credit and surety reinsurance, NB diversifies its revenue sources according to business line and geography, through the cedants' portfolio. Nevertheless, we consider NB to be highly dependent on reinsurance to support its underwriting, and therefore we believe it constrains the overall ratings.

### Historical

**Surety insurance business** In NB's direct insurance business, the group's long-standing presence in the Dutch and Belgian surety markets has enabled it to build solid expertise and a strong reputation. NB has developed tailored products and personal customer relationships over the years, particularly in the midsize enterprise market. This expertise has translated into a defendable and stable market share of 10% in the Dutch and the Belgium guarantee market in recent years, defining NB as the largest nonbank player. The group's main competitors are the national banks, which hold a market share of about 85% in the Netherlands and Belgium, according to the group's estimate. In our opinion, the group has benefited from a low level of competition from other insurers in these two markets. Its nonbank competitors are Euler Hermes Interborg (not rated; part of French group Euler Hermes SFAC [AA-/Watch Neg/--]) and Ducroire Delcredere (not rated; part of Belgium-based Office National du Ducroire/Nationale Delcrededienst [AA/Neg/A-1+]).

NB's surety premiums grew 20% to €33 million in 2010, mainly owing to the group's rate increases following the economic downturn, which exposed it to higher insolvency risks. The low number of transactions, which reflected the increasing difficulty for companies to raise funds, limited surety premiums growth in 2011.

We consider NB's exposure to be concentrated compared with global trade credit and surety insurers, with its largest 20 clients accounting for about 35% of total exposure of guaranteed business in 2010. However, these counterparties average strong credit ratings, which lower the risk profile of NB and, consequently, our concerns. Given the nature of the surety business, diversification is also difficult to achieve by sector. Consequently, the construction, transport, logistics and capital goods manufacturers industries represented a high 58% of premium incomes in 2010. The remaining exposure came from custom bonds and food and beverage.

The guarantee product is distributed through a number of different channels, including direct sales teams and brokers. About 65% of guarantees are issued through NB's Internet channel, Borg Online. We believe that the

group's distribution network is sufficiently diversified. The direct sales teams are divided based on geography, allowing managers to focus on clients and concurrently develop local bank contacts, through which sales can be made.

***Credit and surety reinsurance business*** NB's reinsurance business supports the guarantee business by providing market intelligence. It is also the largest contributor to the group's premium income with GPW of €50 million at year-end 2010. The group also views its exposure to international credit and surety markets as providing a stable and more diversified spread of risk than the more-concentrated risks in its guarantee business. NB's reinsurance business successfully grew in 2011, reflecting strong growth in the cedant's primary credit business and NB's increased share in reinsurance treaties.

NB assumes small shares of proportional reinsurance programs, limiting its exposure per risk to €5 million. The group achieves high diversification, in our view, through the variety of cedants in its portfolio, which comprise more than 100 cedants in 40 countries. The top 25 cedants account for about 60% of NB's GPW. Half of the cedants in NB's portfolio are credit insurers and the other half guarantee insurance providers. In addition, we believe that NB's underlying risks are highly diversified by sector and geography, through the cedants' portfolios. In this business, NB has benefited from a hardening of reinsurance premiums in the past years, a reduced capacity from large reinsurance players, and more recently, from organic growth of primary credit insurers. We see NB as well placed to gain market shares, leveraging on its surety business specialty and NBRe, the Curacao-based platform, which underwrites business from across the Atlantic. Nevertheless, NB continues to be a follower player in this market as it has only a limited portion in reinsurance treaties and is not able to influence on pricing.

***Other businesses*** NB's 2008 acquisition of NW, provider of guarantee business for the purchase of private homes, brought the group additional GPW revenues of €2.3 million in 2010. In our view, this acquisition increases NB's exposure to private individual risks, and thereby broadens the group's overall risk base and lowers its risk profile. Nevertheless, we believe NW's contribution to NB's total premiums is still marginal and we anticipate it to remain marginal in the next two years.

The sale of NB's fidelity business in 2008, in our view, had no adverse effect on the group's competitive position because of its small overall size and limited overlap with other lines of business.

