Consolidated Audited Financial Statements

Nissan Global Reinsurance, Ltd.
Year Ended March 31, 2017
With Report of Independent Auditors

Ernst & Young Ltd.

Building a better
working world

Nissan Global Reinsurance, Ltd.

Audited Financial Statements

Year Ended March 31, 2017

Contents

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Independent Auditor's Report

The Board of Directors
Nissan Global Reinsurance, Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nissan Global Reinsurance, Ltd., (the Company), which comprise the statement of financial position as at March 31, 2017, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

This report is made solely to the Board of Directors, as a body. Our audit work has been undertaken so that we might state to the Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young Ltd.

July 13, 2017

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Financial Position
(Expressed in Thousands of United States Dollars)

	March 31 2017	March 31 2016
Assets		
Cash and cash equivalents *(Notes 3, 13, 15, and 16)*	**$ 275,058**	$ 287,345
Short-term investment *(Notes 4, 15, and 16)*	**25,636**	–
Accrued interest receivable *(Notes 15, 19(c) and (h))*	**9,016**	10,117
Loans receivable from related parties *(Notes 15, 16, 19(c) and (h))*	**2,175,033**	1,826,322
Insurance balances receivable *(Notes 15, 16, and 19(d))*	**180,697**	162,808
Dealer dividend advances	**53,302**	68,161
Prepaid expenses	**1,446**	1,273
Deferred reinsurance premiums	**47,795**	34,165
Deferred acquisition costs *(Note 5)*	**422,883**	423,407
Deferred income tax asset *(Note 14)*	**700**	10
Other assets	**4,946**	5,879
	$ 3,196,512	$ 2,819,487
Liabilities		
Insurance balances payable (*Note 15*)	**$ 15,325**	$ 22,828
Accounts payable and accrued liabilities *(Notes 10 and 15)*	**18,535**	19,998
Amounts due to affiliates *(Notes 15 and 19(e))*	**12,698**	12,067
Reserves for losses and loss expenses *(Notes 7, 15 and 19(a))*	**301,056**	295,155
Unearned premiums *(Notes 6 and 19(a))*	**1,415,133**	1,345,471
Income taxes payable *(Note 15)*	**9,616**	5,696
Deferred income tax liability, net *(Note 14)*	**26,603**	27,512
Deferred ceding commission	**15,835**	13,467
Funds withheld *(Notes 15 and 21)*	**30,149**	22,256
Other liabilities *(Notes 15 and 21)*	**4,336**	3,654
	$ 1,849,286	$ 1,768,104

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Financial Position (continued)
(Expressed in Thousands of United States Dollars)

	March 31 2017	March 31 2016
Shareholder's Equity		
Issued capital *(Note 11)*	**$ 120**	$ 120
Additional paid-in capital *(Notes 12 and 13)*	**99,880**	99,880
Accumulated other comprehensive income (loss)	**8,007**	(1,614)
Retained earnings *(Note 13)*	**1,239,219**	952,997
	1,347,226	1,051,383
	$ 3,196,512	$ 2,819,487

The consolidated financial statements were approved by the Board of Directors on July 13, 2017, and signed on its behalf by:

See accompanying notes.

On behalf of the Board

Director

Director

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Comprehensive Income
(Expressed in Thousands of United States Dollars)

	Year Ended March 31 2017	2016
Gross premiums written *(Note 8)*	**$ 718,935**	$ 641,592
Ceded reinsurance premiums written *(Note 8)*	**(21,781)**	(16,833)
Net premiums written *(Note 8)*	**697,154**	624,759
Change in unearned premiums	**(87,958)**	(38,664)
Change in deferred reinsurance premiums	**13,630**	10,683
Net premiums earned *(Notes 8 and 19(a))*	**622,826**	596,778
Other income *(Note 19(b))*	**17,564**	11,091
Interest income *(Notes 19(c) and (h))*	**166,543**	149,917
Total net revenue	**806,933**	757,786
Losses and loss expenses *(Note 19(a))*	**285,106**	272,899
Losses and loss expenses recoveries	**(2,035)**	(1,423)
Net losses and loss expenses *(Note 7)*	**283,071**	271,476
Fronting fees and taxes	**3,626**	2,581
Acquisition costs *(Note 5)*	**131,177**	142,860
General and administrative expenses *(Notes 9 and 19)*	**24,963**	24,518
Other expenses *(Note 19(h))*	**67,062**	66,451
Foreign exchange loss	**4,019**	1,914
Total expenses	**513,918**	509,800
Profit before tax	**293,015**	247,986
Income tax expense *(Note 14)*	**6,743**	5,245
Profit for the year attributable to equity shareholder	**$ 286,272**	$ 242,741
Other comprehensive income	**9,621**	4,847
Total comprehensive income attributable to equity shareholder	**$ 295,893**	$ 247,588

See accompanying notes.

All results are from continuing operations.

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Changes in Shareholder's Equity
(Expressed in Thousands of United States Dollars)

	Issued Capital	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, March 31, 2015	$ 120	$ 99,880	$ (6,461)	$ 710,256	$ 803,795
Foreign currency translation loss	–	–	4,847	–	4,847
Profit for the year	–	–	–	242,741	242,741
Balance, March 31, 2016	$ 120	$ 99,880	$ (1,614)	$ 952,997	$ 1,051,383
Foreign currency translation gain	**–**	**–**	**9,621**	**–**	**9,621**
Profit for the year	**–**	**–**	**–**	**286,272**	**286,272**
Dividends paid	**–**	**–**	**–**	**(50)**	**(50)**
Balance, March 31, 2017	**$ 120**	**$ 99,880**	**$ 8,007**	**$ 1,239,219**	**$ 1,347,226**

See accompanying notes.

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Cash Flows
(Expressed in Thousands of United States Dollars)

	Year Ended March 31	
	2017	**2016**
Operating activities		
Profit for the year	**$ 286,272**	$ 242,741
Adjustments for:		
Interest income	**(166,543)**	(149,917)
Amortization expense	**3,650**	3,626
Change in:		
Insurance balances receivable	**(17,889)**	34,260
Dealer dividend advances	**14,859**	(11,506)
Prepaid expenses	**(173)**	(540)
Deferred reinsurance premiums	**(13,630)**	(10,683)
Deferred acquisition costs	**524**	16,295
Deferred income tax asset	**(690)**	(10)
Other assets	**(2,716)**	(4,782)
Insurance balances payable	**(7,503)**	(1,551)
Accounts payable and accrued liabilities	**(1,463)**	543
Amounts due to affiliates	**631**	(678)
Reserves for losses and loss expenses	**5,901**	1,229
Unearned premiums	**69,662**	38,479
Income taxes payable	**3,920**	(4,126)
Deferred income tax liability, net	**(909)**	7,943
Deferred ceding commission	**2,368**	2,514
Funds withheld	**7,893**	9,160
Other liabilities	**682**	614
Net cash provided by operating activities	**184,846**	173,611
Investing activities		
Purchase of short-term investment	**(25,636)**	–
Interest received	**129,871**	116,403
Issuance of loans receivable to related parties	**(1,542,114)**	(1,613,194)
Repayment of loans receivable from related parties	**1,231,175**	1,358,487
Net cash used in investing activities	**(206,704)**	(138,304)

Nissan Global Reinsurance, Ltd.

