

Atradius Crédito y Caucción 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 Caucción 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

Our opinion

In our opinion, the accompanying financial statements of Atradius Crédito y Caución S.A. de Seguros y Reaseguros (the Company) New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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 and other explanatory information.

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.

Independence

We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Branch. 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. This matter has not impaired our independence as auditor of the Branch.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Description of the key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 439 759 499">Valuation of outstanding claims liabilities 2020: \$3,936,718 2019: \$4,761,014</p> <p data-bbox="277 517 823 611">Refer to notes 1 and 16 to the financial statements, which also describe the elements that make up the balance.</p> <p data-bbox="277 629 839 880">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. It requires expert judgement when assessing the appropriateness of management's calculation.</p> <p data-bbox="277 898 839 1216">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.</p> <p data-bbox="277 1234 839 1485">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 no or 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.</p> <p data-bbox="277 1503 839 1697">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.</p>	<p data-bbox="871 483 1461 611">Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates.</p> <p data-bbox="871 629 1366 689">Claims data is a key input to the actuarial estimates. Accordingly, we:</p> <ul data-bbox="871 707 1461 965" style="list-style-type: none"> <li data-bbox="871 707 1414 768">• evaluated the design effectiveness of controls over claims processing; <li data-bbox="871 786 1461 824">• reviewed claims data reconciliations; and <li data-bbox="871 842 1430 965">• inspected a sample of claims paid and claims notifications during the year to confirm that they were supported by appropriate documentation. <p data-bbox="871 983 1350 1010">Together with PwC actuarial experts we:</p> <ul data-bbox="871 1028 1461 1809" style="list-style-type: none"> <li data-bbox="871 1028 1461 1122">• considered the work and findings of the external independent actuaries engaged by the Branch; <li data-bbox="871 1140 1461 1267">• evaluated the actuarial models and methodologies used by comparing with those generally accepted and applied in the sector and with prior year; <li data-bbox="871 1285 1461 1570">• assessed key actuarial judgements and assumptions including claim numbers, claim expense ratios, claims payment period, 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 <li data-bbox="871 1588 1461 1809">• assessed the approach to setting the risk margin in light of the requirements of the New Zealand accounting standards and by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.

Our audit approach

Overview

Materiality	<p>Overall materiality: \$111,500, which represents approximately 5% of profit before tax.</p> <p>We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Branch is most commonly measured by users 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 benchmark.</p>
Key audit matters	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none"> Valuation of outstanding claims liabilities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Branch, 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/assurance-standards/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 Company's Directors, 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 the Company and the Company's 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:

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written over a light blue circular stamp.

Chartered Accountants
28 April 2021

Auckland

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

New Zealand Branch

Statement of Comprehensive Income For the Year Ended 31 December 2020 In New Zealand Dollars

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Gross earned premium	3	6,283,209	6,227,935
Outward reinsurance expense		(3,804,011)	(3,838,481)
Net premium revenue		2,479,198	2,389,454
Reinsurance commission		1,704,149	1,633,146
Fee income		585,819	521,734
Operating revenue		4,769,166	4,544,334
Underwriting expenses			
Gross claims expense	7	(2,079,374)	(4,541,298)
Reinsurance and other recoveries	7	1,300,361	2,560,418
Unexpired risk liability expense	7	84,437	(84,437)
Net Claims expenses		(694,576)	(2,065,317)
Acquisition costs	14	(622,915)	(1,172,652)
Underwriting Result		3,451,675	1,306,365
Administrative expenses	4	(1,382,953)	(971,048)
Other revenue	6	172,899	282,520
Profit before tax	2	2,241,621	617,837
Taxation expense	8	(628,307)	(173,856)
Profit for the period		1,613,314	443,981
Other comprehensive income		-	-
Total Comprehensive Income for the year attributable to the members of Atradius Crédito y Caución S.A. de Seguros y Reaseguros		1,613,314	443,981

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 2020
In New Zealand Dollars