### **Prospective**

We believe that NB will maintain its good competitive position in its niche credit and surety insurance business, supported by good diversification from its reinsurance lines. We also expect additional benefits that arise from the acquisition of NW to boost growth in the longer term as the individual household market is currently constrained. Short-term growth potential in the guaranteed business is limited, in our opinion, given the lower volume of transactions in the market and the decreasing funding resources for companies. However, we expect NB to benefit from lower competition from its banking competitors in the context of the upcoming Basel III regulation that could limit banks' lending to corporates. Therefore, we view NB's surety line growth targets for the coming years as challenging but achievable. The group's reinsurance business should continue to grow owing to the successful increase of NB's shares in its existing treaties that should compensate potentially negative organic growth of the primary's cedants.

## Management And Corporate Strategy: Clear And Credible Strategy Run By A Knowledgeable Management Team

NB's management and strategy are marginally positive factors for the rating. The group's strategy of growing organically and profitably is clear and credible relative to the group's competitive position, as well as to the results achieved so far. We also view NB's management as experienced and knowledgeable, which is reflected in the group's strong earnings, low losses, and lower volatility in the claim experience than peers.

### Strategy

We understand that NB focuses on organic growth in its core Dutch and Belgian direct surety markets, and follows a risk-diversification strategy through its reinsurance business while maintaining its strong underwriting standards. As the group's main focus is its bottom-line results, the quality of its underwritten business is crucial. We see the group's strategy of organic growth as ambitious (the group plans to multiply its 2009 GPW 44% by 2014) because the economic environment contains its surety business. However, traditionally, NB over-delivers on its business plan targets.

In its primary insurance business, NB's growth strategy is to boost its coverage with existing clients, adjust tariffs, and target a selective group of new customers. However, we see the additional tariff upward movement as limited, given that its clients may not continue to accept these for the third consecutive year. Historically, NB has considered its reinsurance business to be a supportive secondary business to its primary insurance lines, although its reinsurance business accounts for about two-thirds of the group's revenues. The group has boosted its surety business insurer specialty to generate reinsurance business. We anticipate that NB could increase its focus on reinsurance growth opportunities in the context of Solvency II and the tax advantages that result from underwriting all of its reinsurance business from its Antillean subsidiary, NBRe.

We believe that NB acquired NW to bolster and protect its position in the home purchase guarantees market. We anticipate that the group may consider more opportunities if it meets its financial thresholds or strategic goals, though we understand that it does not intend to buy market share or presence.

### Operational management

In our opinion, NB continues to maintain strong operational management through a continuous focus on improving productivity in each of its key functions. Workflow optimizations enable commercial staff to focus more on business development, while automation of some back-office functions is likely to reduce processing costs. NB devolved limited underwriting authority to its Antwerp office, and this office can process all guarantees issued in the Belgian market, which we view has improved service delivery, especially as NB expands its presence into the French-speaking region. Staff numbers in the risk management department grew in 2009 to support the increasing surveillance of the credit quality of NB's exposure following the economic crisis.

We understand that employees have received incentives to achieve NB's growth targets through a bonus scheme focused on increasing premium income while maintaining risk management standards, as well as a profit-sharing agreement when profits exceed a predetermined hurdle rate. We view these incentives as a positive change in NB's culture.

## Financial management

We regard NB's overall financial management as conservative. NB's management has set long-term target for return on equity (ROE) after tax of 12.5%, and a long-term objective to double its 2009 technical results by 2014. The ROE target has been met consistently, except in 2008 and 2009 when 2008 investment losses and the economic crisis in 2009 affected returns. We view NB's shareholders as eager to maintain the group's capital adequacy at strong levels and, therefore, we project that the group's future dividend policy will enable NB to fund its planned growth and achieve the doubling of its technical results by 2014. Regarding risk tolerance, NB has a conservative approach because its maximum exposure is €5 million per risk. However, like many of its peers, NB does not hold an aggregated view on risk tolerance or a sophisticated economic capital perspective in relation to managing its capital base.

