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 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 2019;
- 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 accompanying financial statements of the Branch, present fairly, in all material respects, the financial position of the Branch as at 31 December 2019, 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.

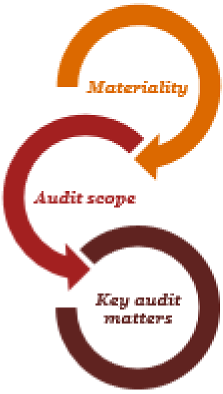
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. In addition, subject to certain restrictions, partners and employees of our firm may individually deal with the Branch on normal terms within the ordinary course of trading activities of the Branch. These matters have 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: $62,000, which represents approximately 1% of gross earned premium.

We chose gross earned premium 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 for insurance companies. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue related benchmarks.

We have determined that there is one key audit matter:

- Valuation of outstanding claims liabilities

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 Caución 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	How our audit addressed the key audit matter
Valuation of outstanding claims liabilities *2019 $4,761,014, 2018 $3,463,780* Refer to notes 1 and 17 to the financial statements, which also describe the elements that make up the balance. We considered the valuation of outstanding claims liabilities 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, using actuarial models and methodologies relies on the quality of underlying data which includes historical claims experience for insolvencies and non-insolvencies, as well as small and large claims, and involves significant judgements and assumptions given the inherent uncertainty in estimating the expected present value of future payments for claims incurred. In particular, there is greater judgement 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 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.	Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates. Claims data is a key input to the actuarial estimates. Accordingly, we: • evaluated the design effectiveness and tested controls over claims processing; • reviewed claims data reconciliations; and • inspected a sample of claims paid and claims notifications during the year to confirm that they were supported by appropriate documentation. 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 and with prior year; • assessed key actuarial judgements and assumptions including claim numbers, claims expense ratios, settlement periods, accident year loss ratios, and discount rate, and challenged these by comparing with our expectations based on the Branch's experience and independently observable industry and economic trends; and • assessed the approach to setting the risk margin in light of the requirements of the accounting standards and by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.

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 Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 April 2020

Auckland

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

Statement of Comprehensive Income
For the Year Ended 31 December 2019
In New Zealand Dollars

	Note	2019	2018
Gross earned premium	3	6,227,935	5,661,301
Outward reinsurance expense		(3,838,481)	(4,034,565)
Net premium revenue		2,389,454	1,626,736
Reinsurance commission		1,633,146	1,854,326
Fee income		521,734	479,172
Operating revenue		4,544,334	3,960,234
Underwriting expenses			
Gross claims expense	7	(4,304,768)	(2,052,414)
Reinsurance recoveries on claims	7	2,323,888	1,304,002
Unexpired risk liability expense	7	(84,437)	-
Net Claims expenses		(2,065,317)	(748,412)
Acquisition costs	14	(1,172,652)	(862,232)
Underwriting Result		1,306,365	2,349,590
Administrative expenses	4	(971,048)	(1,051,184)
Other revenue	6	282,520	265,139
Profit before tax	2	617,837	1,563,545
Taxation expense	8	(173,856)	(430,451)
Profit for the period		**443,981**	**1,133,094**
Other comprehensive income		-	-
Total Comprehensive Income for the year attributable to the members of Atradius Crédito y Caución S.A. de Seguros y Reaseguros		**363,657**	**1,133,094**

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 2019
In New Zealand Dollars

	Retained Profit/(Deficit)
Balance at 1 January 2018	(52,219)
Total Comprehensive Income	1,133,094
Balance at 31 December 2018	1,080,875
Balance at 1 January 2019	1,080,875
Total Comprehensive Income	443,981
Balance at 31 December 2019	**1,524,856**

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 2019
In New Zealand Dollars