	<u>Retained Profit</u>
Balance at 1 January 2019	1,080,875
Total Comprehensive Income	<u>443,981</u>
Balance at 31 December 2019	<u>1,524,856</u>
Balance at 1 January 2020	1,524,856
Total Comprehensive Income	<u>1,613,314</u>
Balance at 31 December 2020	<u>3,138,170</u>

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

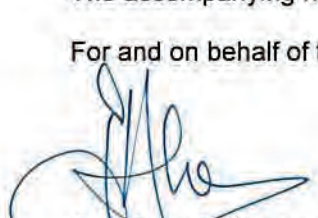
Atradius Crédito y Caución S.A. de Seguros y Reaseguros New Zealand Branch

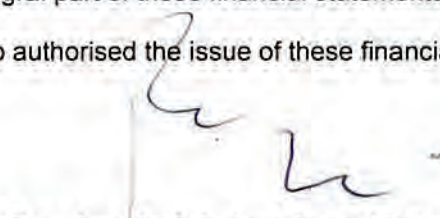
Statement of Financial Position As at 31 December 2020 In New Zealand Dollars

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Assets			
Cash and cash equivalents	11	2,527,783	4,427,628
Reinsurance receivables	17	3,700,109	4,190,176
Trade and other receivables	10	1,352,583	1,273,991
Investments	12	11,265,079	8,126,372
Other assets and accruals		734,861	259,497
Deferred tax asset	8	-	32,011
Current tax receivable	8	-	164,603
Property, plant and equipment	9	29,780	264,540
Deferred acquisition costs	14	286,296	-
Total Assets		19,896,491	18,738,818
Equity			
Retained profit	15	3,138,170	1,524,856
Total Equity		3,138,170	1,524,856
Liabilities			
Insurance liabilities	16	6,137,537	6,581,253
Current tax payable	8	38,187	-
Deferred tax liability	8	65,465	-
Reinsurance payables	18	884,574	758,778
Other accounts payables	19	8,828,845	8,962,026
Other liabilities and accruals	27	803,713	911,905
Total Liabilities		16,758,321	17,213,962
Total Equity and Liabilities		19,896,491	18,738,818

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: 28 April 2021


 Francisco de Asis José Arregui Laborda
 Director
 Date: 28 April 2021

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

New Zealand Branch

Statement of Cash Flows

For the Year Ended 31 December 2020
In New Zealand Dollars

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities			
Premium and other revenue received		7,255,453	6,779,042
Reinsurance premium net of commission		(1,974,066)	(2,097,732)
Payments to suppliers and staff		(2,941,354)	(1,913,119)
Claims payments		(2,435,822)	(2,897,159)
Reinsurance recoveries		1,498,222	1,866,117
Interest income		194,968	304,493
Tax paid		(328,040)	(588,488)
Net cash inflow from operating activities	26	1,269,361	1,453,154
Cash flows from investing activities			
Head office cash pooling transfers		(1,638,706)	(381,527)
Purchase of cash term deposit		(16,000,000)	(11,500,000)
Cash term deposit and bond matured		14,500,000	11,500,000
Net cash flows from investing activities		(3,138,706)	(381,527)
Cash flows from financing activities			
Principal repayment of lease liabilities	28	(30,499)	(35,338)
Net cash flows from financing activities		(30,499)	(35,338)
Net (decrease) / increase in cash		(1,899,845)	1,036,289
Cash and cash equivalents at the beginning of the year		4,427,628	3,391,339
Cash and cash equivalents at the end of the year	11	2,527,783	4,427,628

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 2020 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 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. During the year the Branch reported a profit of \$1,613,314 (2019: profit \$443,981) and has a retained profit of \$3,138,170 (2019: profit \$1,524,856).

The Branch is part of Atradius Crédito y Caución S.A. de Seguros y Reaseguros, which is incorporated in Spain, the Branch relies on their operational support. 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 Caucción S.A. de Seguros y Reaseguros New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2020 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.