## Enterprise Risk Management: Prudent Approach, With Increasingly Strict Underwriting And Monitoring Procedures

We consider NB's enterprise risk management (ERM) to be adequate for its size and risk profile. Consequently, we do not expect NB to experience losses from traditional risk areas outside of normal ranges. We base our assessment on NB's adequate risk management culture and adequate controls for most of its key risks: underwriting, claims handling, and reinsurance risks.

We consider NB's ERM to be of moderate importance to its rating, owing to the group's somewhat small size and its high capitalization.

Historically, NB has approached risk management prudently, in our view, with strict underwriting and monitoring procedures. The group has a dedicated risk management department that focuses on claims handling, planning, product development, pricing, and reinsurance purchase. We view that the number of initiatives to improve processes, workflow, systems, and models (such as the pricing model) will result in a better understanding and more precise modeling of NB's risks and risk-adjusted returns.

We consider NB's underwriting risk management to be strong. The group underwrites its surety business based on a zero-loss philosophy and its administrative systems monitor limits in real time. In the inward reinsurance business, NB has no influence on its direct insurers' risk management or monitoring procedures (such as limits and exposures). We view this lack of influence as a marginally negative factor. Furthermore, macroeconomic cycles highly influence the credit and surety reinsurance business. Nevertheless, in our view, NB has demonstrated the ability to successfully manage these risks by limiting exposure to €5 million per risk on a probable maximum loss basis, and by maintaining a high geographic and industry diversification in its portfolio.

We view NB's reserving controls as adequate, given the prudent reserving methodology that the group adapts to each of its business line's specificities.

NB significantly relies on reinsurance facilities, as do its peers, but we view this risk as adequately controlled. The group monitors daily its reinsurance counterparties and we view positively the strong quality of its reinsurance panel.

## Accounting: Consolidated IFRS Reporting, Adjustment For Credit Insurance Capital Adequacy Calculation

NB reported under International Financial Reporting Standards (IFRS) for the first time in 2007. In analyzing these accounts, we have shown shareholder funds net of dividends paid. Since 2007, in compliance with IFRS, NBM has consolidated NBRe.

NB retains deposits from clients that represent higher-than-normal risks. These deposits, held in trust accounts, are not reported on the balance sheet.

We determine capital requirements for insurance risk on the basis of NB's exposure.

## Operating Performance: Strong And Stable Underwriting Results Over The Cycle

**Table 2**

Nationale Borg Group Operating Statistics					
-- Year ended Dec. 31 --					
(Mil. €)	2010	2009	2008	2007	2006
Total revenue	69.0	58.3	56.3	54.8	49.8
Operating result	14.8	7.8	11.1	15.2	20
Net income	15.4	3.5	0.1	19.4	16.4
Return on revenue (%)	21.5	13.4	19.7	27.8	40.1
Return on assets (%)	8.5	2.1	0.1	12	11.1
Return on equity (%)	18.8	4.4	0.1	24.4	22.5
Net loss ratio (%)	38.6	47.7	39.6	38.4	38.1
Expense ratio (%)	40.6	43.3	45.7	41	31.9
Net combined ratio (%)	79.2	91.0	85.3	79.4	70

We regard NB's operating performance as strong over the cycle. In our view, NB's strong underwriting practices, active management of exposure, tight cost control, and highly diversified reinsurance portfolio mitigates its concentration in a business that is highly correlated with macroeconomic cycles. We project that NB's underwriting performance will continue to be strong. However, operating margins will likely reduce slightly, reflecting the return to average levels of nonpayment notification in the primary insurance business of its cedants.

### Historical

NB's underwriting results are strong, which is demonstrated by its solid record of 10-year average ROR and net combined ratio of 24% and 85%, respectively, at year-end 2010 (with standard deviations for ROR and net combined ratio of 7% and 8%, respectively).

We view that NB's sound underwriting and risk management practices strongly contributed to its historic low net loss ratio, which had a 10-year average of 48% at year-end 2010. From 2010, the group's loss ratio returned to a very solid 39%, leading to a strong combined ratio of 79%. NB's strong operating performance stemmed from its very healthy surety book, which did not register any major claim, and from the strong results in its reinsurance business, which mirrored the strong nonpayment notification decrease of primary credit insurers. Both primary and reinsurance businesses continued to perform very well for the first nine months of 2011, leading to a combined ratio

of 82% for this period.