	Note	2019	2018
Assets			
Cash and cash equivalents	11	4,427,628	3,391,339
Reinsurance receivables	18	4,190,176	3,912,581
Trade and other receivables	10	1,273,991	1,172,244
Investments	12	8,126,372	7,744,846
Other assets and accruals		259,497	261,608
Deferred acquisition costs	14	-	260,797
Deferred tax asset	8	32,011	11,027
Current tax receivable	8	164,603	-
Property, plant and equipment	9	264,540	143,753
Total Assets		**18,738,818**	**16,898,195**
Equity			
Retained profit/(deficit)	15	1,524,856	1,080,875
Total Equity		**1,524,856**	**1,080,875**
Liabilities			
Insurance Liabilities	17	6,496,816	5,068,463
Current tax payable	8	-	229,045
Reinsurance payables	19	758,778	651,176
Other accounts payables	20	8,962,026	8,945,133
Other liabilities and accruals	28	911,905	923,503
Unexpired risk liability	7	84,437	-
Total Liabilities		**17,213,962**	**15,817,320**
Total Equity and Liabilities		**18,738,818**	**16,898,195**

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: 30 April 2020

Francisco de Asis José Arregui Laborda
Director
Date: 30 April 2020

pwc

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

Statement of Cash Flows
For the Year Ended 31 December 2019
In New Zealand Dollars

	Note	2019	2018
Cash flows from operating activities			
Premium and other revenue received		6,779,042	5,986,306
Reinsurance premium net of commission		(2,097,732)	(2,315,036)
Payments to suppliers and staff		(1,913,119)	(1,417,783)
Claims payments		(2,897,159)	(1,372,121)
Reinsurance recoveries		1,866,117	988,639
Interest income		304,493	258,270
Tax paid		(588,488)	(529,440)
Net cash inflow from operating activities	27	**1,453,154**	**1,598,835**
Cash flows from investing activities			
Head office cash pooling transfers		(381,527)	301,821
Purchase of cash term deposit		(11,500,000)	(9,000,000)
Cash term deposit and bond matured		11,500,000	9,000,000
Net cash flows from investing activities		**(381,527)**	**301,821**
Cash flows from financing activities			
Principal repayment of lease liabilities	29	(35,338)	-
Net cash flows from financing activities		**(35,338)**	-
Net decrease / (increase) in cash		**1,036,289**	**1,900,656**
Cash and cash equivalents at the beginning of the year		3,391,339	1,490,683
Cash and cash equivalents at the end of the year	11	**4,427,628**	**3,391,339**

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

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 registered in Spain. The ultimate parent entity is 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 Practices (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, with financial instruments at fair value for financial reporting purposes.

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 $443,981 (2018: profit $1,133,094) and has a retained profit of $1,524,856 (2018: profit $1,080,875).

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.

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.

Outstanding Claims Liabilities

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

1 Significant accounting policies (continued)

Liability Adequacy Test

At each balance date, a Liability Adequacy Test (LAT) 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 recognised when due. These include 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.

Depreciation on Right of Use (ROU) asset
Depreciation is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

1 Significant accounting policies (continued)

Leases

The Branch has adopted NZ IFRS 16 for leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitions in the standard. The Branch recognised lease liabilities in relation to leases which had previously been classified as 'operating leases.' These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.028%.

The Branch leases an office and parking space for its own use. The lease has a term of 6 years, the remaining terms of which is 3 years and 10 months, with an option to renew for a further 6 years. The extension option will be taken into account in the measurement of lease liabilities when the Company is reasonably certain to exercise this option.

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. The Branch's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition.

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 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 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.

1 Significant accounting policies (continued)

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 future cash flows 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.

If in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the Statement of Comprehensive Income.

Trade and Other Payables

Trade and other payables are stated at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

Expenses

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.

1 Significant accounting policies (continued)

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).

(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 comprise of lease repayments and 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.

1 Significant accounting policies (continued)

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.

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.

IFRS 16 *Leases* has become effective from financial period beginning 1 January 2019 and has been adopted on this date for the financial year ending 31 December 2019. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The Branch has applied the modified retrospective implementation approach and as such, the comparative information has not been restated.