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.

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

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2020
In New Zealand Dollars

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.

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

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2020
In New Zealand Dollars

1 Significant accounting policies (continued)

Leases

The Branch applies NZ IFRS 16 using the modified retrospective approach. As such, the comparative information of 2018 is no longer applicable. The Branch recognised lease liabilities in relation to leases which had previously been classified as 'operating leases.'

As a lessee, the Branch recognised a Right of Use (ROU) asset and a lease liability at the commencement of the lease. The ROU asset is measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs to remove the underlying asset, less any lease incentives received. The lease liability is 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%.

Depreciation

The ROU asset is depreciated using the straight-line depreciation method over the term of the lease. The depreciation expense on the ROU asset and the interest expense on the lease liability are separately recognised in the Statement of Comprehensive Income.

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.

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 the 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.

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

New Zealand Branch

Notes to the financial statements

For the Year Ended 31 December 2020
In New Zealand Dollars

1 Significant accounting policies (continued)

Receivables within the scope of NZ IFRS 9 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. Any increase or decrease in the provision for impairment is recognised in the 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 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.

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 are 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 periods, 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.

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

Notes to the financial statements For the Year Ended 31 December 2020 In New Zealand Dollars

1 Significant accounting policies (continued)

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).

(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 of 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.

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

Notes to the financial statements For the Year Ended 31 December 2020 In New Zealand Dollars

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 17 *Insurance Contracts* has an expected effective date of 1 January 2023. The standard replaces the existing guidance in IFRS 4 *Insurance Contracts*. The Branch, through its head office, is currently assessing the impact of the standard on the financial statements, including which measurement model should be applied and how the requirements with regard to the level of aggregation should be applied. Although the impact on the financial statements is expected to be material in terms of recognition, measurement and on the presentation and disclosures, no further details can be provided yet.

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

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2	<u>Profit before tax</u>	<u>Note</u>	<u>2020</u>	<u>2019</u>
	Underwriting Result		3,451,675	1,306,365
	Administrative expenses	4	(1,382,953)	(971,048)
	Other revenue/(expense)	6	172,899	282,520
	Profit Before Tax		2,241,621	617,837
3	<u>Premium Revenue</u>			
	Premium invoiced		6,748,226	6,359,054
	Movement in unearned premium balance	16	(465,017)	(131,119)
	Gross Earned premium		6,283,209	6,227,935
4	<u>Administrative expenses</u>			
	Group Overhead Costs		(694,884)	(619,092)
	Salaries		(292,159)	(281,603)
	Superannuation		(10,136)	(15,981)
	Other Personnel Expenses		568	71,043
	Consultancy		(45,197)	22,315
	Communication Cost		(7,641)	(8,554)
	Travel Cost		(5,057)	(14,169)
	Marketing Cost		-	(3,500)
	Depreciation Cost	9	(69,968)	(67,410)
	Asset impairment Cost		(173,065)	-
	Other Expenses		(85,414)	(54,097)
	Total Administrative Expenses		(1,382,953)	(971,048)
5	<u>Audit fees</u>			
	PricewaterhouseCoopers – Audit Fees		28,005	27,696
			28,005	27,696

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6	<u>Other revenue/(expense)</u>	<u>2020</u>	<u>2019</u>
	Interest Income	194,968	304,493
	Interest expense on leases	(5,441)	(6,520)
	Foreign Exchange Gain/(Loss)	(16,628)	(15,453)
	Total other revenue	<u>172,899</u>	<u>282,520</u>
7	<u>Net Claims Expenses</u>	<u>2020</u>	<u>2019</u>
	Gross claims expense incurred	(1,765,902)	(4,369,112)
	Claims handling expenses	(252,196)	(170,882)
	Reinsurance and other recoveries	1,263,938	2,552,852
	Net claims incurred - undiscounted	<u>(754,160)</u>	<u>(1,987,142)</u>
	Discount movement		
	Gross claims liabilities	(61,276)	(1,304)
	Reinsurance share of claims liabilities	36,423	7,566
	Net discount movement	<u>(24,853)</u>	<u>6,262</u>
	Unexpired risk liability expense	<u>84,437</u>	<u>(84,437)</u>
	Net claims incurred	<u>(694,576)</u>	<u>(2,065,317)</u>
	Current year	(1,361,093)	(2,591,574)
	Prior years	666,517	526,257
	Total	<u>(694,576)</u>	<u>(2,065,317)</u>

