

Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch

Company Directory

Nature of Business	Trade Credit Insurance
Registered Office	Level 6, Office B 56 Cawley Street Ellerslie Auckland
Company Number	1547417
IRD Number	88-865-499
Directors	José Ignacio ÁLVAREZ JUSTE Francisco de Asis José ARREGUI LABORDA Xavier FREIXES PORTES Carlos Federico HALPERN SERRA John Patrick HOURICAN Bernd Hinrich MEYER Hugo SERRA CALDERÓN Dirk Marinus SLUIMERS José María SUNYER SENDRA Désirée Maria VAN GORP
Branch of	Atradius Crédito y Caución S.A. de Seguros y Reaseguros, Spain
Auditor	PricewaterhouseCoopers, Auckland, New Zealand
Bankers	ASB Bank Limited
Solicitors	Russel McVeagh
Business Location	Auckland

No disclosure has been made in respect of section 211(a), (e) to (h) and (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211(3) of the Act.



Independent auditor's report

To the Directors of Atradius Crédito y Caución S.A. de Seguros y Reaseguros

We have audited the financial statements of Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch (the Branch) which comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the financial statements of the Branch, present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and 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 these requirements.

Our firm provides tax pooling services to the Branch. The provision of this other service has not impaired our independence as auditor of the Branch.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$78,000, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is a key metric used in assessing the performance of the Branch and is a generally accepted benchmark. We selected 5% based on our professional judgement, noting that it is within the range of commonly accepted profit-related benchmarks.

We have determined that there is one key audit matter: valuation of outstanding claims liabilities and claims incurred but not reported (IBNR).

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates. Certain operational processes which are critical to financial reporting for the Branch are undertaken outside of New Zealand. We worked with the PwC member firm engaged in the Atradius Crédito y Caucción S.A. de Seguros y Reaseguros group audit to understand the processes that supported material balances and disclosures within the Branch's financial statements. This enabled us to evaluate the effectiveness of the controls over those processes and consider the implications for the remainder of our audit work.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation of outstanding claims liabilities and claims incurred but not reported (IBNR)

2018 \$3,463,780, 2017 \$2,936,585

Refer to notes 1, 7 and 17 to the financial statements, which also describes the elements that make up the balance.

We considered the valuation of outstanding claims liabilities and IBNR a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the balance.

The valuation of outstanding claims liabilities and IBNR relies on the quality of underlying data and involves significant judgements and assumptions given the inherent uncertainty in estimating the expected present value of future payments for claims incurred.

In particular, judgement arises over the estimation of claims that have been incurred at the reporting date but have not yet been reported to the Branch, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled.

Outstanding claims liabilities and IBNR include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Branch makes judgements about the volatility in business written.

How our audit addressed the key audit matter

Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates.

Historical claims data is a key input to the actuarial estimates. Accordingly, we:

- Evaluated the design effectiveness and tested controls over claims processing;
- Re-performed claims data reconciliations; and
- Inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits.

Together with PwC actuarial experts we:

- Considered the work and findings of the external independent actuaries engaged by the Branch;
- Evaluated the actuarial models and methodologies used by comparing with those generally accepted and applied in the sector;
- Assessed key actuarial judgements and assumptions including claim numbers, settlement periods, accident year loss ratios, and discount rate, and challenged these by comparing with our expectations based on the Branch's experience, our own sector knowledge and independently observable industry and economic trends; and
- Assessed the risk margin, by comparing to known industry practice.

We have no matters to report from the procedures performed.

Responsibilities of the Directors for the financial statements

The Directors of Atradius Crédito y Caución S.A. de Seguros y Reaseguros are responsible for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine 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, the Directors are responsible for assessing the Branch'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 the Directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 (NZ) and 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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Directors of Atradius Crédito y Caución S.A. de Seguros y Reaseguros as a body. Our audit work has been undertaken so that we might state those matters which 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 Atradius Crédito y Caución S.A. de Seguros y Reaseguros and the Directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutsche.

For and on behalf of:



Chartered Accountants
30 April 2019

Auckland

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Statement of Comprehensive Income For the Year Ended 31 December 2018 In New Zealand Dollars

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Gross earned premium	3	5,661,301	5,199,517
Outward reinsurance of premium		(4,034,565)	(3,824,872)
Net premium revenue		<hr/> 1,626,736	<hr/> 1,374,645
Reinsurance commission		1,854,326	1,746,552
Fee income		479,172	438,562
Operating revenue		<hr/> 3,960,234	<hr/> 3,559,759
Underwriting expenses			
Gross claims expense		(2,052,414)	(383,126)
Reinsurance recoveries on claims		1,304,002	242,646
Net Claims incurred	7	<hr/> (748,412)	<hr/> 140,480
Acquisition costs	14	<hr/> (862,232)	<hr/> (810,779)
Underwriting Result		2,349,590	2,608,500
Administrative expenses	4	(1,051,184)	(1,056,753)
Other revenue/(expense)	6	<hr/> 265,139	<hr/> 199,602
Profit before tax	2	1,563,545	1,751,349
Taxation expense	8	<hr/> (430,451)	<hr/> (553,725)
Profit for the period		<hr/> 1,133,094	<hr/> 1,197,624
Other comprehensive income		<hr/> -	<hr/> -
Total Comprehensive Income for the year attributable to the members of Atradius Crédito y Caución S.A. de Seguros y Reaseguros		<hr/> 1,133,094	<hr/> 1,197,624

The accompanying notes form an integral part of these financial statements.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Statement of Changes in Equity For the Year Ended 31 December 2018 In New Zealand Dollars

	<u>Retained Profit/(Deficit)</u>
Balance at 1 January 2017	(1,249,843)
Total Comprehensive Income	<u>1,197,624</u>
Balance at 31 December 2017	<u>(52,219)</u>
 Balance at 1 January 2018	 (52,219)
Total Comprehensive Income	<u>1,133,094</u>
Balance at 31 December 2018	<u>1,080,875</u>