IFRS 17 *Insurance Contracts* has an expected effective date of 1 January 2023. The standard replaces the existing guidance in IFRS 4 Insurance Contracts. The impact on the financial statements is expected to be material in terms of recognition, measurement and on the presentation and disclosures, however no further details can be provided yet. The Branch's head office is currently performing gap analysis, design and testing of systems to be used, for the future implementation of the standard.

IFRS 9 *Financial Instruments* effective from 1 January 2018 includes revised guidance on the classification, measurement and impairment of financial instruments. The Branch decided to apply the temporary exemption in its reporting period starting on 1 January 2018 and expects to adopt IFRS 9 in combination with the adoption of IFRS 17 Insurance Contracts on 1 January 2023. In case of a significant change in operating activities, the Branch will assess whether its activities are predominantly connected with insurance.

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 2019
In New Zealand Dollars

2 **Profit before tax**

	Note	2019	2018
Underwriting Result		1,306,365	2,349,590
Administrative expenses	4	(971,048)	(1,051,184)
Other revenue/(expense)	6	282,520	265,139
Profit Before Tax		**617,837**	**1,563,545**

3 **Premium Revenue**

	Note	2019	2018
Premium invoiced		6,359,054	6,012,435
Movement in unearned premium balance	17	(131,119)	(351,134)
Gross Earned premium		**6,227,935**	**5,661,301**

4 **Administrative expenses**

	Note	2019	2018
Group Overhead Costs		(619,092)	(529,729)
Salaries		(281,603)	(285,395)
Superannuation		(15,981)	(779)
Other Personnel Expenses		71,043	(2,714)
Lease Payments		-	(33,364)
Consultancy		22,315	(63,505)
Communication Cost		(8,554)	(7,081)
Travel Cost		(14,169)	(16,392)
Marketing Cost		(3,500)	(2,547)
Depreciation Cost	9	(67,410)	(30,381)
Other Expenses		(54,097)	(79,297)
Total Administrative Expenses		**(971,048)**	**(1,051,184)**

5 **Audit fees**

	2019	2018
PricewaterhouseCoopers – Audit Fees	27,696	27,785
PricewaterhouseCoopers – Non-Audit Fees	-	196
	27,696	**27,981**

Non-Audit fees represent income earned by PwC New Zealand on the tax pooling services.

Notes to the financial statements
For the Year Ended 31 December 2019
In New Zealand Dollars

6 **Other revenue/(expense)**

	2019	2018
Interest Income	304,493	258,270
Interest expense on leases	(6,520)	-
Foreign Exchange Gain/(Loss)	(15,453)	6,869
Total other revenue	**282,520**	**265,139**

7 **Net Claims Expenses**

	2019	2018
Gross claims expense incurred	(4,132,582)	(1,873,126)
Claims handling expenses	(170,882)	(186,576)
Reinsurance and other recoveries	2,316,322	1,307,934
Net claims incurred - undiscounted	**(1,987,142)**	**(751,768)**
Discount movement		
Gross claims liabilities	(1,304)	7,288
Reinsurance share of claims liabilities	7,566	(3,932)
Net discount movement	**6,262**	**3,356**
Net claims incurred	**(1,980,880)**	**(748,412)**
Current year	(2,507,137)	(1,321,761)
Prior years	526,257	573,349
Total	**(1,980,880)**	**(748,412)**

Movements in outstanding claims liabilities are set out as follows:

	Note	2019 Gross	2019 Reinsurance	2019 Net
At January 1		3,463,780	(2,367,318)	1,096,462
Adjustment to claims reserves brought forward		1,773,606	(989,172)	784,434
Claims reserves for current year cases		2,202,973	(1,307,179)	895,794
Increase (decrease) in claims incurred but not reported		326,885	(19,971)	306,914
Discount		1,304	(7,566)	(6,262)
Sub-total		**4,304,768**	**(2,323,888)**	**1,980,880**
Claims settled		(3,007,534)	1,866,117	(1,141,417)
At December 31	17,18	**4,761,014**	**(2,825,089)**	**1,935,925**

