Consolidated Audited Financial Statements

Nissan Global Reinsurance, Ltd.
Year Ended March 31, 2019
With Report of Independent Auditors

Ernst & Young Ltd.

Building a better
working world

Nissan Global Reinsurance, Ltd.

Audited Financial Statements

Year Ended March 31, 2019

Contents

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Independent Auditor's Report

The Board of Directors
Nissan Global Reinsurance, Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Nissan Global Reinsurance, Ltd. (the Group), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 16, 2019

Nissan Global Reinsurance, Ltd.

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

	March 31 2019	March 31 2018
Assets		
Cash and cash equivalents *(Notes 3, 12, 14 and 15)*	**$ 1,219,371**	$ 359,367
Accrued interest receivable *(Notes 18(c) and (h))*	**13,402**	12,788
Loans receivable from related parties *(Notes 14, 15, 18(c) and (h))*	**2,022,908**	2,497,211
Insurance balances receivable *(Notes 14, 15 and 18(d))*	**181,595**	195,878
Dealer dividend advances	**56,754**	76,584
Deferred reinsurance premiums *(Note 18(b))*	**65,563**	64,066
Deferred acquisition costs *(Note 4)*	**376,107**	406,809
Prepaid expenses	**1,393**	1,704
Other assets *(Notes 6, 14 and 15)*	**3,394**	4,260
	$ 3,940,487	$ 3,618,667
Liabilities		
Insurance balances payable (*Notes 14 and 18(f)*)	**$ 28,497**	$ 25,633
Accounts payable and accrued liabilities *(Notes 9, 14 and 18(g))*	**29,947**	22,065
Amounts due to affiliates *(Notes 14 and 18(e))*	**13,610**	13,225
Reserves for losses and loss expenses *(Notes 6, 14 and 18(a))*	**322,132**	316,618
Unearned premiums *(Notes 5 and 18(a))*	**1,482,228**	1,472,114
Income taxes payable *(Note 14)*	**34,275**	33,354
Deferred income tax liability, net *(Note 13)*	**28,043**	15,964
Deferred ceding commission	**9,558**	18,049
Funds withheld *(Note 14)*	**41,197**	42,534
Other liabilities *(Note 14)*	**4,803**	4,997
	$ 1,994,290	$ 1,964,553

Nissan Global Reinsurance, Ltd.

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

	March 31	
	2019	**2018**
Shareholder's Equity		
Issued capital *(Note 10)*	**$ 120**	$ 120
Additional paid-in capital *(Notes 11 and 12)*	**99,880**	99,880
Accumulated other comprehensive income	**8,446**	10,387
Retained earnings *(Note 12)*	**1,837,751**	1,543,727
	1,946,197	1,654,114
	$ 3,940,487	$ 3,618,667

The consolidated financial statements were approved by the Board of Directors on July 16, 2019, 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	
	2019	**2018**
Gross premiums written *(Notes 5 and 7)*	**$ 741,224**	$ 731,164
Ceded reinsurance premiums written *(Notes 7 and 18(b))*	**(24,917)**	(29,409)
Net premiums written *(Note 7)*	**716,307**	701,755
Change in unearned premiums	**(22,719)**	(39,886)
Change in deferred reinsurance premiums	**9,241**	16,271
Net premiums earned *(Notes 7 and 18(a))*	**702,829**	678,140
Other income *(Note 18(b))*	**19,400**	18,679
Interest income *(Notes 18(c) and (h))*	**221,750**	200,876
Total net revenue	**943,979**	897,695
Losses and loss expenses *(Note 18(a))*	**349,082**	312,368
Losses and loss expenses recoveries	**(5,600)**	(2,979)
Net losses and loss expenses *(Note 6)*	**343,482**	309,389
Fronting fees and taxes	**5,941**	4,184
Acquisition costs *(Note 4)*	**133,928**	133,343
General and administrative expenses *(Notes 8 and 18(b))*	**25,232**	25,538
Other expenses *(Note 18(h))*	**114,165**	108,677
Foreign exchange loss (gain), net	**6,909**	(4,248)
Total expenses	**629,657**	576,883
Profit before tax	**314,322**	320,812
Income tax expense *(Note 13)*	**20,298**	16,304
Profit for the year attributable to equity shareholder	**$ 294,024**	$ 304,508
Other comprehensive (loss) income	**(1,941)**	2,380
Total comprehensive income attributable to equity shareholder	**$ 292,083**	$ 306,888

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, 2017	$ 120	$ 99,880	$ 8,007	$ 1,239,219	$ 1,347,226
Foreign currency translation gain	–	–	2,380	–	2,380
Profit for the year	–	–	–	304,508	304,508
Balance, March 31, 2018	$ 120	$ 99,880	$ 10,387	$ 1,543,727	$ 1,654,114
Foreign currency translation loss	**–**	**–**	**(1,941)**	**–**	**(1,941)**
Profit for the year	**–**	**–**	**–**	**294,024**	**294,024**
Balance, March 31, 2019	**$ 120**	**$ 99,880**	**$ 8,446**	**$ 1,837,751**	**$ 1,946,197**

See accompanying notes.

Nissan Global Reinsurance, Ltd.

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

	Year Ended March 31	
	2019	**2018**
Operating activities		
Profit for the year	**$ 294,024**	$ 304,508
Adjustments for:		
Interest income	**(221,750)**	(200,876)
Amortization expense	**3,658**	4,210
Changes in:		
Insurance balances receivable	**14,283**	(15,181)
Dealer dividend advances	**19,830**	(23,282)
Deferred reinsurance premiums	**(1,497)**	(16,271)
Deferred acquisition costs	**30,702**	16,074
Deferred income tax asset	**–**	700
Prepaid expenses	**311**	(258)
Other assets	**(2,792)**	(3,524)
Insurance balances payable	**2,864**	10,308
Accounts payable and accrued liabilities	**7,882**	3,530
Amounts due to affiliates	**385**	527
Reserves for losses and loss expenses	**5,514**	15,562
Unearned premiums	**10,114**	56,981
Income taxes payable	**921**	23,738
Deferred income tax liability, net	**12,079**	(10,639)
Deferred ceding commission	**(8,491)**	2,214
Funds withheld	**(1,337)**	12,385
Other liabilities	**(194)**	661
Net cash provided by operating activities	**166,506**	181,367
Investing activities		
Proceeds from maturity of short-term investment	**–**	25,636
Interest received	**192,252**	161,452
Issuance of loans receivable to related parties	**(762,215)**	(1,448,896)
Repayment of loans receivable from related parties	**1,265,402**	1,162,370
Net cash provided by (used in) investing activities	**695,439**	(99,438)

Nissan Global Reinsurance, Ltd.