Consolidated Statements of Cash Flows (continued)
(Expressed in Thousands of United States Dollars)

	Year Ended March 31	
	2017	**2016**
Financing activity		
Dividend paid	**(50)**	–
Net cash used in financing activity	**$ (50)**	$ –
Total cash (used) provided	**$ (21,908)**	$ 35,307
Effect of foreign currency translation	**9,621**	4,847
Net (decrease) increase in cash and cash equivalents	**(12,287)**	40,154
Cash and cash equivalents, beginning of year	**287,345**	247,191
Cash and cash equivalents, end of year	**$ 275,058**	$ 287,345
Income taxes paid, net of recoveries	**$ 3,971**	$ 1,526

See accompanying notes.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

1. Operations

Nissan Global Reinsurance, Ltd. (the Company or NGRe) was incorporated in Bermuda on March 15, 2005, and was registered as a Class 3 insurer under The Bermuda Insurance Act 1978 (the Act), amendments thereto and Related Regulations. The Company's insurance license has been effective since March 28, 2005. The Insurance Amendment Act 2008, introduced three Class 3 sub-classes and the Company re-registered as a Class 3B insurer pursuant to Section 4 of the Act. The principal place of business of the Company is located at Maxwell Roberts Building, 1 Church Street, 7th Floor, Hamilton, Bermuda.

The Company is a wholly-owned subsidiary of Nissan Assurance Holding Company NV (the Parent), a company registered in Netherland Antilles. The Parent is a wholly-owned subsidiary of Nissan Motor Co., Ltd. (NML). NML is publicly traded on the Tokyo Stock Exchange (ticker symbol 7201) and NASDAQ (ticker symbol NSANY).

As at March 31, 2017, the principal subsidiaries and the Company's percentage interest (directly or indirectly) are as follows (collectively referred to as the Group):

Subsidiaries	Country of Incorporation	Equity Holdings
Nissan Global Reinsurance Trust (NGRe Trust)	USA	100%
Nissan Extended Services, North America G.P. (NESNA G.P.)	USA	100%
Nissan Extended Services, North America Inc. (NESNA Inc.)	USA	100%
Nissan Reinsurance International, Inc. (NRI)	USA	100%
Nissan Motor Insurance Services Corporation (NMISC)	USA	100%
Nissan Canada Extended Services, Inc. (NCESI)	Canada	100%
Nissan International Insurance, Ltd. (NII)	Malta	100%
Nissan International Service Company Sarl (NISCS)	Switzerland	100%

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

1. Operations (continued)

Subsidiaries	Country of Incorporation	Equity Holdings
Nissan Auto Receivables 2014 – B Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2015 – A Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2015 – B Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2016 – A Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2016 – B Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2017 – A Grantor Trust		

The Company reinsures NML and its subsidiaries' property, product liability and marine cargo risks.

NESNA G.P. and NESNA Inc. (collectively referred to as NESNA) sell vehicle service and maintenance contracts on vehicles in the United States of America (USA). They offer a variety of vehicle service contracts under six principal programs: the Security+Plus, QualityGuard+Plus, the Maintenance+Plus Agreement, Elite-Infiniti Extended Protection Plan (IEPP), Infiniti Elite Maintenance Agreement and QualityGuard+Plus Maintenance Agreement. A vehicle service contract provides various coverages for a vehicle during and after the warranty has expired. In addition, NESNA offers branded ancillary products. Starting April 1, 2016, NESNA began selling Certified Pre-Owned (CPO) service agreements for Nissan and Infiniti products. NESNA reinsures the vehicle service contracts and the CPO extended service contracts with NGRe. A portion of the CPO extended service contract are also reinsured with Nissan North America (NNA).

NMISC was incorporated on February 25, 1991 in the State of California and NESNA G.P. acquired 100% of the ownership on August 1, 2014. NMISC is a licensed property and casualty insurance agency for the sale of insurance to authorized Nissan and Infiniti dealers.

1. Operations (continued)

NRI was incorporated in the State of Tennessee on March 15, 2016 as a wholly owned subsidiary of NESNA Inc. NRI reinsures the marine and property of NGRe and insures excess workers' compensation and employers' liability risks of NNA effective April 1, 2016.

NCESI is situated in Canada and was incorporated on March 6, 2008 to offer a variety of vehicle service and maintenance contracts in Canada for Nissan and Infiniti vehicles. The Company assumes 90% of the risk for the vehicle service contracts under a risk transfer agreement for all areas except Alberta, where 100% of the risk is assumed. In addition, NCESI offers branded ancillary products.

NII is situated in Malta and was incorporated on July 9, 2008 to offer a variety of extended warranty contracts in Europe.

NISC is a private limited liability company situated in Malta and was incorporated on January 25, 2013. NISC was established to offer service contracts in Switzerland and other European countries where the issuing entity is required to be a service company rather than an insurance company. NISC was liquidated and dissolved on March 7, 2016.

NISCS is situated in Switzerland and was incorporated on March 31, 2015, to provide various services in Switzerland including service contracts directly or indirectly related to the automotive business as well as to develop, maintain and charge usage fees for computer software in particular for Nissan group companies.

NGRe entered into reinsurance agreements to accept risks associated with vehicle service contracts from unrelated parties in Japan, China, and Mexico.

NGRe assumes 70% of all insurance risk issued relating to Payment Protection for a Mexican life insurance company.

NGRe has a number of reinsurance agreements to cede the risks associated with certain vehicle service contracts.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which consist of standards issued or adopted by the International Accounting Standards Board and Interpretations issued by its Standing Interpretations Committee. When IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In this instance, the Company defers to accounting principles generally accepted in the USA (US GAAP).

The accounting policies adopted are consistent with those of the previous financial year.

The Company has not early adopted the following new and revised IFRS Standards that have been issued but are not yet effective in these consolidated financial statements. The Company intends to adopt these standards when they become effective.

- IFRS 9 Financial Instruments: In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted, as was deferred with the implementation date of IFRS 4 Phase II discussed below. Retrospective application is required, but comparative information is not compulsory. The Company will continue to monitor the progress of the project in order to assess any potential impact the new standard will have on its results and the presentation and disclosure thereof.

2. Significant Accounting Policies (continued)

- IFRS 15 Revenue from Contracts with Customers: Effective for annual periods beginning on or after January 1 2018, IFRS 15 will replace all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets for the construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue–Barter Transactions Involving Advertising Services) and will apply to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards such as IFRS 4 Insurance Contracts or IAS 17 Leases. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. This standard can either be applied using a full retrospective approach, with some limited relief provided, or a modified retrospective approach. The Company will continue to assess the potential impact of the new standard on its financial statements and the presentation and disclosure thereof.

- IFRS 4 Insurance Contracts: The Company currently applies IFRS 4 which specifies the financial reporting for insurance contracts by an insurer. The standard was issued by the IASB as the first phase in their project to develop a comprehensive standard for insurance contracts.

- IFRS 17 Insurance Contacts: In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after January 1, 2021. Once effective, IFRS 17 will replace IFRS 4. The Company will continue to assess the potential impact of the new standard on its financial statements and the presentation and disclosure thereof.

The consolidated statement of financial position of the Group is presented in order of decreasing liquidity.

2. Significant Accounting Policies (continued)

The significant accounting policies adopted in preparing the consolidated financial statements are summarized as follows:

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in United States Dollars (USD), being at par with Bermudian dollars, as most of the transactions are conducted in USD and reflect the economic substance of the underlying events and circumstances of the Group. The amounts have been rounded to the nearest thousand dollar.

Principles of Consolidation

The Group's consolidated financial statements include the assets, liabilities, shareholder's equity, revenues, expenses, and cash flows of NGRe and its subsidiaries. A subsidiary is an entity in which the Company owns, directly or indirectly, more than 50% of the voting power of the entity or otherwise has the power to govern its operating and financial policies. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired are included in the consolidated financial statements from the date on which control is transferred to the Company. Intercompany balances, profits and transactions are eliminated upon consolidation. Subsidiaries' accounting policies are consistent with the Company's accounting policies.