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7 Net Claims Expenses (continued)

	Note	2018 Gross	2018 Reinsurance	2018 Net
At January 1		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		(132,925)	122,454	(10,471)
Discount		(7,288)	3,932	(3,356)
Sub-total		**2,052,415**	**(1,304,002)**	**748,413**
Claims settled		(1,525,220)	988,639	(536,581)
At December 31	17,18	**3,463,780**	**(2,367,318)**	**1,096,462**

Unexpired risk liability expense

The conduct of the liability adequacy test as at 31 December 2019 identified a deficit. The test is based on prospective information and so is dependent on assumptions and judgments. The Branch has recognised the deficiency in the Statement of Comprehensive Income and created an unexpired risk liability after writing down the deferred acquisition cost.

The net deficiency calculation is shown below:

	2019	2018
Net Unearned Premium Liability	711,678	-
Less DAC before writedown	(283,548)	-
Net Premium Liability	**428,130**	-
Central estimate of present value of expected future value of future cash flows for future claims	558,703	-
Risk margin	237,412	-
Premium Liability provision	**796,115**	-
Net Deficiency	**(367,985)**	-

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7 Net Claims Expenses (continued)

Unexpired risk liability

A Liability Adequacy Test (LAT) is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts.

		2019	2018
Unexpired Risk Liability as at 1 January		-	-
Deficiency Recognised		84,437	-
Release of unexpired risk liability recorded in previous periods		-	-
Unexpired Risk Liability as at 31 December		**84,437**	-
Deficiency recognised in the Statement of Comprehensive Income			
Gross movement in unexpired risk liability		(84,437)	-
Write down of deferred acquisition cost	14	(283,548)	-
Total deficiency recognised in the Statement of Comprehensive Income		**(367,985)**	-

The risk margin for premium liability is 45.4% (2018: 45.4%) and is intended to provide an adequacy to the 75th percentile of probability of sufficiency.

In New Zealand Dollars

8 Taxation

	Note	2019	2018
Income Tax expense			
Current taxation		194,840	436,457
Deferred taxation		(20,984)	(6,006)
Income tax expense for the year		**173,856**	**430,451**
Reconciliation of effective tax rate:			
Profit before tax	2	617,837	1,563,545
Income tax using company tax rate at 28%		172,995	437,793
Non-deductible expenses		960	1,017
Prior year adjustment / other taxes		(99)	(8,359)
Income tax expense		**173,856**	**430,451**

Income tax assets and liabilities

	2019	2018
Net deferred tax asset with respect to temporary differences	32,011	11,027
Net deferred tax asset	**32,011**	**11,027**
Corporation tax receivable	164,603	
Corporation tax payable	-	(229,045)
Current tax receivable/(payable)	**164,603**	**(229,045)**

In New Zealand Dollars

8 Taxation (continued)

	1 January 2018	(Charge)/credit to income	31 December 2018	(Charge)/credit to income	31 December 2019
Deferred tax asset					
Provision for bad debts	2,497	286	2,783	(2,437)	346
Provision for employee bonuses	9,953	2,756	12,709	286	12,995
Accruals	57,789	10,769	68,558	(50,681)	17,877
Lease liability	-	-	-	793	793
Total deferred tax asset	70,239	13,811	84,050	(52,039)	32,011
Deferred tax liability					
Deferred acquisition costs	(65,219)	(7,804)	(73,023)	73,023	-
Total deferred tax liability	(65,219)	(7,804)	(73,023)	73,023	-
Net deferred tax asset / (liability)	**5,020**	**6,007**	**11,027**	**(20,984)**	**32,011**

9 Property, Plant and Equipment

2018	Cost	Current Year Depreciation	Accumulated Depreciation	Carrying Value
Computer Hardware	26,696	1,143	26,696	-
Fixtures and Fittings	175,428	29,238	31,674	143,754
Right of Use asset	-	-	-	-
Total	**202,124**	**30,381**	**58,370**	**143,754**