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

	Year Ended March 31 2019	2018
Total cash provided	**$ 861,945**	$ 81,929
Effect of foreign currency translation	**(1,941)**	2,380
Net increase in cash and cash equivalents	**860,004**	84,309
Cash and cash equivalents, beginning of year	**359,367**	275,058
Cash and cash equivalents, end of year	**$ 1,219,371**	$ 359,367
Income taxes paid, net of recoveries	**$ 6,628**	$ 3,247

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, amendments thereto and related Regulations (the Act and 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 and Regulations. 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, 2019, 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	99%
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 Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2017 – B Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2018 – A Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%
Nissan Auto Receivables 2018 – B Grantor Trust Asset Backed Certificates (Grantor Trust)	USA	100%

NGRe reinsures NML and its subsidiaries’ product liability risk.

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). NESNA offers a variety of products: (1) Security+Plus, (2) QualityGuard+Plus, (3) Elite-Infiniti Extended Protection Plan (IEPP), (4) Certified Pre-Owned (CPO) service agreements, (5) Maintenance+Plus Agreement, (6) Infiniti Elite Maintenance Agreement and (7) 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.

1. Operations (continued)

Through March 2018, NESNA reinsured the extended service contracts comprising of Security+Plus, QualityGuard+Plus, IEPP and CPO programs with NGRe through a 100% quota share arrangement. NESNA moved to an excess loss structure relationship with NGRe for sales occurring after March 2018. For those sales, NESNA reinsures claims in excess of $200 per instance with NGRe. NESNA retains the Maintenance+Plus Agreements, Infiniti Elite Maintenance Agreements and QualityGuard+Plus Maintenance Agreements. Under the CPO contracts, Nissan North America (NNA) retained a minimal fee per contract sold and is liable to provide the goodwill protection.

Effective April 1, 2018, NESNA assumed the dealer incentive program where independent car dealerships in the USA can be paid advances in anticipation of future vehicle service contract sales and can earn a commission of up to 50% of the product cost by meeting certain sales performance levels.

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.

NRI was incorporated in the State of Tennessee on March 15, 2016, as a wholly-owned subsidiary of NESNA Inc. Effective April 1, 2016, NRI reinsures the marine and property risks of NGRe and insures excess workers' compensation and employers' liability risks of NNA. Effective April 1, 2018, NRI directly reinsures the property and marine cargo risks of NML and its subsidiaries with third-party insurers.

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.

1. Operations (continued)

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 entered into a gap coverage agreement in Mexico to assume 50% of the risk relating to the amount paid to the customer for the difference between the vehicle's commercial value and invoice value in case of total loss or theft during the third year of the financial plan effective December 1, 2018.

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

During the year, the following changes in the Company's operational structure occurred:(a) effective April 1, 2018, NESNA has directly taken over the dealer reinsurance program for one dealer reinsurance company; and (b) NGRe and another dealer reinsurance company entered into a termination agreement to release NGRe from its obligations under the reinsurance agreement effective December 31, 2017. In doing so, NGRe has provided monetary consideration for the production of vehicle service contracts before 2018 through the related dealership group that were reinsured by NGRe. This payment is recorded as deferred acquisition costs and amortized in line with the earning of the related premiums. In addition, the dealership group has been enrolled in NESNA's dealer dividend program effective January 1, 2018.

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 (IASB) 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 taken into account the following new and revised IFRS that have been issued and effective during the financial year.

- IFRS 9 Financial Instruments: In July 2014, the 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, although it has been deferred for insurers until January 1, 2021, to align with the implementation of IFRS 17 for entities with activities predominantly connected with insurance within the scope of IFRS 4 and meet the set criteria. In November 2018, the IASB deferred both the effective date of IFRS 17 and the expiry date for the temporary exemption in respect of IFRS 9 to January 1, 2022.

  The Company evaluated its liabilities as of March 31, 2018, and concluded that more than 90% represents liabilities arising from insurance contracts within the scope of IFRS 4. As of the same date, the Company's predominant activities were also established to be insurance related as evidenced through revenues reported in the consolidated financial statements.

2. Significant Accounting Policies (continued)

Further, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for temporary exemption from the application of IFRS 9. As of January 1, 2018, the Company has elected to apply the optional temporary exemption under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 and will 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.

- 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 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 be applied using either a full retrospective approach or a modified retrospective approach, with some limited relief provided under either approach.

  The adoption of IFRS 15 has not had a material impact on the results and disclosures reported in the consolidated financial statements for the year ended March 31, 2019, and is consistent with the Company's previous treatment of other income.

The Company has not early adopted the following new and revised IFRS 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 16 Leases: In January 2016, the IASB issued IFRS 16, a new lease standard which supersedes current IAS 17 Leases and related interpretations (IFRIC 4, SIC 15 and SIC 27) effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single on-balance sheet accounting model for both finance and operating leases resulting in the recognition of a right-of-use asset and associated lease liability on the balance sheet. In addition, the operating lease expense will be replaced with a depreciation charge for the right-of-use asset and an interest expense for the lease liability. The Company will adopt IFRS 16 in accordance with the modified retrospective approach beginning April 1, 2019.

