2019

RELATÓRIO E CONTAS

ABARCA
SEGUROS

"To decide what not to do is as important as to decide what to do"

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MANAGEMENT REPORT

ABARCA
SEGUROS

1. Management Report

In accordance with the terms of Article 66 of the Commercial Companies Code, we submit the Management Report and Financial Statements for the financial year ended on 31 December 2019 to the consideration of the Shareholders General Meeting.

1.1 Deed of Governance of the Company

Board of the Shareholders General Meeting

Rita Elmira Pires Trabulo (Chairperson)
Maria Rita Modesto Gonçalves Saias (Secretary)

Corporate Bodies

Board of Directors

Manuel Morales Azuaga (Chairperson)
Fernando Morales Alba (Managing Director)
Rafaela Alba Romero (Member)
António Luís Castanheira Silva Lopes (Director)

Audit Board

António José Marques Centúrio Monzelo, ROC (Chairperson)
António Eduardo Monteverde Plantier Saraiva (Member)
José Manuel d'Ascenção Costa, ROC (Member)
Rui Alexandre dos Santos Sá Carrilho, ROC (Substitute)

Statutory Auditor

Mazars & Associados, Sociedade de Revisores Oficiais de Contas, S.A.,
Represented by Fernando Jorge Marques Vieira, ROC

Substitute

Luís Filipe Soares Gaspar, ROC

Responsible Actuary

Luís Portugal da Costa Lobo Rodrigues dos Santos

1.2 Officers Responsible for Key Functions

Officer responsible for key functions of risk management
Maria João Amorim Miragaia Trancoso Vaz

Officer responsible for the actuarial key function
Helena Maria Aleixo Pereira

Officer responsible for the key function of compliance verification
Ana Margarida dos Santos Teixeira de Faria Nunes

Interim officer responsible for the key function of internal audit
Gabriel Alonso Spadaro

1.3 Corporate Governance Practices of the Company

The governance model in force in Abarca - Companhia de Seguros, S.A. (Hereinafter referred to as "Abarca", "Abarca Seguros" or "Company") follows, making allowance for the specific aspects that derive from the Company's size, the principles and recommendations on corporate governance transparency and efficiency contained, namely, in the amendments to the Commercial Companies Code through Legislative Decree no. 185/2000, of 12 August, in Legislative Decree no. 2/2009, of 5 January, in Legislative Decree no. 98/2015, of 2 June , in Regulatory Standard no. 5/2010-R, of 1 April, and Circular no. 5/2009, of 19 February, both of the latter issued by the Insurance and Pension Funds Supervisory Authority (hereinafter, "ASF").

1.4 Remuneration Policy Declaration

The remuneration structure for corporate board members and first-tier managers, together with eligibility criteria for the variable component, are as follows:

a) Structure of Corporate Board member remuneration

- **Executive Members of the Board of Directors**

Fixed amount

Executive Directors are entitled to a fixed monthly amount (paid 14 times/year) in accordance with their job position.

Annual variable remuneration

Part of their remuneration is variable to leverage their commitment to the company and motivate their performance.

Annual variable remuneration is tied to the achievement of specific, quantifiable business goals in line with the company's interests involving value creation, together with an individual performance assessment. Goals are set annually according to strategic business priorities.

- **Non-executive Members of the Board of Directors**

The non-executive members of the Board of Directors receive no regular remuneration or supplementary benefits, unless decided otherwise under exceptional circumstances by the General Meeting.

- **Audit Board**

Chairperson and Members

The Audit Board has three full members (Chairperson and two Members) and one substitute. The Audit Board's remuneration, comprising a gross monthly salary (paid over 12 months), is determined by the General Meeting and differs by job position.

- **Statutory Auditor**

Fees, per market prices, are paid according to the service provision agreement signed for the legal certification of the accounts.

b) Remunerations policy of 1st-line managers and those with responsibility for key functions

Fixed amount

The workers' fixed remuneration is defined by the respective individual employment contracts, based on the applicable collective regulations in the insurance industry.

Variable Remuneration

The allocation of variable remuneration to workers always depends on the Company's performance, more specifically on the achievement of positive results and the fulfilment of the objectives initially set. If that assumption is achieved, the workers will be able to share in the Company's profits, subject to the terms set out below.

- **Managers and holders of key functions**

In the specific case of senior managers and holders of key positions, annual variable remuneration will be determined individually by the Board of Directors at the time of setting and discussing objectives (qualitative and quantitative) with a view to leveraging their commitment to the Company and motivating their performance. The following reference parameters will be considered in calculating variable remuneration:

- ✓ Achieving previously established company goals;
- ✓ Individual performance assessment, including compliance with legislation and other regulations, controlling the various risks associated with the respective job positions, and customer relationships (internal and external), among other criteria;
- ✓ Analysis of other qualitative circumstances and aspects tied to professional development and individual skills.

- **Other collaborators**

In addition to fixed remuneration, other employees may receive supplementary variable remuneration in the form of an "extraordinary management bonus".

Employees who have worked for the company for less than 12 months normally do not receive variable remuneration through the end of the financial year of the compensation in question.

The total amount of this variable remuneration may not exceed the annual ceiling determined by the Board of Directors. The maximum individual amount may not exceed a given number of months (normally three) of actual fixed monthly remuneration in effect at the end of this year.

The variable remuneration payable to each employee will also consider an employee performance assessment, the employee's actual contribution to achieving goals and the company's results and added value obtained in the year. The process of giving variable remuneration to employees should not be confused with, but will take into account, the annual performance assessment process.

Hierarchical superiors are responsible for evaluating employee performance, with approval from the next highest hierarchical level. This process also includes setting qualitative and quantitative goals for the upcoming year, which are discussed with each employee.

c) Disclosure and updating

The remuneration policy is evaluated and approved at least once per year:

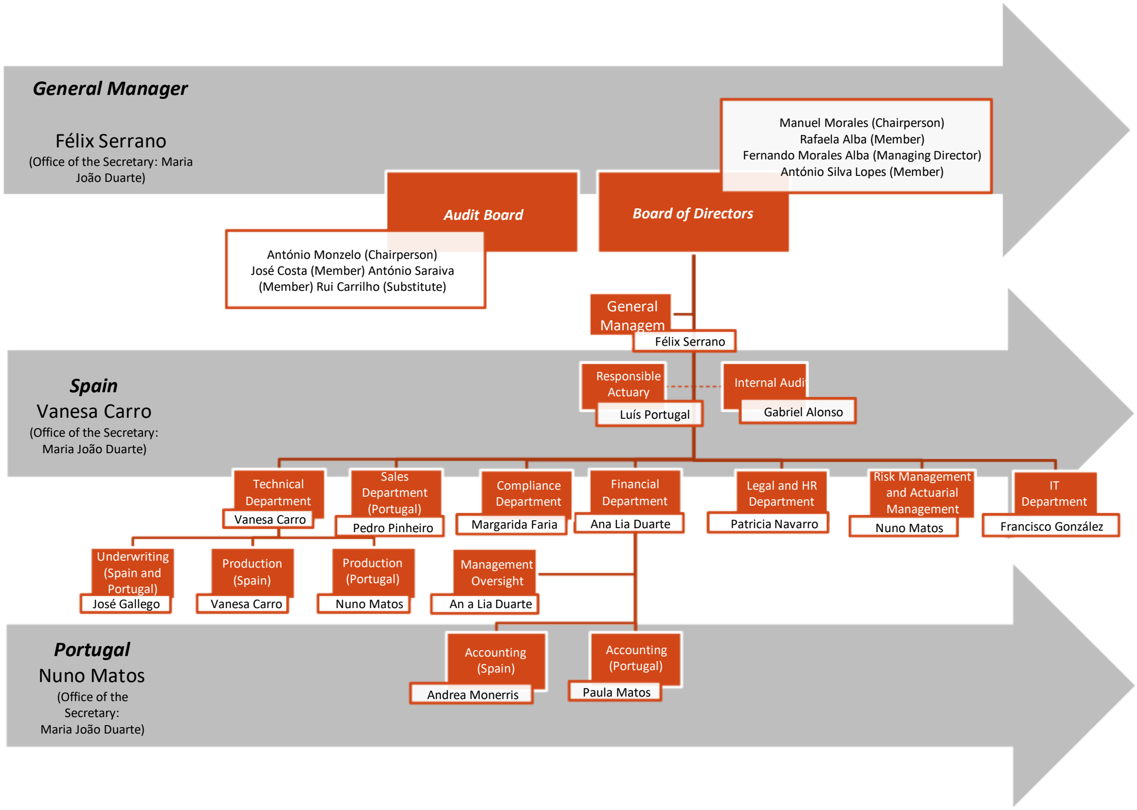
- ✓ By the General Meeting, with regard to members of the managing and supervisory boards;
- ✓ By the Board of Directors, with regard to managers, holders of key functions.

The policy is published on the Company' website and included in its annual report and accounts. In addition, a statement by the Board of Directors on the policy's compliance must be sent annually to ASF at the time of submitting the annual report and accounts.

This statement was approved by the Board of Directors on 30 April 2020.

The Board of Directors reviews the remuneration policy annually. There have been no significant changes from the version approved in 2016. This revision has been recorded in the Board of Directors minutes dated 01 October 2019.

1.5 Organisation Chart



1.6 Macroeconomic background

Global economy

Although real GDP growth (excluding the Eurozone) had weakened during the first half of 2019, the most recent data available point to a stabilisation in the second half of the year. The weak phase of growth was characterized by the slowdown in industrial growth and investment, aggravated by the growing political uncertainty, particularly the commercial tension and developments related to Brexit.

More recent data, however, point to a stabilisation in global growth in the second half of 2019. In particular, the Purchasing Managers' Index (PMI) points to moderate recovery in industrial production and moderate growth in services.

The projected recovery in global economic activity is rather modest, reflecting a moderation in growth in advanced economies and a slow recovery in emerging economies. The Covid-19 pandemic outbreak in the first quarter of 2020 added deep uncertainties to the already weak recovery projected in late 2019.

Developments in global growth have been shaped by three main forces: (i) A cyclical moment of slower growth in advanced economies; (ii) China's gradual transition to a lower growth track; and (iii) a stabilization in the activity of emerging economies.

As mentioned above, to these three forces are now being adding the effects of the Covid-19 pandemic outbreak at the global, European and national levels.

At the end of 2019, economic activity in the United States was projected to be resilient in the short term and to slow down in the medium term, having expanded by 2.1% in annualised terms in the third quarter of 2019, practically unchanged from the second quarter. A strong labour market, resilient domestic consumption and favourable financial conditions, remained the main drivers of US growth, although non-residential investment was contracting. The net contribution from trade was nonexistent, with imports and exports growing modestly. Inflation rose marginally to 1.8% in October, 1.7% in the previous month, largely due to food and energy prices. Inflation, excluding food and energy, had fallen slightly in October, to 2.3%. In the medium term, growth was projected to gradually return to a growth rate slightly below 2%, reflecting a maturing economic cycle and capacity constraints of increasingly tight economic factors, while projected inflation remained constant. However, according to the latest projections, as a result of the Covid-19 outbreak, the recession in the United States will almost certainly occur in 2020. According to specialists, the crisis could last for months. The debilitating effects may rival and perhaps even surpass the effects of the decade-long housing crisis.

In China, economic activity continued on a gradually slower path. Annual growth in gross domestic product (GDP) slowed from 6.2% (in the second quarter) to 6.0% (in the third quarter of 2019), driven by less favourable net foreign trade. Investment was surprisingly negative and was expected to remain weak as long as the trade conflict with the United States continued. Growth was projected to decline further in 2020, reflecting slower exports and weak investments, and a marginal recovery in 2021 and 2022, supported by expansionist public policies. The implementation of structural reforms was expected to result in an orderly transition to a more modest growth path, less dependent on investments and exports. The new coronavirus, however, upset those predictions. Beijing's draconian measures brought the epidemic under control sooner than anticipated. Although the extent and speed of the spread of the virus has paralysed Chinese society, the country's lockdown led to the slowdown of the epidemic in February 2020. On 10 March 2020, Chinese President Xi Jinping went on a victorious tour, visiting the epicentre of the epidemic in Wuhan, the capital of Hubei province. On 19 March, 2020, the number of new cases fell to zero. All other new cases were imported. However, the speed of China's economic recovery is now dependent on the upturn in the rest of the world, in particular in Europe and North America.

Economic activity in 2019 remained stagnant in Japan, with moderate growth projected at the end of 2019 in the medium term. Real GDP grew 0.4% in the third quarter of 2019 (quarter on quarter), compared to 0.5% in the previous quarter. Estimated annual real GDP growth in 2019 was 0.9%. Solid domestic demand, supported by non-residential private investment, was partially offset by weak exports and adjustments in stocks. Although temporarily slower growth was projected after the increase in value added tax and natural disasters in October, economic activity was expected to gradually return to a moderate growth path as Japan continued to benefit from a highly accommodating monetary policy robust labour market conditions and preparations for the 2020 Tokyo Olympics. The recent announcement by the Japanese government of a significant fiscal stimulus package should also help recovery in the medium term. At the same time, labour restrictions and the full use of installed capacity were expected to limit the pace of growth. However, the 1-year postponement of the Tokyo 2020 Olympic Games, as a result of the current viral outbreak, will cause Japanese GDP to drop by 1.4% in 2020.

In the UK, real GDP growth was modest until the third quarter of 2019. The economic outlook has improved as a result of the likelihood of a hard Brexit has decreased. After the contraction of the economy in the second quarter (-0.2% in relation to the previous quarter), real GDP grew by 0.3% in the third quarter, driven by an unexpectedly strong growth in net exports. Private consumption growth remained solid (0.4% compared to the previous quarter), reflecting a strong growth in real wages and salaries throughout 2019, with more support from public investment (0.3% compared to the previous quarter), while private investment and stocks continued to be an obstacle to growth. Brexit-related uncertainty restricted growth in the short term. Long-term growth prospects remain strongly dependent on the nature of possible post-Brexit trade agreements, yet to be agreed between the UK and the European Union. Inflation fell sharply at the beginning of the fourth quarter, with the UK's annual inflation falling to 1.5% in October, 1.8% in the third quarter. This decline reflected the impact of lower oil prices on sterling compared to last year, lower import prices due to the appreciation of the pound since September and a strong downward impact on domestic energy prices. UK economic growth is expected to slow down sharply in 2020, due to the impact of the Coronavirus, according to the latest economic forecast by the British Chamber of Commerce.

To sum up, the growth prospects of the global economy remain highly uncertain. Assuming the outbreak of the pandemic is moderate and contained, global growth could be reduced by about half a percentage point this year compared with expectations. In a scenario of a more lasting and intensive pandemic, the global growth of the economy could be reduced by about 1%, half the rate projected before the virus outbreak.

Governments need to act quickly and effectively to overcome the coronavirus and its economic impact. Governments need to ensure effective and well-resourced public health measures to prevent infection and contagion, and to implement well-targeted policies to support health systems and workers and protect the income of socially vulnerable groups and companies during the virus outbreak. Supportive macroeconomic policies can help restore confidence and economic recovery as virus outbreaks subside, but they cannot compensate for the losses already experienced due to the disruption.

Economy of the Eurozone

The continued weakness of international trade in an environment of persistent global uncertainties continues to have negative impacts on the Eurozone's industrial sector, affecting gross fixed capital formation. In spite of everything, economic data for the last quarter pointed to some stabilization in the slowdown in economic growth in the Eurozone.

Against this background of moderating the economic pace, downward revisions to macroeconomic projections for the medium term, persistent high uncertainty and low levels of inflation, the European Central Bank (ECB) stressed the need for a strongly accommodative monetary policy over a prolonged period and stated that it was prepared to adjust all its instruments, as appropriate, to ensure that inflation would continue to evolve in a sustained manner towards its objective.

According to the ECB, key interest rates are expected to remain at or below current levels until it is observed that inflation prospects are converging robustly towards a level close enough, but below, 2% in its projection horizon and that this convergence is consistently reflected in the underlying inflation dynamics.

In addition, the ECB decided to restart net acquisitions under its asset purchase program at a monthly rate of €20 billion from 1 November 2019. These acquisitions are expected to take place as long as necessary to reinforce the accommodative impact of key interest rates and to cease shortly before the ECB starts to raise key interest rates, which is not expected to happen in the short and medium term.

The ECB's projections at the end of 2019 indicated that the Eurozone economy would continue to decelerate in 2020 for the third consecutive year, essentially as a result of political and social instability, commercial tensions and disruption in the automotive industry, predicting, at that time, 1.1% growth in the wealth produced by the Eurozone in 2020. According to the ECB, annual inflation for 2020 would also amount to 1.1%. Despite these projections, the impact of the Covid-19 outbreak in the first half of the year will entail a severe recession in the Eurozone economy in the short term. It is assumed that the lower demand for imports from China, aggravated by disruptions in global supply chains, and, mainly, outbreaks in Italy, Spain, Germany, France and other euro area countries will continue in the coming months before the virus is contained. As a result, activity in the first half of 2020 will be significantly affected, not only because of the impact of strict containment measures (such as temporary plant closures, travel restrictions and cancellation of mass meetings and large-scale events), but also because of an expected adverse impact on the confidence of the economic agents. From a sectoral perspective, services, especially tourism, transport and recreational and cultural services, are expected to be particularly affected. Assuming the pandemic is contained in the first half of 2020, growth is expected to recover beginning in the second half of the year.

The Portuguese Economy

Since 2014, Portugal has been recovering from a deep recession and a difficult economic adjustment.

After the global financial crisis, Portugal has been growing, sustained by a boom in tourism. Travel and tourism exports grew at an annual rate of more than 10% between 2010 and 2017, and by 2017 they accounted for almost half of all service exports.