2019	Cost	Current Year Depreciation	Accumulated Depreciation	Carrying Value
Computer Hardware	26,696	-	26,696	-
Fixtures and Fittings	175,428	29,238	60,912	114,516
Right of Use asset	188,196	38,172	38,172	150,024
Total	**390,320**	**67,410**	**125,780**	**264,540**

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9 Property, Plant and Equipment (continued)

Right of Use Asset

2019	Buildings	Fixtures and Fittings	Total
Addition	188,196	-	188,196
Depreciation	(38,172)	-	(38,172)
Balance at 31 December	150,024	-	150,024

10 Trade and Other Receivables

	2019	2018
Trade Receivables	1,273,991	1,165,895
Other Receivables	-	6,349
	1,273,991	**1,172,244**

Trade receivables are current assets and all under 90 days old except for $3,026 (2018: $46,115) which has an allowance for doubtful debts of $1,234 against it (2018: $31,841).

11 Cash and Cash Equivalents

	2019	2018
Cash at bank	1,927,628	3,391,339
Short-term bank deposits	2,500,000	-
	4,427,628	**3,391,339**

12 Investments

	2019	2018
Term deposit	6,000,000	6,000,000
Investment held by Head office	2,126,372	1,744,846
	8,126,372	**7,744,846**

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 and is treated as available on demand.

In New Zealand Dollars

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.

	2019	2018
Level 1	8,126,372	7,744,846
Level 2	-	-
Level 3	-	-
	8,126,372	**7,744,846**

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 (2018: $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 Crédito y Caución S.A. de Seguros y Reaseguros' 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.

13 Financial Instruments (continued)

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.

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 2019			
Financial Assets			
Cash and cash equivalents	4,427,628	-	4,427,628
Investments in Term deposits	6,000,000	-	6,000,000
Investment held by Head office	2,126,372	-	2,16,372
Premium Receivables	1,273,991	-	1,273,991
Other Debtors	-	-	-
Financial Liabilities			
Amounts due to related entities	8,583,862	-	8,583,862
Trade and other Payables	378,164	-	378,164
As at 31 December 2018			
Financial Assets			
Cash and cash equivalents	3,391,339	-	3,391,339
Investments in Term deposits	6,000,000	-	6,000,000
Investment held by Head office	1,744,846	-	1,744,846
Premium Receivables	1,165,895	-	1,165,895
Other Debtors	6,349	-	6,349
Financial Liabilities			
Amounts due to related entities	8,593,816	-	8,593,816
Trade and other Payables	351,317	-	351,317

Foreign currency risk

The Branch holds bank accounts in USD and AUD, which as of 31 December 2019 had balances of USD231,309 and AUD216,516 (December 2018: USD 188,875 and AUD 91,808), and had trade receivables in foreign currency and intercompany liabilities in EURO at December 2019: EUR110,408 (2018: EUR 113,619). Should the exchange rate change by 10% (strengthen) the value of the bank accounts would decrease by $51,665 and intercompany liabilities would also decrease by $16,715 together resulting in an additional cost on the profit and loss of $34,950. Approximately 2% of the gross claims liabilities (2018: 1%) 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.

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14 Deferred acquisition costs

	Note	2019	2018
Balance at 1 January		260,797	232,923
Acquisition costs paid during the year		911,855	890,106
Current period amortisation		(889,104)	(862,232)
Write down for premium deficiency	7	(283,548)	-
Balance at 31 December		-	**260,797**

15 Retained earnings / (deficit)

	2019	2018
Retained earnings / (deficit) - opening balance	1,080,875	(52,219)
Net profit	443,981	1,133,094
Closing balance	**1,524,856**	**1,080,875**

16 Operating Leases

Non-cancellable operating leases rentals have the following future commitments:

	2019	2018
Less than one year	-	39,572
Between one and five Years	-	140,022
More than 5 years		-
	-	**179,594**

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17 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, gross of reinsurance.