2. Significant Accounting Policies (continued)

- IFRS 17 Insurance Contacts: In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard covering a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after January 1, 2021 and will replace IFRS 4. In November 2018, the IASB tentatively deferred the effective date of IFRS 17 to January 1, 2022. The Company will continue to assess the potential impact of the new standard on its financial statements and the presentation and disclosure thereof.

The Company currently applies IFRS 4 Insurance Contracts 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.

The Consolidated Statements of Financial Position of the Group is presented in order of decreasing liquidity.

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.

2. Significant Accounting Policies (continued)

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.

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 Statements of Financial Position for these instruments approximate their fair values.

2. Significant Accounting Policies (continued)

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 USA 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.

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).

Deferred 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 Statements 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 Statements 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 and employers' liability and the product liability programs are discounted at a 3.99% (2018 – 3.64%) interest rate over a five year (2018 – 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 $20,246 (2018 – $17,121) and the reserve for losses and loss expenses would be $342,378 (2018 – $333,739). 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 Statements 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 Statements 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 income 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 2019	March 31 2018
Cash	**$ 179,808**	$ 145,926
Money market funds	**539,760**	87,104
Short-term deposits	**499,803**	126,337
	$ 1,219,371	$ 359,367

Money market funds includes NRI's $255 (2018 – $252) restricted cash deposited with a US bank (Note 12).

The effective interest rates earned were as follows:

	March 31 2019	March 31 2018
Cash	**0.01%**	0.02%
Money market funds	**2.33%**	1.34%
Short-term deposits	**2.95%**	3.12%

4. Deferred Acquisition Costs

The following table summarizes the deferred acquisition costs activity:

	March 31 2019	March 31 2018
Opening deferred acquisition costs	**$ 406,809**	$ 422,883
Expenses deferred	**105,695**	114,114
Amortization	**(133,928)**	(133,343)
Foreign exchange translation impact	**(2,469)**	3,155
Ending deferred acquisition costs	**$ 376,107**	$ 406,809

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

5. Unearned Premiums

The following table summarizes the unearned premiums reserve activity:

	March 31 2019	March 31 2018
Opening unearned premiums	**$ 1,472,114**	$ 1,415,133
Gross premiums written	**741,224**	731,164
Premiums earned	**(718,505)**	(691,278)
Foreign exchange translation impact	**(12,605)**	17,095
Ending unearned premiums	**$ 1,482,228**	$ 1,472,114

6. Reserves for Losses and Loss Expenses

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

	March 31 2019	March 31 2018
Opening net reserves for losses and loss expenses	**$ 316,618**	$ 301,051
Incurred related to:		
Current year	**355,617**	341,691
Prior years	**(12,135)**	(32,302)
Total incurred	**343,482**	309,389
Paid related to:		
Current year	**245,739**	200,827
Prior years	**90,950**	92,505
Total paid	**336,689**	293,332
Foreign exchange translation impact	**(2,405)**	552
Change in deferred gain	**919**	(1,042)
Ending net reserves for losses and loss expenses	**321,925**	316,618
Reinsurance recoverable	**207**	–
Ending reserves for losses and loss expenses	**$ 322,132**	$ 316,618

The reinsurance recoverable is included in other assets.

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

6. 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 Statements of Financial Position date, together with cumulative payments to date. The 2019 accident year claims are net of $207 reinsurance recoverable on the Dealer Reinsurance program. Net reserves of $321,925 agree to reserves of $322,132 net of reinsurance recoverable of $207.

Accident year at end of	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Accident year	$ 220,505	$ 259,020	$ 303,857	$ 310,482	$ 319,435	$ 312,660	$ 316,858	$ 319,107	$ 346,857	**$ 314,728**
One year later	207,847	273,723	277,890	309,724	315,300	309,343	313,863	302,728	326,626	**–**
Two years later	192,532	230,345	274,770	284,250	298,654	313,543	305,798	290,849	–	**–**
Three years later	181,497	222,297	251,801	279,814	290,243	305,280	304,205	–	–	**–**
Four years later	176,379	221,542	251,137	269,568	304,082	325,174	–	–	–	**–**
Five years later	173,681	212,821	243,377	268,504	298,513	–	–	–	–	**–**
Six years later	173,868	210,778	241,598	268,789	–	–	–	–	–	**–**
Seven years later	174,212	209,466	241,191	–	–	–	–	–	–	**–**
Eight years later	174,163	209,353	–	–	–	–	–	–	–	**–**
Nine years later	174,059	–	–	–	–	–	–	–	–	**–**
Current estimate of cumulative claims	$ 174,059	$ 209,353	$ 241,191	$ 268,789	$ 298,513	$ 325,174	$ 304,205	$ 290,849	$ 326,626	**$ 314,728**
Accident year	$ (112,913)	$ (143,092)	$ (144,462)	$ (209,763)	$ (204,226)	$ (183,116)	$ (185,488)	$ (172,904)	$ (192,370)	**$ (223,694)**
One year later	(149,303)	(180,059)	(218,110)	(237,380)	(252,009)	(244,739)	(257,913)	(244,158)	(256,120)	**–**
Two years later	(161,403)	(197,527)	(229,147)	(246,501)	(259,459)	(263,024)	(274,130)	(248,543)	–	**–**
Three years later	(169,301)	(204,914)	(233,714)	(254,842)	(263,136)	(279,872)	(276,926)	–	–	**–**
Four years later	(171,178)	(206,566)	(235,599)	(256,282)	(271,118)	(281,764)	–	–	–	**–**
Five years later	(172,566)	(206,799)	(235,789)	(262,254)	(273,742)	–	–	–	–	**–**
Six years later	(172,918)	(206,997)	(235,846)	(264,283)	–	–	–	–	–	**–**
Seven years later	(172,994)	(207,106)	(237,055)	–	–	–	–	–	–	**–**
Eight years later	(173,291)	(207,111)	–	–	–	–	–	–	–	**–**
Nine years later	(173,319)	–	–	–	–	–	–	–	–	**–**
Cumulative payments to date	$ (173,319)	$ (207,111)	$ (237,055)	$ (264,283)	$ (273,742)	$ (281,764)	$ (276,926)	$ (248,543)	$ (256,120)	**$ (223,694)**
Closing liabilities	$ 740	$ 2,242	$ 4,136	$ 4,506	$ 24,771	$ 43,410	$ 27,279	$ 42,306	$ 70,506	**$ 91,034**
Subtotal – closing liabilities										**$ 310,930**
Liabilities of underwriting years prior to 2010										**$ 10,995**
Liabilities recognized in the Consolidated Statements of Financial Position										**$ 321,925**