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts at the consolidated statements of financial position date, and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates. The most significant estimate made by management is in relation to the reserve for losses and loss expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds and short-term time deposits with original maturities of three months or less. The carrying amounts reported in the consolidated statement of financial position for these instruments approximate their fair values.

Short-term Investment

Short-term investment represents fixed deposit which has been placed by the Company for a period of more than three months. The carrying amount reported in the Statements of Financial Position for this investment approximate its fair value.

Loans Receivable from Related Parties

Loans receivable are financial assets with fixed or determinable payments that are not held-for-trading and are measured at amortized cost using the effective interest method less impairment losses. Interest is earned on the accrual basis.

Dealer Dividend Advances

Dealer dividend advances are paid to independent car dealerships in the U.S. in anticipation of future vehicle service contract sales. Amounts are reclassified as deferred acquisition costs based on sales levels achieved by the car dealerships over time.

2. Significant Accounting Policies (continued)

Deferred Acquisition Costs

Commissions and other costs incurred in the acquisition of new business and renewal of existing business are deferred and amortized over the terms of the respective policies and contracts of reinsurance to which they relate, in the same manner as the related premiums. Anticipated losses and loss expenses, based on historical and current experience, and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs (DAC).

Dealer dividends are amortized consistent to the premium and earnings curve.

Intangible Assets

Intangible assets, included in other assets, consist of computer software licenses for vehicle service contracts and are capitalized on the basis of the costs incurred to acquire and bring the software into use. These costs are amortized over the asset's useful economic life and assessed for impairment whenever there is an indication that it may be impaired. The amortization period and the amortization method for intangible assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the consolidated statements of comprehensive income in general and administrative expenses.

2. Significant Accounting Policies (continued)

Impairment of Assets

The Group assesses at each consolidated statement of financial position date, or more frequently, when changes in circumstances indicate that the carrying amount may not be recoverable. 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.

If there is objective evidence that an impairment loss has been incurred on loans and receivables 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 discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from repossession less costs of obtaining and selling the collateral, whether or not repossession is probable. The carrying amount of financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off, brought about by an occurrence of an objective event after the impairment date, are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2. Significant Accounting Policies (continued)

Losses and Loss Expenses

The estimated reserves for losses and loss expenses includes the accumulation of estimates for losses and loss expenses reported prior to the consolidated statement of financial position date, estimates (based on projection of historical developments) of losses incurred but not reported (IBNR), and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. Reserves for losses and loss expenses for excess workers' compensation, the employer's liability program and the product liability program are discounted at a 3.80% (2016 – 3.56%) interest rate over a five year (2016 – five year) expected claim settlement period based on the Company's anticipated investment performance. Had the Company provided for losses at undiscounted levels, losses and loss expenses provisions would have increased by $18,400 (2016 – $15,874) and the reserve for losses and loss expenses would be $319,412 (2016 – $311,029). Reserves for losses and loss expenses for the other insurance programs are not discounted as they are considered short tailed business.

Amounts reported are subject to the impact of future changes in economic and social conditions. Management believes that the reserve for losses and loss expenses will be reasonable to cover the ultimate net cost of losses incurred to the consolidated statement of financial position date, but the provision is an estimate and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

Funds Withheld

Funds withheld are financial liabilities relating to the reinsurance ceded business. Interest expense is recorded on an accrual basis.

Accruals for Expenses and Commitments

Accruals are made when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2. Significant Accounting Policies (continued)

Income Taxes

As a company organized under the laws of Bermuda, NGRe is not subject to taxation in Bermuda. Income tax provisions relate to the consolidated subsidiaries and are based on the asset and liability method. Deferred federal taxes have been provided for related to temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance against a deferred tax asset is recorded if it is more likely than not that all, or some portion, of the benefits relating to deferred tax assets will not be realized.

Premiums

Premiums are earned on a monthly pro-rata basis over the terms of the policies. Premiums applicable to the unexpired terms of the underlying policies are recorded as unearned premiums. Premiums relating to certain policies insured by the Company are subject to adjustment based on the results of future reviews of premium bases. The Company has accrued the estimated ultimate premiums based on management's best estimates of the premium bases. Adjustments to this estimate will be recorded in the Company's consolidated statement of comprehensive income in future years when such adjustments become known. Vehicle service and maintenance contract premiums are recognized in proportion to the expected emergence of claims. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Ceded Reinsurance Premiums

Ceded reinsurance premiums comprise the cost of reinsurance contracts entered into by the Company. Ceded reinsurance premiums are accounted for in the period in which the contract is bound. The provision for reinsurers' share of unearned premiums included in the deferred reinsurance premiums balance represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognized as a liability using the same principles and are included in the deferred ceding commission balance. Any amounts recoverable from reinsurers are estimated using the same methodology as the underlying losses.

The Group monitors the credit-worthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognized as an expense in the period in which it is determined.

2. Significant Accounting Policies (continued)

Interest Income

Interest income is recorded on the accrual basis.

Other Income

Other income consists primarily of commission payments on ancillary products, service fees earned from providing administrative support to NNA and contract cancellation fees charged to customers when they cancel a contract. These fees are recorded as the services are provided.

Foreign Currency Translation

Transactions included in the consolidated financial statements of each of the controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency) at average annual exchange rates. Monetary assets and liabilities are revalued to the functional currency at closing exchange rates, whereas non-monetary assets and liabilities are revalued to the functional currency at historical rates. Gains and losses on revaluation are reported in earnings.

The consolidated financial statements are presented in USD, which is the Company's presentation currency. Assets and liabilities of subsidiaries with functional currencies other than USD are translated from the functional currency to USD at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported as part of accumulated other comprehensive loss in the consolidated statements of changes in shareholder's equity.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

3. Cash and Cash Equivalents

	March 31 2017	March 31 2016
Cash	**$ 85,458**	$ 104,269
Money market funds	**111,289**	110,587
Short-term deposits	**78,311**	72,489
	$ 275,058	$ 287,345

Money market funds includes NRI's $251 (2016 – $250) restricted cash deposited with a US bank (Note 13).

The effective interest rates earned were as follows:

	March 31 2017	March 31 2016
Cash	**0.03%**	0.06%
Money market funds	**0.36%**	0.35%
Short-term deposits	**3.09%**	1.98%

4. Short-Term Investment

The Company placed a twelve month term deposit with a bank in Paris for $25,636 (EUR 24,000) at a rate of 0.02%. The Company held no short-term investments as of March 31, 2016.

The Company classifies the short-term investment as a Level 1 investment.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

5. Deferred Acquisition Costs

The following table summarizes the deferred acquisition costs activity:

	March 31	
	2017	**2016**
Opening deferred acquisition costs	**$ 423,407**	$ 439,702
Expenses deferred	**132,170**	125,975
Amortization	**(131,177)**	(142,860)
Foreign exchange translation impact	**(1,517)**	590
Ending deferred acquisition costs	**$ 422,883**	$ 423,407

6. Unearned Premiums

The following table summarizes the unearned premiums reserve activity:

	March 31	
	2017	**2016**
Opening unearned premiums	**$ 1,345,471**	$ 1,306,992
Gross premiums written	**718,935**	641,592
Premiums earned	**(630,977)**	(602,928)
Foreign exchange translation impact	**(18,296)**	(185)
Ending unearned premiums	**$ 1,415,133**	$ 1,345,471

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

7. Reserves for Losses and Loss Expenses

Activity in the reserves for losses and loss expenses is summarized as follows:

	March 31 2017	March 31 2016
Opening net reserves for losses and loss expenses	**$ 295,150**	$ 293,921
Incurred related to:		
Current year	**322,458**	320,682
Prior years	**(39,387)**	(49,206)
Total incurred	**283,071**	271,476
Paid related to:		
Current year	**185,064**	195,097
Prior years	**90,878**	71,752
Total paid	**275,942**	266,849
Foreign exchange gain	**(469)**	(2,432)
Change in deferred gain	**(759)**	(966)
Ending net reserves for losses and loss expenses	**301,051**	295,150
Reinsurance recoverable	**5**	5
Ending reserves for losses and loss expenses	**$ 301,056**	$ 295,155

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

7. Reserves for Losses and Loss Expenses (continued)

The following loss development table reflects the cumulative incurred claims for each successive accident year at each consolidated statement of financial position date, together with cumulative payments to date. The 2013 accident year claims are net of $5 reinsurance recoverable on the marine program. Net reserves of $301,051 agree to reserves of $301,056 net of reinsurance recoverable of $5.