		2019	2018
Unearned premium liability			
2019		-	1,591,344
2020		1,735,802	13,339
Total unearned premium liability		**1,735,802**	**1,604,683**
Movements in Unearned Premium liability are set out as follows:			
At January 1		1,604,683	1,253,549
Premium Invoiced		6,359,054	6,012,435
Earned Premium	3	(6,227,935)	(5,661,301)
At December 31		**1,735,802**	1,604,683
Balance at beginning of the year		1,604,683	1,253,549
Balance at end of the year		1,735,802	1,604,683
Movement in Unearned Premium	3	**131,119**	**351,134**
Claims Outstanding			
Underwriting Year 2015		-	8,175
Underwriting Year 2016		-	9,802
Underwriting Year 2017		3,624	234,398
Underwriting Year 2018		364,289	1,320,734
Underwriting Year 2019		2,169,147	-
Total Outstanding claims		2,537,060	1,573,109
Claims incurred but not reported (IBNR)			
Underwriting Year 2015		-	-
Underwriting Year 2016		-	1,674
Underwriting Year 2017		4,033	82,703
Underwriting Year 2018		95,689	1,806,294
Underwriting Year 2019		2,124,232	
Total IBNR		2,223,954	1,890,671
Total Outstanding Claims Liabilities		**4,761,014**	**3,463,780**
Total Insurance Liabilities		**6,496,816**	**5,068,463**

17 Insurance Liabilities (continued)

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, Verne Baker 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 outstanding claims liability valuation is segmented based on based on insolvency and non-insolvency claims, split by small and large. The actuarial techniques used in the valuation project future claim payments by assuming future development patterns are consistent with past experience.

The IBNR projections are based on claim numbers, claim payments, claim provisions and individually reserved claims. In the valuation, for reasonableness checks, the ultimate loss ratio, ultimate claim number and average claim size are considered.

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 administrating claims arising from the payment of future claims. Direct claims handling expenses are assumed to be 8% (2018: 8%) of claim payments net of reinsurance and indirect claims handling costs are provided at 3% (2018: 3%).

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% (2018: 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.

In New Zealand Dollars

17 Insurance Liabilities (continued)

Sensitivity analysis has been performed around the gross outstanding claims liabilities of $4,761,014. If the loss ratio for the 2019 accident year is increased by 5%, the liabilities would increase by $320,402 or 7%. Any increase in liabilities is covered by reinsurance for an amount of 60% therefore the effect on the profit and loss would be a decrease in result of $128,161.

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, amounts net of reinsurance.

	Movement in Variable	Financial Impact	
	%	**2019**	**2018**
Claims expense ratio	Increase of 1%	(19,058)	(11,718)
	Decrease of 1%	19,058	11,718
Claims paid	Increase of 1%	(30,732)	(14,949)
	Decrease of 1%	30,732	14,949
Discount Rate	Increase of 1%	(47,919)	(32,173)
	Decrease of 1%	49,494	33,240

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 2019, derived from New Zealand Government bonds. The discount rate selected follows the yield curve and averages 1.15% (2018: 1.73%) per annum based on the weighted average term to settlement of 16 months (2018: 15 months) for the outstanding claims liabilities.

The present value of expected cash flows for gross outstanding claims liability including a risk margin for the company is $4,761,014 (2018: $3,463,780) comprising of a central estimate of $4,030,809 (2018: $2,932,533), non-reinsurance recoveries that reduces the central estimate by $255,971 (2018: $186,226) and a 26.125% (2018: 26.125%) risk margin of $986,176 (2018: $717,473). The discounted outstanding claims provision net of recoveries is $1,935,925 (2018: $1,096,462).

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.

In New Zealand Dollars

17 Insurance Liabilities (continued)

The Claims development table provides an overview of how the claims cost for accident years 2011-2019 have changed at successive financial year-ends. The claims presented in the development table are net of reinsurance. The following table shows the development of net outstanding claims provision of $1,935,925 as included in Note 7.