The Portuguese economy returned to pre-crisis levels, having grown by around 2% in 2019, according to data from the Bank of Portugal, corroborated by the Organisation for Economic Cooperation and Development (OECD).

Portugal's economic performance has improved markedly in recent years, with unemployment dropping ten percentage points since 2013, to less than 7%, one of the biggest reductions of any OECD country in the past decade.

Nevertheless, the poverty rate of the working-age population remained high and subjective perceptions of well-being are below pre-crisis levels, which is reflected in more modest living standards compared to its OECD counterparts.

At the end of 2019, additional gains in the employment rate, with the resulting increase in real wages and salaries, were likely to sustain future growth in domestic consumption. However, an expected slowdown among Portugal's main export markets could act in the opposite direction.

The improvements in the fiscal policy balance had contributed to a decrease in the public debt/gross domestic product ratio. From 130.6% in 2014, it dropped to around 121% in 2018, from 117.7% in 2019. This ratio, however, remained one of the highest among developed economies, limiting the government's ability to respond to future economic shocks, such as what is currently occurring in the first half of 2020, as a result of the Covid-19 outbreak.

In 2019, Portuguese banks continued to benefit from progressively more favourable financing conditions. Interest rates on deposits by companies and individuals continued to fall slightly, reaching historically low levels. The unconventional measures taken by the ECB continued to guarantee the existence of accommodative monetary and financial conditions. In particular, targeted longer-term refinancing arrangements have allowed banks to finance themselves over long maturities at very low (or even negative) rates, safeguarding the financing of the economy, in particular for companies outside the financial sector.

Debt (comprising loans, debt securities and commercial credits) of non-financial sector companies, as a percentage of GDP, continued the downward trend seen since the beginning of 2013, mainly due to the increase in nominal GDP. The ratio of debt to total assets (leverage ratio) for Portuguese companies also continued to decline in a context of generalised reduction in the Eurozone, although Portuguese companies remain significantly more leveraged than the Eurozone average. It should be noted that the companies that invested the most in recent quarters are characterised by higher gearing and, simultaneously, a greater capacity to generate results and cash flows to service debt.

The economic crisis resulting from the current Covid-19 pandemic in the first half of 2020 threatens to drag Portugal into a worse recession than that of a decade ago. Recent projections by the Bank of Portugal point to a 10% drop in GDP this year, a significant increase in the unemployment rate and the poverty rate, an historic budget deficit and a very significant increase in public debt.

The Spanish Economy

The increase in international uncertainty, domestic political instability, the slowdown in external demand and the loss of dynamism in domestic consumption have particularly affected the industrial sector, contributing to the slowdown in the growth of Spanish gross domestic product in 2019. Nevertheless, industrial activity in Spain performed better than that of the other economies of a similar size in the Economic and Monetary Union (EMU), such as Germany and Italy. Additionally, there were signs that economic activity stabilised in the last quarter of the year. Consequently, the estimated increase in GDP in 2019 is 2.2%, the lowest since the end of the crisis at the beginning of the decade.

In the last months of 2019, there was a pace of job creation similar to that seen since spring. The trend of employment up to November 2019 suggests that the quarterly rate of this variable in the last quarter of the year may have been around 0.4%, which represents a stabilisation of the net rate of job creation at levels below those observed in 2018, when quarterly growth was between 0.7% and 0.8%.

The inflation rate remained low. In November 2019, the growth of the Harmonized Consumer Price Index (IAPC) recovered slightly, up 0.5%, three tenths more than in the previous two months, due in part to the basic effects of oil price developments in the energy component and, on the other hand, to prolonging the recovery of the food component. However, the inflation rate was 1.1% in November, a rate very similar to what has been since the end of 2017. Therefore, it appears that the recovery that unit labour costs have been demonstrating since then has not been passed on to final prices for consumers.

In the last months of 2019, the financing conditions of the non-financial private sector remained relaxed. Interest rates applied to new loans have been slightly reduced in most segments. The cost of issuing corporate debt has recovered since August, in line with that observed in the interbank markets, but remained below the levels in force before the summer.

Spain is anticipated to be severely affected by the Coronavirus pandemic in the first half of 2020, and projections are now available from some investment banks that estimate a drop in GDP in 2020 of between 1.3% and 5.5%, depending on the time it takes to bring the pandemic under control. Indeed, the effects of the social and economic crisis caused by the spread of the new coronavirus in Spain are already visible in the labour market figures. Spanish job centres registered 302,000 new benefit applications in March 2020, compared to the previous month, while the number of workers paying social contributions also fell significantly. The social security system in the fourth-largest economy in the Eurozone lost more than 800,000 contributors in one month.

1.7 The Company's Activity

Abarca - Companhia de Seguros, S.A., commenced trading on 18 April, 2016, having issued the first policy on 8 August, 2016, engaging solely in the operation of the bond insurance branch.

Bearing in mind the requirements of article 41 of the Solvency Directive II, which establishes that all insurance and reinsurance companies include in their commercial strategy a periodic assessment of their global solvency requirements, taking into account their specific risk profile (self-assessment of risk and solvency), its business model includes:

(i) The strategic objectives for the Company's commercial distribution, underwriting and risk;

(ii) The tasks that must be performed, their executives and their responsible parties;

(iii) The information processes and procedures that must be applied; and

(iv) The obligation to inform risk management, internal audit and the actuarial function of all relevant facts that affect the fulfilment of such obligations.

As a result of this model, the associated policy and the internal culture of innovation in products and services, Abarca Seguros succeeded, in its third full year of activity, in achieving a volume of gross premiums issued of €15,394,336 (2018: €8,199,545). This 88% growth compared to the previous year, enabled Abarca Seguros to position itself as one of the leaders in the bond insurance industry in Portugal and Spain. In Portugal, considering the activity in LPS, the Company achieved a market share of 79% which compares with the 63% achieved in 2018. If we consider only the production of each country, we have Portugal with a market share of 31% and Spain with a market share of 11%, calculated with reference to December 31, 2019.

This evolution is the outcome of a clear commitment to the Iberian market, but also to the international market. Since its incorporation, the Company has operated successfully in Spain, with the freedom to provide services and it obtained authorisation at the end of 2017 to operate in Italy on the same basis. In 2018, Abarca Seguros obtained authorisation to set up a branch in Spain, having started operations on 1 July 2019. Operations in Spain reached €13,097,453 in 2019 (2018: €7,021,791), thus consolidating its position as the fourth-largest insurance company in the bond insurance industry in that country.

In 2017, the Company obtained the rating of B + (Good) for the first time from the renowned North American rating company A.M. Best Company, in relation to its financial strength, with this rating being renewed annually with a stable outlook. In view of the short time that has elapsed since the commencement of Abarca Seguros' activity, we consider that this rating, and its recurring maintenance, lends prestige to the Company and demonstrates the effort and commitment that its Management Bodies and Employees have dedicated to it. The Company is committed to a process of continuous improvement, with the aim of obtaining a rating upgrade in future reviews.

The Company has been targeting new markets and businesses, since it obtained the rating from A.M.

Best Company, of which we highlight the possibility that Abarca Seguros can undertake operations in which the requirement is unavoidable for beneficiaries.

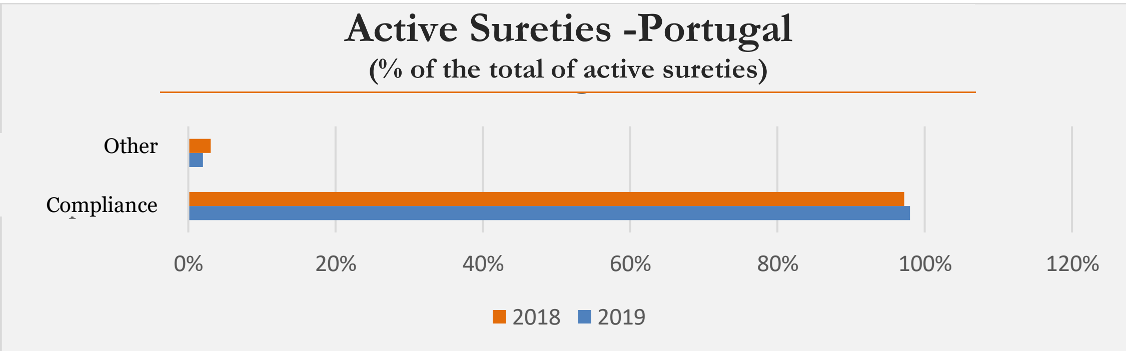
Currently, in the field of surety bonds, Abarca Seguros provides the following types of sureties:

- Provisional;
- Definitive;
- Environmental recovery;
- Insurance companies;
- Renewable energies;
- Temporary employment agencies;
- Legal fees;
- Special taxes;
- Customs clearance and importation;
- Payments on account;
- Advance tax payments;
- Concessions;
- Between private individuals.

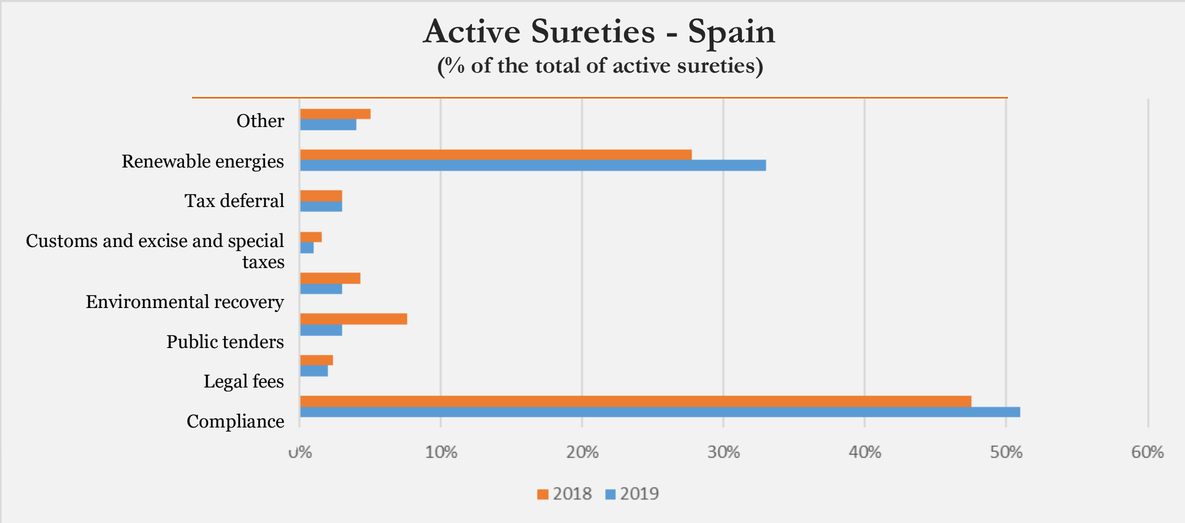
1.7.1 Territorial distribution of certificates issued

Of the total of active certificates on 31 December 2019, 33% (54% on 31 December 2018) are in respect of risks located in Spain and 67% (46% on 31 December 2018) are in respect of risks located in Portugal.

In Portugal, performance guarantees continue to lead by a wide margin the type of sureties issued (98% in 2019, 97% in 2018, 85% in 2017 and 94% in 2016), although the Company is seeking to diversify the risk by other types of sureties, namely: Renewable energies, customs and excise and special taxes, tax deferral, Temporary Employment Agencies and Legal Fees.



Also in Spain, completion bonds continue to lead the number of existing active guarantees (51% on 31 December 2019; 48% on 31 December 2018), followed by renewable energy guarantees which accounted for 33% on 31 December 2019 (28% on 31 December 2018), bid bonds (3% on 31 December 2019; 8% on 31 December 2018) and environmental remediation guarantees (3% on 31 December 2019; 4% on 31 December 2018). The remaining 10% (12% on 31 December 2018) are diversified among different types of sureties, guarantees and bonds, namely: legal fees, bonded warehouses/advances, customs and excise and special taxes, tax deferral, reindustrialisation and arrangements between private individuals.



1.7.2 Costs and expenses by type

Costs and expenses by type in 2019 and 2018 are broken down as follows:

Costs and expenses by type	**2010**	**2018**
Staff-related costs	1,797,808	1,569,063
External supplies and services	1,312,205	995,839
Liquid commissions of deferred acquisition costs	674,512	344,981
Depreciation and amortisation in the financial year	246,413	71,067
Taxes and levies	50,274	2,692
Interest paid - Leases	10,614	-
	4,091,826	**2,983,643**

Operating costs increased in 2019 by €1,108,183 (37%), an increase that was less than proportional to the growth in production volume, essentially the result of an effort by the Company to control non-essential expenses.

1.8 Risk management

The management of the company's corporate risks, coordinated by the Board of Directors, has a goal-setting process to ensure that goals support and achieve the Company's mission, and that furthermore are consistent with desired risk levels.

Abarca Seguros has an effective risk management system, which comprises the strategy, processes, procedures and key controls implemented, allowing, at all times, the identification, measurement, monitoring, management and reporting of materially relevant risks, individually and in aggregate, to which the Company is or may be exposed.

Since solvency is highly dependent on the Company's options and the risk management carried out in relation to them, it is logical to invest in this area, forming part of the management decisions.

The Company assesses its risk and solvency position each quarter by a quantitative assessment of its capital requirements, conducted on the basis of the standard formula defined in the Solvency Directive II.

Annually, Abarca Seguros carries out an own risk and solvency assessment exercise (“ORSA”), the results of which allow the Board of Directors to conclude whether the Company's own funds are sufficient to cover overall solvency needs on an ongoing basis.

The risk management activities that have been carried out have enabled the identification of the main risks to which the Company is exposed and led to the conclusion that none of them jeopardises its solvency within the three-year horizon of its strategic plan.

Each year, Abarca Seguros establishes its short-term goals, and reviews its medium and long-term goals, by drawing up and formalising the following: (i) A general plan of activities and defined strategy; for the following financial year; and (ii) economic and financial projections based on the general business plan and the defined strategy.

In addition, the Board of Directors coordinates and carries out the activities needed to achieve the goals set, formalising and approving documentation defining the ways and means of recording these goals and strategies, to allow their achievement to be evaluated and controlled, and allowing remedial measures to be implemented in the event of major deviations.

Risk identification and management

The company is subject to external and internal events which may affect it in different ways and with different degrees of impact. These events must be identified and distinguished as either risks or opportunities.

Risks are analysed based on their likelihood of occurrence and relative importance.

This system has an integrated set of ongoing processes to ensure that the strategy is properly implemented and that Abarca Seguros’ goals are achieved, based on a proper understanding of the nature and magnitude of its underlying business risks.

As such, the risk management system’s methodology is based on the following:

- Identifying and organising risks which affect the organisation: definition and grouping of risks (risk matrix and dictionary);
- Evaluating and ranking risks by their criticality and priority according to their impact on business goals and likelihood of occurrence;
- Identifying the causes of more significant risks;
- Evaluating risk management strategies (options);
- Creating a mitigation plan for risks with higher criticality; and
- Monitoring and reporting on the progress of implementing the action plan.

The goal of risk management is to identify, assess, mitigate, monitor and control all material risks to which the company is exposed (whether financial risks or otherwise), both from an internal and external standpoint, in a continuous process which evolves over time, with a view to ensuring that these risks remain at a level which does not significantly affect the company’s financial standing and the interests of its various stakeholders.

Abarca Seguros’ Board of Directors is ultimately responsible for the risk management and internal control system implemented in the Company, which approves the main courses of action in respect of risk management and constantly oversees its risk exposure using indicators and ratios.

Specific insurance risk

Specific insurance risks include product design, pricing, marketing, subscriptions, provisioning of liability, reinsurance and claims management.

The Company adopts a prudent and cautious approach in the underwriting and risk setting, a substantial proportion of which are ceded to reinsurers with a high credit rating.

One of the company's goals is to have suitable pricing in terms of expected profitability, after covering all of its liabilities such as claims to be paid, claims management expenses, profit sharing, acquisition costs, overhead and cost of capital.

As a company exclusively dedicated to and structured for the distribution of surety bond insurance, Abarca - Companhia de Seguros, S.A.'s natural main distribution network consists of insurance brokers hired for this purpose.

Provisions are constituted on a case-by-case basis, in the scope of liabilities for claims, represented by congruent assets, set aside for the purpose.

The establishment of provisions for incurred but not reported claims (IBNRs) means that it is necessary to draw up estimates and resort to assumptions that are assessed on a regular basis, namely through the statistical analyses of internal and/or external historical data.

Similar analyses are also carried out to verify the adequacy of the pricing policy in effect.

These studies are conducted at least once a year and, whenever these studies conclude that the technical provisions are not sufficient to cover the current value of the future expected cash flows (claims, costs and commissions), this shortfall is immediately recognised by the creation of additional provisions.

Given the existence of a very small number of claims (whether in terms of a chronological series or in terms of frequency), the run-off matrices for year of occurrence are not statistically significant. Provisions for claims are therefore constituted on the basis of the estimated ultimate loss ratios.

The Company has an "Underwriting Policy", which defines a comprehensive and detailed model that is part of the integrated management system of the underwriting risk selection and analysis processes, which includes its own ceded reinsurance management in terms of the accumulated insured amounts:

- Risk acceptance rules;
- Tariff principles;
- Acceptance competences.

The reinsurance policy is a fundamental instrument for the Company to manage and adjust the risk exposure limits according to its underwriting capacity.

The reinsurance treaties in force as of December 31, 2019 can be detailed as follows:

Automatic proportional reinsurance treaties

The risks contracted until September 30, 2017 and the respective renewals were protected by reinsurance treaties, agreed with three reinsurers rated at or above A-.