The accompanying notes form an integral part of these financial statements.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Statement of Financial Position

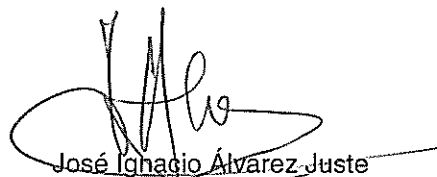
As at 31 December 2018

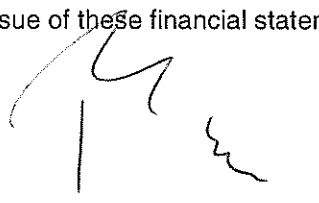
In New Zealand Dollars

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and cash equivalents	11	3,391,339	1,490,683
Reinsurance receivables	18	3,912,581	3,533,258
Trade and other receivables	10	1,172,244	1,018,077
Investments	12	7,744,846	8,046,666
Other assets and accruals		261,608	462,830
Deferred acquisition costs	14	260,797	232,923
Net deferred tax asset	8	11,027	5,021
Property, plant and equipment	9	143,753	174,134
Total Assets		16,898,195	14,963,592
Equity			
Retained profit/(deficit)	15	1,080,875	(52,219)
Total Equity		1,080,875	(52,219)
Liabilities			
Insurance Liabilities	17	5,068,463	4,190,134
Current tax liability	8	229,045	322,028
Reinsurance payables	19	651,176	785,972
Other accounts payables	20	8,945,133	8,901,908
Other liabilities and accruals		923,503	815,769
Total Liabilities		15,817,320	15,015,811
Total Equity and Liabilities		16,898,195	14,963,592

The accompanying notes form an integral part of these financial statements.

For and on behalf of the directors who authorised the issue of these financial statements.


 José Ignacio Álvarez Juste
 Director
 Date: 29 Apr 2019


 Francisco de Asis José Arregui Laborda
 Director
 Date: 29 Apr 2019

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Statement of Cash Flows

For the Year Ended 31 December 2018
In New Zealand Dollars

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities			
Premium and other revenue received		5,986,306	5,292,384
Reinsurance premium net of commission		(2,315,036)	(1,673,340)
Payments to suppliers and staff		(1,417,783)	(2,037,133)
Claims payments		(1,372,121)	(748,954)
Reinsurance recoveries		988,639	551,059
Interest income		258,270	228,906
Tax paid		(529,440)	(310,675)
Net cash inflow from operating activities	27	1,598,835	1,302,247
Cash flows from investing activities			
Head office cash pooling transfers		301,821	(328,744)
Purchase of cash term deposit		(9,000,000)	(6,000,000)
Cash term deposit and bond matured		9,000,000	5,000,000
Purchase of property, plant and equipment		-	(175,428)
Net cash flows from investing activities		301,821	(1,504,172)
Net decrease / (increase) in cash		1,900,656	(201,925)
Cash and cash equivalents at the beginning of the year		1,490,683	1,692,608
Cash and cash equivalents at the end of the year	11	3,391,339	1,490,683

The accompanying notes form an integral part of these financial statements.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

1 Significant accounting policies

Reporting Entity

Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch (the "Branch") is a branch of Atradius Crédito y Caución S.A. de Seguros y Reaseguros, a trade credit insurance company. The branch was previously part of Atradius Credit Insurance N.V.. The merger of two major European credit insurance carriers Atradius Credit Insurance N.V. and Compañía Española de Seguros y Reaseguros de Crédito y Caución, S.A.U. into one single legal entity was completed on December 30, 2016. The remaining entity has been renamed to Atradius Crédito y Caución S.A. de Seguros y Reaseguros. The merger was approved by the Spanish Dirección General de Seguros (DGS) and De Nederlandsche Bank (DNB).

There were no changes in the products or service carried out by the remaining entity. The branch continues to operate under the existing Atradius trade name. The ultimate parent entity remains to be Grupo Catalana Occidente S.A., a company incorporated in Spain. The Branch was registered on 26 August 2004. The Branch has an office in Auckland.

Statement of Compliance and Basis of Preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards as appropriate for for-profit entities. The financial statements comply with International Financial Reporting Standards. The Branch is an FMC reporting entity under the Financial Markets Conduct Act 2013 and its financial statements are prepared in accordance with the requirements of Part 7 of the Act.

The financial statements are presented in New Zealand Dollars (NZD), the functional currency of the Branch. The financial statements are prepared on the historical cost basis.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Going Concern

The financial statements have been prepared on a going concern basis, the validity of which depends upon the continued financial support of Atradius Crédito y Caución S.A. de Seguros y Reaseguros. During the year the branch reported a profit of \$1,133,094 (2017: profit \$1,197,624) and has a retained profit of \$1,080,875 (2017: deficit \$52,219).

The Branch is part of Atradius Crédito y Caución S.A. de Seguros y Reaseguros, which is incorporated in Spain. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

1 Significant accounting policies (continued)

Premium Revenue

Premium revenue comprises amounts charged to policyholders. Premiums are brought to account from the date of attachment of risk and are earned over the period of the indemnity in accordance with the pattern of incidence of risk.

Unearned premium is determined by apportioning premiums over the effective periods of risk underwritten. They are calculated on a monthly pro-rata basis.

Fee Income

Fee revenue is from services provided in relation to the trade credit insurance product and is recognised in the period the services are provided.

Acquisition (Commission) Costs

Deferred acquisition costs represent the proportion of acquisition costs (primarily commissions) attributable to unearned premiums. Deferred acquisition costs are measured at the lower of cost or recoverable amount. These costs are amortised in proportion to premiums over the estimated lives of the policies.

Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

Reinsurance Commission

Reinsurance commission is received on outwards reinsurance and is recognised as income as it is earned.

Claims Outstanding

Claims expense and a liability for outstanding claims are recognised in respect of all insurance business. The liability for claims outstanding includes an estimate in respect of incurred but not reported claims, a risk margin and the anticipated direct and indirect costs of settling those claims.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

1 Significant accounting policies (continued)

Liability Adequacy Test

At each balance date, a liability adequacy test is performed to determine if the insurance liabilities are adequate. If a shortfall is identified the deferred acquisition cost is written down with a corresponding charge to the Statement of Comprehensive Income.

If an additional liability is required this shall be recognised in the Statement of Financial Position as an unexpired risk liability.

Premium Receivables

All premium receivables are stated at their net realisable value. Known losses are written off against income in the period in which they become evident.

Reinsurance Recoveries

Reinsurance recoveries are with respect to insurance liabilities and include recoveries on claims liabilities at balance date. These recoveries are recognised as revenue.

The reinsurance recoveries also include deferred reinsurance premium. Outwards reinsurance premium is deferred and amortised in a pattern matching the risks reinsured.

Reinsurance Receivables

Reinsurance receivables are amounts due from reinsurers.

Property, Plant and Equipment

Owned assets

The Branch owns no land or buildings. Items of plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

Depreciation

All depreciation is charged to the Statement of Comprehensive Income. Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. The following rates have been used (see Note 9).

Fixtures and Fittings	16.67%
Computer Hardware	33.33%

The residual value of assets is reassessed annually.

Atradius Crédito y Caucción S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

1 Significant accounting policies (continued)

Investments

The business model for the Branch's portfolio of investments, which comprise interest-bearing assets that represent solely payments of principal and interest (SPPI), is to manage and evaluate the portfolio on a fair value basis, in accordance with the investment strategy. The Branch is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In accordance with NZ IFRS 9, the Branch's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

Investments are initially recorded at fair value, being cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment consideration under the expected credit losses model. Fixed rate securities are valued using independently sourced valuations as detailed in Note 13.

Investments of the Branch are held to back insurance liabilities and are designated at fair value through profit or loss upon initial recognition, in accordance with the provisions of NZ IFRS 4 Appendix D. The measurement of general insurance liabilities under NZ IFRS 4 Appendix D incorporates current information; measuring the financial assets backing these general insurance liabilities at fair value eliminates or significantly reduces a potential measurement inconsistency which would arise if the investments were classified as available for sale or measured at amortised cost.

Trade and Other Receivables

All receivables arising under an insurance contract as defined in NZ IFRS 4 *Insurance Contracts (Trade Debtors)* are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 from 1 January 2018 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision for expected credit losses (ECL). The provision for ECL is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Branch expects to receive. Any shortfall is discontinued at an approximation to the asset's original effective interest rate. The assessment of ECL reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The Branch adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculated the provision with reference to lifetime ECL. For all other receivables, the provision is based on the portion of lifetime ECL that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the provision is based on lifetime ECL.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

1 Significant accounting policies (continued)

The transition to NZ IFRS 9 had no impact on the amount recorded in respect of these receivables. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses.

Impairment

The carrying amounts of the Branch's assets except for investments are reviewed at each balance date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income.

Trade and Other Payables

Trade and other payables are stated at amortised cost.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Interest Income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method.

Foreign Currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to NZD at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

Taxation

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

1 Significant accounting policies (continued)

(ii) Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

(iii) Goods and Services Tax

Revenue and expenses are recognised net of any goods and services tax (GST). Receivables and payables are recognised inclusive of any applicable GST. Where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the acquisition cost on an asset or as part of an item of expense.

Statement cash flows

For the purpose of the statement of cash flows, cash is cash in bank available for use. The following terms are used in the statement of cash flows;

- operating activities are the principal revenue producing activities of the Branch;
- investing activities comprise longer term deposits held in accordance with New Zealand regulations and investments held on behalf of the Branch by Head Office;
- financing activities are principally monies contributed by Head Office; and
- reinsurance premium, commission and recoveries are settled net and therefore are shown on one line.

Segment Information

The Branch operates in one segment being Trade Credit Insurance.

Critical Accounting Judgements and Estimates

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are with regard to outstanding claim cases and with regard to statistical methods. The statistical methods are based on key variable factors being: the speed which customers submit claims, the expected average claim size and the expected fraction of cases that do not lead to a payment. The methodology is discussed in more detail in note 17.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

1 Significant accounting policies (continued)

Changes in NZ IFRS

The following standards, amendments to standards and interpretations have been identified as those which may impact the Branch in the period of initial application.

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) became effective for financial periods beginning on or after 1 January 2018 and has been adopted on this date for the financial year ending 31 December 2018 onwards. The standard sets out the requirements for recognising and measuring financial assets and financial liabilities and replaces NZ IFRS 39 / IAS 39 *Financial Instruments: Recognition and Measurement*.

NZ IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics and will require new disclosures in particular for credit risk and expected credit losses. Financial assets are classified in accordance with the criteria set out in NZ IFRS 9, with receivables measured at amortised cost. NZ IFRS 9 has not had a significant effect on the Branch's accounting policies for financial liabilities, which continue to be classified as other financial liabilities.

The Branch has taken advantage of an exemption available in NZ IFRS 9, allowing it not to restate comparative information for prior periods with respect to classification and measurement, including impairment changes.

A new impairment model has been adopted, with consideration of the probability of default and loss given default on the Branch's financial assets, however the recognition of expected credit losses has not materially impacted the Branch's results therefore no provision has been booked as at 31 December 2018.

Further information is provided in this Note: Significant Accounting Policies in regard to the application of IFRS 9 to *Investments* and *Trade and Other Receivables*.

IFRS 15 *Revenue from Contracts with Customers* was adopted by the Branch during the year. There were no material impacts from its adoption to the classification, measurement or presentation in the financial statements.