GROSS	Accident year								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
End of accident year			890,947	1,017,852	2,033,262	1,980,060	2,176,375	3,435,472	4,198,726
1 year later		833,247	1,156,720	828,968	2,129,481	655,429	908,723	3,279,185	
2 years later	411,459	691,033	1,052,165	753,060	1,625,215	362,425	779,354		
3 years later	399,466	729,164	1,050,387	744,198	1,629,012	444,542			
4 years later	399,144	706,971	1,050,500	781,774	1,711,919				
5 years later	398,836	713,936	1,050,280	781,232					
6 years later	399,348	735,016	1,050,230						
7 years later	398,867	733,215							
8 years later	398,759								
PTD	398,759	733,215	1,050,230	781,232	1,711,919	444,542	773,409	2,920,745	849,747
Reinsurance	77.5%	77.5%	77.5%	75.0%	72.5%	72.5%	72.5%	70.0%	60.0%

NET	Accident year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
End of accident year	-	-	200,463	254,463	559,147	544,516	598,503	1,030,642	1,679,490	
1 year later	-	187,481	260,262	207,242	585,607	180,243	249,899	983,755		
2 years later	92,578	155,482	236,737	188,265	446,934	99,667	214,322			
3 years later	89,880	164,062	236,337	186,049	447,978	122,249				
4 years later	89,807	159,068	236,363	195,444	470,778					
5 years later	89,738	160,636	236,313	195,308						
6 years later	89,853	165,379	236,302							
7 years later	89,745	164,973								
8 years later	89,721									
Current central estimate	89,721	164,973	236,302	195,308	470,778	122,249	214,322	983,755	1,679,490	4,156,899
Cumulative net paid to date	89,721	164,973	236,302	195,308	470,778	122,249	212,687	876,223	339,899	2,708,140
Net undiscounted central estimate	-	-	-	-	-	-	1,635	107,532	1,339,591	1,448,758
Discounting										(22,132)
3rd party recoveries										(99,864)
Risk margin										346,285
Claims handling costs										262,878
Net outstanding claims at 31/12/19										1,935,925
Net movement	(24)	(405)	(11)	(136)	22,800	22,582	(35,577)	(46,886)	1,679,490	

17 Insurance Liabilities (continued)

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.

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 (refer to Note 25 for further information on a developing economic event). 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 DAC (Atradius Re) 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 2019 ceded 60% in total. (2018: 70%)

17 Insurance Liabilities (continued)

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.

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 2017.

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18 Reinsurance Recoveries and Receivables

	2019	2018
Atradius Re, Ireland	1,564,311	1,600,113
3rd Party Reinsurance Receivables	2,625,865	2,312,467
	4,190,176	**3,912,581**

Reinsured share of unearned premium liability	1,024,123	963,206
Reinsured share of total outstanding claims liabilities and IBNR	2,825,089	2,367,318
Other reinsurance related receivables	340,964	582,057
	4,190,176	**3,912,581**

Movements in Reinsurance Recoveries and Receivables are set as follows:

Balance at 1 January	3,912,581	3,533,258
Current year recoveries earned	530,649	581,479
Settled during the year	(253,054)	(202,156)
Balance at 31 December	**4,190,176**	**3,912,581**

19 Reinsurance Payables

	2019	2018
Atradius Re, Ireland	249,441	192,013
3rd Party Reinsurers	509,337	459,163
	758,778	**651,176**

Reinsurance Payables are settled monthly and do not accrue interest.

Movements in Reinsurance Payables are set as follows:

Balance at 1 January	651,176	785,972
Current year claim liabilities	274,718	1,240,777
Settled during the year	(167,116)	(1,375,573)
Balance at 31 December	**758,778**	**651,176**

In New Zealand Dollars

20 Other Accounts Payables

	2019	2018
Payroll Liabilities	53,486	45,391
Other Accounts Payable	324,678	305,926
Atradius Crédito y Caución S.A. de Seguros y Reaseguros	8,583,862	8,593,816
	8,962,026	**8,945,133**

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 19 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 $619,092 (2018: $529,729) represented by $355,840 in group overhead, $41,277 related to information technology and $221,975 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 (2018: 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 $30,124 in connection to the lease of the office premises in Auckland.