For the risks underwritten in the period from 1 October 2017 to 30 September 2018, a new proportional reinsurance treaty was negotiated, with a further four new reinsurers rated at or above A-.

The change in the 2018 reinsurance framework compared to 2017 arose from the need to deal with reinsurers specialising in the collateral industry, that would suit the needs of a more direct and informal contact by the Company, to avail of every business opportunity, while not overlooking the rating of these reinsurers, so that this change would not be adversely affected in terms of capital requirement (previous reinsurers keep the portfolio assembled until 30 September, 2017 and new reinsurers enter the portfolio assembled from 1 October 2017).

For the period from 1 October 2018 to 30 September 2019, a new proportional treaty was negotiated, which, in addition to the four reinsurers already involved in the proportional treaty started in 2017, includes two more internationally renowned reinsurers (the term of this treaty was, however, extended until 31 December 2019). The rating of reinsurers involved in this new proportional treaty remains at or above A-. The portfolio raised by previous reinsurance frameworks is maintained with the original reinsurers, and this new reinsurance treaty applies to new production raised from the treaty's effective date (1 October 2018).

Optional Treaties

In 2019, as in the previous two years, the Company has optional reinsurance, which aims to cover the largest exposures, in the part not covered by automatic proportional treaties, in order that the Company retains a maximum of €2.5 million per risk. The reinsurer involved in this treaty is rated A.

The Company also has other optional treaties, which aim to cover the fronting transactions (ceding to reinsurance of 100% of the risk).

Credit risk

The Company's investment policy emphasizes prudence and security principles, having as its basic concern the preservation of the investment value, rather than its return, dictating the investment in assets with low credit risk and allowing immediate liquidity.

The Company's risk manager plays a relevant role in asset investment decisions and is responsible for calculating the solvency ratio on a quarterly basis, which is based on the quality of the financial assets invested.

The investment policy approved by the Board of Directors states that the Company's investments must be of high credit quality and maximum liquidity, and the Company must safeguard a minimum of 35% of the treasury capital requirements of immediate availability, being able to invest the remainder in public debt securities of EU countries.

Since the Company's incorporation to date, all of the Company's investments have been made in demand deposits with Portuguese and Spanish credit institutions, all of which are highly rated.

The key risk management function monitors quarterly the evolution of the risk of *default* by credit institutions, reinsurers, brokers, policyholders and other debtors, with which the Company maintains relationship.

The Company's main credit risk-sensitive assets as of 31 December 2019 and 2018 are as follows:

	31/12/2019	31/12/2018
Demand deposits	20,044,355	14,853,436
Reinsurance recoverables	7,447,132	4,263,049
Bills to receive	2,953,927	1,321,374
	30,445,414	20,437,859

The following is a description of the Company's exposure to credit risk under demand deposits, by credit institution, by rating, as at December 31, 2019 and 2018:

Rating	31/12/2019	%	31/12/2018	%
A	13,631,698	68%	11,696,828	79%
A-	3,491,541	17%	1,886,509	13%
BBB	1,334,740	7%	1,116,984	8%
BBB-	-	0%	123	0%
BB+	1,586,376	8%	-	0%
BB	-	0%	152,992	1%
BB-	-	0%	-	0%
Without rating	-	0%	-	0%
	-	0%	-	0%
	20,044,355		14,853,436	

Regarding reinsurance recoverables, the Company's policy is to relate to reinsurers with high credit quality. The Company's exposure to reinsurance recoverable credit risk by *rating* as at December 31, 2019 and 2018 is as follows:

Proportional Agreements in force - 31/12/2019

% participation in reinsurance agreements

Rating	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20,00%	0%	0%
A+	4,00%	16,00%	55,00%
A	36,00%	44,00%	0%
A-	20,00%	20,00%	25,00%
	80,00%	80,00%	80,00%

Proportional Treaties in force - 31/12/2018

% participation in reinsurance agreements

Rating	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20,00%	0%	0%
A+	4,00%	16,00%	55,00%
A	36,00%	44,00%	0%
A-	20,00%	20,00%	25,00%
	80,00%	80,00%	80,00%

The reinsurers involved in the optional treaties are rated at or above A.

Market risk

Market risk generally consists of changes in the fair value of financial assets as a result of unanticipated changes in interest rates, exchange rates, stock market indices and commodities.

Market risk exposure consists of:

(i) Risks arising from holding financial asset portfolios and treasury management;

(ii) Risks arising from the Company's investments and liabilities to policyholders as a result of the mismatch between assets and liabilities in different terms and in different currencies;

(iii) Risks arising from the equity interest of other companies.

As of December 31, 2019 and 2018, the fair value by financial asset and liability class may be detailed as follows:

	31/12/2019		31/12/2018	
	Balance amount	Fair value	Balance amount	Fair value
Financial assets				
Cash and cash equivalents and demand deposits	20,044,998	20,044,998	14,853,807	14,853,807
Financial assets held for trading	6,709	6,709	3,981	3,981
Bills to receive	2,953,927	2,953,927	1,321,374	1,321,374
	23,005,634	23,005,634	16,179,162	16,179,162
Financial liabilities				
Bills to pay	9,743,329	9,743,329	5,044,502	5,044,502
Other financial liabilities	667,788	667,788		
	10,411,117	10,411,117	5,044,502	5,044,502

Cash and cash equivalents and instant access bank deposits encompass the amounts recorded on the balance sheet as maturing in less than 3 months from the date of the balance sheet, readily converted to cash and with a small risk of change in value, in which are included the cash in hand and readily available in lending instructions; for this reason the Company takes the view that the amount on the balance sheet is consistent with its fair value on 31 December 2019.

Financial assets held for trading refer to amounts paid into to the Workers' Compensation Insurance Fund, which were invested in investment fund units, valued at the unit value published by the respective management company, for which reason the Company's Board of Directors takes the view that the value on the balance sheet is consistent with their fair value on 31 December 2019.

The balance of accounts receivable and accounts payable is in the short term, so the Company's Board of Directors takes the view that the value on the balance sheet on 31 December 2019 does not differ materially from its fair value.

The other financial liabilities are in respect of the liabilities arising from the lease agreements for real estate and vehicles, accounted for in accordance with IFRS16. The Company's Board of Directors considers that the value of the balance sheet on 31 December 2019 does not differ materially from its fair value.

In accordance with IFRS 13, the international standard which deals with the fair value and respective hierarchy, the financial assets and liabilities may be valued at fair value at one of the following levels:

- Level 1 - Fair value determined directly with reference to an active official market.
- Level 2 - Fair value determined using valuation techniques supported by observable current market prices traded for the same financial instrument.
- Level 3 - Fair value determined using valuation techniques not supported by observable current market prices traded for the same financial instrument.

The Company's financial assets and liabilities as of 31 December, 2019 and 2018 are valued at level 2 fair value, except for assets held for trading, which are valued at fair value level 1.

Interest rate risk

This results from the possibility of fluctuating the value of *cashflows* of a financial instrument, originated by changes in market interest rates.

Assets sensitive to interest rate variations are more or less sensitive according to the maturity of these assets.

In general, the Company's assets that are sensitive to changes in interest rates are bank deposits. The indicator of fixed rate asset sensitivity to interest rate volatility is Modified Duration, which measures the sensitivity of fair value until maturity in relation to a change in the market interest rate.

The Board of Directors considers that the interest rate risk is marginal because the Company's bank deposits are being remunerated at low or zero interest rates.

	31/12/2019	31/12/2018
Cash at credit institutions	20,044,355	14,853.436

Exchange rate risk

The Company’s functional currency is the Euro.

The Company is not exposed to this risk as there are no assets or liabilities in currencies other than the Euro.

Liquidity risk

Risk of existing assets not being liquid enough to meet liabilities with beneficiaries, policyholders and other creditors, notably claims settlement.

Although liquidity risk is an inherent risk in any activity, in the case of Abarca Seguros, the Board of Directors considers that this risk is greatly mitigated by the following facts:

(i) As of December 31, 2019, 61% of the Company's assets consist of cash on hand at credit institutions;

(ii) The conditions contracted under the reinsurance treaties ensure that the reinsurance receipt *timings* are in line with the payment *timings* to beneficiaries; and

(iii) The Company has collaterals obtained from its policyholders, complementary to existing reinsurance treaties.

With the exception of financial liabilities due to leases, the Company's other financial liabilities as at 31 December 2019 are short-term liabilities.

Operational risk

Operational risk is the risk of loss resulting from the failure or inadequacy of processes, people, information systems or from external events such as *outsourcing*, disasters, legislation or fraud. This definition includes legal, *compliance*, strategic, reputational and customer conduct risks.

Operational risk therefore materializes in the likelihood of losses arising from inadequate or faulty internal procedures, people, systems or external events and is usually associated with occurrences such as fraud, system failures and non-compliance with standards and rules. It may also include, for example, the risk of failures in corporate governance, external service contracts and the business continuity plan.

The Company has a solid structure to assess, measure and manage operational risk, which it seeks to minimize through its internal control system. In addition, remediation plans and improvement actions are put in place to prevent recurrence of past operational loss events that are subject to ongoing *follow-up* .

The Company monitors operational risk, namely through the following sources:

(i) Recording of operating losses (internal and external) recorded in the accounts;

(ii) Registration of complaints;

(iii) Results of internal audits; and

(iv) Other key risk indicators (e.g. manual procedures, legislative and regulatory changes, money laundering and terrorist financing, online risks, outsourcing, challenging strategic plans, new distribution channels, business continuity, etc.).

The Company has policies in place to control operational risk, namely:

- ✓ Underwriting policy;
- ✓ Ceded reinsurance policy;
- ✓ Claims management policy;
- ✓ Compliance policy;
- ✓ Prevention, money laundering and sanctions policy;
- ✓ Internal audit policy;
- ✓ Investment policy;
- ✓ Subcontracting Policy.

Reputational risk is defined as the risk that the Company may incur losses arising from the deterioration of its reputation or market position due to a negative perception of its image among its customers, shareholders, business partners, supervision and the general public.

The above policies for operational risk also aim to protect the Company from reputational risk.

The Company has policies in place to control strategic and governance risks:

As is well known, fraud is a problem for the entire insurance sector and therefore also affects Abarca – Companhia de Seguros, S.A.

Being aware of this fact, and also the provisions in the matter set forth in Regulatory Standard no. 10/2009-R, of 25 June, issued by the ASF, a policy was created in which the creation of clear rules and objectives is defined that make it easier for all stakeholders to take concrete action to combat fraud.

Regarding the claims management policy (claims which may be due to fraud), ASF Rule No. 10/2009-R of 25 June, required of insurers, following the regulation of Articles 131 C to 131 F of Legislative Decree 94-B/98 of 17 April, repealed by Legislative Decree 147/2015 of 9 September, which likewise regulates the definition and implementation of a policy for dealing with injured policyholders, insured parties, beneficiaries or third parties, the establishment of an autonomous claim management function, the appointment of a customer ombudsman and the definition and implementation of an anti-fraud policy.

In this context, the Company has implemented/appointed:

- ✓ A policy for treating policyholders, insured parties and beneficiaries;
- ✓ The internal role of the Complaint Manager and the Customer Ombudsman, which shall both be exercised autonomously;
- ✓ A spokesperson with the ASF for complaint handling according to the defined rules;
- ✓ An anti-fraud policy with regard to insurance.

1.9 Result of the financial year and proposal of distribution

The net result of the financial year was €1.129.733, the Board of Directors proposed the following distribution of results:

- ✓ €112.973 to legal reserves; and
- ✓ €1.016.760 to retained earnings.

1.10 Basic earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary equity by the weighted average number of outstanding common shares, excluding the average number of treasury shares held by the Company, and break down as follows:

	2019	2018
Profit/(loss) attributable to holders of ordinary equity	1,129,733	(1,462,403)
Average weighted number of ordinary shares in circulation	10,150	10,150
	111	(144)

The concept of diluted earnings per share does not apply, since there are no contingently issuable ordinary shares, namely through options, warrants or equivalent financial instruments on the balance sheet date.

1.11 Subsequent events and prospects for 2020

Subsequent events

No subsequent events were identified that would entail additional adjustments to these financial statements.

Crisis resulting from the Covid-19 pandemic outbreak

On 11 March 2020, the World Health Organisation ("WHO") characterised the Covid-19 outbreak as a global pandemic. As a result, several countries have imposed a nationwide quarantine, restricting the movement of people, goods and the provision of non-essential services.

The Company does not estimate that there will be significant impacts on the accounting estimates resulting from this outbreak, although at thus far it is not yet possible to quantify its concrete impacts.

The Company is closely monitoring the situation from an operational, financial and solvency point of view.

The Board of Directors has specific business continuity plans to ensure continuity of operations, should the situation worsen.

At the present date, despite the potential implications of the Covid-19 pandemic outbreak, the Board of Directors does not consider that there is any evidence that would question the principle of the Company's business continuity.

Prospects for financial year 2020

We believe that the economic recovery will come from the East, from Asian countries, namely China, Japan, Singapore and South Korea, which are expected to recover quickly, benefiting from their good management of the Covid-19 crisis.

Europe will recover much more slowly, thanks mainly to public incentives that will be implemented in the economy and unlimited access to liquidity.

The United States is likely to take even longer than Europe, because its health system is not prepared to provide care to all citizens, which will make the crisis more serious and severe.

Unemployment will grow worldwide and this will seriously harm the world economy, as a result of the drop in consumption.

South America and Africa are unprepared for a crisis of this scale, and will not be able to benefit from the public incentives that will be implemented in other continents, such as Europe. Therefore, it is likely that they will not be able to control the crisis quickly, neither the human nor the economic one, which will cause serious problems for their economies.

After an uneven year in terms of production growth, the Company is focused on maintaining the current pace of growth.

We believe that, although new production will be affected during the period of the state of emergency, once it is over, we will recover quickly, mainly for two reasons:

(i) The increase in requests for judicial and tax sureties; and

(ii) For the development of post-Covid-19 public works and processes that have been suspended.

After the state of emergency, the need for performance guarantees will increase (for example, guarantees within the scope of the renewable energy auction).

The Board of Directors further intends that the Company will continue in 2020 to strengthen its service levels, through a combined strategy that ensures sustained growth, underpinned by three core elements:

(i) The recruitment of adequate personnel to achieve the objectives;

(ii) Disclosure of available business lines and the possibility of adapting them to the specific needs required by policyholders; and

(iii) The selection of the distribution channel network, based on the major domestic and international brokers, that can achieve and maintain the degree of effectiveness and efficiency that underpins the Company's business model.

1.12 Other mandatory disclosures by law

Under the terms of Article 66, no. 5, paragraph d) of the Commercial Companies Code, the Board of Directors of Abarca Seguros declares that none of its shares were acquired or sold during the year.

Under the terms of Article 66, no. 5, paragraph d) of the Commercial Companies Code, the Board of Directors of declares that none of its shares were acquired or sold during the year.

1.13 Acknowledgments

The Board of Directors of Abarca Seguros expresses its thanks to the various entities whose collaboration has contributed to achieving the goals set by the Company, namely:

- Our customers, for their loyalty and trust;
- The Shareholder, Grupo Azuaga Morales, S.L., for their support in this second full year of trading;
- To the Members of the Audit Board, the Statutory Auditor and the Responsible Actuary, for their support and advice;
- To the Insurance and Pension Funds Supervisory Authority, for its support;
- The Portuguese Insurers Association, for its collaboration;
- To the Insurance Brokers, for their effort and commitment to developing the business and for believing in this newly-created Company;
- The Reinsurers, for their technical support; and
- The Staff, for their professionalism and dedication.

We express our sincere gratitude to you all.

Lisbon, 30 April 2020

The Board of Directors

Manuel Morales Azuaga

Fernando Morales Alba

Rafaela Alba Romero

António Luís Castanheira Silva Lopes

2

FINANCIAL STATEMENTS

ABARCA SEGUROS

2 Financial statements

2.1 Statement of the Financial Position as at 31 December 2019 and 2018

Abarca - Companhia de Seguros, S.A.

Assets on 31 December 2019 and 2018

Figures in Euros

Statement of the financial position	Notes to the Annex	31/12/2019 Gross value	31/12/2019 Impairment or adjustments/Depreciation and amortization	31/12/2019 Liquid Value	31/12/2018
ASSET					
Cash and cash equivalents and demand deposits	**5**	**20,044,998**	**-**	**20,044,998**	**14,853,807**
Financial assets held for trading		**6,709**		**6,709**	**3,981**
Loans granted and accounts receivable					
Other tangible assets	**6**	**987,670**	**(214.4379)**	**773,291**	**119,167**
Other intangible assets	**8**	**394,424**	**(131,378)**	**263,045**	**198,838**
Technical reinsurance provisions provided	**9**	**7,447,132**	**-**	**7,447,132**	**4,263,049**
Provision for unearned premiums		4,874,274	-	4,874,274	3,148,266
Provision for claims		2,428,880	-	2,428,880	1,114,783
Provision for profit-sharing		143,978	-	143,978	-
Assets for post-employment benefits and other long-term benefits					
Other debtors for insurance transactions and other transactions	**10**	**2,953,927**		**2,953,927**	**1,321,374**
Accounts receivable for direct insurance transactions		1,261,100	-	1,261,100	912,125
Accounts receivable for other reinsurance transactions		366,925	-	366,925	-
Accounts receivable for other transactions		1,325,902	-	1,325,902	409,249
Tax assets	**11**	**733646**		**733,646**	**268,271**
Current tax assets		-	-	-	-
Deferred Tax Assets		733,646	-	733,646	268,271
Accruals and deferrals	**13**	**537,149**	**-**	**537,149**	**20,307**
TOTAL ASSETS		**33,105,652**	**(345,757)**	**32,759,895**	**21,048,794**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

The Board of Directors

José Pedro Farinha

CA – no. 15186

Abarca - Companhia de Seguros, S.A.