Non-reinsurance recoveries have been reclassified from Gross claims expense incurred to Reinsurance and other recoveries in the current and prior year periods.

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7 Net Claims Expenses (continued)

Unexpired risk liability expense

The conduct of the liability adequacy test as at 31 December 2020 resulted to a surplus, where the expected cash flows relating to future claims is lower than the current value of the unearned premium liability. The test is based on prospective information and so is dependent on assumptions and judgments.

The net surplus / (deficiency) calculation is shown below:

	<u>2020</u>	<u>2019</u>
Net Unearned Premium Liability	1,143,287	711,678
Less Net DAC before writedown	72,322	(283,548)
Net Premium Liability	<u>1,215,619</u>	<u>428,130</u>
Central estimate of present value of expected future value of future cash flows for future claims	649,267	558,703
Risk margin	319,318	237,412
Premium Liability provision	<u>968,585</u>	<u>796,115</u>
Net Surplus / (Deficiency)	<u>247,034</u>	<u>(367,985)</u>

The branch has changed the methodology and included unearned reinsurance commission in the liability adequacy test for 2020. Unearned reinsurance commission was not included in the test for 2019. If unearned reinsurance commission had been included in 2019, the test would have been passed with a surplus of \$72,387.

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.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Unexpired Risk Liability as at 1 January		84,437	-
Deficiency Recognised		-	84,437
Release of unexpired risk liability recorded in previous periods		(84,437)	-
Unexpired Risk Liability as at 31 December		<u>-</u>	<u>84,437</u>
Deficiency recognised in the Statement of Comprehensive Income			
Gross movement in unexpired risk liability		84,437	(84,437)
Write down of deferred acquisition cost	14	-	(283,548)
Total deficiency recognised in the Statement of Comprehensive Income		<u>84,437</u>	<u>(367,985)</u>

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7 Net Claims Expenses (continued)

The risk margin for premium liability is 52.9% (2019: 45.4%) and is intended to provide an adequacy to the 75th percentile of probability of sufficiency.

8 <u>Taxation</u>	<u>Note</u>	<u>2020</u>	<u>2019</u>
<u><i>Income Tax expense</i></u>			
Current taxation		530,831	194,840
Deferred taxation		97,476	(20,984)
Income tax expense for the year		628,307	173,856
Reconciliation of effective tax rate:			
Profit before tax	2	2,241,621	617,837
Income tax using company tax rate at 28%		627,654	172,995
Non-deductible expenses		434	960
Prior year adjustment / other taxes		219	(99)
Income tax expense		628,307	173,856
<u><i>Income tax assets and liabilities</i></u>			
Net deferred tax asset with respect to temporary differences		(65,465)	32,011
Net deferred tax (liability)/asset		(65,465)	32,011
Corporation tax receivable		-	164,603
Corporation tax payable		(38,187)	-
Current tax receivable/(payable)		(38,187)	164,603

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8 Taxation (continued)

	1 January 2019	(Charge)/credit to income	31 December 2019	(Charge)/credit to income	31 December 2020
<u>Deferred tax asset</u>					
Provision for bad debts	2,783	(2,437)	346	1,001	1,347
Provision for employee bonuses	12,709	286	12,995	1,936	14,931
Accruals	68,558	(50,681)	17,877	2,562	20,439
Lease liability	-	793	793	830	1,623
Premium Deficiency	-	-	-	(23,642)	(23,642)
Total deferred tax asset	84,050	(52,039)	32,011	(17,313)	14,698
<u>Deferred tax liability</u>					
Deferred acquisition costs	(73,023)	73,023	-	(80,163)	(80,163)
Total deferred tax liability	(73,023)	73,023	-	(80,163)	(80,163)
Net deferred tax asset/ (liability)	11,027	(20,984)	32,011	(97,476)	(65,465)