Accident year at end of	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Accident year	$ 135,114	$ 187,389	$ 220,505	$ 259,020	$ 303,857	$ 310,482	$ 319,435	$ 312,660	$ 316,857	$ 273,137
One year later	140,420	168,697	207,847	273,723	277,890	309,724	315,300	309,343	328,604	–
Two years later	140,628	158,971	192,532	230,345	274,770	284,250	298,654	299,450	–	–
Three years later	129,406	152,041	181,497	222,297	251,801	279,814	293,275	–	–	–
Four years later	120,887	145,813	176,379	221,542	251,137	273,720	–	–	–	–
Five years later	118,750	143,501	173,681	212,821	244,279	–	–	–	–	–
Six years later	116,802	144,691	173,868	212,021	–	–	–	–	–	–
Seven years later	115,885	143,307	173,817	–	–	–	–	–	–	–
Eight years later	115,341	142,942	–	–	–	–	–	–	–	–
Nine years later	115,455	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	$ 115,455	$ 142,942	$ 173,817	$ 212,021	$ 244,279	$ 273,720	$ 293,275	$ 299,450	$ 328,603	$ 273,137
Accident year	$ (38,193)	$ (81,595)	$ (112,913)	$ (143,092)	$ (144,462)	$ (209,763)	$ (204,226)	$ (183,116)	$ (188,389)	$ (174,808)
One year later	(84,241)	(109,153)	(149,303)	(180,059)	(218,110)	(237,780)	(252,009)	(244,739)	(254,158)	–
Two years later	(97,957)	(123,222)	(161,403)	(197,527)	(229,147)	(246,500)	(259,459)	(255,039)	–	–
Three years later	(106,557)	(129,721)	(169,301)	(204,914)	(233,714)	(254,842)	(260,493)	–	–	–
Four years later	(110,284)	(133,244)	(171,178)	(206,566)	(235,599)	(256,053)	–	–	–	–
Five years later	(111,955)	(136,813)	(172,566)	(206,799)	(235,771)	–	–	–	–	–
Six years later	(112,791)	(139,838)	(172,918)	(206,953)	–	–	–	–	–	–
Seven years later	(113,605)	(140,072)	(172,979)	–	–	–	–	–	–	–
Eight years later	(113,878)	(140,270)	–	–	–	–	–	–	–	–
Nine years later	(113,978)	–	–	–	–	–	–	–	–	–
Cumulative payments to date	$ (113,978)	$ (140,270)	$ (172,979)	$ (206,953)	$ (235,771)	$ (256,053)	$ (260,493)	$ (255,039)	$ (254,158)	$ (174,808)
Closing liabilities	$ 1,477	$ 2,672	$ 838	$ 5,068	$ 8,508	$ 17,667	$ 32,782	$ 44,411	$ 74,445	$ 98,329
Subtotal – closing liabilities										$ 286,197
Liabilities of underwriting years prior to 2008										$ 14,854
Liabilities recognized in the statement of financial position										**$ 301,051**

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

7. Reserve for Losses and Loss Expenses (continued)

The Company experienced favourable development of $39,387 (2016 – $49,206) relating to prior underwriting years. This includes $40,630 (2016 – $39,482) of the favourable development related to the product liability program mainly for the 2012 to 2014 underwriting years (2012 – 2013 underwriting years) due to damage and expenses projections developing at a much lower level than in previous years.

8. Reinsurance

The Company has the following irrevocable unsecured letters of credit (LOC) with Mizuho Corporate Bank, Ltd.:

a.) LOC of $35,000 (2016 – $59,424) issued to American Bankers Insurance Company of Florida as beneficiary for USA vehicle service contracts requiring surety clips.

b.) LOC of $19,521 (2016 – $19,521) issued to American Bankers Insurance Company of Florida as beneficiary for USA vehicle service contracts requiring mechanical breakdown insurance.

c.) LOC of $11,000 (2016 – $11,000) issued to Assurant Danos Mexico, S.A. as beneficiary for Mexico vehicle service business.

d.) LOC of $263 (2016 – $263) issued to Assurant Vida, Mexico, S.A. for Mexico Payment Protection Insurance risks.

The effect of reinsurance on net premiums written and earned is as follows:

	March 31			
	2017		**2016**	
	Written	**Earned**	**Written**	**Earned**
Inward direct	**$ 476,578**	**$ 401,557**	$ 410,918	$ 382,760
Inward assumed	**242,357**	**229,420**	230,674	220,168
Gross premiums	**718,935**	**630,977**	641,592	602,928
Ceded premiums	**(21,781)**	**(8,151)**	(16,833)	(6,150)
Net premiums	**$ 697,154**	**$ 622,826**	$ 624,759	$ 596,778

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

9. General and Administrative Expenses

The following table summarizes the components of the Group's general and administrative expenses:

	March 31 2017	March 31 2016
Salaries and employee benefit expenses	**$ 7,037**	$ 7,063
Information technology expenses *(Note 19(b))*	**4,765**	4,137
Office expenses	**3,416**	3,439
Management and consulting fees	**3,109**	3,300
Amortization expense	**3,650**	3,626
Service contract support costs	**1,168**	1,230
Professional service fees	**582**	461
Tax fees	**464**	455
Government and secretarial fees	**487**	408
Letter of credit fees	**162**	242
Other miscellaneous expenses	**123**	157
	$ 24,963	$ 24,518

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

9. General and Administrative Expenses (continued)

Management and consulting fees are further classified as follows:

	March 31 2017	March 31 2016
Consulting fees	**$ 1,900**	$ 2,481
Management fees	**469**	394
Audit fees	**237**	287
Legal fees	**503**	138
	$ 3,109	$ 3,300

Salaries and employee benefit expenses are further classified as follows:

	March 31 2017	March 31 2016
Wages and salaries	**$ 5,711**	$ 5,472
Employee benefits	**1,096**	1,335
Employee lease allowance	**230**	256
	$ 7,037	$ 7,063

10. Accounts Payable and Accrued Liabilities

The following table summarizes the components of the Group's accounts payable and accrued liabilities:

	March 31 2017	March 31 2016
Accounts payable	**$ 13,917**	$ 13,471
Accruals	**2,971**	5,114
Commodity and premium taxes payable	**860**	692
Commissions payable	**470**	233
Other	**317**	488
	$ 18,535	$ 19,998

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

11. Issued Capital

	March 31	
	2017	**2016**
Capital stock is comprised of:		
Authorized, issued and fully paid:		
120,000 shares of U.S. $1 each par value	**$ 120**	$ 120

The Company was incorporated with minimum capital of $120. The capital was then issued by the creation of 120,000 common shares with a par value of $1.00 each. All authorized shares were issued at par for cash to the Parent company.

12. Additional Paid-in Capital

Additional paid-in capital represents additional contributions to capital made by the Parent company.

13. Statutory Requirements

The Bermuda Insurance Act 1978 and Related Regulations (the Act) requires the Company to maintain minimum levels of solvency and liquidity. At March 31, 2017, the minimum required statutory capital and surplus was $77,354 (2016 – $76,557) and actual statutory capital and surplus was $1,343,636 (2016 – $1,031,021). In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. As at March 31, 2017 and 2016, the liquidity ratio was met.