Liabilities and shareholder equity on 31 December 2019 and 2018

Figures in Euros

Statement of the financial position	Notes to the Annex	31/12/2019	31/12/2018
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Technical provisions	9	**12,768,762**	**8,037,949**
Provision for unearned premiums		8,133,495	5,036,844
Provision for claims from other branches		3,498,073	1,684,063
Provision for deviations in accident rates		1,137,194	629,049
Provision for risks in progress			687,992
Other technical provisions			
Other financial liabilities	12	**667,788**	-
Liabilities for post-employment benefits and other long-term benefits			
Other creditors for insurance transactions and other transactions	14	**9,743,329**	**5,044,502**
Accounts payable for direct insurance transactions		5,359,568	2,807,630
Accounts payable for other reinsurance transactions		3,494,326	2,185,465
Accounts payable for other transactions		889,435	51,407
Tax liabilities	11	**529,534**	**131,826**
Current tax liabilities		297,844	131,826
Deferred tax liabilities		231,691	-
Accruals and deferrals	13	**243,765**	**141,352**
Other Provisions			
TOTAL LIABILITIES		**23,953,178**	13,355,629
SHAREHOLDERS' EQUITY			
Capital	15	10,150,000	10,150,000
Revaluation reserves due to adjustments to the fair value of financial assets		-	-
Reserve for taxes		-	-
Other reserves		-	-
Retained earnings		(2,473,017)	(994,432)
Result (profit/loss) for the financial year	15	1,129,733	(1,462,403)
TOTAL EQUITY		8,806,717	7,693,165
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**32,759,895**	**21,048,794**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

The Board of Directors

José Pedro Farinha

CA No. 15186

2.2. Profit and Loss Account for the financial years ended on 31 December 2019 and 2018

Abarca - Companhia de Seguros, S.A.

Profit and Loss Account for the financial years ended on 31 December 2019 and 2018

Figures in Euros

Profit and Loss Account	Notes to the Annex	2019			2018
		Surety	Non-technical	Total	
Earned premiums net of reinsurance	16	**3,303,126**	-	**3,303,126**	**1,332,158**
Gross premiums issued		15,371,048	-	**15,371,048**	**8,199,545**
Ceded reinsurance premiums		(11,053,382)	-	**(11,053,382)**	**(6,457,848)**
Provision for unearned premiums (change)		(3425.787)	-	**(3,425,787)**	**(3.491820)**
Provision for unearned premiums, reinsurers part (change)		2,411,248	-	**2,411,248**	**3,082,281**
Costs with claims, net of reinsurance	17	**(709,649)**	-	**(709,649)**	**(331,757)**
Amounts paid out		**(209,736)**	-	**(209,736)**	**(131,933)**
Gross amount		(460,314)	-	**(460,314)**	**(131,933)**
Reinsurers part		250,577	-	**250,577**	-
Provision for claims (change)		**(499,913)**	-	**(499,913)**	**(199,824)**
Gross amount		(1,814,010)	-	**(1,814,010)**	**(706,159)**
Reinsurers part		1,314,097	-	**1.314097**	**506,335**
Other technical provisions, net of reinsurance	18	**179,848**	.	**179,848**	**(752,675)**
Net costs and operating expenses	19	**(2,152,419)**	.	**(2,152,419)**	**(1,543,421)**
Acquisition costs		(3,224,902)	-	**(3,224,902)**	**(2,259,152)**
Deferred acquisition costs (change)		329,136	-	**329,136**	**199,040**
Administration costs		(854,328)	-	**(854,328)**	**(659,665)**
Commissions and reinsurance profit sharing		1,597,676	-	**1,597,676**	**1,176,355**
Costs of financing	21	(170,866)	_	**(170,866)**	**(131,933)**
Net asset gains and financial liabilities valued at their fair value		-	10,767	**10,767**	.
Through gains and losses					
Other income/expenditure	22	-	**556,703**	**556,703**	**(13,256)**
Earnings before taxes		**450,039**	**567,470**	**1,017,510**	**(1,440,884)**
Taxes on earnings of the financial year - Current taxes	11			(121,460)	(21,519)
Taxes on earnings of the financial year - Deferred taxes	11			233,684	-
Net income for the year		**450,039**	**567,470**	**1,129,733**	**(1,462,403)**
Basic earnings per share				**111**	**(144)**

The explanatory Notes are an integral part of these profit and loss accounts.

The Chartered Accountant

The Board of Directors

José Pedro Farinha

CA No. 15186

2.3. Comprehensive income statements for the financial years ended on 31 December 2019 and 2018

Comprehensive Income Statement for the financial years ended on 31 December 2019 and 2018

Figures in Euros

Notes to the Annex	Comprehensive income statement	2019	2018
15	Net income for the year	1,129,733	(1,462,403)
	Other comprehensive income of the financial year		
	TOTAL COMPREHENSIVE INCOME NET OF TAXES	**1,129,733**	**(1.462403)**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

The Board of Directors

José Pedro Farinha

CA No. 15186

2.4. Statements of changes in equity for the financial years ended on 31 December 2019 and 2018

Abarca - Companhia de Seguros, S.A.

Statements of changes in equity for the financial years ended on 31 December 2019 and 2018

Figures in Euros

2019 Statement of changes in shareholders' equity	Notes to the Annex	Share capital	Retained earnings	Result (profit/loss) for the financial year	TOTAL
Balance sheet as at 31 December 2018		10,150,000	(994,432)	(1,462,403)	7,693,165
Realisation of share capital		-	-	-	-
Differences resulting from changes to accounting policies	**20**	-	(16,182)	-	(16,182)
Net income for the year	**15**	-	-	1,129,733	1,129,733
Distribution of results		-	(1,462,403)	1,462,403	-
Balance sheet as at 31 December 2019		**10,150,000**	**(2,473,017)**	**1,129,733**	**8,806,717**

Figures in Euros

2018 Statement of changes in shareholders' equity	Notes to the Annex	Share capital	Retained earnings	Result (profit/loss) for the financial year	TOTAL
Balance sheet as at 31 December 2017		10,150,000	(274,136)	(720,296)	9,155,568
Realisation of share capital		-	-	-	-
Net income for the year	**15**	-	-	(1,462,403)	(1,462,403)
Distribution of results		-	(720,296)	720,296	-
Balance sheet as at 31 December 2018		**10,150,000**	**(994,432)**	**(1,462,403)**	**7,693,165**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

The Board of Directors

José Pedro Farinha
CA No. 15186

2.5. Statements of cash flows for the financial years ended on 31 December 2019 and 2018

Abarca - Companhia de Seguros, S.A.

Statements of cash flows for the financial years ended on 31 December 2019 and 2018

	Figures in Euros	
	2019	**2018**
OPERATIONAL ACTIVITIES		
Net income for the year (+/-)	**1,129,733**	**(1,462,403)**
ADJUSTMENTS:		
Depreciation/Amortisation/Impairment of Tangibles and Intangibles (+)	**246,413**	**71,067**
Provisions (+/-)	**1,550,065**	**1,734,210**
To direct insurance	4,910,661	3,998,938
To reinsurance	(3,180,749)	(3,017,404)
Other	(179,848)	752,675
Increase in debts owed to third parties (-)	**(2,097,927)**	**(424,691)**
To direct insurance	(348,975)	(15,442)
To reinsurance	(366,925)	-
States and Other Public Entities	(465,375)	-
Other	(916,653)	(409,249)
Increase in debts owed to third parties (+)	**5,132,415**	**3,341,713**
To direct insurance	2,551,938	2,346,284
To reinsurance	1,344,741	860,438
States and Other Public Entities	397,708	111,021
Other	838,028	23,970
Reduction in debts owed to third parties (-)	**(64,590)**	**31,899**
Other	(64,590)	31,899
Increase in accruals of profits (-)	**(493,538)**	-
Increase in deferred costs (-)	**(23,305)**	-
Decrease in deferred costs (+)		**399,835**
Increase in accruals of profits (+)	**102,412**	**87447**
Flow from Operational Activities (1)	**5,481,680**	**3,779,077**
INVESTMENT ACTIVITIES		
RECEIPTS FROM:		
Investments	**10,767**	-
Total Receipts	**10,767**	-
PAYMENTS IN RESPECT OF:		
Acquisition of tangible fixed assets	**(16,272)**	**(51,947)**
Acquisition of intangible fixed assets	**(137,283)**	**(118,339)**
Total Payments	**(153,555)**	**(170,286)**
Flow from Investment Activities (2)	**(142,788)**	**(170,286)**
INVESTMENT ACTIVITIES		
PAYMENTS IN RESPECT OF:		
Repayments of financial leasing contracts	**147,701**	-
Total Payments	**147,701**	-
Flow from financing activities (3)	**(347,701)**	-
Changes in cash and cash equivalents [4]=[1]+[2]+[3]	**5,191,191**	**3,608,790**
Effect of exchange differences (+/-)		
Cash and cash equivalents at the start of the period	**14,853,807**	**11,245,017**
Cash and cash equivalents at the end of the period	**20,044,998**	**14,853,807**
Changes in cash and cash equivalents (Final balance-Closing balance)	**5191.191**	**3,608,791**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

The Board of Directors

José Pedro Farinha
CA No. 15186

2.6. Explanatory Notes included in the financial statements

Note 1 General information

Abarca – Companhia de Seguros, S.A. was incorporated on 18 April 2016, as a limited company, with a share capital of €10,150,000, with the purpose of exploiting the bond insurance segment, issuing its first policy on 8 August 2016.

The Company is domiciled in Portugal, with its Head Office at Edifício Atrium Saldanha, in Praça Duque de Saldanha, no. 1, 9.º G, 1050-094 Lisbon, Portugal, and also conducts its activities through the Free Service Provision regime ("LPS" in its Portuguese initials) in Italy. Additionally, the Company has operated successfully in Spain since its incorporation, under the Free Service Provision regime ("LPS"), having obtained authorisation, in 2018, to establish a branch there, with the commencement of operations occurring on 1 July 2019.

The Company is wholly owned under Spanish law by the commercial company Grupo Azuaga Morales, S.L., with registered office at Calle Soledad, 1, 1.º B, 28850 Torrejón de Ardoz, Madrid, Spain.

Abarca Seguros was created, based on the accumulated experience of its shareholder in the field of surety bonds, in order to be able to offer innovative solutions to cater for different needs, guaranteeing an excellent service to its Clients.

The financial statements for the year ended 31 December 2019 were approved by the Board of Directors on 30 April 2020, with the shareholders having the power to amend the accounts, after approval for issue by the Board of Directors.

Note 2 Bases of presentation of the financial statements and main accounting policies adopted

2.1 Bases of presentation

The financial statements presented refer to the year ended 31 December 2019 and were prepared in accordance with the Chart of Accounts for Insurance Companies (PCES), issued by the Insurance and Pension Funds Supervisory Authority ("ASF") and approved by Regulatory Standard No. 10/2016-R, of 15 September amended by Regulatory Standard No. 3/2018, of 29 March, of the ASF, which repealed in its entirety Regulatory Standard No. 4/2007-R, of 27 April of the ASF, which adopted the previous PCES, and also in accordance with other rules issued by the ASF, regarding the accounting of the operations of insurance companies.

The current Chart of Accounts follows the International Financial Reporting Standards ("IFRS") in force, as adopted in the European Union (EU), with the exception of IFRS 4 - "Insurance Contracts", for which only the classification principles are adopted of the type of contracts entered into by insurance companies.

The financial statements are expressed in Euros and were prepared in accordance with the historical cost principle.

The preparation of financial statements in accordance with the IFRS requires the use of certain critical accounting estimates and also entails the exercise of judgment by the management body, regarding the implementation of the Company's accounting policies. The areas of the financial statements that involve a higher degree of judgment or complexity, or the areas whose assumptions and estimates are significant to the preparation of this set of financial statements, are presented in Note 3.

The IFRS include the accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), and by the respective preceding bodies.

As described below, under the heading "Accounting standards and recently issued interpretations", in preparing these financial statements, the Company adopted the accounting standards issued by the IASB and IFRIC interpretations of mandatory application since the beginning of financial year 2019.

2.2 Accounting standards and recently issued interpretations

Impact of the adoption of rules and interpretations (new and amendments) that came into force on 1 January 2019 in the European Union:

(i) IAS 12 (amendment) – "Taxes on income". This improvement clarifies that the fiscal impact of the distribution of dividends must be recognised on the date when the liability to pay is recorded, and any other comprehensive gain or equity in respect of the item where the entity originally recorded the transaction or event that gave rise to the dividends must be recognised against the results of the year. This amendment had no impacts on the Company's financial statements.

(ii) IAS 19 (change) - "Benefits to employees: Changes, reductions and winding-up of defined benefits plans". This change to IAS 19 requires that an entity: (i) Use updated assumptions to determine the cost of the current service and the net interest for the remaining period after the plan change, reduction or settlement; and (ii) recognise in the income for the year, as part of the cost of past services or as a gain or loss on settlement, any reduction in the coverage surplus, even if the coverage surplus has not been previously recognised due to the impact of the asset ceiling ". The impact of the asset ceiling is always recorded in the other comprehensive gain; it may not be recycled for results of the financial year. This amendment had no impacts on the Company's financial statements.

(iii) IAS 23 (change) – "Borrowing costs". This improvement clarifies that in determining the weighted average rate of the costs of generic borrowing, to capitalise on qualifying assets, the costs of loans obtained specifically to finance qualifying assets must be included, when the specific assets are already in the condition of intended use. This amendment had no impacts on the Company's financial statements.

(iv) IAS 28 (change) – "Investments in Associates and Joint Ventures: Long-term investments in associates and joint ventures". This change clarifies that long-term investments in associates and joint ventures (investments with no defined payment date and whose occurrence is not estimated in the near future), which are not being measured using the equity method, are accounted for in accordance with IFRS 9. This clarification determines that long-term investments in associates and joint ventures are subject to the IFRS 9 impairment rules (model of the three phases of expected losses), before being added, for the purposes of impairment testing, to the overall investment. in an associate or joint venture, when there are indicators of impairment. This amendment had no impacts on the Company's financial statements.

(v) IFRS 3 – "Business combinations" and IFRS 11 – "Joint arrangements" (amendment). This improvement clarifies that: (i) In obtaining control over a business that is a joint operation, the interests previously held by the investor are measured at fair value; (ii) an investor in a joint operation (that does not exercise joint control) who obtains joint control in a joint operation that is a business, does not remeasure the interest previously held at fair value. This amendment had no impacts on the Company's financial statements.

(vi) IFRS 9 (amendment) – "Financial Instruments: Prepayment Features with Negative Compensation". This amendment allows the classification/measurement of financial assets at amortised cost, even if they include conditions that allow the advance payment for a consideration amount lower than the nominal value ("negative offset"), being an exemption from the requirements set forth in IFRS 9 for the classification of financial assets at amortised cost. In addition, it is also clarified that when there is a change in the conditions of a financial liability that does not give rise to derecognition, the difference in measurement must be recorded immediately in the income statement. This amendment had no impacts on the Company's financial statements.

(vii) IFRS 16 (new) – "Leases". IFRS 16 eliminated the classification of leases between operating and financial leases for lessee entities, as provided for in IAS 17. The definition of a lease agreement has also been changed, based on the "right to control the use of an identified asset". This single accounting model is very similar to the treatment given to finance leases in tenants' accounts. This single model establishes, for the lessee, the recognition of: (i) assets and liabilities for all leases with a term of more than twelve months (low value assets being excluded, regardless of the lease term) in the statement of the financial position. Lessees are now required to recognise a lease liability reflecting future lease payments and a "right of use" asset for all lease agreements, except for certain short-term and low-value assets; and (ii) depreciation of leased assets and interest separately in the profit and loss account. The Company adopted this new standard as from 1 January 2019, having applied the amended retrospective method, so it did not restate the comparative accounts for the year 2018. The impacts resulting from the first application of IFRS 16, on 1 January 2019, are disclosed in Note 20.

(viii) IFRIC 23 (new) - "Uncertainties regarding the treatment of income tax". IFRIC 23 refers to an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there are uncertainties regarding the acceptance of a given tax treatment by the Tax Agency

In the event of uncertainty regarding the Tax Agency's position on a specific transaction, the entity will have to make its best estimate and record the income tax assets or liabilities under IAS 12, and not IAS 37 - "Provisions, liabilities and contingent assets ", based on the estimated expected value or the most likely value. The application of IFRIC 23 may be retrospective or modified retrospectively. This interpretive standard produces no impacts on the Company's financial statements.

Standards and interpretations (new and changes) published by the IASB, endorsed by the European Union but not yet in force:

(a) Conceptual structure (change) "Changes with reference to other IFRS". As a result of the publication of the new conceptual framework, the IASB made amendments in the text of several standards and interpretations, namely IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32, in order to clarify the application of the new definitions of assets/liabilities and expenditure/income, in addition to some of the characteristics of financial information. These changes apply in retrospect, unless impracticable. These amendments will apply to annual periods beginning on or after 1 January 2020.

(b) IAS 1 - "Presentation of Financial Statements" and IAS 8 - "Accounting Policies, Amendments in Accounting Estimates and Errors" (amendment): "Definition of material" These amendments introduce a modification to the definition of "material", as part of the IASB's more extensive "Disclosure Initiative" project. The amendments also clarify that the reference to unclear information refers to situations whose effect is similar to omitting or distorting such information, and the entity must assess the materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of "main users of financial statements", which are defined as "current and future investors, financiers and creditors" who depend on the financial statements to obtain a significant part of the information they need. These amendments will apply to annual periods beginning on or after 1 January 2020.