6. Reserve for Losses and Loss Expenses (continued)

The Company experienced overall favourable development of $12,135 (2018 – $32,302) relating to prior underwriting years. The property program experienced lower than initially anticipated loss claims development mostly for the 2015 to 2017 underwriting years (2018 – 2015 and 2016) which resulted in a $14,862 (2018 – $9,881) favourable change. In addition, approximately $4,805 (2018 – $1,767) related to the workers' compensation and employers' liability program due to better than expected loss development during the year. On the other hand, the product liability program resulted in $7,633 unfavourable development during the year as a result of increasing the reserves based on the verdict made in June 2018 for a large claim from the State of California on the 2014 underwriting year.

7. Reinsurance

NGRe and NRI have the following irrevocable unsecured letters of credit (LOC):

a) LOC of $35,000 (2018 – $35,000) with Mizuho Corporate Bank, Ltd. issued to American Bankers Insurance Company of Florida as beneficiary for USA vehicle service contracts requiring surety clips.

b) LOC of $19,860 (2018 – $19,860) with MUFG Union Bank, N.A. issued to Sompo Japan Nipponkoa Insurance Inc. as beneficiary for global property insurance program.

c) LOC of $18,000 (2018 – $18,000) with Mizuho Corporate Bank, Ltd. issued to Assurant Daños Mexico, S.A. as beneficiary for Mexico vehicle service business.

d) LOC of $7,380 (2018 – $7,380) with MUFG Union Bank, N.A. issued to Tokio Marine & Nichido Fire Insurance Co., Ltd. as beneficiary for global marine insurance program.

e) LOC of $2,760 (2018 – $2,760) with MUFG Union Bank, N.A. issued to Mitsui Sumitomo Insurance Co., Ltd. as beneficiary for global marine insurance program.

f) LOC of $1,420 (2018 – $1,420) with Mizuho Corporate Bank, Ltd. issued to American Bankers Insurance Company of Florida as beneficiary for Canada vehicle service contracts requiring mechanical breakdown insurance.

g) LOC of $550 (2018 – $550) with Mizuho Corporate Bank, Ltd. issued to Assurant Vida Mexico, S.A. as beneficiary for Mexico Payment Protection Insurance risks.

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

7. Reinsurance (continued)

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

	March 31			
	2019		2018	
	Written	**Earned**	**Written**	**Earned**
Inward direct	**$ 474,010**	**$ 452,577**	$ 471,926	$ 433,633
Inward assumed	**267,214**	**265,928**	259,238	257,645
Gross premiums	**741,224**	**718,505**	731,164	691,278
Ceded premiums	**(24,917)**	**(15,676)**	(29,409)	(13,138)
Net premiums	**$ 716,307**	**$ 702,829**	$ 701,755	$ 678,140

8. General and Administrative Expenses

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

	March 31	
	2019	**2018**
Salaries and employee benefit expenses	**$ 8,422**	$ 7,615
Information technology expenses *(Note 18(b))*	**5,180**	5,020
Amortization expense	**3,658**	4,210
Management and consulting fees	**2,866**	2,770
Service contract support costs	**1,697**	626
Office expenses	**1,440**	3,623
Professional service fees	**582**	624
Tax fees	**469**	227
Government and secretarial fees	**466**	462
Letters of credit fees	**240**	166
Other miscellaneous expenses	**212**	195
	$ 25,232	$ 25,538

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

8. General and Administrative Expenses (continued)

Salaries and employee benefit expenses are further classified as follows:

	March 31	
	2019	**2018**
Wages and salaries	**$ 6,364**	$ 6,076
Employee benefits	**1,783**	1,241
Employee lease allowance	**275**	298
	$ 8,422	$ 7,615

Management and consulting fees are further classified as follows:

	March 31	
	2019	**2018**
Consulting fees	**$ 1,310**	$ 1,701
Audit fees	**564**	474
Legal fees	**500**	110
Management fees	**492**	485
	$ 2,866	$ 2,770

9. Accounts Payable and Accrued Liabilities

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

	March 31	
	2019	**2018**
Accounts payable	**$ 24,308**	$ 17,337
Accruals	**3,327**	3,056
Commodity and premium taxes payable	**1,294**	813
Commissions payable	**651**	531
Other	**367**	328
	$ 29,947	$ 22,065

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

10. Issued Capital

	March 31	
	2019	**2018**
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.

11. Additional Paid-in Capital

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

12. Statutory Requirements

The Act and Regulations require the Company to maintain minimum levels of solvency and liquidity. At March 31, 2019, the minimum required statutory capital and surplus was $51,358 (2018 – $77,664) and actual statutory capital and surplus was $1,944,078 (2018 – $1,651,181). In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act and Regulations, must exceed 75% of relevant liabilities. As at March 31, 2019 and 2018, 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.

12. 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, 2019 and 2018.

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 cash and cash equivalents.

NGRe is currently completing its 2019 Bermuda Solvency Capital Requirement and believes it will exceed the target level of required capital.