9 Property, Plant and Equipment

	Cost	Current Year Depreciation	Accumulated Depreciation	Accumulated Impairment	Carrying Value
<u>2019</u>					
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
<u>2020</u>					
Computer Hardware	27,796	92	26,788	1,008	-
Fixtures and Fittings	175,428	29,238	90,150	85,278	-
Right of Use asset	195,369	40,638	78,810	86,779	29,780
Total	398,593	69,968	195,748	173,065	29,780

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9 Property, Plant and Equipment (continued)

Right of Use Asset

<u>2019</u>	<u>Buildings</u>	<u>Fixtures and Fittings</u>	<u>Total</u>
Addition	188,196	-	188,196
Depreciation	(38,172)	-	(38,172)
Balance at 31 December	150,024	-	150,024
 <u>2020</u>			
Addition	7,174	-	7,174
Impairment	(86,779)	-	(86,779)
Depreciation	(40,638)	-	(40,638)
Balance at 31 December	29,780	-	29,780

The Branch tested Right of Use and Fixed assets for impairment and recognised an impairment loss in 2020.

10 Trade and Other Receivables

	<u>2020</u>	<u>2019</u>
Trade Receivables	1,253,463	1,273,991
Other Receivables	99,120	-
	1,352,583	1,273,991

Trade receivables are current assets and all under 90 days old except for \$8,423 (2019: \$3,026) which has an allowance for doubtful debts of \$4,810 against it (2019: \$1,234).

11 Cash and Cash Equivalents

	<u>2020</u>	<u>2019</u>
Cash at bank	2,527,783	1,927,628
Short-term bank deposits	-	2,500,000
	2,527,783	4,427,628

12 Investments

	<u>2020</u>	<u>2019</u>
Term deposit	10,000,000	6,000,000
Investment held by Head office	1,265,079	2,126,372
	11,265,079	8,126,372

The investments are classified as Fair Value through Profit or Loss (FVTPL) and carried at fair value 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.

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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 IFRS 13.

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>2020</u>	<u>2019</u>
Level 1	1,265,079	2,126,372
Level 2	10,000,000	6,000,000
Level 3	-	-
	<u>11,265,079</u>	<u>8,126,372</u>

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 \$10,000,000 (2019: \$6,000,000) have a maturity of less than 1 year. The other assets are in relation to the exposure to the panel of reinsurers. Atradius Crédito y Caucción 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.

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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.

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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 2020			
Financial Assets			
Cash and cash equivalents	2,527,783	-	2,527,783
Investments in Term deposits	10,000,000	-	10,000,000
Investment held by Head office	1,265,079	-	1,265,079
Premium Receivables	1,352,583	-	1,352,583
Financial Liabilities			
Amounts due to related entities	8,484,381	-	8,484,381
Trade and other Payables	344,619	-	344,619
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
Financial Liabilities			
Amounts due to related entities	8,583,862	-	8,583,862
Trade and other Payables	378,164	-	378,164