Standards and interpretations (new and changes) published by the IASB, not as yet endorsed by the European Union:

(a) IFRS 3 (amendment) – “Business Combinations”: “Definition of a business". This amendment constitutes a revision of the definition of a business for the purpose of accounting business combinations. The new definition demands that an acquisition includes an input and a substantial process, which together generate outputs. The outputs are now defined as goods or services that are provided to customers that generate financial investment revenues and other income, excluding returns in the form of cost reductions and other economic benefits for shareholders. “Concentration tests” are now permitted, which, when positive, exempt the entity from further assessment of whether what is involved is the acquisition of an asset or a business. Under the concentration test, if a significant part of the fair value of the acquired assets is in respect of a single asset, the acquired assets do not constitute a business. This amendment will be applicable for annual periods beginning on or after 1 January 2020, with no significant impact on the Company's financial statements, due to its adoption.

IFRS 9, IAS 39 and IFRS 7 (amendment) - “Interest rate benchmark reform”:

(b) IFRS 9, IAS 39 and IFRS 7 (amendment) – “Interest rate benchmark reform”: In the wake of the financial crisis, there was a need to replace benchmark interest rates, such as EURIBOR and other interbank interest rates (IBOR). In view of the uncertainty that a process of this nature entails and in view of the numerous hedge structures based on benchmark interest rates in force, the IASB decided to create exemptions from the application of hedge accounting, so that the “reform” of interest rates does not mean the discontinuation of hedge accounting. The main exemptions refer to: (i) Risk components; (ii) “highly probable” requirement; (iii) prospective assessment; (iv) retrospective effectiveness test (if application of IAS 39); (v) recycling of the fair value variation reserve in equity. Hedging inefficiencies must continue to be recognised in the profit and loss account for the year in which they occur. This amendment will be applicable for annual periods beginning on or after 1 January 2020, with no significant impact on the Company's financial statements, due to its adoption.

IFRS 9, IAS 39 and IFRS 7 (amendment) - “Interest rate benchmark reform”:

(c) IFRS 17 – “Insurance contracts”: IFRS 17 replaces IFRS 4 - “Insurance contracts”, the standard that has been in effect since 2004. IFRS 17 is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. For fixed-rate service contracts, the main objective of which is to provide services, entities have the option of accounting in accordance with IFRS 17 or IFRS 15. As set forth in IFRS 4, financial guarantee contracts are permitted to be included in the scope of IFRS 17, provided that the entity has explicitly classified them as insurance contracts. Insurance contracts in which the entity is the holder of the insurance policy are not within the scope of IFRS 17 (except for ceded reinsurance). IFRS 17 is based on the current measurement of technical responsibilities, on each reporting date. The current measurement of the technical responsibilities of real and equity branches can be based on a complete model (“building block approach”) or a simplified (“premium allocation approach”) model. The recognition of the technical margin will be different, depending on whether it is positive or negative. IFRS 17 is retrospectively applicable. The adoption of this standard as of 1 January 2022 will have a material effect on the Company's financial statements.

Decisions taken by the European Union regarding standards and/or already published interpretations

The IASB has developed an initiative for the preparation of a standard that serves as an answer to accounting issues (complex and fundamental) posed by entities that carry out regulated activities. Given the implications and scope of the issues in question, the IASB is developing a new standard, which focuses on the most critical features of the activities regulated (it is intended, for example, to present a clear definition of the rights and obligations inherent in these activities, distinguishing them from the rights and obligations of unregulated activities). This project gave rise to an interim standard, issued by the IASB in January 2014:

IFRS 14 - 'Tariff Deviations', which incorporates short-term accounting guidelines for first-time IFRS adopters, applicable until the conclusion of the project. However, the European Union took a negative position on the adoption of this standard in October 2015, and the European Commission decided not to propose the adoption of this standard, given the small number of entities to which IFRS 14 would currently apply. This EU body will reconsider this once the final standard is published.

The following standards and/or interpretations, adopted by the European Union, do not apply:

IFRS 9 - Financial instruments (issued in 2009 and amended in 2010, 2013 and 2014): IFRS 9 was adopted by the European Commission Regulation No. 2067/2016, of 22 November 2016 (defining the entry into force at the latest from the start date of the first financial year beginning on or after 1 January 2018). IFRS 9 (2009) introduced new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduced additional requirements related to financial liabilities. IFRS 9 (2013) introduced the hedging methodology. IFRS 9 (2014) made changes limited to the classification and measurement contained in IFRS 9 and new requirements to deal with the impairment of financial assets. The requirements of IFRS 9 represent a significant change from the current requirements provided for in IAS 39, with respect to financial assets. The standard contains three categories of measurement of financial assets: amortised cost, fair value against other comprehensive income (OCI) and fair value against results. A financial asset will be measured at amortised cost, if it is held within the scope of the business model whose objective is to hold the asset in order to receive the contractual cash flows and the terms of its cash flows give rise to receipts, on specified dates, related only to the nominal amount and interest rate in effect. If the debt instrument is held under a business model that both captures the contractual cash flows of the instrument and captures by sales, the measurement will be at fair value with the corresponding entry under other comprehensive income (OCI), maintaining the interest income to affect results. For an investment in equity instruments that is not held for trading, the standard allows an irrevocable choice, on initial recognition, on an individual basis for each share, to post changes in fair value in OCI. None of this amount recognised in OCI will be reclassified as profit or loss at any future date. However, dividends generated by such investments are recognised in profit or loss instead of OCI, unless they clearly represent a partial recovery of the investment cost. In the remaining situations, both cases in which the financial assets are held within the scope of a trading business model, or other instruments that are not only intended to receive interest and amortisation and capital, are measured at fair value against results (profit or loss). In this situation, investments in equity instruments are likewise included, which the entity does not designate on the presentation of changes in fair value in OCI, thus being measured at fair value with the changes recognised in the income statement. The standard requires that derivatives embedded in contracts whose basic contract is a financial asset, falling within the scope of the standard, are not separated; instead, the hybrid financial instrument is fully assessed and, if the embedded derivatives are verified, they will have to be measured at fair value through results (profit or loss). The standard deletes the categories currently existing in IAS 39 of “held to maturity”, “available for sale” and “accounts receivable and payable”. IFRS 9 (2010) introduces a new requirement applicable to financial liabilities designated at fair value, on an optional basis, by imposing the separation of the fair value change component that is attributable to the entity's credit risk and its presentation in OCI, rather than results (profits/losses). With the exception of this amendment, IFRS 9 (2010) in general transposes the classification and measurement guidelines set out in IAS 39 for financial liabilities, without substantial changes. IFRS9 (2013) introduced new requirements for hedge accounting that aligns it more closely with risk management. The requirements also establish a more principled approach to hedge accounting, addressing some weaknesses contained in the hedging model in IRS 39. IFRS 9 (2014) establishes a new impairment model based on "expected losses" that will replace the current model based on "incurred losses" set forth in IAS 39. Thus, the loss event no longer needs to be verified before an impairment is constituted. This new model aims to accelerate the recognition of losses through impairment applicable to the debt instruments held, whose measurement is at amortised cost or at fair value against OCI. In the event that the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will generate an accumulated impairment equal to the expected loss expected to occur in the next 12 months. If the credit risk increases significantly, the financial asset will generate an accumulated impairment equal to the estimated loss expected to occur until its maturity, thus increasing the amount of impairment recognised. Once the loss event occurs (what is currently termed "objective proof of impairment"), the accumulated impairment is directly affected by the instrument in question, its accounting treatment being similar to that set forth in IAS 39, including the treatment of the respective interest.

IFRS 9 is applicable on or after 1 January 2018.

Changes to IFRS 4: Application of IFRS 9 Financial instruments with IFRS 4: Insurance Contracts (issued on 12 September 2016) allows an insurer, which meets certain specified criteria, to adopt a temporary exception to IFRS 9 and maintain the application of IAS 39 until 1 January 2021. Considering that the criteria provided for the temporary exception are met, the Company chose not to proceed with the adoption of the standard with reference to 1 January 2018. This option was based on the amendment also introduced in the Chart of Accounts for Insurance Companies, through Regulatory Standard no. 3/2008-R issued by the ASF. Nevertheless, given the nature of the Company's activities, it is expected that this standard will have materially relevant impacts on the Company's financial statements.

2,3 Main accounting policies adopted

The main accounting policies adopted in the preparation of these financial statements are as follows:

2.3.1 Reporting by segments

Abarca Seguros identifies as components of the Company the operating segments that conduct a business in which they earn revenue and incur expenses and whose operating results (profits/losses) are regularly reviewed by the Board of Directors as the body responsible for taking decisions regarding the allocation of resources to the segments and the performance evaluation, based on discrete financial information. A business segment is a set of assets and operations that are subject to specific risks and earnings that are different from other business segments. Abarca Seguros only sells surety insurance, so the reporting by segments does not apply to the Company.

2.3.2 Financial assets

Financial assets are recorded on the contract date at their respective fair value. In the case of financial assets recorded at fair value through profit or loss, the costs directly attributed to the transaction are recorded in the profit and loss account. In the remaining categories, these costs are added to the asset's value.

The fair value of a financial instrument is in respect of the amount by which a financial asset or liability can be sold or settled between independent parties, informed and interested in the completion of the transaction under normal market conditions.

Securities admitted to trading on a stock exchange or traded on a regulated market and with transactions carried out in the last 15 days are valued at the closing price, if the session closed before 5:00 pm in Lisbon, or at the price verified at that time if the session is in operation and more than half of the session has elapsed. The stock market quotes are provided by the managing entities of the market where the securities are admitted for public listing and collected through NetBolsa (domestic market) and Reuters or Bloomberg (foreign markets).

If the securities are quoted on more than one exchange, the price achieved in the market that has the highest liquidity, frequency and regularity of transactions is the one considered.

For the purpose of valuing securities listed without transactions in the last 15 days and for unlisted ones, the Company has defined a group of contributors that it considers credible and that report prices through specialised means, namely Bloomberg.

If a market reference price is not available, the instrument's fair value is estimated based on valuation techniques, which include universally accepted price valuation models (discounted cash flow techniques).

When discounted cash-flow techniques are used, future financial flows are estimated according to management expectations and the discount rate used is the market rate for financial instruments with similar characteristics. In price evaluation models, the data used correspond to market price information.

Units are valued at the most recent known value and disclosed by the respective management entity or, if applicable, at the most recent price of the market where they are admitted to trading. The adopted criterion takes into account the price deemed to be the most representative, depending, namely, on the quantity, frequency and regularity of the transactions.

The fair value of derivatives that are not traded on the stock exchange is estimated based on the amount that would be received or paid to settle the contract on the date under analysis, in view of current market conditions.

Upon initial recognition, financial assets are classified in one of the following categories defined in IAS 39:

(i) Financial assets at fair value through profit and loss

This category includes:

- Financial assets held for trading, which are essentially securities acquired for the purpose of realising gains as a result of short-term fluctuations in market prices and financial derivative instruments; and

- Financial assets classified irrevocably in their initial recognition at fair value through profit and loss, in accordance with the option permitted by IAS 39 ("fair value option"). The application of this option is limited to situations in which its adoption enables the production of more relevant financial information, namely: (a) If its application eliminates or significantly reduces an inconsistency in the recognition or measurement ("accounting mismatch") that would otherwise occur as a result of measuring related assets and liabilities or recognizing gains and losses thereon in an inconsistent manner;

  (b) groups of financial assets, financial liabilities or both that are managed and whose performance is assessed on a fair value basis, in accordance with formally documented risk and investment management strategies and information on these groups of financial instruments is distributed internally to the management bodies.

Additionally, it is possible to classify financial instruments in this category that contain one or more implicit derivatives, unless: (a) the implied derivatives do not significantly modify the cash flows that would otherwise be produced by the contract; (b) Ii is clear, with little or no analysis, that the implicit derivatives should not be separated.

Financial instruments classified in this category are recorded at fair value, with the gains and losses generated by the subsequent valuation shown in the profit and loss account, under the captions "Net gains on financial assets and liabilities valued at fair value through profit and loss" .

(ii) Loans granted and accounts receivable

They are financial assets with fixed or determinable payments, not listed in an active market. This category includes, among others, deposits with lending institutions, deposits with ceding entities and loans and other accounts receivable.

Upon initial recognition, these assets are recorded at their fair value, less any commissions included in the effective rate, plus any incremental costs directly attributable to the transaction.

Subsequently, these assets are recognised in the balance sheet at amortised cost, less impairment losses. Interest is recognised based on the effective rate method.

(iii) Financial assets available for sale

They include financial instruments recorded in this category at the time of initial recognition and which do not fit into the other categories set out in IAS 39.

Financial assets available for sale include equity and debt instruments that are not classified as financial assets held for trading, at fair value through profit or loss, as investments to be held to maturity or as loans granted and accounts receivable.

Financial assets available for sale are recorded at fair value, except for equity instruments that are not listed in an active market and whose fair value cannot be reliably measured, which continue to be recorded at cost. Gains and losses related to the subsequent variation in fair value are reflected in a specific equity item called “Revaluation reserves by adjustments to the fair value of financial assets” until their sale, or until the recognition of impairment losses, when they are transferred to results. Foreign exchange gains or losses on monetary assets (debt securities) are recognised directly in the profit and loss account.

All of the Company's financial assets as of 31 December 2019 and 2018 are classified in this category.

(iv) Recognition of income

Interest on financial assets not valued at fair value through profit and loss (loans granted and accounts receivable and financial assets available for sale) and the respective recognition of the differences between the acquisition cost and the nominal value (premium or discount) are calculated in accordance with the effective rate method and recorded under “Interest income on financial assets not valued at fair value through profit and loss”.

Interest on financial assets valued at fair value through profit and loss is recorded under “Income - Others”.

Income from variable income securities, namely dividends, is recognised under “Income - Others”, when the Company's right to receive it is established. According to this criterion, early dividends are recorded as income in the year in which their distribution is decided.

2.3.3 Impairment of financial assets

The Company periodically performs impairment analyses of its financial assets, including assets recorded at amortised cost and financial assets available for sale.

When there is evidence of impairment in an asset or group of financial assets, impairment losses are recorded against the profit and loss account.

In accordance with IAS 39, the following events are considered to constitute signs of impairment:

(i) Significant financial difficulties of the issuer or the debtor;

(ii) Non-compliance with contractual clauses, such as arrears in interest or principal payments;

(iii) Restructuring of operations as a result of financial difficulties of the debtor or debt issuer;

(iv) If it is likely that the debtor will enter insolvency or have financial difficulties;

(v) The disappearance of an active market for this financial asset as a result of the issuer's financial difficulties.

Whenever signs of impairment are identified in assets recorded at amortised cost, the possible impairment loss is the difference between the current value of future cash flows expected to be received (recoverable value), discounted based on the original effective interest rate of the asset, and the amount entered in the balance sheet at the time of analysis.

Regarding the financial assets available for sale, on each reference date of the financial statements, the Company carries out an analysis of the existence of impairment losses, considering for this purpose the specific and individual nature and characteristics of the assets being evaluated.

In addition to the aforementioned signs of impairment, the following specific indications are also considered with respect to equity instruments recorded as financial assets available for sale:

(i) Significant changes with an adverse impact on the technological, market, economic or legal environment in which the issuer operates that indicate that the investment cost will not be fully recovered;

(ii) A significant or prolonged decline in market value below cost price;

(iii) With regard to the objective criteria of impairment in capital instruments, the Board of Directors of the Company considers a period of 24 months to be appropriate for the purpose of the criterion of prolonged devaluation in financial instruments in relation to the acquisition cost. Additionally, with regard to the significant devaluation criterion, the Company considers the existence of potential capital losses of more than 50% of the acquisition cost of the financial instrument.

Except as described in the following paragraph, if in a subsequent period there is a decrease in the amount of impairment losses attributed to an event, the amount previously recognised is reversed through adjustment to the impairment loss account. The amount of the reversal is recognised directly in the profit and loss account.

With regard to financial assets available for sale, in the event of objective evidence of impairment, resulting from a significant or prolonged decrease in the fair value of the security or financial difficulties of the issuer, the accumulated loss in the revaluation reserve for adjustments in fair value is moved from the capital. and is recognised in the results (profit/loss). Impairment losses recorded in fixed income securities can be reversed through profit or loss, if there is a positive change in the fair value of the security resulting from an event that occurred after the determination of the impairment. Impairment losses on variable income securities cannot be reversed, so any potential capital gains arising after the recognition of impairment losses are shown in the revaluation reserve. As for variable income securities for which impairment has been recorded, subsequent negative changes in fair value are always recognised in the income statement.

The amount of impairment determined is recognised as a cost under “Impairment losses (net of reversals)”.

2.3.4 Fixed tangible assets

The Company's tangible assets are accounted for at the respective historical acquisition cost, including the expenses necessary for their start-up.

Subsequent costs of tangible assets are recognised only if it is likely that they will result in future economic benefits for the Company. All maintenance and repair expenses are recognised as a cost, in accordance with the principle of accrual in the specific financial year.

Depreciation is calculated using the straight-line method, by twelfths, using the following annual rates, which reasonably reflect the estimated useful life of the assets:

- Administrative equipment and other equipment 12.50%
- IT equipment 33.33%

When there is an indication that an asset may be impaired, its recoverable value is estimated, and an impairment loss is recognised whenever the net value of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement for assets recorded at cost. Impairment losses can be reversed, up to the limit of the value that the assets would have if no impairment losses have been recognised on them.