IFRS 16 *Leases* has an effective date of 1 January 2019. The Branch is in the process to assess the impact of implementation of this standard on the classification, measurement or presentation in the financial statements for the year ending 31 December 2019.

IFRS 17 *Insurance Contracts* has an expected effective date of 1 January 2022. The Branch will implement the standard in the year ending 31 December 2022, with the comparative period of the year ended 31 December 2021. The Branch is currently assessing the impact of adopting this standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

2	<u>Profit before tax</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
	Underwriting Result		2,349,590	2,608,500
	Administrative expenses	4	(1,051,184)	(1,056,753)
	Other revenue/(expense)	6	265,139	199,602
	Profit Before Tax		1,563,545	1,751,349
3	<u>Premium Revenue</u>			
	Premium invoiced		6,012,435	5,356,056
	Movement in unearned premium balance		(351,134)	(156,539)
	Gross Earned premium		5,661,301	5,199,517
4	<u>Administrative expenses</u>			
	Group Overhead Costs		(529,729)	(580,264)
	Salaries		(285,395)	(237,871)
	Superannuation		(779)	(9,678)
	Other Personnel Expenses		(2,714)	(20,756)
	Lease Payments		(33,364)	(34,808)
	Consultancy		(63,505)	(78,504)
	Communication Cost		(7,081)	(5,554)
	Travel Cost		(16,392)	(19,502)
	Marketing Cost		(2,547)	(6,752)
	Depreciation Cost	9	(30,381)	(3,817)
	Other Expenses		(79,297)	(59,247)
	Total Administrative Expenses		(1,051,184)	(1,056,753)
5	<u>Audit fees</u>			
	Deloitte - Audit Fees		-	28,730
	PricewaterhouseCoopers – Audit Fees		27,785	-
	PricewaterhouseCoopers – Non-Audit Fees		196	-
			27,981	28,730

Non audit fees is for tax pooling services.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

	<u>2018</u>	<u>2017</u>
6 <u>Other revenue/(expense)</u>		
Interest Income	258,270	228,907
Foreign Exchange Gain/(Loss)	6,869	(29,305)
Total other revenue	<u>265,139</u>	<u>199,602</u>
 7 <u>Claims and Loss Adjustment Expenses</u>		
Gross claims expense incurred	(1,873,126)	(187,779)
Claims handling expenses	(186,576)	(165,271)
Reinsurance and other recoveries	1,307,934	221,617
Net claims incurred - undiscounted	<u>(751,768)</u>	<u>(131,433)</u>
 Discount movement		
Gross claims liabilities	7,288	(30,076)
Reinsurance share of claims liabilities	(3,932)	21,029
Net discount movement	<u>3,356</u>	<u>(9,047)</u>
 Net claims incurred	<u>(748,412)</u>	<u>(140,480)</u>
 Current year	(1,321,761)	(876,344)
Prior year	573,349	735,864
Total	<u>(748,412)</u>	<u>(140,480)</u>

Movements in outstanding claims liabilities are set out as follows:

	<u>Note</u>	<u>2018</u> <u>Gross</u>	<u>2018</u> <u>Reinsurance</u>	<u>2018</u> <u>Net</u>
At January 1	17	2,936,585	(2,051,955)	884,630
Adjustment to claims reserves brought forward		843,280	(508,181)	335,099
Claims reserves for current year cases		1,349,348	(922,207)	427,141
Increase (decrease) in claims incurred but not reported		(132,926)	122,454	(10,472)
Discount		(7,288)	3,932	(3,356)
Sub-total		<u>2,052,414</u>	<u>(1,304,002)</u>	<u>748,412</u>
Claims settled		(1,525,220)	988,639	(536,581)
At December 31	17,18	<u>3,463,780</u>	<u>(2,367,318)</u>	<u>1,096,462</u>

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

7 Claims and Loss Adjustment Expenses (continued)

	<u>Note</u>	<u>2017</u> <u>Gross</u>	<u>2017</u> <u>Reinsurance</u>	<u>2017</u> <u>Net</u>
At January 1	17	3,376,330	(2,360,368)	1,015,962
Adjustment to claims reserves brought forward		(758,085)	554,733	(203,352)
Claims reserves for current year cases		592,326	(413,858)	178,468
Increase (decrease) in claims incurred but not reported		518,809	(362,492)	156,317
Discount		30,076	(21,029)	9,047
Sub-total		383,126	(242,646)	140,480
Claims settled		(822,871)	551,059	(271,812)
At December 31	17,18	2,936,585	(2,051,955)	884,630

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

8	<u>Taxation</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
	<u>Income Tax expense</u>			
	Current taxation		436,457	554,843
	Deferred taxation		(6,006)	(1,118)
	Income tax expense for the year		430,451	553,725
	Reconciliation of effective tax rate:			
	Profit before tax	2	1,563,545	1,751,349
	Income tax using company tax rate at 28%		437,793	490,378
	Non-deductible expenses/(income)		1,017	-
	Prior year adjustment/ other taxes		(8,359)	63,347
	Income tax expense		430,451	553,725
	<u>Income tax assets and liabilities</u>			
	Net deferred tax asset with respect to temporary differences		11,027	5,021
	Net deferred tax asset		11,027	5,021
	Corporation tax payable		229,045	322,028
	Current tax liability		229,045	322,028

Atradius Crédito y Caucción S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

8 Taxation (continued)

	1 January 2017	(Charge)/credit to income	31 December 2017	(Charge)/credit to income	31 December 2018
<u>Deferred tax asset</u>					
Provision for bad debts	697	1,800	2,497	286	2,783
Provision for employee bonuses	8,632	1,321	9,953	2,756	12,709
Accruals	48,418	9,371	57,789	10,769	68,558
Total deferred tax asset	57,747	12,492	70,239	13,811	84,050
<u>Deferred tax liability</u>					
Deferred acquisition costs	(53,844)	(11,375)	(65,219)	(7,805)	(73,023)
Other	-	-	-	-	-
Total deferred tax liability	(53,844)	(11,375)	(65,219)	(7,805)	(73,023)
Net deferred tax asset	3,903	1,118	5,021	6,006	11,027