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

13. 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, excluding NMISC, 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)

13. Income Taxes (continued)

Due to its Canadian, Maltese, and Swiss subsidiaries, NCESI, NII, 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	
	2019	**2018**
Current:		
Federal	**$ 6,960**	$ 22,556
State	**1,235**	4,266
Total current expense	**8,195**	26,822
Deferred:		
Federal	**9,240**	(11,423)
State	**2,863**	905
Total deferred expense (benefit)	**12,103**	(10,518)
Income tax expense	**$ 20,298**	$ 16,304

The actual income tax expense attributable to income for the year ended March 31, 2019 differs from the amount computed by applying the combined effective rate of Nil% (2018 – Nil%) under Bermuda law to income before income tax expense, and is a result of the following:

	March 31	
	2019	**2018**
Computed expected tax expense	**$ –**	$ –
Tax expense effect of foreign taxes	**20,298**	16,304
Income tax expense	**$ 20,298**	$ 16,304

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

13. Income Taxes (continued)

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

	March 31	
	2019	**2018**
Deferred income tax assets:		
Deferred ceding commission	**$ 18,765**	$ 26,647
Accrued vacation	**121**	130
Loss carry-forwards – State	**1,462**	1,400
Advance maintenance contract payments	**34,410**	32,903
State benefit on unearned premium reserve	**8,425**	8,323
Unearned premiums reserves	**9,146**	–
Discount on loss reserve	**1,069**	804
Other	**1,639**	1,578
Total deferred income tax assets before valuation allowance	**$ 75,037**	$ 71,785
Valuation allowance	**(1,412)**	(1,439)
Total deferred income tax assets after valuation allowance	**$ 73,625**	$ 70,346
Deferred income tax liabilities:		
Unearned premium reserve gross up	**$ 65,939**	$ 70,381
Deferred acquisition costs	**33,695**	14,312
Other	**2,034**	1,617
Total deferred income tax liabilities	**$ 101,668**	$ 86,310
Net deferred income tax liabilities	**$ 28,043**	$ 15,964

NESNA's federal net operating loss carryforwards per the filed return, including subsequent Internal Revenue Service (IRS) appeals adjustments, at March 31, 2019 and 2018 totaled $278,000 and $287,400, respectively, resulting in a deferred tax benefit of $58,200 and $60,200, which will expire between 2027 and 2036. State net operating loss carryforwards at March 31, 2019 and 2018 totaled $299,600 and $296,000, respectively, resulting in a deferred tax benefit of $23,900 and $28,700, which will expire between 2021 and 2036. NESNA's uncertain tax position subsequently eliminates its federal net operating loss carryforward deferred tax assets and reduces its state net operating loss carryforwards deferred tax assets as of March 31, 2019 to $1,500 (2018 – $1,400).

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

13. Income Taxes (continued)

NESNA established a valuation allowance of $1,412 as of March 31, 2019 (2018 – $1,439) related to the utilization of state net operating losses. Due to changes in state tax laws, NESNA is 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 following table summarizes the activity related to NESNA's gross unrecognized tax benefit from uncertain tax positions:

	March 31	
	2019	**2018**
Balance as of April 1	**$ 105,450**	$ 161,620
Reductions for tax positions related to:		
Prior years	**–**	–
Current years	**(8,432)**	(56,170)
Balance as of March 31	**$ 97,018**	$ 105,450

NESNA continues to maintain a total reserve for uncertain tax positions established in prior year and has decreased the reserve by $8,432 to reflect the impact of their uncertain tax position on current year activity. In total, NESNA maintains a total reserve of $97,018. Approximately $80,900 has been recorded net of deferred tax amounts for federal and state net operating losses and the excess is recorded through current tax expense. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate is $6,900 as of March 31, 2019, and $6,900 as of March 31, 2018. The impact to tax expense for the current period is primarily related to the change in the federal income tax rate effective for tax years beginning after January 1, 2018, which will result in a portion of the uncertain tax position being taxed at the historical 35% tax rate rather than the 21% rate used to value the deferred tax assets and liabilities. NESNA does not expect a significant change in their liability for uncertain tax positions in the next twelve months.

13. Income Taxes (continued)

For purposes of calculating federal income taxes, NESNA has been in a net operating loss position through the tax year ended December 31, 2016. If NESNA's uncertain tax position is not sustained, it will be required to pay Federal income taxes beginning with the tax year ended December 31, 2017. As NESNA has not made estimated tax payments, it accrued federal interest expense of $700 related to the uncertain tax position. NESNA did not accrue interest expense related to the tax year ended December 31, 2018 as it has not filed its income tax return for that period yet. Similarly, 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 $1,700 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 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 in income tax expense.

NESNA's tax years for the calendar years ended December 31, 2014 through December 31, 2017 remain subject to examination by the IRS for US federal tax purposes. The IRS is conducting an audit of tax years 2014 through 2016. As of the date of these financials, the IRS has not proposed any adjustments pertaining to the 2014 through 2016 tax years. As a result of the filing of amended state income tax returns, NESNA's tax years for the calendar years ended December 31, 2011 through December 31, 2017 remain subject to examination by state tax authorities. The state of Illinois concluded its audit of tax years 2005 through 2010 during the year with no changes. NESNA is not currently under audit by any state tax authorities.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted requiring various adjustments to be reflected in NESNA's financial statements. The TCJA, among its many elements, lowered the corporate tax rate to 21%, a reduction from the historical 35% rate. Accordingly, NESNA revalued its deferred tax inventory as of the date of enactment to reflect the lower tax rate, resulting in a reduction of net deferred tax liability of $19,300 recognized directly in the Consolidated Statements of Comprehensive Income for the year ended March 31, 2018. NESNA recognized an additional expense of approximately $1,000 for the year ended March 31, 2019 related to its uncertain tax position as the impact of NESNA's 2017 return to provision computation resulted in additional taxable income being recognized at the 35% tax rate.