In this regard, the declaration of dividends from retained earnings and distribution from additional paid-in capital is limited to the extent that the above requirements are met.

The Company has also received permission from the Bermuda Monetary Authority (BMA) to account for all asset-backed certificates as relevant assets subject to the condition that the Company shall at all times maintain assets meeting the definition of “relevant assets” stated in Regulation 11(4) of not less than 10% of the calculated minimum liquidity requirement.

13. Statutory Requirements (continued)

The Maltese Insurance Business Act 1998 requires that NII hold regulatory capital and maintain minimum levels of solvency. NII is in compliance with the Solvency II capitalization requirements based on the latest unaudited capitalization requirement calculations as at March 31, 2017 and 2016.

There are no statutory requirements applicable to NCESI, NESNA, NMISC and NISCS.

The State of Tennessee's Division of Insurance requires that NRI hold cash in a restricted depository account naming the Tennessee Commissioner of Insurance as the beneficiary. NRI is in compliance with this requirement and its restricted cash is with a US bank and is included in the cash and cash equivalents.

Nissan Global Reinsurance, Ltd. is currently completing its 2017 Bermuda Solvency Capital Requirement and believes it will exceed the target level of required capital.

14. Income Taxes

Bermuda

As a company organized under the laws of Bermuda, the Company is not subject to taxation in Bermuda, as Bermuda does not impose any form of taxation on receipts, dividends, capital gains, gifts or net income. In the event that such taxes are levied, the Company has received an assurance from the Bermuda government to be exempted from all such taxes until March 31, 2035.

United States of America

NGRe does not consider itself to be engaged in trade or business in the USA and, accordingly, does not expect to be subject to USA taxation on its Bermuda operations.

The Company's USA–domiciled subsidiaries, NESNA G.P., NESNA Inc., NMISC and NRI are subject to USA taxation. The subsidiaries are treated as insurance companies for federal income tax purposes and accordingly are allowed a deduction for losses and loss expenses and are taxed on premium income as earned.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

14. Income Taxes (continued)

Due to its Canadian, Maltese and Swiss subsidiaries, NCESI, NII, NISC and NISCS, the subsidiaries of the Company are also subject to Canadian, Maltese and Swiss taxation.

The provision for income taxes consists of the following:

	March 31	
	2017	**2016**
Current:		
Federal	**$ 5,818**	$ 2,922
State	**2,518**	(5,615)
Total current expense (benefit)	**8,336**	(2,693)
Deferred:		
Federal	**14,803**	7,064
State	**(16,396)**	874
Total deferred (benefit) expense	**(1,593)**	7,938
Income tax expense	**$ 6,743**	$ 5,245

The actual income tax expense attributable to income for the year ended March 31, 2017 differs from the amount computed by applying the combined effective rate of Nil% (2016 – Nil%) under Bermuda law to income before income tax expense, and is a result of the following:

	March 31	
	2017	**2016**
Computed expected tax expense	**$ –**	$ –
Tax expense effect of foreign taxes	**6,743**	5,245
Income tax expense	**$ 6,743**	$ 5,245

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

14. Income Taxes (continued)

The components of the deferred income tax assets and liabilities are as follows:

	March 31	
	2017	**2016**
Deferred income tax assets:		
Deferred ceding commission	**$ 39,745**	$ 41,459
Accrued vacation	**58**	61
Loss carry-forwards – Federal	**9,471**	24,350
Loss carry-forwards – State	**1,396**	1,408
Advance maintenance contract payments	**49,971**	53,441
State benefit on unearned premium reserve	**8,940**	5,113
Discount on loss reserve	**1,613**	–
Other	**2,661**	5,920
Total deferred income tax assets before valuation allowance	**$ 113,855**	$ 131,752
Valuation allowance	**(1,208)**	–
Total deferred income tax assets after valuation allowance	**$ 112,647**	$ 131,752
Deferred income tax liabilities:		
Unearned premium reserve gross up	**$ 114,770**	$ 136,282
Deferred acquisition costs	**21,409**	22,669
Other	**3,071**	313
Total deferred income tax liabilities	**$ 139,250**	$ 159,264
Net deferred income tax liabilities	**$ 26,603**	$ 27,512

NESNA's federal net operating loss carry-forwards at March 31, 2017 and 2016, totaled $395,500 and $438,600, respectively, resulting in a deferred tax benefit of $138,400 and $153,500, which will expire between 2026 and 2035. State net operating loss carry-forwards at March 31, 2017 and 2016, totaled $398,600 and $429,700, respectively, resulting in a deferred tax benefit of $29,700 and $32,000, which will expire between 2021 and 2035. NESNA's uncertain tax position subsequently reduces their federal and state net operating loss carry-forwards as of March 31, 2017, to $9,500 and $1,400, respectively. The uncertain tax position would also change the expiration period of NESNA's net operating losses to 2029 for federal and 2022 through 2029 for states.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

14. Income Taxes (continued)

NESNA established a valuation allowance of $1,208 as of March 31, 2017. NESNA historically was of the opinion that it is more likely than not that they will realize the benefit of the total deferred tax assets. However, changes in state tax laws now make NESNA more likely than not that it will not recognize the full benefit of its state net operating loss carryforwards. These net operating loss carryforwards will begin to expire in 2022.

The deferred tax asset balance of $700 (2016 – $10) at March 31, 2017 relates to NCESI.

The following table summarizes the activity related to NESNA's gross unrecognized tax benefit from uncertain tax positions for the years ended March 31, 2017 and 2016, as follows:

	2017	2016
Balance as of April 1	**$ 162,726**	$ 151,416
Additions for tax positions related to:		
Prior years	**–**	–
Current years	**(1,106)**	11,310
Balance as of March 31	**$ 161,620**	$ 162,726

NESNA continues to maintain a reserve for uncertain tax positions established in prior years and has decreased the reserve by $1,106 to reflect the impact of their uncertain tax position on current year activity. NESNA currently maintains a total reserve of $161,620. Approximately $157,200 has been recorded net of deferred tax amounts for federal and state net operating losses. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate was $169 as of March 31, 2017 and $153 as of March 31, 2016. NESNA does not expect a change in their liability for uncertain tax positions in the next twelve months.

For purposes of calculating federal income taxes, NESNA is in a net operating loss position. Due to this, NESNA has not accrued federal interest payments related to the uncertain tax position. While NESNA is also in a net operating loss position for state income tax purposes, the realization of the uncertain tax position will result in NESNA having current state income tax exposure. As a result, NESNA has recorded $495 of state interest expense related to their uncertain tax position. NESNA has not accrued any penalties related to the uncertain tax position as NESNA believes that it is more likely than not that there will not be any assessment of penalties. NESNA's policy is to include interest and penalties associated with tax uncertainties within income tax expense.

14. Income Taxes (continued)

NESNA tax years for the calendar years ending December 31, 2011 through December 31, 2015 remain subject to examination by the IRS for U.S. federal tax purposes. The IRS is conducting an audit of tax years 2011 through 2013. As of the date of these financials, the IRS has not proposed any adjustments pertaining to the 2011 through 2013 tax years. As a result of the filing of amended state income tax returns, the NESNA's tax years for the calendar years ending December 31, 2005 through December 31, 2015 remain subject to examination by state tax authorities. The state of Illinois is conducting an audit of tax years 2005 through 2010. As of the date of these financials, the state of Illinois has not proposed any adjustments pertaining to the 2005 through 2010 tax years. NESNA is not currently under examination by any other state tax authorities.