9 Property, Plant and Equipment

	Cost	Current Year Depreciation	Accumulated Depreciation	Carrying Value
<u>2017</u>				
Computer Hardware	26,696	1,381	25,554	1,143
Fixtures and Fittings	175,428	2,436	2,436	172,991
Total	202,124	3,817	27,990	174,134
<u>2018</u>				
Computer Hardware	26,696	1,143	26,696	-
Fixtures and Fittings	175,428	29,238	31,674	143,753
Total	202,124	30,381	58,371	143,753

There were no additions or disposals during the year.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

10 <u>Trade and Other Receivables</u>	<u>2018</u>	<u>2017</u>
Trade Receivables	1,165,895	1,009,345
Other Receivables	6,349	8,732
	<u>1,172,244</u>	<u>1,018,077</u>

Trade receivables are current assets and all under 90 days old except for \$46,115 (2017: \$37,438) which has an allowance for doubtful debts of \$31,841 against it (2017: \$8,918).

11 <u>Cash and Cash Equivalents</u>	<u>2018</u>	<u>2017</u>
Bank Balances	3,391,339	1,490,683
	<u>3,391,339</u>	<u>1,490,683</u>

12 <u>Investments</u>	<u>2018</u>	<u>2017</u>
Term deposit	6,000,000	6,000,000
Investment held by Head office	1,744,846	2,046,666
	<u>7,744,846</u>	<u>8,046,666</u>

The investments are classified as Fair Value through Profit or Loss (FVTPL) and carried at fair values with duration of more than three months. The investment held by Head Office is a related party balance, it is treated as available on demand.

13 Financial Instruments

Investments are measured at fair value with movements recognised in the Statement of Comprehensive Income. This includes term deposits and investments held by head office, which are at Level 1 in the fair value hierarchy under NZ IFRS13.

Financial Instrument - Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset that are not based on observable market data.

There were no transfers between the levels during the current and prior year. The table represents financial assets at fair value through profit or loss.

	<u>2018</u>	<u>2017</u>
Level 1	7,744,846	8,046,666
Level 2	-	-
Level 3	-	-
	<u>7,744,846</u>	<u>8,046,666</u>

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

13 Financial Instruments (continued)

Credit risk

Financial instruments which potentially subject the Branch to a concentration of credit risk consist principally of cash, term deposits, the investment held by Head Office and receivables. Both the cash and investments are held with ASB Bank Ltd., which is rated AA-. The term deposits of \$6,000,000 (2017: \$6,000,000) have a maturity of less than 1 year. The other assets is in relation to the exposure to the panel of reinsurers. Atradius CyC's reinsurance is placed with reinsurers of A rating or above, as required by Group policy. These assets are rated according to Standard & Poor's counterparty ratings, but if these are not available then A.M. Best and Moody's are used. Trade and other receivables are unrated and are based on management's assessment of high quality with no history of major defaults.

The Branch does not require collateral or other security to support the reinsurance assets with credit risk and as such, no collateral exists for any assets held by the Branch. The maximum credit risk exposure is the carrying amount of the individual assets.

Interest rate risk

The Branch has no significant exposure to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its cash outflows, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. To mitigate financing and liquidity risk the Branch maintains sufficient liquid assets to ensure that it can meet its obligations and cash outflows on a timely basis. Atradius Crédito y Caución S.A. de Seguros y Reaseguros also pledges continuing support.

The financial assets are all available to be liquidated at any time to meet any liabilities. The investment held by head office is at call and reinsurance payables and receivables are settled on a net basis.

The balance payable to head office being Atradius Crédito y Caución S.A. de Seguros y Reaseguros is payable on demand. The Head Office confirms however, that for the foreseeable future Atradius Crédito y Caución S.A. de Seguros y Reaseguros will not request repayment of this account until such time that the branch can pay its debts when they fall due.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

13 Financial Instruments (continued)

The following table provides information regarding the ageing of the Branch's financial assets and liabilities.

	Less than 1 year	More than 1 year	Total
As at 31 December 2018			
Financial Assets			
Cash and cash equivalents	3,391,339	0	3,391,339
Investments in Term deposits	6,000,000	0	6,000,000
Investment held by Head office	1,744,846	0	1,744,846
Premium Receivables	1,165,895	0	1,165,895
Other Debtors	6,350	0	6,350
Financial Liabilities			
Amounts due to related entities	8,593,816	0	8,593,816
Trade and other Payables	351,317	0	351,317
As at 31 December 2017			
Financial Assets			
Cash and cash equivalents	1,490,683	0	1,490,683
Investments in Term deposits	6,000,000	0	6,000,000
Investment held by Head office	2,046,666	0	2,046,666
Premium Receivables	1,009,345	0	1,009,345
Other Debtors	8,732	0	8,732
Financial Liabilities			
Amounts due to related entities	8,574,995	0	8,574,995
Trade and other Payables	326,913	0	326,913

Foreign currency risk

The Company holds bank accounts in USD and AUD, which as of 31 December 2018 had balances of USD 188,875 and AUD 91,808 (December 2017: USD 230,993 and AUD 32,769), and had trade receivables in foreign currency and intercompany liabilities in EURO at December 2018: EUR 113,619 (2017: EUR 85,583). Should the exchange rate change by 10% (strengthen) the value of the bank accounts would decrease by \$34,354 and intercompany liabilities would also decrease by \$17,617 together resulting in an additional cost on the profit and loss of \$16,737. Approximately less than 1% of the gross claims liabilities (2017: 12%) is denominated in a currency other than New Zealand dollars. The portion of the claims liabilities in foreign currency is reinsured so any exchange rate fluctuations would have an immaterial effect on the results.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