13. Income Taxes (continued)

As of the filing of its March 31, 2018 financial statements, NESNA has not yet completed its accounting for the tax effects of the TCJA as much of the information necessary to properly apply the TCJA's provisions, including the lack of guidance and technical corrections from the US government, was not yet available. As a result, NESNA recorded provision amounts for its financial statements in accordance with the US Securities and Exchange Commission's Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118). These provisional amounts included the revaluation of NESNA's deferred tax assets and liabilities and a Federal income tax expense for the impact of the base erosion and anti-abuse tax ("BEAT") which applies a minimum tax on amounts paid or incurred to foreign related parties for which a deduction is allowable, including cross-border reinsurance payments. NESNA completed its computation of these provisional amounts during the year and reflected the impact of these changes in its current period financial statements. Most significantly, NESNA determined that it would not be subject to the BEAT tax for the periods ended December 31, 2018 or March 31, 2019 as NESNA, along with its US affiliate, NNA, had a base erosion percentage of less than 3%, which is the minimum percentage required in order for the tax to apply.

14. 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.

14. 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, Mexico PPI, and Mexico gap 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)

14. Risk Disclosures (continued)

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

	CAD	EURO	JPY	CNY	MXN	RUB	GBP	CHF
March 31, 2019								
Cash and cash equivalents	45,194	98,267	5,091,694	19,589	539,736	190,512	2,626	1,124
Loans receivable from related parties	63,500	–	–	–	–	–	–	–
Insurance balances receivable	3,916	6,243	2,011,352	2,584	161,193	–	–	429
Accrued interest receivable	106	42	–	–	–	–	–	–
Accounts payable and accrued liabilities	(2,355)	(1,519)	–	–	–	–	–	(681)
Insurance balances payable	–	(4,132)	–	–	–	–	–	–
Amounts due to affiliates	(669)	–	–	–	–	–	–	–
Reserves for losses and loss expenses	(125)	(884)	(1,601,379)	(7,988)	(160,182)	–	–	–
Gross Consolidated Statements of Financial Position Exposure in original currencies	109,567	98,017	5,501,667	14,185	540,747	190,512	2,626	872
Gross Consolidated Statements of Financial Position Exposure in U. S. Dollars	$ 82,050	$ 109,946	$ 49,611	$ 2,113	$ 27,825	$ 2,933	$ 3,432	$ 876

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

14. 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, 2018									
Cash and cash equivalents	44,226	81,636	3,784,306	22,907	507,763	155,009	343,642	2,219	1,069
Loans receivable from related parties	50,000	–	–	–	–	–	–	–	–
Insurance balances receivable	4,269	3,497	2,996,305	1,830	132,897	–	–	–	129
Accrued interest receivable	8	63	–	–	–	–	–	–	–
Accounts payable and accrued liabilities	(1,911)	(1,495)	–	–	–	–	–	–	(710)
Insurance balances payable	–	(4,424)	–	–	–	–	–	–	–
Amounts due to affiliates	(980)	–	–	–	–	–	–	–	–
Reserves for losses and loss expenses	(101)	(683)	(2,282,135)	(5,108)	(154,158)	–	–	–	–
Gross Consolidated Statements of Financial Position Exposure in original currencies	95,511	78,594	4,498,476	19,629	486,502	155,009	343,642	2,219	488
Gross Consolidated Statements of Financial Position Exposure in U. S. Dollars	$ 74,017	$ 96,832	$ 42,308	$ 3,125	$ 26,707	$ 19,736	$ 5,973	$ 3,125	$ 510

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

14. Risk Disclosures (continued)

The following significant exchange rates were applied during the year:

	Average Rate		**Reporting Date Spot Rate**	
	2019	**2018**	**2019**	**2018**
CAD	**0.76**	0.78	**0.75**	0.77
EURO	**1.16**	1.17	**1.12**	1.23
CNY	**0.15**	0.15	**0.15**	0.16
JPY	**0.01**	0.01	**0.01**	0.01
MXN	**0.05**	0.05	**0.05**	0.05
NOK	**0.12**	0.12	**0.12**	0.13
RUB	**0.02**	0.02	**0.02**	0.02
GBP	**1.31**	1.33	**1.31**	1.41
CHF	**1.01**	1.03	**1.00**	1.05

A strengthening/weakening of the USD, as indicated below, against the foreign currencies at March 31, 2019 and 2018 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 2018.

	Strengthening		**Weakening**	
	Equity ($)	**Profit ($)**	**Equity ($)**	**Profit ($)**
March 31, 2019				
CAD	(6,879)	(3,203)	6,879	3,203
EURO	(6,896)	–	6,896	–
JPY	(4,961)	(4,961)	4,961	4,961
CNY	(211)	(211)	211	211
MXN	(2,783)	(2,783)	2,783	2,783
RUB	(191)	–	191	–
GBP	(223)	–	223	–
CHF	(76)	–	76	–
Total	$ (22,220)	$ (11,158)	$ 22,220	$ 11,158

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

14. Risk Disclosures (continued)

	Strengthening		Weakening	
	Equity ($)	**Profit ($)**	**Equity ($)**	**Profit ($)**
March 31, 2018				
CAD	(6,261)	(3,097)	6,261	3,097
EURO	(6,288)	–	6,288	–
JPY	(4,231)	(4,231)	4,231	4,231
CNY	(313)	(313)	313	313
MXN	(2,671)	(2,671)	2,671	2,671
NOK	(1,283)	–	1,283	–
RUB	(388)	–	388	–
GBP	(203)	–	203	–
CHF	(41)	–	41	–
Total	$ (21,679)	$ (10,312)	$ 21,679	$ 10,312

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 18(c) and 18(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 18(c) and 18(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)

14. 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, 2019					
Financial Assets					
Cash and cash equivalents	$ 1,219,371	$ 1,219,371	$ –	$ –	$ –
Loans receivable from related parties	2,022,908	1,154,954	790,674	77,280	–
Insurance balances receivable	181,595	181,595	–	–	–
Dealer dividend advances	56,754	56,754	–	–	–
Other assets	207	207	–	–	–
Total undiscounted financial assets	$ 3,480,835	$ 2,612,881	$ 790,674	$ 77,280	$ –
Financial liabilities					
Insurance balances payable	$ 28,497	$ 28,497	$ –	$ –	$ –
Accounts payable and accrued liabilities	29,947	29,947	–	–	–
Amounts due to affiliates	13,610	13,610	–	–	–
Reserves for losses and loss expenses	342,378	189,690	99,258	33,111	20,319
Income taxes payable	34,275	34,275	–	–	–
Funds withheld	41,197	41,197	–	–	–
Other liabilities	2,148	2,148	–	–	–
Total undiscounted financial liabilities	$ 492,052	$ 339,364	$ 99,258	$ 33,111	$ 20,319
Total liquidity surplus	$ 2,988,783	$ 2,273,517	$ 691,416	$ 44,169	$ (20,319)