The recoverable value is determined as the higher of its net selling price and its value in use, which is calculated based on the current value of the estimated future cash flows that are expected to be obtained by the continued use of the asset and disposal at the end of its useful life.

The useful lives and residual values of tangible fixed assets are reviewed at each reporting date.

2.3.5 Fixed intangible assets

Fixed intangible assets are only recognised when: (i) are identifiable; (ii) future economic benefits are likely to benefit from them; and (iii) their cost can be reliably measured.

When acquired individually, intangible assets are recognised at cost, which includes:

(i) the purchase price, including intellectual rights costs and fees after deduction of any discounts; and (ii) any cost directly attributable to the preparation of the asset for its intended use.

Costs incurred by the acquisition of software are capitalised, as well as the additional expenses incurred by the Company, necessary for their implementation.

The costs directly related to the production of IT products developed by the Company, on which it is expected that they will generate future economic benefits beyond one fiscal year, are recognised and recorded as intangible assets.

Intangible assets are recorded at the historical cost of acquisition, subject to amortisation and impairment testing.

The amortisations are calculated using the constant quota method, per twelfths, on the basis of the following annual rate, which appropriately reflects the estimated useful life of intangible assets:

- Expenses on IT applications 20%

When there is an indication that an asset may be impaired, its recoverable value is estimated, and an impairment loss must be recognised whenever the net value of an asset exceeds its recoverable value. Impairment losses are recognised in the profit and loss statement for assets recorded at cost. Impairment losses can be reversed, up to the limit of the value that the assets would have if no impairment losses have been recognised on them.

The recoverable value is determined as the higher of its net selling price and its value in use, which is calculated based on the current value of the estimated future cash flows that are expected to be obtained by the continued use of the asset and disposal at the end of its useful life.

2.3.6 Adjustments for accounts receivable and for doubtful credits

Adjustments to receivable receipts aim to reduce the amount of receivable receivables to their estimated realisable value. Receipts issued and not collected at the end of the year are reflected in the item “Accounts receivable for direct insurance transactions”. These adjustments are calculated based on the values of the premiums to be collected according to economically-based criteria.

Adjustments for doubtful debts are intended to reduce the amount of outstanding balances arising from direct insurance, reinsurance or other transactions, with the exception of bills to be collected, at their estimated realisation value, by applying basic economic criteria.

If in subsequent periods there is a decrease in the amount of impairment losses attributed to an event, the amount previously recognised is reversed through adjustment of the impairment loss account. The amounts of the reversal are recognised directly in the profit and loss account.

2.3.7 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the amounts recorded in the statement of financial position with a maturity of less than three months from the balance sheet date, readily convertible into cash and with a small risk of change in value, which includes cash and cash equivalents at lending institutions.

2.3.8 Share capital

Shares are classified as equity when they do not have an underlying obligation to transfer money or other assets. Incremental costs directly attributable to the issuance of equity instruments are shown in equity, net of taxes.

2.3.9 Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase share capital. Under Portuguese law, the legal reserve must be credited annually with at least 10% of the annual net profit, until the share capital is composed.

2.3.10 Insurance contracts

The Company issues contracts that include insurance risk. An insurance contract is a contract in which the Company accepts a significant insurance risk from another party, the insured, undertaking to compensate the insured in the event of a specific uncertain future event that adversely affects the insured. This type of contract is within the scope of IFRS 4 - “Insurance Contracts".

Insurance contracts are recognised and measured as follows:

(i) Premiums

Gross premiums issued are recorded as income in the year to which they relate, regardless of when they are received.

Ceded reinsurance premiums issued are recorded as costs in the year to which they relate, regardless of when they are paid.

Premiums received in advance are not considered to be income for the year, but are recorded in a third-party account as a liability to policyholders.

(ii) Acquisition costs

Acquisition costs which are directly or indirectly related to the sale of insurance contracts, are capitalised and deferred over the life of the contracts and are tested for impairment losses on the date of each financial report.

(iii) Provision for unearned premiums

The provision for unearned premiums corresponds to the deferral of premiums issued and is calculated for each contract in force, from the balance sheet closing date to the expiration of the period related to the premium, by applying the “*pro rata temporis*” method. This provision is presented in the statement of financial position, in liabilities, net of deferred acquisition costs.

(iv) Provision for claims

The provision for claims is intended to cover indemnities payable for claims that have already occurred but have not been settled, and are determined as follows:

(a) *Case-by-case*

From the analysis of the claims declared pending at the end of the year and the consequent estimate of the existing liability on that date.

(b) *Incurred but not reported* (“IBNR”)

By estimating the amounts needed to cover liabilities for incurred but not reported claims ("IBNR"). The calculation of the provision for IBNR is made based on the Ultimate Loss Ratio ("ULR") estimates, by year of subscription, made either by the Responsible Actuary or by the internal model. Adjustments to the provision for IBNR are made, by year of subscription, by the positive and negative difference between the estimated loss ratio ("ULR") and the actual loss rate incurred on the date of the financial statements, applied to the premiums processed for each year underwritten.

Up to 31 December 2017, the Company made a provision for IBNR in the amount of 30% of the premiums acquired, both for direct insurance and for ceded reinsurance, the percentage having been reduced to 15% in 2018, and maintained in 2019 .

(c) *Loss adjustment expenses* ("LAE")

By the estimated administrative costs to be incurred in the future settlement of claims that are currently in the management process.

(v) Provision for risks in progress

It is used to deal with situations in which the processed premiums are insufficient to pay out the indemnities and expenses attributable to the technical account. This provision is calculated for direct insurance based on the loss ratio, ceding and expense ratios, and on the profitability of investments, calculated in accordance with the criteria established by the ASF.

(vi) Provision for deviations in accident rates

The provision for claims deviations is intended to cover exceptionally high claims in the surety business. In accordance with the criteria established by the ASF, the annual allocations are in respect of the minimum between 75% of the technical result and 25% of the gross premiums issued in the surety business, to be made as long as the provision amount does not reach 150% of the highest annual amount of gross premiums issued in the previous five years. This provision is used when the technical result of the surety business is negative.

(vii) Technical reinsurance provisions provided

In the technical provisions for ceded reinsurance, the aforementioned criteria for direct insurance were used, taking into account the percentages ceded, as well as other clauses in the treaties in force. These provisions are related to the share of the reinsurers' liability in the Company's total liabilities and are calculated in accordance with the reinsurance treaties in force, with respect to the ceding percentages and other existing clauses.

2.3.11 Income Tax

Income tax comprises current and deferred taxes. Income taxes are recorded in the profit and loss Account, except when they are related to items that are recognised directly in equity.

Current taxes are those estimated to be paid based on taxable income, calculated in accordance with tax rules in force and using the tax rate approved or substantially approved in each jurisdiction.

Deferred taxes are calculated on tax adjustments between the book values of assets and liabilities and their tax base, using tax rates approved or substantially approved at the balance sheet date in each jurisdiction and expected to be applied when tax adjustments reverse.

Deferred tax assets are recognized for all deductible temporary differences only to the extent that future taxable profits are expected to be able to absorb such differences. In addition, deferred tax assets are not recorded when their recoverability may be questionable due to other situations, including issues of interpretation of the tax legislation in force.

Deferred tax liabilities are recognized for all taxable temporary differences, except for differences arising from the initial recognition of assets and liabilities that do not affect either accounting or tax profit.

Deferred tax assets and liabilities are presented at their nominal value, that is, undiscounted.

2.3.12 Financial liabilities

Financial liabilities are recorded on the contract date at their respective fair value, less costs directly attributable to the transaction. Financial liabilities are valued at amortized cost and interest, when applicable, is recognized in accordance with the effective interest rate method.

2.3.13 Provisions, assets and contingent liabilities

Provisions are recognised only when the Company has a present obligation (legal or constructive) resulting from a past event, and it is probable that for the settlement of this obligation, an outflow of resources will occur, in an amount that can be reasonably estimated. The amount recognised in provisions consists of the current value of the best estimate of the funds required to settle the obligation, on the reporting date. This estimate is determined taking into account the risks and uncertainties associated with the obligation. Provisions are reviewed at the reporting date and are adjusted to reflect the best estimate at that date.

Present obligations resulting from onerous contracts are recorded and measured as provisions. There is an onerous contract when the Company is an integral party of the provisions of a contract or agreement, the fulfilment of which has associated costs that cannot be avoided, and which exceed the economic benefits derived from it.

If the future expenditure of resources is unlikely, it is a contingent liability. Contingent liabilities are subject to disclosure, unless the likelihood of their realisation is remote.

Contingent assets are not recognised in the financial statements, but are disclosed when it is probable that there will be a future inflow of funds.

2.3.14 Foreign currency transactions

The Company’s functional currency is the Euro.

Conversions to Euros of foreign currency transactions are carried out at the exchange rate in force on the date on which they occur.

The values of assets expressed in the currency of countries not participating in the European Union Economic and Monetary Union (“EMU”) are converted into Euros, using the most recent reference rate quoted by the Bank of Portugal.

Exchange differences, monetary assets and liabilities, between the rates in force on the contracting date and those in effect on the balance sheet date, are recorded in the profit and loss account for the year.

Non-monetary assets and liabilities recorded at historical cost, expressed in foreign currency, are converted at the exchange rate on the date of the transaction. Non-monetary assets and liabilities expressed in foreign currency recorded at fair value are converted at the exchange rate in force on the date when the fair value is determined. The resulting exchange differences are recognised in the income statement. Exchange differences in respect of items that affect other comprehensive income are also recognised in other comprehensive income.

At the present time, the Company has no assets or liabilities in foreign currencies.

2.3.15 Leases

Leasing is a contract or part of a contract that transfers the right to use an asset (the underlying asset) for a certain period, in exchange for a fee ("right to use"). Finance leasing involves a lease that transfers substantially all the risks and rewards inherent in ownership of an underlying asset.

At the initial measurement, except for short-term leases and low value assets, the Company recognises assets held under a finance lease in its statement of financial position at the cost of acquisition of the leased assets, equivalent to the current value of the lease payments falling due , which are presented in assets and liabilities, under “Other tangible assets” and “Other financial liabilities”, respectively. The discount rate considered is the one which leads to the present value of the lease payments and the unsecured residual value being equal to the sum total of the fair value of the underlying asset and any initial direct costs of the lessor. Incremental costs are those arising from obtaining a lease which would not have been incurred had it not been obtained, except for the costs incurred by a manufacturer or trader lessor in relation to a financing lease.

In the subsequent measurement, except for short-term leases and low-value assets, the tangible fixed assets acquired through financing leases are depreciated by the lower amount of the useful life of the asset and the lease period, when the Company has no purchase option at the end of the contract, or for the estimated useful life, when the Company intends to acquire the assets at the end of the contract, and is also subject to impairment testing at the date of each financial report.

Rents are accounted for in the following manner: (i) by the financial charge that is charged to income; and (ii) by the financial amortisation of capital, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

On 1 January 2019, the amended retrospective method was adopted, so the comparative balances were not re-expressed for the year 2018. The impacts resulting from the first application of IFRS 16 a as at that date are disclosed in Note 20.

2.3.16 Employee benefits

Liabilities for employee benefits are recognised in accordance with the principles established by IAS 19 - "Employee Benefits".

(i) Long-term benefits (length of service bonuses, IRP contribution and life assurance)

The Company awards length of service bonuses to employees who comply with certain requirements; these bonuses are reflected in “Labour Costs” in the period to which they refer, in accordance with the principle of recording in the specific relevant financial year.

The Company benefits its employees with an Individual Retirement Plan (IRP), making annual contributions in the year following that in which the employees in effective service complete two years of effective service in the Company. Contributions are recognised as a cost in the financial year in which they are due.

The Company also takes out life assurance for all its employees. The insurance premium is reflected in “Labour costs” in the period to which it relates, in accordance with the principle of recording in the specific relevant financial year.

With regard to Spanish employees, the Company follows the provisions of the Collective Agreement for insurance entities in Spain, established for the years 2016 to 2019.

(ii) Short-term benefits

Short-term benefits (i.e. those expiring in less than twelve months), including productivity bonuses paid to employees for their performance, are reflected in “Labour Costs” in the period to which they refer, in accordance with the principle of recording in the specific relevant financial year.

(iii) Holidays and holiday pay

In accordance with current law, employees are entitled to one month of annual leave and one month of holiday allowance, rights acquired in the year preceding their payment. In this way, liabilities for holidays and holiday allowances and the respective employer contributions are recorded in costs for the year to which they refer, regardless of the year in which their payment occurs. Holiday pay and holiday allowances are recorded in the “Labour costs” account against “Accruals and deferrals” in liabilities.

2.3.17 Expenses by type allocated to functions

The Company allocates costs by type to the following functions:

(i) Claims;

(ii) Acquisitions;

(iii) Administrative; and

(iv) Investments.

The distribution of costs by functions makes a distinction between direct costs (costs identified directly with the respective function) and indirect costs (which are divided by functions, based on the estimated time spent on each function).

As the Company started its activity in August 2016, which is why, of course, it is still in the business acquisition phase, it was decided to allocate the largest percentage of indirect expenses to the acquisition function.

The percentages may or may not vary in the future due to variations in the Company's levels of activity.

2.3.18 Continuity of operations and comparability

The Company operates in accordance with the continuity principle

With the exception of those mentioned in Notes 2.3.15, 6, 12 and 20, the accounting policies described above were applied consistently, so they are comparable to the periods presented in these financial statements.

Note 3 Main estimates and judgments used in the preparation of the financial statements

The estimates and judgments with an impact on the Company's financial statements are continuously evaluated, representing at the date of each report the best estimate of the Board of Directors, taking into account the historical performance, the accumulated experience and the expectations about future events that, in the circumstances concerned, they believe to be reasonable.

The intrinsic nature of the estimates may mean that the actual reflection of the situations that had been the subject of the estimate may, for financial reporting purposes, differ from the estimated amounts.

The IFRS lay down a series of accounting treatments and require companies to use judgments and make the necessary estimates in order to decide which accounting treatment is most appropriate.

The main accounting estimates used in the application of the accounting principles by the Company are disclosed below, in order to improve the understanding of how their application affects the reported results.

Note 2.3 presented a description of the main accounting policies used.

The results of the alternatives analysed below are presented only to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

(i) Technical provisions related to insurance and reinsurance contracts

The determination of the Company's responsibilities for insurance and reinsurance contracts is made based on the methodologies and assumptions described in Note 2.3.10. These liabilities reflect a quantified estimate of the impact of future events on the Company's accounts, based on actuarial assumptions, claims history and other methods accepted in the sector. In view of the nature of Abarca Seguros' activity, the determination of the provision for claims is subject to a high level of subjectivity, and the actual amounts to be paid out in the future may be significantly different from the estimates made.

The Company's Board of Directors considers that the liabilities for insurance and recoverable reinsurance contracts reflected in these financial statements reflect, in an appropriate manner, the best estimate on the balance sheet date of the amounts to be paid out to beneficiaries and to be paid by reinsurers, respectively.

(ii) Taxes on profits

The Company pays taxes on profits. The determination of the total amount of taxes on profit requires certain interpretations and estimates.

There are several transactions and calculations for which the determination of the final amount of tax payable is uncertain.

Other interpretations and estimates could result in a different level of taxes on profit, current and deferred, recognised in the year.

The Tax Authorities have the right to review the calculation of the tax base made by the Company, during a period of either ten or four years, depending on whether or not there are reportable tax losses. Thus, it is possible that there are corrections to the tax base, resulting mainly from differences in the interpretation of tax law. However, the Company's Board of Directors takes the view that there will be no significant corrections to the taxes on profit recorded in these financial statements.

The recognition of deferred tax assets is dependent on the existence of future taxable profits, and their estimation results from certain assumptions and judgments made by the Company's Board of Directors.

Note 4 Report by segments

Abarca Seguros operates in the non-life insurance branch and is engaged exclusively the surety bond business. All of the Company's business is recorded in a single segment, hence the report is not divided into segments.

Note 5 Cash and cash equivalents and demand deposits

The balance of this heading, as of 31 December 2019 and 2018, was broken down as follows:

	31/12/2019	31/12/2018
Demand deposits	20,044,355	14,853,436
Cash	643	371
	20,044,998	14,853,807

As of 31 December 2019 and 2018, demand deposits did not bear any interest.

As of 31 December 2019 and 2018, approximately 85% and 91%, respectively, of the Company's current deposits are deposited in banks with a rating equal to or higher than A-.

Note 6 Other tangible assets

In the financial year ended 31 December 2019, the movement in the headings of other tangible assets was as follows:

	Gross assets				
	Balance on 31/12/2018	**Changes in accounting policies (Note 2.3.1/o**	**Acquisitions**	**Disposal of assets**	**Balance on 31/12/2019**
Equipment					
Administrative equipment	87,267	-	899	(3,500)	84,666
IT equipment	712.66	-	17,771	(1,313)	90,350
Other equipment	2,946	-	-	(212)	2,734
Leases - Transport equipment	-	163,227	-	-	163,227
Leases - Real Estate	-	646,693	-	-	646,693
	161,479	**809,920**	**18,670**	**(5,024)**	**987,670**

	Accumulated depreciations			
	Balance on 31/12/2018	**Depreciations in the financial year**	**Disposal of assets**	**Balance on 31/12/2019**
Equipment				
Administrative equipment	19,593	11,079	(620)	30,052
IT equipment	22,213	24,508	(620)	46,101
Other equipment	507	363	(31)	840
Leases - Transport equipment	-	41,475	-	41,475
Leases - Real Estate	-	95,911	-	95,911
	42,313	**173,337**	**(1,271)**	**214,379**

As noted in Note 2.3.15, IFRS 16 had a significant impact on the accounting of lessees (Note 12), reflecting future lease payments, in return for a "right of use" asset for all lease agreements, except for short-term leases and low-value assets. The definition of a leasehold agreement has also been changed, being based on the right to control the use of an identified asset.