15. Risk Disclosures

The primary objective of the Company is to manage risks within the Group and protect the various associated companies individually and collectively from determined risks whilst retaining certain level of risks within the Group subject to management's risk appetite. The Company is exposed to risks from several areas.

Operational Risk

Operational risks are an inevitable consequence of being in business. Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Company has identified its key operational risks which are incorporated in the Risk Management Framework. In order to manage operational risks, the Group has implemented a robust governance framework which includes a code of conduct, a governance policy, a process manual and a risk management framework. Policies and procedures are documented and identify the key risks and controls within processes. The framework is reviewed by management annually.

15. Risk Disclosures (continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company is comprised of three types of risk: foreign exchange rates (currency risk), market interest rates (interest risk), and liquidity risk.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in USD and its exposure to foreign exchange risk arises primarily with respect to Japanese Yen (JPY). The Company has transactions in Canadian Dollars (CAD), Euros (EURO), Norwegian Kroner (NOK), Russian Rubles (RUB), British Pounds (GBP) and Swiss Francs (CHF) through its Canadian, Maltese and Swiss subsidiaries. The Company also has Chinese Yuan (CNY) and Mexican Peso (MXN) exposure through its China ESC, Mexico ESC, and Mexico PPI businesses. The exposure to foreign exchange risk on these transactions is not material.

The Company's financial assets are primarily denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	CAD	EURO	JPY	CNY	MXN	NOK	RUB	GBP	CHF
March 31, 2017									
Cash and cash equivalents	46,971	49,227	2,411,197	22,255	476,542	153,840	284,588	1,476	904
Short-term investments	–	24,000	–	–	–	–	–	–	–
Loans receivable from related parties	44,000	–	–	–	–	–	–	–	–
Insurance balances receivable	3,221	6,855	1,718,272	4,774	107,296	–	–	–	–
Accrued interest receivable	73	(88)	–	–	–	–	–	–	–
Accounts payable and accrued liabilities	(949)	(1,507)	–	–	–	–	–	–	–
Insurance balances payable	–	(3,563)	–	–	–	–	–	–	–
Amounts due to affiliates	(1,022)	–	–	–	–	–	–	–	–
Reserves for losses and loss expenses	–	(640)	(1,073,862)	(4,949)	(83,630)	–	–	–	–
Gross Consolidated Statement of Financial Position Exposure in original currencies	92,294	74,284	3,055,607	22,080	500,208	153,840	284,588	1,476	530
Gross Consolidated Statement of Financial Position Exposure in U. S. Dollars	$ 69,236	$ 79,348	$ 27,339	$ 3,204	$ 26,701	$ 17,923	$ 5,040	$ 1,842	$ 530

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	CAD	EURO	JPY	CNY	MXN	NOK	RUB	GBP	CHF
March 31, 2016									
Cash and cash equivalents	52,089	66,334	1,332,101	70,016	354,961	67,180	170,708	870	494
Loans receivable from related parties	36,000	–	–	–	–	–	–	–	–
Insurance balances receivable	3,590	8,818	1,735,311	8,288	67,473	–	–	–	664
Accrued interest receivable	176	43	–	–	–	–	–	–	–
Accounts payable and accrued liabilities	(882)	(2,061)	–	–	–	–	–	–	(544)
Insurance balances payable	–	(2,364)	–	–	–	–	–	–	–
Amounts due to affiliates	(380)	–	–	–	–	–	–	–	–
Reserves for losses and loss expenses	–	(555)	(1,351,400)	(13,535)	(40,047)	–	–	–	–
Gross Consolidated Statement of Financial Position Exposure in original currencies	90,593	70,215	1,716,012	64,769	382,387	67,180	170,708	870	614
Gross Consolidated Statement of Financial Position Exposure in U. S. Dollars	$ 69,854	$ 79,731	$ 15,258	$ 10,013	$ 22,125	$ 13,364	$ 2,540	$ 1,249	$ 637

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

The following significant exchange rates were applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2017	**2016**	**2017**	**2016**
CAD	**0.76**	0.76	**0.75**	0.77
EURO	**1.10**	1.10	**1.07**	1.14
CNY	**0.15**	0.15	**0.15**	0.15
JPY	**0.01**	0.01	**0.01**	0.01
MXN	**0.05**	0.06	**0.05**	0.06
NOK	**0.12**	0.13	**0.12**	0.20
RUB	**0.02**	0.02	**0.02**	0.01
GBP	**1.31**	1.51	**1.25**	1.43
CHF	**1.01**	1.03	**1.00**	1.04

A strengthening/weakening of the USD, as indicated below, against the foreign currencies at March 31, 2017 and 2016 would have increased (decreased) consolidated shareholder's equity and profit by the amounts shown below. The analysis is based on a foreign exchange movement of 10% up and 10% down against the USD at the year-end spot rate. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted net income. The analysis was performed on the same basis for 2016.

	Strengthening		Weakening	
	Equity ($)	**Profit ($)**	**Equity ($)**	**Profit ($)**
March 31, 2017				
CAD	(6,109)	(3,321)	6,109	3,321
EURO	(5,159)	–	5,159	–
JPY	(2,734)	(2,734)	2,734	2,734
CNY	(320)	(320)	320	320
MXN	(2,670)	(2,670)	2,670	2,670
NOK	(1,165)	–	1,165	–
RUB	(328)	–	328	–
GBP	(120)	–	120	–
CHF	(152)	–	152	–
Total	$ (18,757)	$ (9,045)	$ 18,757	$ 9,045

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

	Strengthening		Weakening	
	Equity ($)	Profit ($)	Equity ($)	Profit ($)
March 31, 2016				
CAD	(6,112)	(3,696)	6,112	3,696
EURO	(5,184)	–	5,184	–
JPY	(1,001)	(1,001)	1,001	1,001
CNY	(1,526)	(1,526)	1,526	1,526
MXN	(2,213)	(2,213)	2,213	2,213
NOK	(869)	–	869	–
RUB	(165)	–	165	–
GBP	(81)	–	81	–
CHF	(140)	–	140	–
Total	$ (17,291)	$ (8,436)	$ 17,291	$ 8,436

Interest Rate Risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating interest rate instruments expose the Company to cash flow interest rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

The Company is exposed to potential interest rate risk associated with loans receivable from affiliated companies (Notes 19(c) and 19(h)). The Company believes that overall interest rate risk associated with these instruments is not significant.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Company has sufficient funds to meet all current obligations. Liquidity risk is also mitigated by the monthly cash flows from collections of the loans receivable from related parties (Notes 19(c) and 19(h)). The monthly cash inflows from investments are usually greater than cash outflows towards accounts payable and accrued liabilities.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

The maturity analysis for the financial assets and liabilities on an undiscounted cash flow basis is as follows:

	Carrying Amount	Up to One Year	To 3 Years	To 5 Years	Over 5 Years
March 31, 2017					
Financial Assets					
Cash and cash equivalents	$ 275,058	$ 275,058	$ –	$ –	$ –
Short-term investments	25,636	25,636	–	–	–
Accrued interest receivable	9,016	9,016	–	–	–
Loans receivable from related parties	2,175,033	106,007	132,993	1,163,867	772,166
Insurance balances receivable	180,697	180,697	–	–	–
Total undiscounted financial assets	$ 2,665,440	$ 596,414	$ 132,993	$ 1,163,867	$ 772,166
Financial liabilities					
Insurance balances payable	$ 15,325	$ 15,325	$ –	$ –	$ –
Accounts payable and accrued liabilities	18,535	18,535	–	–	–
Amounts due to affiliates	12,698	12,698	–	–	–
Reserves for losses and loss expenses	319,412	166,824	99,506	34,648	18,434
Income taxes payable	9,616	9,616	–	–	–
Funds withheld	30,149	30,149	–	–	–
Other liabilities	1,794	1,794	–	–	–
Total undiscounted financial liabilities	$ 407,529	$ 254,941	$ 99,506	$ 34,648	$ 18,434
Total liquidity surplus	$ 2,257,911	$ 341,473	$ 33,487	$ 1,129,219	$ 753,732