14	<u>Deferred acquisition costs</u>	<u>2018</u>	<u>2017</u>
	Balance at 1 January	232,923	192,299
	Acquisition costs paid during the year	890,106	851,403
	Current period amortisation	(862,232)	(810,779)
	Balance at 31 December	260,797	232,923
15	Retained deficit		
	Retained deficit - opening balance	(52,219)	(1,249,843)
	Net profit	1,133,094	1,197,624
	Closing balance	1,080,875	(52,219)
16	<u>Operating Leases</u>		
	Non-cancellable operating leases rentals have the following future commitments:		
	Less than one year	39,572	37,248
	Between one and five Years	140,022	148,992
	More than 5 years	-	31,018
		179,594	217,258

Atradius Crédito y Caucción S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

17	<u>Insurance Liabilities</u>	<u>2018</u>	<u>2017</u>
	<u>Unearned premium liability</u>		
	2018	-	1,253,549
	2019	1,591,344	-
	2020	13,339	-
	Total unearned premium liability	1,604,683	1,253,549
	Movements in Unearned Premium liability are set out as follows:		
	At January 1	1,253,549	1,097,009
	Premium Invoiced	6,012,435	5,356,056
	Earned Premium	(5,661,301)	(5,199,517)
	At December 31	1,604,683	1,253,549
	Balance at beginning of the year	1,253,549	1,097,009
	Balance at end of the year	1,604,683	1,253,549
	Movement in Unearned Premium	351,134	156,539
		3	
	<u>Outstanding claims liabilities</u>		
	Underwriting Year 2014	-	-
	Underwriting Year 2015	8,175	445
	Underwriting Year 2016	9,802	338,978
	Underwriting Year 2017	234,398	579,105
	Underwriting Year 2018	1,320,734	-
	Total outstanding claims liabilities	1,573,109	918,528
	<u>Claims incurred but not reported (IBNR)</u>		
	Underwriting Year 2014	-	-
	Underwriting Year 2015	-	562
	Underwriting Year 2016	1,674	73,257
	Underwriting Year 2017	82,703	1,944,238
	Underwriting Year 2018	1,806,294	-
	Total IBNR	1,890,671	2,018,057
	Total Outstanding Claims Liabilities and IBNR	3,463,780	2,936,585
	Total Insurance Liabilities	5,068,463	4,190,134

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

17 Insurance Liabilities (continued)

Insurance Liabilities

Insurance Liabilities comprise both unearned premium liabilities to be earned in future periods and total outstanding claims liabilities for estimated claims to be paid in future periods.

Outstanding Claims Liabilities

The outstanding claims liabilities reflects the estimation of future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported (IBNR)

The valuation of outstanding claims liabilities has been undertaken by the appointed actuary: Adam Searle of KPMG Financial Services Consulting Pty Ltd (KPMG). He is a Fellow of the New Zealand Society of Actuaries. The actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries.

The appointed actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The valuation comprised both individually reserved claims and aggregate statistical methods.

The statistical methods considered the historical claims experience for insolvencies and non-insolvencies, as well as small and large claims.

The IBNR is calculated based on the statistical analysis of claim numbers (2018: 62, 2017: 48), claim payments (2018: 15 months, 2017: 15 months) and accident year loss ratios (2018: 61%, 2017: 17%). This assumes that development patterns will be consistent with past experience appropriate for projecting future claim payments.

These assumptions are amongst those reviewed annually, and they are adjusted as is required based on the statistical evidence available at the time, any significant changes in the operating and business environment, as well as professional judgement.

Claims handling expenses have been incorporated as an allowance for the future cost of administering claims arising from the payment of future claims. Direct claims handling expenses are assumed to be 8% (2017: 6.5%) of claim payments net of reinsurance and indirect claims handling costs are provided at 3% (2017: 4%).

A risk margin has been included to allow for uncertainties in respect of the estimation of insurance liabilities. These uncertainties may arise from the inherent variability in claims experience, the differences between the valuation models and the insurance process which it approximates, and the variances between the current and future environments for example the economic, legal, political and social environment. To determine the appropriate risk margin the appointed actuary has performed analysis of the variability in historical data, considered industry benchmarks and applied judgement in selecting assumptions. A risk margin of 26.125% (2017: 26.125%) has been used in the calculation of the outstanding claims liability and is intended to provide an adequacy to the 75th percentile of probability of sufficiency. There is no benefit from diversification of risks.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

17 Insurance Liabilities (continued)

Sensitivity analysis has been performed around the gross outstanding claims liabilities of \$3,463,780. If the loss ratio for the 2018 accident year is increased by 5%, the liabilities would increase by \$390,819 or 11%. Any increase in liabilities is covered by reinsurance for an amount of 70% therefore the effect on the profit and loss would be a decrease in result of \$117,246.

The impact of changes in other key variables and assumptions used in the calculation of the outstanding claims provision is summarised in the table below.

	Movement in variable	Financial Impact	
		2018	2017
Claims expense ratio	Increase of 1%	(11,718)	(9,897)
	Decrease of 1%	11,718	9,897
Claims paid	Increase of 1%	(14,949)	(6,990)
	Decrease of 1%	14,949	6,990
Number of claims	Increase of 1 claim	(39,339)	(30,391)
	Decrease of 1 claim	39,339	30,391

Claims liabilities are determined only by the invoiced amounts upon which the claim is based and is not subject to any claims inflation after the invoice date. Therefore, no allowance has been included for inflation, and a sensitivity test on inflation is not performed.