On 1 January 2019, the amended retrospective method was adopted, so the comparative balances were not re-expressed as at 31 December 2018. The impacts resulting from the first application of IFRS 16 a as at that date are disclosed in Note 20.

Note 7 Impact on financial investments and other assets

December 31, 2019 and 2018, the allocation of investments and other assets to insurance contracts, can be summarised as follows:

	31/12/2019	31/12/2018
Assets related to the representation of technical provisions	14,996,438	8,100,000
	14,996,438	8,100,000

Note 8 Other intangible assets

In the period ended 31 December 2019, the movement in the headings of other intangible assets was as follows:

	Gross assets			
	Balance on 31/12/2018	Acquisitions	Adjustments/corrections	Balance on 31/12/2019
IT applications	256,649	146,946	(9,663)	393,931
Other items	492	“	-	492
	257,141	146,946	(9,663)	394,424

	Accumulated depreciations			
	Balance on 31/12/2018	Depreciations in the financial year	Adjustments/corrections	Balance on 31/12/2019
IT applications	58,303	82,738	(9,663)	131,378
Other				
	58,303	82,738	(9,663)	131,378

Note 9 Technical provisions for direct insurance and ceded reinsurance

On 31 December 2019 and 2018, technical provisions for direct insurance and ceded reinsurance were broken down as follows:

	31/12/2019			31/12/2018		
	Direct insurance	Ceded reinsurance	Total	Direct insurance	Ceded reinsurance	Total
Provision for unearned premiums	8,133,495	(4,874,274)	3,259,221	5,036,844	(3,148,266)	1,888,578
Provision for claims	3,498,073	(2,428,880)	1,069,193	1,684,063	(1,114,783)	569,280
Provision for deviations in accident rates	1,137,194	-	1,137,194	629,049	-	629,049
Provision for risks in progress	-	-	-	687,992	-	687,992
Provision for profit-sharing	-	(143,978)	(143,978)	-	-	-
	12,768,762	(7,447,132)	5,321,630	8,037,949	(4,263,049)	3,774,900

The provision for unearned premiums for direct insurance and ceded reinsurance on 31 December 2019 and 2018, was broken down as follows:

	31/12/2019			31/12/2018		
	Unearned premiums	Deferred Costs/Income	Total	Unearned premiums	Deferred Costs/Income	Total
To direct insurance						
From non-life insurance	8,758,412	(624,917)	8,133,495	5,332,625	(295,781)	5,036,844
From ceded reinsurance						
From non-life insurance	(6,130,726)	1,256,452	(4,874,274)	(3,719,479)	571,213	(3,148,266)
	2,627,686	631,535	3,259,221	1,613,146	275,432	1,888,578

The provision for claims, as of 31 December 2019 and 2018, was broken down as follows:

	31/12/2019			31/12/2018		
	Direct insurance	Ceded reinsurance	Total	Direct insurance	Ceded reinsurance	Total
Reported (open claims)	702,221	(597,657)	104,564	680,000	(544,000)	136,000
Non-reported (IBNR)	2,795,852	(1,831,223)	964,629	1,004,063	(570,783)	433,280
	3,498,073	(2,428,880)	1,069,193	1,684,063	(1,114,783)	569,280

Note 10 Other debtors in respect of insurance transactions and other transactions

As at 31 December 2019 and 2018, this heading was broken down as follows:

	31/12/2019	31/12/2018
Accounts receivable in respect of direct insurance transactions		
Policyholders	1,261,100	912,125
Accounts receivable in respect of reinsurance transactions		
Reinsurers	366,925	-
Accounts receivable for other transactions		
Other debtors	1,325,902	409,249
	2,953,927	1,321,374

The balances receivable from policyholders on 31 December 2019 refer almost entirely to renewals at the end of the year, whose premiums were settled in 2020.

The balance of Other Debtors on 31 December 2019 and 2018 includes an amount receivable from Grupo Azuaga Morales, S.L. of €303.189, as explained in Note 23 - Transactions with related parties.

Note 11 Assets, liabilities, gains and losses due to taxes

(i) Deferred Tax Assets

On 31 December 2019 and 2018, the deferred tax assets were broken down as follows:

	2019			
	Balance on 31/12/2018	Change in Equity	Change in Results	Balance on 31/12/2018
Deferred Tax Assets				
Due to reportable tax losses	268,271	-	465,375	733,646
	268,271	-	465,375	733,646
Deferred tax liabilities				
Due to differences between the base in books and tax base of the technical provisions of the Branch in Spain	-	-	(231,601)	231,691
	-	-	(231,601)	231,691

Deferred tax assets were recognised, taking as the basis the estimates of tax gains contained in the business plan, approved by the Company's Board of Directors. The realisation of this business plan depends on the Company's ability to implement the planned measures, as well as the evolution of the macroeconomic environment in general and the surety branch of the insurance market in particular. The Company recognised deferred tax assets on the total reportable tax loss as of 31 December 2019.

In Portugal, the deduction of reportable tax losses that are still recoverable, to be made in each of the tax periods, cannot exceed the amount corresponding to 70% of the respective taxable profit; losing however, the deduction of part of these losses that have not been deducted, under the same conditions and until the end of the respective deduction period.

In Portugal, reportable tax losses amounted to €1,662,399 and €2,710,892 as of 31 December 2019 and 2018, respectively, and were broken down as follows:

Reportable tax losses - Portugal	2019			
	Balance on 31/12/2018	Use	Balance on 31/12/2019	Expiration
Period from 18 April 2016 to 31 December 2016	327,217	(327,217)	-	2028
Financial year 2017	921,273	(721,276)	199,997	2022
Financial year 2018	1,462,402	-	1,462,402	2023
	2,710,892	(1,048,493)	1,662,399	

In Spain, under the terms of the Law No. 27/2014, of 27 November, which governs corporation tax in Spain, reportable tax losses can be offset in the subsequent fiscal periods, with no expiry date, up to a limit of 70% of the taxable earnings. In any case, reportable tax losses up to the amount of €1 million can be offset entirely in a single financial year.

Reportable tax losses - Branch in Spain	Balance on 31/12/2019	Expiration
Period from 1 July 2019 to 31 December 2019	1,583,626	No expiry date.

(ii) Current tax liabilities

On 31 December 2019 and 2018, the current recognised deferred tax assets were broken down as follows:

	31/12/2019	31/12/2018
IRC [Corporate income tax] - Separate taxation, net of PEC	114,612	12,584
Withholdings from wages and salaries in Portugal	89,631	84,994
Withholdings resulting from LPS activities in Italy	52,951	-
Social Insurance Contributions of the Branch in Spain	19,053	1,571
Social Insurance Contributions in Portugal	11,883	20,553

VAT on intra-community transactions	3,251	2,036
Withholdings and stamp duty	3,080	4,571
Withholdings from wages and salaries in respect of the Branch in Spain	1,903	4903
ASF fees	1,165	619
Contributions to the unemployment contribution fund	315	(5)
	297,844	131,8261

As at 31 December 2019 and 2018, the Company's situation in respect of tax and social insurance contributions was compliant.

(iii) Tax gains and losses

The gains/(losses) on taxes on profit recorded in the profit and loss account, as well as the tax burden, measured by the relationship between the allocation for taxes on profit and the pre-tax profits, can be presented as follows:

	2019	2018
Pre-tax earnings	1,017,510	(1,440,884)
Income Tax	112,223	(21,519)
Effective tax burden on income in profit and loss	11,03%	1,49%

(iv) Reconciliation of nominal tax rate with actual tax rate

The reconciliation between the nominal tax rate and the actual tax rate in financial years 2019 and 2018
can be shown as follows:

	2019		
	Base	Rate	Tax (Cost)/Profit
Pre-tax earnings			
- Portugal	1,497,847	21,45%	(321,288)
- Spain	(1,583,626)	25%	395,906
Nominal tax on income			**74,618**
Permanent differences			
- Separate taxation in Portugal			(20,356)
- Other			(10,121)
Temporary differences			
- Recognised IDA, with regard to 2018 tax losses	(1,427,486)	21%	299,772
- Due to differences between the base in books and tax base of the technical provisions of the Branch in Spain	1,103,288	21%	(231,691)
Effective tax burden on income in profit and loss			**112,223**

In 2019 and 2018, the Company’s nominal composite tax rates, including municipal and state taxes, where applicable, were 21.45% and 21%, respectively.

Note 12 Other financial liabilities

On 31 December 2019, this heading had the following composition:

	31/12/2019		
	Real estate	Vehicles	Total
Liabilities for lease contracts as at 01 January 2019	659,871	118,652	778,523
Additions	-	47,579	47,579
Capital redemptions	111,596	36,105	147,701
Interest paid (Note 21)	6,552	4,062	10,614
Liabilities for lease contracts as at 31 December 2019	541,723	126,065	667,788

As noted in Note 2.3.15, IFRS 16 had a significant impact on the accounting of lessees who, as of 1 January 2019, were required to recognise a rental liability, reflecting future lease payments, in return for a "right of use" asset for all lease agreements, except for short-term leases and low-value assets (Note 6). The definition of a leasehold agreement has also been changed, being based on the right to control the use of an identified asset.

On 1 January 2019, the amended retrospective method was adopted, so the comparative balances were not re-expressed as at 31 December 2018. The impacts resulting from the first application of IFRS 16 a as at that date are disclosed in Note 20.

Note 13 Accruals and deferrals

(i) Assets

Accruals and deferrals of assets as of 31 December 2019 and 2018 are broken down as follows:

	31/12/2019	31/12/2018
Other accruals of earnings	493,538	-
Insurance	19,262	20,207
Other	24,349	100
	537,149	20,307

(ii) Liabilities

Accruals and deferrals of liabilities as of 31 December 2019 and 2018 are broken down as follows:

	31/12/2019	31/12/2018
Remunerations and respective contributions to be settled	77,825	125,046
Other accruals of expenses	165,940	16,306
	243,765	141,352

Note 14 Other creditors for insurance transactions and other transactions

This heading is broken down as follows on 31 December 2019 and 2018:

	31/12/2019	31/12/2018
Accounts payable for direct insurance transactions		
Premiums received in advance	4,405,540	1,939,305
Pledges received from policyholders	534,768	688,928
Brokers	309,587	179,397
Chargebacks payable	109,673	
	5,359,568	2,807,630
Accounts payable for reinsurance transactions		
Reinsurers	3,494,326	2,185,465
Accounts payable for other transactions		
Other creditors	889,435	51,407
	9,743,329	5,044,502

As of 31 December 2019 and 2018, the balance of the item 'Premiums received in advance' was in the amount of €3,825,509 and €1,713,627, respectively, from an insurance policyholder, relating to risk hedging that had not yet started at that date.

Note 15 Capital

(i) Share capital

As of December 31, 2019 and 2018, the share capital of Abarca Seguros was represented by 10,150 shares with a unit face value of €1,000, which were fully subscribed and held by the sole shareholder, Grupo Azuaga Morales, S.L..

(ii) Basic earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary equity by the weighted average number of outstanding common shares, excluding the average number of treasury shares held by the Company, and break down as follows:

	2019	2018
Profit/(loss) attributable to holders of ordinary equity	1,129,733	(1,462,403)
Average weighted number of ordinary shares in circulation	10,150	10,150
	111	(144)

The concept of diluted earnings per share does not apply, since there are no contingently issuable ordinary shares, namely through options, warrants or equivalent financial instruments on the balance sheet date.

Note 16 Acquired premiums net of reinsurance

The earned premiums net of reinsurance are broken down as follows:

	2019	2018
Gross premiums issued	15,371,048	8,199,545
Ceded reinsurance premiums	(11,053,382)	(6,457,848)
	4.317665	1,741,697
Change in the provision for unearned premiums (direct insurance)	(3,425,787)	(3.491820)
Change in the provision for unearned premiums (ceded reinsurance)	2,411,248	3,082,281
	(1,014,540)	(409,539)
Earned premiums net of reinsurance	3,303,126	1,332,158

Direct insurance premiums are calculated in accordance with the rate range defined for each type of surety, depending on the rate assigned to the result of the financial and/or technical analyses carried out. Annually, the financial and/or technical information that served as the basis for the pricing considered is reanalysed in order to ensure the suitability of the rates applied.

The ceded reinsurance premiums are calculated in accordance with the proportional and optional reinsurance treaties existing in the Company.

In 2019, as had already occurred in 2018, the Company conducted business in fronting, whose underwritten risk is transferred in full, with the Company's revenue being the brokerage commission.

17 Costs with claims, net of reinsurance

Claims-related costs net of reinsurance in the financial years ended on 31 December 2019 and 2018 are broken down as follows:

	2019	2018
Direct insurance		
Amounts paid out	289,448	-
Costs allocated to the claims function (Note 21)	170,866	131,933
Change in provision for claims	1,814,010	706,159
	2,274,324	838,092
Ceded reinsurance		
Amounts paid out	(250,577)	-
Change in provision for claims	(1,314,097)	(506,335)
	709,649	331,757

Since 2017, the Company has allocated a percentage of 5% of its general expenditure to the claims function. Furthermore, the change in the provision for claims accommodates the estimate of IBNR and the costs of claims reported in the period.

The Company's Board of Directors considers that the provision for IBNR should be the one necessary to place the ultimate loss ratio, per year of occurrence, in 15% of the premiums acquired (2018: 15%).

Ratios

Abarca Seguros calculates and monitors the loss and general expense ratios on a monthly basis, according to the following criteria:

(i) Claims ratio - calculated from the quotient of claims costs to premiums acquired.

(ii) Commissioning Ratio - calculated from the quotient between the intermediation commissions and the premiums acquired.

(iii) Expenses Ratio - calculated from the quotient between the sum of acquisition and administrative costs, direct insurance costs, and premiums acquired.

(iv) Combined Ratio - calculated from the addition of the above three ratios.

		2019	2018
A	Claims ratio	19%	18%
B	Commissioning ratio	9%	7%
C	Expense ratio	16%	55%
D	Combined ratio	45%	80%

Note 18 Other technical provisions, net of reinsurance

In the financial years ended on 31 December 2019 and 2018, this heading is broken down as follows:

	31/12/2019	31/12/2018
Provision for deviations in accident rates	508,144	244,433
Provision for risks in progress	(687,992)	508,242
Other technical provisions, net of reinsurance	(179,848)	752,675

The provisions for claim rate deviations and ongoing risks were constituted in accordance with the criteria established by the ASF, in paragraphs 4.2.7 and 4.2.2 of the Insurance Companies Chart of Accounts ("PCES"), published in the Annex to Regulatory Standard No. 10/2016-R of 15 September, as amended by ASF Regulatory Standard No. 3/2018 of 29 March (see Notes 2.3.10 (v) and (vi)).

Note 19 Net operating costs and expenses

The operating costs and expenses net of reinsurance in the financial years ended on 31 December 2019 and 2018 are broken down as follows:

	2019	2018
Acquisition costs		
Direct insurance product brokerage commission costs	1,003,648	544,022
Costs allocated to the acquisition function (Note 2l)	2,221,254	1,715,130
	3,224,902	2,259,152
Deferred acquisition costs	(329,136)	(199,040)
Costs allocated to the administration function (Note 21)	854,328	659,665

Commissions and reinsurance profit sharing		
Commissions	(1,453,698)	(1,066,534)
Profit-sharing	(143,978)	(109,821)
	(1,597,676)	(1,176,355)
	2,152,419	1,543,421

Operating costs are initially accounted for by type and subsequently allocated, on the basis of an allocation matrix, to the acquisition, administrative, claims and investments functions (see Note 21).

The item 'Reinsurance Commissions' as of December 31, 2019 in the amount of €1,453,698 (2018: €1,066,534) includes deferred acquisition costs of €786,560 (2018:€571,213).

Note 20 Leases

As noted in Note 2.3.15, IFRS 16 had a significant impact on the accounting of lessees who, as of 1 January 2019, were required to recognise a rental liability (Note 12), reflecting future lease payments, in return for a "right of use" asset for all lease agreements, except for short-term leases and low-value assets (Note 6) The definition of a leasehold agreement has also been changed, being based on the right to control the use of an identified asset. The impacts on results carried over as of 1 January 2019 were as follows:

	Right of use	Liabilities for lease contracts	Impact on carried-over results
Real estate	646,694	(659,871)	(13,177)
Automobiles	115,647	(118,652)	(3,005)
	762,341	(778,523)	(16,182)

On 1 January 2019, the amended retrospective method was adopted, so the comparative balances were not re-expressed as at 31 December 2018.