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

15. Risk Disclosures (continued)

	Carrying Amount	Up to One Year	To 3 Years	To 5 Years	Over 5 Years
March 31, 2016					
Financial Assets					
Cash and cash equivalents	$ 287,345	$ 287,345	$ –	$ –	$ –
Accrued interest receivable	10,117	10,117	–	–	–
Loans receivable from related parties	1,826,322	76,466	392,850	1,357,006	–
Insurance balances receivable	162,808	162,808	–	–	–
Total undiscounted financial assets	$ 2,286,592	$ 536,736	$ 392,850	$ 1,357,006	$ –
Financial liabilities					
Insurance balances payable	$ 22,828	$ 22,828	$ –	$ –	$ –
Accounts payable and accrued liabilities	19,998	19,998	–	–	–
Amounts due to affiliates	12,067	12,067	–	–	–
Reserves for losses and loss expenses	311,029	153,055	101,790	36,396	19,788
Income taxes payable	5,696	5,696	–	–	–
Funds withheld	22,256	22,256	–	–	–
Other liabilities	1,437	1,437	–	–	–
Total undiscounted financial liabilities	$ 395,311	$ 237,337	$ 101,790	$ 36,396	$ 19,788
Total liquidity surplus (gap)	$ 1,891,281	$ 299,399	$ 291,060	$ 1,320,610	$ (19,788)

16. Concentration of Credit Risk

The Group is party to financial instruments with concentration of credit risk. These financial instruments include cash and cash equivalents, short-term investment, accrued interest receivable, loans receivable from related parties, insurance balances receivable and reinsurance recoverable.

The Company has cash and cash equivalents in the amount of $27,406 (2016 – $13,698) with one (2016 – one) United States bank, $26,372 (2016 – $30,382) with a single Canadian bank and $56,110 (2016 – $92,778) with a single Bermuda bank. NESNA holds $84,605 (2016 – $55,724) with a single United States bank. NCESI has $2,023 (2016 – $1,522) in a single Canadian bank. NII has $1,920 (2016 – $758) in a single Maltese bank, $73,620 (2016 – $61,167) in three (2016 – three) United Kingdom banks and $1,849 (2016 – $30,553) in a single French bank. NISCS has $903 (2016 – $513) in a single Swiss bank.

NII has a short-term investment of $25,636 (2016 – $Nil) in a single French bank.

Credit risk arises from the failure of the counter-party to perform according to the terms of a contract. The Company does not require collateral or other security to support financial instruments with credit risk.

The Company has insurance balances receivable in the amount of $180,697 (2016 – $162,808). All loans are with related parties or affiliates. Credit risk is mitigated as these amounts are primarily due from related parties and there is no indication that such related parties will be unable to meet their current obligations. The Company believes that overall credit risk is not significant.

17. Management of Insurance and Financial Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The objective of the Company's insurance underwriting strategy is to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Another objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company reinsures property, marine cargo and product liability risks for NML and subsidiaries worldwide. Premiums are reviewed each year and there is no guaranteed renewal agreement. The greatest likelihood of significant losses on the property risk insured by the Company is due to fire or weather related events. The greatest likelihood of significant losses is due to a large weather event on the marine cargo and a large single event, like a design fault, on the product liability. The Company has mitigated the risk exposure by limiting the total exposure per claim and per underwriting year. Risks are also mitigated due to the fact that they are spread across various geographical areas. Due to the nature of the risks, the claims develop quickly and the loss adjusters are able to estimate losses accurately within a short period of time after the losses arise.

The Company insures workers' compensation and employer's liability risks of NNA. It also assumes the risks for: (a) vehicle service contracts through risk transfer agreements with NESNA, NCESI and reinsurance agreements from unrelated parties in Japan, China and Mexico; and (b) Payment Protection Insurance through a reinsurance agreement with a Mexican life insurance company. Premiums for all of these programs are reviewed each year and there are no guaranteed renewal agreements. The greatest likelihood of significant losses is due to an accumulation of separate events. The Company has mitigated the workers' compensation and employer's liability risk exposure by limiting the total exposure per claim and per underwriting year. Risk of significant loss under vehicle service contracts and payment protection insurance is mitigated due to the fact that they are spread across thousands of contracts.

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

17. Management of Insurance and Financial Risk (continued)

The underwriting results are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

Change in loss ratio or underwriting expenses ratio:

	Change in Assumptions		**Profit Before Tax ($)**		**Equity ($)**	
	Increase	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
2017	+10%	-10%	(62,283)	62,283	(60,728)	60,728
2016	+10%	-10%	(59,678)	59,678	(57,869)	57,869

The Company is exposed to minimal financial risk due to the nature of its assets.

18. Capital Risk Management

Capital Management Objectives, Policies, and Approach

The Company has established the following capital management objectives, policies and approach in managing the risks that affect its capital position:

The capital management objectives are to retain financial flexibility by maintaining strong liquidity and to align the profile of assets and liabilities taking into account risks inherent in the business.

The operations of the Company are also subject to regulatory requirements within the jurisdiction where it operates. Such regulations prescribe not only approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as they arise.

18. Capital Risk Management (continued)

Management considers the Group's capital to be net assets. At March 31, 2017, net assets is $1,347,226 (2016 – $1,051,383), comprised entirely of consolidated shareholder's equity.

The Company's capital requirements vary with the insurance cycle.

Management reviews the level and composition of capital on an ongoing basis with a view to:

- Maintain sufficient capital for growth opportunities;
- Maximize the return to the shareholder; and
- Maintain adequate capital to meet regulatory requirements.

Capital can therefore be raised or returned as appropriate. Capital raising can include debt or equity and returns of capital may be made through dividends to the shareholder. Other capital management tools and products available to the Company may also be utilized. All capital actions require approval by the Board of Directors.

Regulatory Framework

The operations of the Company are subject to regulatory requirements within the jurisdiction where it operates. Such regulations prescribe approval and monitoring of activities and also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as they arise.

19. Related-Party Transactions

In the course of its regular business activities, the Company enters into routine transactions with affiliates of the Company. Such transactions are at commercial rates.

a) NRI's (the Company's in prior years) excess workers' compensation and employer's liability insurance contract with NNA resulted in net premiums earned of $9,344 (2016 – $10,384) and losses and loss expenses of $1,611 (2016 – $16) for the year ended March 31, 2017. As at March 31, 2017, the reserves for losses and loss expenses and the unearned premiums on the insurance contract amounted to $20,228 and $Nil (2016 – $18,711 and $Nil), respectively.

19. Related-Party Transactions (continued)

The reserve for outstanding losses for the workers compensation and product liability retroactive agreements are $5,111 (2016 – $5,839) and $2,837 (2016 – $3,371) respectively as of March 31, 2017 (Note 2).

b) NESNA's CPO's reinsurance contract with NNA resulted in ceded premiums of $4,308 for the year ended March 31, 2017. As at March 31, 2017, the deferred reinsurance premium on the reinsurance contract amounted to $3,902.

NESNA pays service fees to NNA for administrative services it performs on NESNA's behalf. The service fees amounted to $3,395 (2016 – $2,947) for the year ended March 31, 2017, and are in information technology expense in general and administrative expenses.

NESNA also provides administrative support to NNA for vehicle service contracts issued by NNA prior to the Company taking over the business. The revenue from this activity for the year ended March 31, 2017 is $193 (2016 – $193) and is included in other income.