The claims liabilities have been discounted using the risk free rates as at 31 December 2018, derived from New Zealand Government bonds. The discount rate selected follows the yield curve and averages 1.73% per annum based on the weighted average term to settlement of 15 months (2017: 15 months) for the outstanding claims liabilities.

The present value of expected cash flows for future claims including a risk margin for the company is \$3,463,780 (2017: \$2,936,585) comprising central estimate of \$2,660,377 (2017: \$2,241,565) and a 26.125% (2017: 26.125%) risk margin of \$717,473 (2017: \$608,272). The discounted outstanding claims provision net of recoveries is \$1,096,462 (2017: \$884,630).

Uncertainty about this amount and timing of claims payments is typically resolved within one year.

The investments of the branch are firstly used to settle insurance liabilities.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

17 Insurance Liabilities (continued)

The net outstanding claims provision table is presented below.

	Accident year							
	2011	2012	2013	2014	2015	2016	2017	2018
GROSS								
End of accident year			890,947	1,017,852	2,033,262	1,980,050	2,176,375	3,435,472
1 year later		833,247	1,156,720	828,968	2,129,481	655,429	908,723	
2 years later	411,459	691,033	1,052,165	753,060	1,625,215	362,425		
3 years later	399,466	729,164	1,050,387	744,198	1,629,012			
4 years later	399,144	706,971	1,050,500	781,774				
5 years later	398,836	713,936	1,050,280					
6 years later	399,348	735,016						
7 years later	398,867							
PTD	398,867	735,016	1,050,280	781,774	1,622,597	353,419	659,895	981,705
Reinsurance	77.5%	77.5%	77.5%	75.0%	72.5%	72.5%	72.5%	70.0%
	Accident year							
	2011	2012	2013	2014	2015	2016	2017	2018
NET								
End of accident year	-	-	200,463	254,453	559,147	544,516	598,503	1,030,642
1 year later	-	187,481	260,262	207,242	585,607	180,243	249,899	
2 years later	92,578	155,482	236,737	188,265	446,934	99,667		
3 years later	89,880	164,062	236,337	186,049	447,978			
4 years later	89,807	159,068	236,363	195,444				
5 years later	89,738	160,636	236,313					
6 years later	89,853	165,379						
7 years later	89,745							
Current central estimate	89,745	165,379	236,313	195,444	447,978	99,667	249,899	1,030,642
Cumulative net paid to date	89,745	165,379	236,313	195,444	446,214	97,190	181,471	294,511
Net undiscounted central estimate	-	-	-	-	1,764	2,477	68,428	736,130
Discounting								(17,161)
Non reinsurance recoveries								(55,415)
Risk margin								192,154
Claims handling costs								168,085
Net outstanding claims at 31 Dec 2018								1,096,462
Net movement	(108)	4,743	(50)	9,394	1,044	(80,576)	(348,604)	1,030,642

Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2018 identified a surplus.

The test is based on prospective information and so is dependent on assumptions and judgments. It does not appear that any reasonable possible changes in the key assumptions on which the calculations are based would result in a deficiency being recognised at 31 December 2018.

Insurance Contract Risk Management

A key risk is the exposure to insurance risk arising from underwriting of credit insurance contracts. The insurance contracts transfer risks to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain events. Risk management activities can be separated into underwriting, claims management, reserving, and investment management. The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations and to ensure capital and solvency requirements are met.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

17 Insurance Liabilities (continued)

The frequency and severity of claims is affected by several factors. These include all factors that affect credit risk in general. Thus the status of the economy is a major driver for frequency and severity of claims. The Branch's business processes are designed to effectively manage the impact of many risk factors that affect frequency and severity of claims. Its affect may vary by country and sector. For trade credit risk, the behaviour of customers may affect the frequency and severity of claims as well, for instance through risks inherent to their business activities and their risk management practices. Specific events (e.g. natural disasters) may impact on frequency and severity of claims. But so do structural changes in the economy (e.g. easier access to markets to producers in low cost countries). The specific events or structural changes which are relevant in this respect will vary over time.

These insurance risks are controlled by underwriting procedures and adequate premium rates and policy charges.

Acceptance of risk – Access to our broad worldwide database of company information allows us to thoroughly analyse risk before acceptance. Analysis of risk considers a variety of factors including industry and financial strength.

Pricing – Many years of experience enable the underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.

Claims management – Claims are handled separately to the underwriting by the claims department. Settling authorities are delegated according to level of experience to ensure adequate review of the claims assessment. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

Reinsurance – Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread the risk underwritten.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros maintains quota share reinsurance and excess of loss treaties with Atradius Reinsurance of Dublin, Republic of Ireland and with a panel of third party reinsurers. The treaties cover the lines of business, scope of cover, territorial scope, and maximum limit/exposure. The quota share reinsurance treaties for 2018 cede 70% in total. (2017: 72.5%)

Reinsurance is placed with companies based on an evaluation of financial strength of the reinsurers, terms of coverage, and price. The financial position of reinsurers is monitored on an ongoing basis and periodically reviewed to ensure the reinsurers ability to fulfil their obligations to the Branch under respective existing and future reinsurance contracts. The majority of the reinsurers have a rating of at least Moody's A3.

The Moody's rating for Atradius Crédito y Caución S.A. de Seguros y Reaseguros and Atradius Re is A2. The A.M. Best rating is A (Excellent). The branch does not require a separate grading.

Investment management – To ensure liquidity, all investments are held in cash and short-term deposits or with head office.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

17 Insurance Liabilities (continued)

Concentration of insurance risk - Analysis and monitoring of claims and credit limit data is done regularly to effectively deal with concentration by various sectors including industry, geographic location and customer.

The process before approval of credit limits to customers takes into account the risks associated with these and other sectors.

Foreign Currency Risk - The risk that the company will incur losses through exposure to foreign exchange movements is minor. There is exposure to AUD and USD bank accounts which are however managed to maintain low balances so such exposure is minimal.