In New Zealand Dollars

24 Solvency requirements

Atradius Crédito y Caución S.A. de Seguros y Reaseguros has a license under the Insurance (Prudential Supervision) Act 2010. Under this Act, the entity is subject to solvency requirements issued by the Reserve Bank of New Zealand. The solvency requirements which apply under the prudential supervision regime have been met by Atradius Crédito y Caución S.A. de Seguros y Reaseguros. The Atradius Group complies with capital requirements in each regulatory regime.

25 Subsequent Events

As at 31 December 2019 a limited number of cases of an unknown virus had been reported to the World Health Organisation. Following the subsequent spread of the virus, on 11 March 2020 the World Health Organisation declared the COVID-19 outbreak to be a pandemic. The identification of the virus post 31 December 2019 as a new coronavirus, and its subsequent spread, is considered a non-adjusting subsequent event. The carrying value of investments and insurance liabilities as at 31 December 2019 reflects the conditions known at that date and do not factor in the effect of COVID-19.

The Branch continues to maintain its operations and service its customers. Its response to COVID-19 is supported by the Risk Services at a group level, managing exposures and lowering risk acceptances.

As at the date of this report, it is not possible to reliably estimate the financial effect (if any) of the virus on the Branch's operations or future carrying value of investments and insurance liabilities. However, the Directors have no reason to believe there will be an impact on the ability of the Branch to continue as a going concern.

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).

	2019	2018
Actual Solvency Capital	1,262,986	1,151,205
Minimum Solvency Capital	160,495	138,143
Solvency Margin	1,102,491	1,013,062
Solvency Ratio	787%	833%

Notes to the financial statements
For the Year Ended 31 December 2019
In New Zealand Dollars

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

	Note	2019	2018
Profit	15	443,981	1,133,094
Non-cash items			
Depreciation	9	67,410	30,381
Deferred tax	8	(20,984)	(6,006)
		46,426	24,375
Movement in working capital			
Trade receivables		(101,747)	(154,168)
Deferred acquisition costs		260,797	(27,874)
Reinsurance receivable		(271,797)	(371,956)
Other		(4,210)	193,856
Current Tax		(393,648)	(92,983)
Insurance Liabilities		1,512,790	878,329
Reinsurance payables		107,603	(134,797)
Other payables		17,416	43,225
Other non-current payables		(164,457)	107,734
Net cash flow from operating activities		**1,453,154**	**1,598,835**

28 Other Liabilities and Accruals

		2019	2018
Ceded pipeline premium and return premium		216,677	216,419
Unearned reinsurance commission		440,373	423,497
Payroll and bonus accruals		13,559	10,738
Other accruals		88,438	272,848
Lease liabilities	29	152,858	-
Total		**911,905**	**923,503**

Notes to the financial statements
For the Year Ended 31 December 2019
In New Zealand Dollars

29 Lease Liabilities

Operating lease commitments disclosed as at 31 December 2018	16	179,594
Lease liability recognized as at 1 January (discounted using the lessee's incremental borrowing rate at the date of initial application)		**188,196**
Principal repayment of lease liabilities		(35,338)
Lease liability included in statement of financial position at 31 December		**152,858**

		2019	2018
A maturity analysis of lease liabilities based on undiscounted cash flows is reported below:			
Less than one year		42,900	-
Between one and five years		121,549	-
More than five years		-	-
Total undiscounted lease liabilities at 31 December		**164,449**	-
Lease liability included in statement of financial position at 31 December	28	**152,858**	-
Amounts recognised in the Profit & Loss			
Interest expenses on lease liabilities	6	**6,520**	-
Amounts recognised in the statement of cash flows			
Total cash outflow for leases		**35,338**	-