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

14. Risk Disclosures (continued)

The maturity analysis for loans receivable from related parties for prior year are restated to conform to current year presentation:

	Carrying Amount	Up to One Year	To 3 Years	To 5 Years	Over 5 Years
March 31, 2018					
Financial Assets					
Cash and cash equivalents	$ 359,367	$ 359,367	$ –	$ –	$ –
Loans receivable from related parties	2,497,211	1,251,746	1,074,225	171,240	–
Insurance balances receivable	195,878	195,878	–	–	–
Dealer dividend advances	76,584	76,584	–	–	–
Total undiscounted financial assets	$ 3,129,040	$ 1,883,575	$ 1,074,225	$ 171,240	$ –
Financial liabilities					
Insurance balances payable	$ 25,633	$ 25,633	$ –	$ –	$ –
Accounts payable and accrued liabilities	22,065	22,065	–	–	–
Amounts due to affiliates	13,225	13,225	–	–	–
Reserves for losses and loss expenses	333,739	178,658	101,237	35,201	18,643
Income taxes payable	33,354	33,354	–	–	–
Funds withheld	42,534	42,534	–	–	–
Other liabilities	2,244	2,244	–	–	–
Total undiscounted financial liabilities	$ 472,794	$ 317,713	$ 101,237	$ 35,201	$ 18,643
Total liquidity surplus	$ 2,656,246	$ 1,565,862	$ 972,988	$ 136,039	$ (18,643)

15. Concentration of Credit Risk

The Group is party to financial instruments with concentration of credit risk. These financial instruments include cash and cash equivalents, loans receivable from related parties, insurance balances receivable, dealer dividend advances and reinsurance recoverable.

The Company has cash and cash equivalents in the amount of $12,944 (2018 – $30,994) with two United States banks, $29,908 (2018 – $27,917) with a Canadian bank and $510,408 (2018 – $56,287) with a Bermudian bank. NESNA holds $546,322 (2018 – $110,081) in five (2018 – four) United States banks. NCESI has $1,813 (2018 – $3,302) in a Canadian bank. NII has $1,297 (2018 – $1,077) in a Maltese bank, $83,019 (2018 – $92,673) in three United Kingdom banks and $32,275 (2018 – $35,665) in two French banks. NISCS has $1,129 (2018 – $1,119) in a Swiss 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 $181,595 (2018 – $195,878). All loans are with related parties or affiliates where fixed or determinable payments are measured at amortized cost. 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.

Dealer dividend advances are paid to independent car dealerships in the USA in anticipation of future vehicle service contract sales. Credit risk is mitigated as these amounts are reclassified to deferred acquisition costs based on sales levels achieved by the car dealerships over time.

The Company believes that overall credit risk is not significant.

16. 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.

16. Management of Insurance and Financial Risk (continued)

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 product liability risk and NRI reinsures property and marine cargo risks of NML and its subsidiaries worldwide. Premiums are reviewed each year and there is no guaranteed renewal agreement. The greatest likelihood of significant losses on the property risk 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 and NRI have 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.

NRI insures workers' compensation and employers' liability risks of NNA. Premium for this program is reviewed each year and there is no guaranteed renewal agreement. The greatest likelihood of significant losses is due to an accumulation of separate events. NRI has mitigated the risk exposure by limiting the total exposure per claim and per underwriting year.

The Company 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; (b) Payment Protection Insurance (PPI) through a reinsurance agreement with a Mexican life insurance company; and (c) gap coverage through a reinsurance agreement with a Mexican vehicle 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. Risk of significant loss under vehicle service contracts, payment protection insurance and gap coverage 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)

16. 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**
2019	**+10%**	**-10%**	**(70,283)**	**70,283**	**(64,921)**	**64,921**
2018	+10%	-10%	(67,814)	67,814	(64,398)	64,398

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

17. 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.

Management considers the Group’s capital to be net assets. At March 31, 2019, net assets is $1,946,197 (2018 – $1,654,114), comprised entirely of consolidated shareholder’s equity.

17. Capital Risk Management (continued)

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.

18. Related-Party Transactions

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

a) NRI's (the Company's in years prior to 2016) excess workers' compensation and employers' liability insurance contract with NNA resulted in net premiums earned of $11,474 (2018 – $12,481) and losses and loss expenses of $3,941 (2018 – $7,480) for the year ended March 31, 2019. As at March 31, 2019, the reserves for losses and loss expenses and the unearned premiums on the insurance contract amounted to $19,291 and $Nil (2018 – $21,953 and $Nil), respectively.

The reserves for outstanding losses for the workers' compensation and product liability retroactive agreements are $3,970 (2018 – $5,145) and $2,282 (2018 – $1,380), respectively, as of March 31, 2019.

18. Related-Party Transactions (continued)

b) NESNA's CPO reinsurance contract with NNA resulted in ceded premiums of $5,406 (2018 – $4,803) for the year ended March 31, 2019. As at March 31, 2019, the deferred reinsurance premium on the reinsurance contract amounted to $11,775 (2018 – $7,742).

NESNA pays service fees to NNA for administrative services it performs on NESNA's behalf. The service fees amounted to $3,482 (2018 – $3,402) for the year ended March 31, 2019, and are included 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, 2019 is $193 (2018 – $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, 2019, the related fee due to NMAC is $546 (2018 – $581) and is recorded under due to affiliate account.