NESNA pays NMAC a fee of 2% of gross written premiums relating to the extended service and maintenance contracts sold through the Nissan dealer network. NESNA recorded these payments as DAC and is amortized as appropriate. At March 31, 2017, the related fee due to NMAC is $615 (2016 – $658) and is recorded under due to affiliate account.

NMAC administers certain sales promotion activities on behalf of NESNA. NESNA incurred approximately $2,180 (2016 – $2,100) of expenses for the year ended March 31, 2017 related to program costs for those years.

NCESI pays fees to Nissan Canada Inc. (NCI) for financial and dealership support it performs on NCESI's behalf. The fees amounted to $117 (2016 – $118) for the year ended March 31, 2017. NCESI has $Nil (2016 – $Nil) payable to NCI relating to these fees. NCESI also pays to NCI for expenses charged by Nissan Canada Financial Services for management support and market access fees to NCESI. The fees amounted to $836 (2016 – $929) for the year-ended March 31, 2017. Outstanding fee as of March 31, 2016 relating to these charges are included in the $767 (2016 – $290) (Note 19(e)) due to NCI.

NCESI pays fees to NNA for establishing a separate payroll on NCESI's behalf. The fees amounted to $Nil (2016 – $Nil) for the year ended March 31, 2017. No fees are outstanding as of March 31, 2017 (2016 – $Nil).

19. Related-Party Transactions (continued)

NGRe pays NNA a claims administration fee on the Product Liability program. The fees amounted to $942 (2016 – $800) and, NGRe has $342 (2016 – $200) due to NNA relating to this fee.

NGRe charges NNA for IT support it performs on NNA's behalf. The fee amounted to $533 (2016 – $340) for the year ended March 31, 2017. The amount outstanding as of March 31, 2017 is $Nil (2016 – $170).

NGRe also charges NNA for internal expenses it incurred on the marine and property programs. These fees amounted to $Nil (2016 – $655) and at March 31, 2017 NGRe has $Nil (2016 – $62) due from NNA relating to these fees.

NGRe pays management fees and taxes on behalf of the Parent amounting to $8 (2016 – $8) for the year ended March 31, 2017. The amount outstanding as of March 31, 2017 is $8 (2016 – $8).

NISCS charges Nissan International SA (NISA) for software usage amounting to $163 (2016 – $120) for the year-ended March 31, 2017. The amount outstanding as of March 31, 2017 is $148 (2016 – $120).

NMAC pays NGRe a fee of 2% of gross written premiums relating to the extended service contract sold by one specific dealer. Total fee recorded for the year ended March 31, 2017, was $126 (2016 – $121). At March 31, 2017, the related fee due from NMAC is $Nil (2016 – $Nil).

(All amounts expressed in Thousands of United States Dollars unless otherwise stated)

19. Related-Party Transactions (continued)

c) NESNA maintained notes receivable from Nissan Motor Acceptance Corporation (NMAC) totaling $73,000 at March 31, 2017 (2016 – $33,000). The following schedule reflects the note balances:

	March 31 **2017**	2016
NESNA GP loan to NMAC – two month term with maturity date of April 18, 2017 and interest rate of 0.92%	**$ 25,000**	$ –
NESNA GP loan to NMAC – six month term with maturity date of August 28, 2017 and interest rate of 1.25%	**33,000**	–
NESNA Inc. loan to NMAC – twelve month term with maturity date of October 20, 2017 and interest rate of 1.55%	**5,000**	–
NRI loan to NMAC – twelve month term with maturity date of October 26, 2017 and interest rates of 1.50%	**10,000**	–
NESNA GP loan to NMAC – one month term with maturity date of April 15, 2017, and interest rate of 0.78%	**–**	$ 33,000
	$ **73,000**	$ 33,000

Interest earned on the notes for the year-ended March 31, 2017 was $411 (2016 – $378). As at March 31, 2017, accrued interest receivable is $64 (2016 – $10).

NCESI has a loan receivable from NCI of $33,008 (2016 – $27,758). The flexible redemption option loan was issued on May 30, 2012 at an interest rate of 2%. Interest earned on this loan is $605 for the year ended March 31, 2017 (2016 – $480). The accrued interest receivable relating to this loan as at March 31, 2017 is $55 (2016 – $136).

19. Related-Party Transactions (continued)

d) Insurance balances receivable includes $43,638 (2016 – $33,940) due from NNA for the administration of vehicle service contracts and $2,549 (2016 – $2,969) net premiums receivable due from various Nissan companies all over Europe.

e) Amounts due to affiliates represents $11,316 (2016 – $11,117) due to NNA for claims reimbursements relating to NESNA's vehicle service contract and NGRE's worker's compensation and employers liability risks and loss portfolio transfers, $615 (2016 – $658) due to NMAC (Note 19(b)) and $767 (2016 – $292) due to NCI for expenses paid on behalf of NCESI.

f) Insurance balances payable includes $1,158 (2016 – $2,139) due to NISA for claims reimbursements and handling, market access fees and RBU margins relating to NII's vehicle service contract.

g) Accounts payable and accrued expenses includes $795 (2016 – $1,235) due to Nissan Europe SAS for marketing fees, profit commission and retail royalty and to Nissan Central Europe Germany for claims invoices, and $624 (2016 – $536) due to NISA for fees paid on behalf of NISCS.

h) The Company is a registered owner of a 100% non-assessable, fully-paid, fractional undivided interest in the Nissan Auto Receivables 2014-B Grantor Trust, Nissan Auto Receivables 2015-A Grantor Trust, Nissan Auto Receivables 2015-B Grantor Trust and the Nissan Auto Receivables 2016-A Grantor Trust, Nissan Auto Receivables 2016-B Grantor Trust and the Nissan Auto Receivables 2017-A Grantor Trust (the Trusts) formed by NMAC, a California corporation (the Seller). The Trusts were created pursuant to a Pooling and Servicing Agreement dated as of September 26, 2014, May 21, 2015, September 25, 2015, March 24, 2016, September 23, 2016 and March 24, 2017, respectively, (the Agreements), between the Seller, NMAC, as Servicer (the Servicer) in its individual capacity, and Wilmington Trust Company, as Trustee (the Trustee).

The property of the Trusts includes a pool of retail installment sale contracts of new and used automobiles and light-duty trucks (the Receivables).

19. Related-Party Transactions (continued)

The outstanding loans as of March 31, 2017, which are secured by the Receivables, were purchased for $3,208,066 (2016 – $4,575,196). The face value of the investments was equal to $3,318,330 (2016 – $4,793,302). The discount related to the purchase price amounted to $110,264 (2016 – $218,106).

As at March 31, 2017, the loans receivable due from the Trusts is $2,069,026 (2016 – $1,765,563) and accrued interest on the loans is $8,702 (2016 – $9,923). Total gross interest on the loans for the year is $157,449 (2016 – $146,730).

Other expenses include provision for doubtful accounts, net of recoveries, of $49,704 (2016 – $48,128) and service fee expenses of $16,111 (2016 – $14,734) related to the loans receivable from the Trusts.

i) During 2017 and 2016, there were no transactions with directors, executives and personally-related entities. As at March 31, 2017 and 2016, there are no loans outstanding to directors, executives and related entities.

j) During 2017, the Company declared and paid a cash dividend of $50 (2016 – $Nil) to the Parent.

20. Fair Value of Financial Instruments

As at March 31, 2017 and 2016, the carrying values of financial instruments approximate their fair values.

21. Comparative Balances

Certain prior year balances were reclassified to conform to current year presentation.

22. Subsequent Events

Subsequent events were evaluated to July 13, 2017, the date the consolidated financial statements were available to be issued. No subsequent events, other than that disclosed below, were noted that would have a material effect on the consolidated financial statements.

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