The technical results and investment income supported the good operating results of 2010, leading to a high 21% ROR and a net income of €18 million (from €3.5 million in 2009). Unrealized investment losses of €4 million affected the bottom-line result, which was €7.4 million at end-September 2011.

### Prospective

We anticipate that NB's operating performance will remain strong. However, operating margins are likely to reduce slightly, reflecting more normal levels of nonpayment notifications in the primary insurance business, for instance from higher insolvencies, and potential difficulties in surety business as well, owing to the current challenging economic conditions. We anticipate that NB's sound underwriting practices and claims mitigation management that were achieved in a challenging period, such as 2009, will continue to support NB's strong technical results, particularly given the near-term uncertain economic environment. We forecast that the net combined ratio will likely remain below 95%, with ROR of about 10% in 2011 and 2012.

## Investments: Highly Liquid And Of Very Solid Credit Quality

**Table 3**

<b>Nationale Borg Group Investment Statistics</b>					
<b>-- Year ended Dec. 31 --</b>					
<b>(%)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Portfolio composition</b>					
Real estate	7.7	8.7	3.8	3.6	4
Shares	12.5	7.3	6.6	24.9	16.7
Affiliates	0	0	0	0	25.3
Registered bonds	19.2	17.5	7.2	56.2	42
Cash and bank deposits	54.4	59.7	76	8.5	2.5
Deposits with cedents	6.2	6.8	6.4	6.8	7.7
Other invested assets	0	0	0	0	1.7
Total	100	100	100	100	100
<b>Portfolio performance</b>					
Net investment income	2.5	1.9	4.5	5.3	6.5
Running yield	1.6	1.2	3.1	3.6	5.1
Total yield (including unrealized gains)	5.3	3.9	(4.4)	9.3	5

We regard NB's investments as strong, owing to the high percentage of cash and NB's bond portfolio of very solid credit quality. Because NB's equity holdings account for about 12% of its investments, we view its market risk as high relative to the size of the group. However, derivatives contracts protect the shareholders' funds from massive impairments in NB's equity holdings.

### Market risk

NB's market risk is high, relative to the small capital base of the group, in our opinion. NB's equity book accounted for about 12% of its investments at end-September 2011. However, derivatives contracts protect NB's shareholders' funds from massive impairments in its equity holdings (with put options of six months, which are usually renewed). However, we view that NB's use of its hedging strategy is not fully efficient because the group preferred to not sell

its assets and exercise its protections in August 2011, when the stock market weakened. Other assets are held in cash, government bonds, and property for NB's own use. The market value of the group's property investments increased to €8.8 million at year-end 2009, when its stock was reevaluated, from a book value of €5.6 million in 2008, as the previous review of the property book fair value was in 2004. NB's real estate investments accounted for about 6% of total invested assets at end-September 2011.

### Credit risk

NB's credit risk is moderate, owing to its bond portfolio's credit quality, with 100% invested in Dutch, Belgian, German, and French sovereign bonds rated 'AA+' or higher at the end of the third quarter of 2011. NB's portfolio is subject to regular reviews and benchmarking against projected returns.

## Liquidity: Net Underwriting And Operating Cash Flows Consistently Positive

Table 4

Nationale Borg Group Liquidity Statistics					
	--Year ended Dec. 31--				
(%)	2010	2009	2008	2007	2006
Underwriting cash flow ratio	124.2	109.3	130.5	142.6	151.3
Operating cash flow ratio	126.0	109.1	133	131.7	114.6
Liquid assets/technical reserves	218.1	205.7	199	228.9	151

We view NB's liquidity as "strong." Net underwriting and operating cash flows ratios are solid over the cycle. These ratios improved in 2010, owing to 2010's very strong operating performance with an operating cash flow of 125%, from 109% in 2009. Regarding liquidity stress that stems from a large claims payment, NB's reinsurers would provide the group with funds in short notice, which protects the group's liquidity position.

In addition, NB consistently maintains a highly liquid investment portfolio. The group has always held sufficient cash to manage day-to-day business, as demonstrated by its liquid assets covering 2.0x its net technical reserves, which was very strong and stable compared with last year.