NMAC administers certain sales promotion activities on behalf of NESNA. NESNA incurred approximately $2,400 (2018 – $2,584) of expenses for the year ended March 31, 2019 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 $118 (2018 – $120) for the year ended March 31, 2019. NCESI has $Nil (2018 – $Nil) payable to NCI relating to these fees as of March 31, 2019. 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 $1,010 (2018 – $996) for the year ended March 31, 2019. Outstanding fee as of March 31, 2019 relating to these charges are included in the $501 (2018 – $759) due to NCI (Note 18(e)). NCESI received management fee recovery from NCI for its Dealer Support Personnel supporting the CPO program amounting to $59 (2018 – $61).

NGRe pays NNA a claims administration fee on the product liability program. The fees amounted to $1,366 (2018 – $800) and NGRe has $342 (2018 – $342) due to NNA relating to this fee.

18. Related-Party Transactions (continued)

NGRe charges NNA for IT support it performs on NNA's behalf. The fee amounted to $333 (2018 – $435) for the year ended March 31, 2019. The amount outstanding as of March 31, 2019 is $83 (2018 – $109).

NGRe pays management and tax consulting fees and taxes on behalf of the Parent. The amount outstanding as of March 31, 2019 is $35 (2018 – $8).

NISCS charges Nissan International SA (NISA) for software usage amounting to $426 (2018 – $24) for the year-ended March 31, 2019. The amount outstanding as of March 31, 2019 is $125 (2018 – $25).

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, 2019 was $3 (2018 – $122). At March 31, 2019, the related fee due from NMAC is $Nil (2018 – $27).

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

18. Related-Party Transactions (continued)

c) NESNA and NRI maintained notes receivable from Nissan Motor Acceptance Corporation (NMAC) totaling $97,000 at March 31, 2019 (2018 – $110,000). The following schedule reflects the note balances:

	March 31	
	2019	**2018**
NESNA GP loan to NMAC – 59-day term with a maturity date of April 5, 2019 and interest rate of 2.79%	**$ 45,000**	$ –
NRI loan to NMAC – 365-day term with a maturity date of October 22, 2019 and interest rate of 2.80%	**36,000**	–
NESNA Inc. loan to NMAC – 90-day term with a maturity date of April 17, 2019 and interest rate of 2.90%	**16,000**	–
NESNA GP loan to NMAC – six month term with maturity date of September 17, 2018 and interest rate of 2.21%	**–**	65,000
NESNA GP loan to NMAC – two month term with maturity date of May 15, 2018 and interest rate of 1.90%	**–**	20,000
NRI loan to NMAC – twelve month term with maturity date of October 22, 2018 and interest rate of 1.76%	**–**	19,000
NESNA Inc. loan to NMAC – twelve month term with maturity date of October 15, 2018 and interest rate of 1.76%	**–**	6,000
	$ 97,000	$ 110,000

Interest earned on the notes for the year-ended March 31, 2019 was $2,109 (2018 – $914). As at March 31, 2019, accrued interest receivable is $1,185 (2018 – $286).

NCESI has a loan receivable from NCI of $47,553 (2018 – $38,748). The flexible redemption option loan was issued on May 30, 2012 at an interest rate of 2%. Interest earned on this loan is $841 (2018 – $727) for the year ended March 31, 2019. The accrued interest receivable relating to this loan as at March 31, 2019 is $79 (2018 – $6).

18. Related-Party Transactions (continued)

d) Insurance balances receivable includes $44,159 (2018 – $41,801) due from NNA for the administration of vehicle service contracts and $2,249 (2018 – $1,816) net premiums receivable due from various Nissan companies all over Europe.

e) Amounts due to affiliates consists of $12,527 (2018 – $11,830) due to NNA for claims reimbursements relating to NESNA's vehicle service contract and NGRE's workers' compensation and employers' liability risks and loss portfolio transfers, $546 (2018 – $581) due to NMAC (Note 18(b)), $501 (2018 – $759) due to NCI for expenses paid on behalf of NCESI and $36 (2018 – $55) due to NNA for expenses paid on behalf of NRI.

f) Insurance balances payable includes $1,170 (2018 – $1,183) 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 $1,071 (2018 – $1,055) due to Nissan Europe SAS for marketing fees, profit commission and retail royalty and to Nissan Central Europe Germany for claims invoices and $428 (2018 – $656) 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, Nissan Auto Receivables 2016-A Grantor Trust, Nissan Auto Receivables 2016-B Grantor Trust, Nissan Auto Receivables 2017-A Grantor Trust, Nissan Auto Receivables 2017-B Grantor Trust, Nissan Auto Receivables 2018-A Grantor Trust and Nissan Auto Receivables 2018-B 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, March 24, 2017, September 22, 2017, March 22, 2018 and September 21, 2018, 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).

18. Related-Party Transactions (continued)

The outstanding loans as of March 31, 2019, which are secured by the Receivables, were purchased for $4,955,632 (2018 – $4,393,222). The face value of the investments was equal to $5,096,267 (2018 – $4,516,813). The discount related to the purchase price amounted to $140,635 (2018 – $123,591).

As at March 31, 2019, the loans receivable due from the Trusts is $1,878,356 (2018 – $2,348,463) and accrued interest on the loans is $11,844 (2018 – $12,419). Total gross interest on the loans for the year is $201,055 (2018 – $190,707).

Other expenses include provision for doubtful accounts, net of recoveries, of $84,409 (2018 – $87,240) and service fee expenses of $21,175 (2018 – $19,787) related to the loans receivable from the Trusts.

i) During 2019 and 2018, there were no transactions with directors, executives and personally-related entities. As at March 31, 2019 and 2018, there are no loans outstanding to directors, executives and related entities.

19. Fair Value of Financial Instruments

As at March 31, 2019 and 2018, the carrying values of financial instruments approximate their fair values.

20. Subsequent Events

Subsequent events were evaluated to July 16, 2019, 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.

NGRe entered into a short-term intercompany loan with NML on April 3, 2019 for $300,000. The loan is for a 91-day term with a maturity date of July 3, 2019 and interest rate 0.164%.

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