Foreign currency risk

The Branch holds bank accounts in USD and AUD, which as of 31 December 2020 had balances of USD29,072 and AUD138,335 (December 2019: USD231,309 and AUD216,516). There were also intercompany receivables of USD75,090 and intercompany liabilities of EUR45,413 and AUD6,786 at 31 December 2020 (2019: EUR110,408). Should the exchange rate change by 10% (strengthen) the value of the bank accounts and receivables would decrease by \$26,543 and liabilities would decrease by \$7,671 together resulting in an additional cost on the profit and loss of \$18,872. Less than 1% of the gross claims liabilities (2019: 2%) 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	<u>Deferred acquisition costs</u>	<u>Note</u>	<u>2020</u>	<u>2019</u>
	Balance at 1 January		-	260,797
	Acquisition costs paid during the year		909,211	911,855
	Current period amortisation		(622,915)	(889,104)
	Write down for premium deficiency		-	(283,548)
	Acquisition costs for the year		(622,915)	(1,172,652)
	Balance at 31 December		286,296	-
15	<u>Retained earnings</u>			
	Retained earnings - opening balance		1,524,856	1,080,875
	Net profit		1,613,314	443,981
	Closing balance		3,138,170	1,524,856

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16 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.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
<u>Unearned Premium Liability</u>			
2020		-	1,735,802
2021		2,200,819	-
Total Unearned Premium Liability		2,200,819	1,735,802
Movements in Unearned Premium Liability are set out as follows:			
At January 1		1,735,802	1,604,683
Premium Invoiced	3	6,748,226	6,359,054
Earned Premium		(6,283,209)	(6,227,935)
At December 31		2,200,819	1,735,802
Balance at beginning of the year		1,735,802	1,604,683
Balance at end of the year		2,200,819	1,735,802
Movement in Unearned Premium	3	465,017	131,119
<u>Claims Outstanding</u>			
Underwriting Year 2017		-	3,624
Underwriting Year 2018		602,588	364,289
Underwriting Year 2019		334,332	2,169,147
Underwriting Year 2020		706,569	-
Total Outstanding Claims		1,643,489	2,537,060
<u>Claims Incurred But Not Reported (IBNR)</u>			
Underwriting Year 2017		-	4,033
Underwriting Year 2018		8,196	95,689
Underwriting Year 2019		60,335	2,124,232
Underwriting Year 2020		2,224,699	-
Total IBNR		2,293,229	2,223,954
Total Outstanding Claims Liabilities		3,936,718	4,761,014
Total Insurance Liabilities		6,137,537	6,496,816

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16 Insurance Liabilities (continued)

Movements in outstanding claims liabilities are set out as follows:

	<u>Note</u>	<u>2020</u> <u>Gross</u>	<u>2020</u> <u>Reinsurance</u>	<u>2020</u> <u>Net</u>
At January 1		4,761,014	(2,825,089)	1,935,925
Adjustment to claims reserves brought forward		968,128	(524,980)	443,148
Claims reserves for current year cases		709,079	(419,500)	289,579
Increase (decrease) in claims incurred but not reported		42,763	(21,330)	21,433
Discount		61,277	(36,423)	24,854
Sub-total		1,781,247	(1,002,233)	779,014
Claims settled		(2,605,542)	1,498,222	(1,107,320)
At December 31	17	3,936,719	(2,329,100)	1,607,619

	<u>Note</u>	<u>2019</u> <u>Gross</u>	<u>2019</u> <u>Reinsurance</u>	<u>2019</u> <u>Net</u>
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 to present value		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	4,761,014	(2,825,089)	1,935,925

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16 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 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, but also adjusted where appropriate given the current environment.

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 administering claims arising from the payment of future claims. Direct claims handling expenses are assumed to be 8% (2019: 8%) of claim payments net of reinsurance and indirect claims handling costs are provided at 3% (2019: 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 30.4% (2019: 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.

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16 Insurance Liabilities (continued)

Sensitivity analysis has been performed around the gross outstanding claims liabilities of \$2,931,268 for the 2020 accident year. If the loss ratio is increased by 5%, the liabilities would increase by \$363,681 or 9%. Any increase in liabilities is covered by reinsurance for an amount of 59% therefore the effect on the profit and loss would be a decrease in result of \$149,109.