NB also maintains bank liquidity lines with several banks, which are all currently rated 'A+'.

## Capitalization: Strong Capital Adequacy, With Reduced Exposure To Outward Reinsurance

We view NB's capitalization as strong, with prudent reserving and a solid capital adequacy ratio, based on Standard & Poor's risk-based capital model. The group's continuing high exposure to reinsurers, in our opinion, is an offsetting factor for its capitalization. This applies to the direct surety business, and is a common factor with other credit and surety insurers.

### Capital adequacy

According to Standard & Poor's risk-based capital model, NB's capital adequacy ratio is strong. Shareholders' equity was almost stable at €81 million at year-end 2010, while NB's total gross exposure (sum of the exposures in insurance and reinsurance businesses) decreased 6%. Total exposure in 2011 did not significantly vary, while shareholders' equity continued to increase. NB has a stated strategy, which its shareholders support, of maintaining

its capital in line with the 'A' rating level. NB assesses capital adequacy and the profitability of each product line separately.

Although NB's quality of capital is very strong because it is backed by a debt-free conservative balance sheet, the group's high dependence on reinsurance somewhat diminishes it.

### Reserves

We consider NB's reserving levels to be adequate. We view that the group reserves prudently, using appropriate methodologies given the business lines that it operates in. An external auditor tests reserving assumptions regularly.

### Reinsurance

In our opinion, NB extensively uses its reinsurance for its surety business, which is in line with industry practices. We view its reinsurance program is conservative, and note that use of reinsurance has decreased in recent years. We view this reduction as positive, as long as it diminishes NB's dependence on its reinsurers. The reinsurance program only applies to the direct surety business and consists of a quota share treaty with retention at 50% for exposures up to €100 million. An excess-of-loss (XS) cover protects this retention, limiting NB's exposure to only €5 million per risk, which represents 6% of the shareholders' funds. The clients in excess of this program (those with exposures higher than €100 million) are protected by facultative reinsurance. In our opinion, these clients are of very good quality, with low credit risk, and are closely monitored. Therefore, we view this program as conservative and efficient, particularly as the XS cover was hit once in 2009 (by a claim from the fidelity portfolio that is in run-off) and protected the group's shareholders' funds well.

We consider the quality of NB's reinsurance panel to be very strong and sufficiently diversified. Reinsurers are all rated 'A' or higher.

## Financial Flexibility: Good Profit Generation, Sufficient To Support Expected Growth

Table 5

Nationale Borg Group Financial Statistics					
-- Year ended Dec. 31 --					
(Mil. €)	2010	2009	2008	2007	2006
Total assets	186.7	175.0	166.5	173.3	149.5
Total adjusted equity	81.3	82.4	75	76.5	68.9
Change in adjusted equity (%)	(1.3)	9.9	(1.9)	11	12.2
Solvency ratio (%)	122.2	146.2	145	154.6	159.3
Technical reserves/net premiums written (%)	101.3	117.1	129.9	125.1	130.1
Technical reserves/adjusted equity (%)	82.9	80.1	89.6	80.9	81.7
Investment leverage (%)	42.4	31.1	20.6	58.9	41.8
Reinsurance utilization ratio (%)	19.8	20.1	20.7	21.9	30.5

We assess NB's financial flexibility as only good. NB has some capital needs from its planned organic growth. Despite its strong profit generation, we view financial flexibility as only good because of NB's shareholding structure, whereby net income is generally fully upstreamed to shareholders, and given its limited ability to raise additional financing in the open market under the current challenging financial conditions. However, the

shareholders have indicated that they are willing to supply additional capital through retained profits, in case of need. In addition, we view that NB's additional capacity provided by the reinsurance program could support extra capital if the group's retained profit was not sufficient to support its business growth.

## Related Criteria And Research

- Interactive Ratings Methodology, April 22, 2009
- Group Methodology, April 22, 2009

<b>Ratings Detail</b> (As Of January 19, 2012)	
<b>Operating Company Covered By This Report</b>	
<b>Nationale Borg Reinsurance N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Counterparty Credit Rating	
<i>Local Currency</i>	A-/Stable/--
<b>Domicile</b>	Netherland Antilles
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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