Whilst the reinsurance contracts for underwriting years prior to 2010 were in EUROS, they are now in NZD. For this year, there is no claims liability and related reinsurance for the underwriting years prior to 2010 (2017: Nil).

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

18 <u>Reinsurance Recoveries and Receivables</u>	<u>2018</u>	<u>2017</u>
Atradius Re, Ireland	1,600,113	1,487,218
3rd Party Reinsurance Receivables	2,312,467	2,046,040
	<u>3,912,581</u>	<u>3,533,258</u>

Reinsured share of unearned premium liability	963,206	877,536
Reinsured share of total outstanding claims liabilities and IBNR	2,367,318	2,051,955
Other reinsurance related receivables	582,057	603,767
	<u>3,912,581</u>	<u>3,533,258</u>

Movements in Reinsurance Recoveries and Receivables are set as follows:

Balance at 1 January	3,533,258	3,678,481
Current year recoveries earned	581,479	585,637
Settled during the year	(202,156)	(730,860)
Balance at 31 December	<u>3,912,581</u>	<u>3,533,258</u>

19 <u>Reinsurance Payables</u>	<u>2018</u>	<u>2017</u>
Atradius Re, Ireland	192,013	339,063
3rd Party Reinsurers	459,162	446,909
	<u>651,176</u>	<u>785,972</u>

Reinsurance Payables are settled monthly and do not accrue interest.

Movements in Reinsurance Payables are set as follows:

Balance at 1 January	785,972	380,993
Current year claim liabilities	1,240,777	1,771,638
Settled during the year	(1,375,574)	(1,366,659)
Balance at 31 December	<u>651,176</u>	<u>785,972</u>

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2018 In New Zealand Dollars

20	<u>Other Accounts Payables</u>	<u>2018</u>	<u>2017</u>
	Payroll Liabilities	45,391	35,547
	Other Accounts Payable	305,926	291,366
	Atradius Crédito y Caución S.A. de Seguros y Reaseguros	8,593,816	8,574,995
		<u>8,945,133</u>	<u>8,901,908</u>

The majority of the amount owed to head office is in relation to capital funding (\$8,400,000). The remainder is in relation to charges for services provided including IT, risk services and group management.

21 Identity of Related Parties

Notes 18, 19 and 20 identify the balances with related parties with whom the Branch has transacted with over the period. The related party is Atradius Re which is a company 100% held by the Atradius Group.

Material related party transactions

- The Branch maintains a quota share reinsurance treaty arranged via a broker which includes 21 treaty partners. Atradius Re of Dublin is a related party. Re-insurance transactions have occurred with this related party during the period. Refer notes 18 and 19.
- Atradius Crédito y Caución S.A. de Seguros y Reaseguros, headquartered in Spain, charged the Branch shared services cost during the year for \$529,729 (2017: \$580,264) represented by \$235,266 in group overhead, \$57,275 related to information technology and \$237,188 for risk services.

All related party receivable balances are considered receivable in full.

Key Personnel

The branch has 2 employees. Their remuneration is set out in note 4.

22 Capital Commitments

There are no capital commitments (2017: None).

23 Contingent Assets & Liabilities

Atradius Crédito y Caución S.A. de Seguros y Reaseguros including the NZ branch is party to a bank guarantee from ASB Bank Limited for the sum of \$30,123.68 in connection to the lease of the office premises in Auckland.

Atradius Crédito y Caución S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

24 Solvency requirements

The Branch has a license under the Insurance (Prudential Supervision) Act 2010. Under this Act, the branch will be subject to solvency requirements issued by the Reserve Bank of New Zealand. The solvency requirements which apply under the new prudential supervision regime have been met both by Atradius Crédito y Caución S.A. de Seguros y Reaseguros and the branch.

The Atradius Group complies with capital requirements in each regulatory regime.

25 Subsequent Events

There have been no events subsequent to balance date which require disclosure in these accounts.

26 Capital Solvency

Atradius Crédito y Caución S.A. de Seguros y Reaseguros is exempted from complying with the Solvency Standard under Section 59 for Non-Life Business Solvency Standard 2014, dated 17 December 2014 and subsequent amendments (the non-Life Standard). Instead of meeting the New Zealand Solvency Standards, Atradius Crédito y Caución S.A. de Seguros y Reaseguros needs to meet the Spanish Regulatory Solvency Capital Requirement as prescribed by Dirección General de Seguros y Fondos de Pensiones (DGSFP). The minimum Solvency Capital Requirement for New Zealand under Spanish law is outlined below. As at 31 December, Atradius Crédito y Caución S.A. de Seguros y Reaseguros carried a positive solvency margin (amounts in Euro times 1,000).

	<u>2018</u>	<u>2017</u>
Actual Solvency Capital	1,151,205	1,115,390
Minimum Solvency Capital	138,143	132,096
Solvency Margin	<u>1,013,062</u>	<u>983,294</u>
Solvency Ratio	833%	844%

Atradius Crédito y Caucción S.A. de Seguros y Reaseguros

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2018
In New Zealand Dollars

27 Reconciliation of Profit for the period to Net cash flows from operating activities

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Profit	15	1,133,094	1,197,624
Non-cash items			
Depreciation	9	30,381	3,817
Deferred tax	8	(6,006)	(1,118)
		<hr/> 24,375	<hr/> 2,699
Movement in working capital			
Trade receivables		(154,168)	(345,695)
Deferred acquisition costs		(27,874)	(40,624)
Reinsurance receivable		(371,956)	152,977
Other		193,856	(179,588)
Current Tax		(92,983)	244,168
Insurance Liabilities		878,329	(283,205)
Reinsurance payables		(134,797)	404,980
Other payables		43,225	33,797
Other non-current payables		107,734	115,114
Net cash flow from operating activities		<hr/> 1,598,835	<hr/> 1,302,247