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	
		2020	2019
Claims expense ratio	Increase of 1%	(24,687)	(19,058)
	Decrease of 1%	24,687	19,058
Claims paid	Increase of 1%	(26,515)	(30,732)
	Decrease of 1%	26,515	30,732
Discount Rate	Increase of 1%	(34,743)	(47,919)
	Decrease of 1%	35,839	49,494

Claims liabilities are determined only by the invoiced amounts upon which the claim is based on 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 2020, derived from New Zealand Government bonds. The discount rate selected follows the yield curve and averages 0.26% (2019: 1.15%) per annum based on the weighted average term to settlement of 15 months (2019: 16 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 \$3,936,719 (2019: \$4,761,014) comprising of a central estimate of \$3,223,671 (2019: \$4,030,809), non-reinsurance recoveries that reduces the central estimate by \$204,715 (2019: \$255,971) and a 30.4% (2019: 26.125%) risk margin of \$917,763 (2019: \$986,176). The discounted outstanding claims provision net of recoveries is \$1,607,619 (2019: \$1,935,925).

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.

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16 Insurance Liabilities (continued)

The Claims development table provides an overview of how the claims cost for accident years 2011-2020 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 \$1,607,619 as included in Note 7.

GROSS	Accident year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
End of accident year			890,947	1,017,852	2,033,262	1,980,060	2,176,375	3,435,472	4,198,726	2,526,297
1 year later		833,247	1,156,720	828,968	2,129,481	655,429	908,723	3,279,185	3,255,248	
2 years later	411,459	691,033	1,052,165	753,060	1,625,215	362,425	779,354	3,569,161		
3 years later	399,466	729,164	1,050,387	744,198	1,629,012	444,542	770,755			
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	1,712,997					
6 years later	399,348	735,016	1,050,230	782,656						
7 years later	398,867	733,215	1,050,360							
8 years later	398,759	708,727								
9 years later	399,042									
FTD	399,042	708,727	1,050,360	782,656	1,712,997	444,542	770,755	3,114,561	2,961,396	340,995
Reinsurance	77.5%	77.5%	77.5%	75.0%	72.5%	72.5%	72.5%	70.0%	60.0%	59.0%
NET	Accident year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
End of accident year	-	-	200,463	254,463	559,147	544,516	598,503	1,030,642	1,679,490	1,035,782
1 year later	-	187,481	260,262	207,242	585,607	180,243	249,899	983,755	1,302,099	
2 years later	92,578	155,482	236,737	188,265	446,934	99,667	214,322	1,070,748		
3 years later	89,880	164,062	236,337	186,049	447,978	122,249	211,958			
4 years later	89,807	159,068	236,363	195,444	470,778					
5 years later	89,738	160,636	236,313	195,308	471,074					
6 years later	89,853	165,379	236,302	195,664						
7 years later	89,745	164,973	236,331							
8 years later	89,721	159,464								
9 years later	89,784									
										Total
Current central estimate	89,784	159,464	236,331	195,664	471,074	122,249	211,958	1,070,748	1,302,099	1,035,782
Cumulative net paid to date	89,784	159,464	236,331	195,664	471,074	122,249	211,958	934,368	1,184,558	139,808
Net undiscounted central estimate	-	-	-	-	-	-	-	136,380	117,541	895,974
Discounting										3,695
3rd party recoveries										80,234
Risk margin										324,054
Claims handling costs										217,599
Net outstanding claims at 31/12/20										1,607,619
Net movement	64	(5,510)	29	356	296	-	(2,365)	86,993	(377,391)	1,035,782

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

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16 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. 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 2020 ceded 59% in total. (2019: 60%)

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

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16 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 sectors.

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

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

New Zealand Branch

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17	<u>Reinsurance Recoveries and Receivables</u>	<u>2020</u>	<u>2019</u>
	Atradius Re, Ireland	1,238,624	1,564,311
	3rd Party Reinsurance Receivables	2,461,485	2,625,865
		<u>3,700,109</u>	<u>4,190,176</u>
	Reinsured share of unearned premium liability	1,057,532	1,024,123
	Reinsured share of total outstanding claims liabilities and IBNR	2,329,100	2,825,089
	Other reinsurance related receivables	313,477	340,964
		<u>3,700,109</u>	<u>4,190,176</u>
	Movements in Reinsurance Recoveries and Receivables are set as follows:		
	Balance at 1 January	4,190,176	3,912,581
	Current year recoveries earned	(346,678)	530,649
	Settled during the year	(143,389)	(253,054)
	Balance at 31 December	<u>3,700,109</u>	<u>4,190,176</u>
18	<u>Reinsurance Payables</u>	<u>2020</u>	<u>2019</u>
	Atradius Re, Ireland	588,080	249,441
	3rd Party Reinsurers	296,494	509,337
		<u>884,574</u>	<u>758,778</u>
	Reinsurance Payables are settled monthly and do not accrue interest.		
	Movements in Reinsurance Payables are set as follows:		
	Balance at 1 January	758,778	651,176
	Current year reinsurance liabilities	667,111	274,718
	Settled during the year	(541,315)	(167,116)
	Balance at 31 December	<u>884,574</u>	<u>758,778</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 2020 In New Zealand Dollars

19 Other Accounts Payables

	<u>2020</u>	<u>2019</u>
Payroll Liabilities	53,328	53,486
Other Accounts Payable	291,136	324,678
Atradius Crédito y Caución S.A. de Seguros y Reaseguros	8,484,381	8,583,862
	<u>8,828,845</u>	<u>8,962,026</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.

20 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.

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. Reinsurance 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 \$694,883 (2019: \$619,092) represented by \$181,186 in group overhead, \$79,215 related to information technology and \$434,482 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.

21 Capital Commitments

There are no capital commitments (2019: None).

22 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.

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

New Zealand Branch

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23 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.

24 Subsequent Events

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

25 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.

	<u>2020</u>	<u>2019</u>
	(in EUR '000)	(in EUR '000)
Actual Solvency Capital	1,270,553	1,262,986
Minimum Solvency Capital	154,149	160,495
Solvency Margin	1,116,404	1,102,491
Solvency Ratio	824%	787%

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

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26 Reconciliation of profit for the period to net cash flows from operating activities

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Profit	15	1,613,314	443,981
Non-cash items			
Depreciation	9	69,968	67,410
Deferred tax	8	97,476	(20,984)
		<u>167,444</u>	<u>46,426</u>
Movement in working capital			
Trade receivables		(78,592)	(101,747)
Deferred acquisition costs		(286,296)	260,797
Reinsurance receivable		490,067	(271,797)
Other		(310,572)	(4,210)
Current Tax		202,791	(393,648)
Insurance Liabilities		(443,716)	1,512,790
Reinsurance payables		125,795	107,603
Other payables		(102,682)	17,416
Other non-current payables		(108,192)	(164,457)
Net cash flow from operating activities		<u>1,269,361</u>	<u>1,453,154</u>

27 Other Liabilities and Accruals

		<u>2020</u>	<u>2019</u>
Ceded pipeline premium and return premium		214,411	216,677
Unearned reinsurance commission		358,628	440,373
Payroll and bonus accruals		13,559	13,559
Other accruals		98,439	88,438
Lease liabilities	28	118,676	152,858
Total		<u>803,713</u>	<u>911,905</u>

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New Zealand Branch

Notes to the financial statements For the Year Ended 31 December 2020 In New Zealand Dollars

28 Leases: Right of Use Assets

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Lease Liabilities			
A maturity analysis of lease liabilities based on undiscounted cash flows is reported below:			
Less than one year		44,408	42,900
Between one and five years		84,804	121,549
More than five years		-	-
Total undiscounted lease liabilities at 31 December		129,212	164,449
 Lease liability included in statement of financial position at 31 December	 27	 118,676	 152,858
 Amounts recognised in the Profit & Loss			
Interest expenses on lease liabilities	6	5,441	6,520
 Amounts recognised in the statement of cash flows			
Total cash outflow for leases		30,499	35,338