Note 21 Costs allocated by type

Costs by type allocated to the functions of claims, acquisition, administration and investments in the financial years ended on 31 December 2019 and 2018 are summarised as follows:

	2019	2018
Claim-related costs (Note 17)	170,866	131,933
Acquisition costs (Note 19)	2,221,254	1,715,130
Administrative costs (Note 19)	854,328	659,665
Investment management costs	170,866	131,933
	3,417,313	2,638,661

The disaggregation of costs by type is broken down as follows:

	2019	2018
Staff-related costs	1,797,808	1,569,063
External supplies and services	1,312,205	995,839
Amortisation/depreciation in the financial year	246,413	71,067
Taxes and levies	50,274	2,692
Interest paid - Leases (Note 12)	10,614	-
	3,417,313	2,638,661

The balance of the item "Interest incurred – Leases" relates to the financial charges arising from the lease agreements in force during the period, which refer to the proceeds of the effective rate of transactions for the outstanding capital. The effective rate of transactions refers to the discount rate that equals the present value of rental payments and the unsecured residual value at the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

(i) External supplies and services

In the financial years ended on 31 December 2019 and 2018, the balance of this heading is broken down as follows:

	2019	2018
Specialised work	858,886	463,827
Travel and accommodation	192,924	180,359
Rents and leases	91,306	225,665
Membership fees	33,773	12,584
Communication	27,741	17,816
Office stationery	11,703	10,424
Maintenance and repairs	5,574	23,149
Lawyers and notaries' fees	3,931	9,367
Publicity and advertising	2,775	35,559
Other external supplies and services	83,591	17,089
	1,312,205	995,839

The heading of specialised work for the financial years ended 31 December 2019 and 2018 includes, among others: (i) Consultancy fees of approximately €261,463 and €155,000, respectively; (ii) lawyers' fees of €324,159 and €79,000, respectively; (iii) provision of IT services in the amount of €45,076 and €52,000, respectively; and (iv) fees of the Company's Statutory Auditor, in the amount of €104,550 and €40,590, respectively.

(ii) Staff-related costs

On 31 December 2019 and 2018, the Company recorded twenty-eight and twenty-one employees on its staff, respectively, comprising by professional category as follows:

	31/12/2019	31/12/2018
Executive Officers	4	2
Directors	5	4
Technical Staff	19	15
	28	21

The heading of labour costs in the financial years ended 31 December 2019 and 2018 were broken down as follows:

	2019	2018
Remuneration of corporate bodies and of staff	1,454,192	1,252,586
Charges on remuneration	257,646	231,621
Mandatory insurance	58,706	35,428
Other staff-related costs	20,281	48,642
Post-employment benefits	6,176	-
Costs of social welfare projects	807	786
	1,797,808	1,569,063

In compliance with the terms of Law no. 28/2009 of June 19, information is provided regarding the remuneration received in the years ended 31 December 2019 and 2018 by the members of the Board of Directors and Audit Board:

	2019	2018
Board of Directors	322,100	298,269
Audit Board	24,745	24,745
Directors	755,918	490,050
	1,102,763	813,064

Note 22 Other income/(expenditure)

In the financial years ended on 31 December 2019 and 2018, the other income/(expenditure) is broken down as follows:

	2019	2018
Contractually established guaranteed minimum non-contingent compensation	493,538	-
Current account settlements	61,213	(4,243)
Financial revenues and gains	10,108	826
Expenditures not duly documented	(1,102)	(7,291)
Banking services	(7,053)	(2,548)
	556,703	(13,256)

In 2019, the Company reported a non-technical profit of €493,537.50, which reflects the contractually established guaranteed minimum non-contingent compensation in projects in which it participated as of December 31, 2019.

The entire amount of the other income/(expenditure) are non-technical.

Note 23 Transactions with related parties

On 31 December 2019 and 2018, the firm which, directly or indirectly, controls the Company is the Grupo Azuaga Morales, S.L., whose head office is in Spain.

There are no companies that are directly or indirectly under common control as of 31 December 2019 and 2018.

On 31 December 2019 and 2018 and in the years ended on those dates, the balances recorded in the statement of financial position and in the profit and loss account, respectively, originating from transactions carried out with related entities, are as follows:

		Assets	Administration
Grupo Azuaga Morales, S.L.			
	31/12/2019	303,189	
	31/12/2018	303,189	115,516
Costs			
	31/12/2019	183,032	
	31/12/2018	105,736	
Close relatives			
	31/12/2019		73,951
	31/12/2018		58,762

All transactions with and provisions of services to related parties are conducted at market prices.

Note 24 Risk management of the activity

The management of the company's corporate risks, coordinated by the Board of Directors, has a goal-setting process to ensure that goals support and achieve the Company's mission, and that furthermore are consistent with desired risk levels.

Abarca Seguros has an effective risk management system, which comprises the strategy, processes, procedures and key controls implemented, allowing, at all times, the identification, measurement, monitoring, management and reporting of materially relevant risks, individually and in aggregate, to which the Company is or may be exposed.

Since solvency is highly dependent on the Company's options and the risk management carried out in relation to them, it is logical to invest in this area, forming part of the management decisions.

The Company assesses its risk and solvency position each quarter by a quantitative assessment of its capital requirements, conducted on the basis of the standard formula defined in the Solvency Directive II.

Annually, Abarca Seguros carries out an own risk and solvency assessment exercise ("ORSA"), the results of which allow the Board of Directors to conclude whether the Company's own funds are sufficient to cover overall solvency needs on an ongoing basis.

The risk management activities that have been carried out have enabled the identification of the main risks to which the Company is exposed and led to the conclusion that none of them jeopardises its solvency within the three-year horizon of its strategic plan.

Each year, Abarca Seguros establishes its short-term goals, and reviews its medium and long-term goals, by drawing up and formalising the following: (i) A general plan of activities and defined strategy; for the following financial year; and (ii) economic and financial projections based on the general business plan and the defined strategy.

In addition, the Board of Directors coordinates and carries out the activities needed to achieve the goals set, formalising and approving documentation defining the ways and means of recording these goals and strategies, to allow their achievement to be evaluated and controlled, and allowing remedial measures to be implemented in the event of major deviations.

The company is subject to external and internal events which may affect it in different ways and with different degrees of impact. These events must be identified and distinguished as either risks or opportunities.

Risks are analysed based on their likelihood of occurrence and relative importance.

This system has an integrated set of ongoing processes to ensure that the strategy is properly implemented and that Abarca Seguros' goals are achieved, based on a proper understanding of the nature and magnitude of its underlying business risks.

As such, the risk management system's methodology is based on the following:

- Identifying and organising risks which affect the organisation: definition and grouping of risks (risk matrix and dictionary);
- Evaluating and ranking risks by their criticality and priority according to their impact on business goals and likelihood of occurrence;
- Identifying the causes of more significant risks;
- Evaluating risk management strategies (options);

- Creating a mitigation plan for risks with higher criticality; and
- Monitoring and reporting on the progress of implementing the action plan.

The goal of risk management is to identify, assess, mitigate, monitor and control all material risks to which the company is exposed (whether financial risks or otherwise), both from an internal and external standpoint, in a continuous process which evolves over time, with a view to ensuring that these risks remain at a level which does not significantly affect the company's financial standing and the interests of its various stakeholders.

Abarca Seguros' Board of Directors is ultimately responsible for the risk management and internal control system implemented in the Company, which approves the main courses of action in respect of risk management and constantly oversees its risk exposure using indicators and ratios.

Specific insurance risk

Specific insurance risks include product design, pricing, marketing, subscriptions, provisioning of liability, reinsurance and claims management.

The Company adopts a prudent and cautious approach in the underwriting and risk setting, a substantial proportion of which are ceded to reinsurers with a high credit rating.

One of the company's goals is to have suitable pricing in terms of expected profitability, after covering all of its liabilities such as claims to be paid, claims management expenses, profit sharing, acquisition costs, overhead and cost of capital.

As a company exclusively dedicated to and structured for the distribution of surety bond insurance, Abarca - Companhia de Seguros, S.A.'s natural main distribution network consists of insurance brokers hired for this purpose.

Provisions are constituted on a case-by-case basis, in the scope of liabilities for claims, represented by congruent assets, set aside for the purpose.

The establishment of provisions for incurred but not reported claims (IBNRs) means that it is necessary to draw up estimates and resort to assumptions that are assessed on a regular basis, namely through the statistical analyses of internal and/or external historical data.

Similar analyses are also carried out to verify the adequacy of the pricing policy in effect.

These studies are conducted at least once a year and, whenever these studies conclude that the technical provisions are not sufficient to cover the current value of the future expected cash flows (claims, costs and commissions), this shortfall is immediately recognised by the creation of additional provisions.

Given the existence of a very small number of claims (whether in terms of a chronological series or in terms of frequency), the run-off matrices for year of occurrence are not statistically significant. Provisions for claims are therefore constituted on the basis of the estimated ultimate loss ratios.

The Company has an "Underwriting Policy", which defines a comprehensive and detailed model that is part of the integrated management system of the underwriting risk selection and analysis processes, which includes its own ceded reinsurance management in terms of the accumulated insured amounts:

- Risk acceptance rules;
- Tariff principles;
- Acceptance competences.

The reinsurance policy is a fundamental instrument for the Company to manage and adjust the risk exposure limits according to its underwriting capacity.

The reinsurance treaties in force as of December 31, 2019 can be detailed as follows:

Automatic proportional reinsurance treaties

The risks contracted until September 30, 2017 and the respective renewals were protected by reinsurance treaties, agreed with three reinsurers rated at or above A-.

For the risks underwritten in the period from 1 October 2017 to 30 September 2018, a new proportional reinsurance treaty was negotiated, with a further four new reinsurers rated at or above A-.

The change in the 2018 reinsurance framework compared to 2017 arose from the need to deal with reinsurers specialising in the collateral industry, that would suit the needs of a more direct and informal contact by the Company, to avail of every business opportunity, while not overlooking the rating of these reinsurers, so that this change would not be adversely affected in terms of capital requirement (previous reinsurers keep the portfolio assembled until 30 September, 2017 and new reinsurers enter the portfolio assembled from 1 October 2017).

For the period from 1 October 2018 to 30 September 2019, a new proportional treaty was negotiated, which, in addition to the four reinsurers already involved in the proportional treaty started in 2017, includes two more internationally renowned reinsurers (the term of this treaty was, however, extended until 31 December 2019). The rating of reinsurers involved in this new proportional treaty remains at or above A-. The portfolio raised by previous reinsurance frameworks is maintained with the original reinsurers, and this new reinsurance treaty applies to new production raised from the treaty's effective date (1 October 2018).

Optional Treaties

In 2019, the Company has optional reinsurance, which aims to cover the largest exposures, in the part not covered by automatic proportional treaties, in order that the Company retains a maximum of €2.5 million per risk. The reinsurer involved in this treaty is rated A.

The Company also has other optional treaties, which aim to cover the fronting transactions (ceding to reinsurance of 100% of the risk).

Credit risk

The Company's investment policy emphasizes prudence and security principles, having as its basic concern the preservation of the investment value, rather than its return, dictating the investment in assets with low credit risk and allowing immediate liquidity.

The Company's risk manager plays a relevant role in asset investment decisions and is responsible for calculating the solvency ratio on a quarterly basis, which is based on the quality of the financial assets invested.

The investment policy approved by the Board of Directors states that the Company's investments must be of high credit quality and maximum liquidity, and the Company must safeguard a minimum of 35% of the treasury capital requirements of immediate availability, being able to invest the remainder in public debt securities of EU countries.

Since the Company's incorporation to date, all of the Company's investments have been made in demand deposits with Portuguese and Spanish credit institutions, all of which are highly rated.

The key risk management function monitors quarterly the evolution of the risk of *default* by credit institutions, reinsurers, brokers, policyholders and other debtors, with which the Company maintains relationship.

The Company's main credit risk-sensitive assets as of 31 December 2019 and 2018 are as follows:

	31/12/2019	31/12/2018
Instant access bank deposits (Note 5)	20,044,355	14,853,436
Recoverable from reinsurance (Note 9)	7,447,132	4,263,049
Accounts receivable (Note 10)	2,953,927	1,321,374
	30,445,414	20,437,859

The following is a description of the Company's exposure to credit risk under demand deposits, by credit institution, by rating, as at December 31, 2019 and 2018:

Rating	31/12/2019	%	31/12/2018	%
A	13,631,698	68%	11,696,828	79%
A-	3,491,541	17%	1,886,509	13%
BBB	1,334,740	7%	1,116,984	8%
BBB-	-	0%	123	0%
BB+	1,586,376	8%	-	0%
BB	-	0%	152,992	1%
BB-	-	0%	-	0%
Without rating	-	0%	-	0%
	-	0%	-	0%
	20,044,355		14,853.436	

Regarding reinsurance recoverables, the Company's policy is to relate to reinsurers with high credit quality. The Company's exposure to reinsurance recoverable credit risk by *rating* as at December 31, 2019 and 2018 is as follows:

Proportional Agreements in force - 31/12/2019

% participation in reinsurance agreements

Rating	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20.00%	0%	0%
A+	4.00%	16.00%	55.00%
A	36.00%	44.00%	0%
A-	20.00%	20.00%	25.00%
	80.00%	80.00%	80.00%

Proportional Treaties in force - 31/12/2018

% participation in reinsurance agreements

Rating	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20.00%	0%	0%

A+	4.00%	16.00%	55.00%
A	36.00%	44.00%	0%
A-	20.00%	20.00%	25.00%
	80.00%	80.00%	80.00%

The reinsurers involved in the optional treaties are rated at or above A.

Market risk

Market risk generally consists of changes in the fair value of financial assets as a result of unanticipated changes in interest rates, exchange rates, stock market indices and commodities.

Market risk exposure consists of:

(i) Risks arising from holding financial asset portfolios and treasury management;

(ii) Risks arising from the Company's investments and liabilities to policyholders as a result of the mismatch between assets and liabilities in different terms and in different currencies;

(iii) Risks arising from the equity interest of other companies.

As of December 31, 2019 and 2018, the fair value by financial asset and liability class may be detailed as follows:

	31/12/2019		31/12/2018	
	Balance amount	Fair value	Balance amount	Fair value
Financial assets				
Cash and cash equivalents and demand deposits	20,044,998	20,044,998	14,853,807	14,853,807
Financial assets held for trading	6,709	6,709	3,981	3,981
Bills to receive	2,953,927	2,953,927	1,321,374	1,321,374
	23,005,634	23,005,634	16,179,162	16,179,162
Financial liabilities				
Bills to pay	9,743,329	9,743,329	5,044,502	5,044,502
Other financial liabilities	667,788	667,788		
	10,411,117	10,411,117	5,044,502	5,044,502

Cash and cash equivalents and instant access bank deposits encompass the amounts recorded on the balance sheet as maturing in less than 3 months from the date of the balance sheet, readily converted to cash and with a small risk of change in value, in which are included the cash in hand and readily available in lending instructions; for this reason the Company takes the view that the amount on the balance sheet is consistent with its fair value on 31 December 2019.

Financial assets held for trading refer to amounts paid into to the Workers' Compensation Insurance Fund, which were invested in investment fund units, valued at the unit value published by the respective management company, for which reason the Company's Board of Directors takes the view that the value on the balance sheet is consistent with their fair value on 31 December 2019.

The balance of accounts receivable and accounts payable is in the short term, so the Company's Board of Directors takes the view that the value on the balance sheet on 31 December 2019 does not differ materially from its fair value.

The other financial liabilities are in respect of the liabilities arising from the lease agreements for real estate and vehicles, accounted for in accordance with IFRS 16 (Note 2.3.15) The Company's Board of Directors considers that the value of the balance sheet on 31 December 2019 does not differ materially from its fair value.

In accordance with IFRS 13, the international standard which deals with the fair value and respective hierarchy, the financial assets and liabilities may be valued at fair value at one of the following levels:

- Level 1 - Fair value determined directly with reference to an active official market.
- Level 2 - Fair value determined using valuation techniques supported by observable current market prices traded for the same financial instrument.
- Level 3 - Fair value determined using valuation techniques not supported by observable current market prices traded for the same financial instrument.

The Company's financial assets and liabilities as of 31 December, 2019 and 2018 are valued at level 2 fair value, except for assets held for trading, which are valued at fair value level 1.

Interest rate risk

This results from the possibility of fluctuating the value of *cashflows* of a financial instrument, originated by changes in market interest rates.

Assets sensitive to interest rate variations are more or less sensitive according to the maturity of these assets.

In general, the Company's assets that are sensitive to changes in interest rates are bank deposits. The indicator of fixed rate asset sensitivity to interest rate volatility is Modified Duration, which measures the sensitivity of fair value until maturity in relation to a change in the market interest rate.

The Board of Directors considers that the interest rate risk is marginal because the Company's bank deposits are being remunerated at low or zero interest rates.

	Variable rate	
	31/12/2019	31/12/2018
Cash at credit institutions (Note 5)	20,044,355	14,853,436

Exchange rate risk

The Company's functional currency is the Euro.

The Company is not exposed to this risk as there are no assets or liabilities in currencies other than the Euro.

Liquidity risk

Risk of existing assets not being liquid enough to meet liabilities with beneficiaries, policyholders and other creditors, notably claims settlement.

Although liquidity risk is an inherent risk in any activity, in the case of Abarca Seguros, the Board of Directors considers that this risk is greatly mitigated by the following facts:

(i) The Company has an extremely high amount of cash and cash equivalents in short-term credit institutions;

(ii) The Company has proportional and optional reinsurance treaties, as mentioned above regarding the risk of default;

(iii) The contracted conditions, within the scope of the respective treaties, ensure *timings* of receipts framed with *timings* for payment to beneficiaries;

(iv) The Company has collateral obtained from its policyholders, complementary to the reinsurance treaties referred to in the previous paragraph.

With the exception of financial liabilities due to leases, the Company's other financial liabilities as at 31 December 2019 are short-term liabilities.

Operational risk

Operational risk is the risk of loss resulting from the failure or inadequacy of processes, people, information systems or from external events such as *outsourcing*, disasters, legislation or fraud. This definition includes legal, *compliance*, strategic, reputational and customer conduct risks.

Operational risk therefore materializes in the likelihood of losses arising from inadequate or faulty internal procedures, people, systems or external events and is usually associated with occurrences such as fraud, system failures and non-compliance with standards and rules. It may also include, for example, the risk of failures in corporate governance, external service contracts and the business continuity plan.

The Company has a solid structure to assess, measure and manage operational risk, which it seeks to minimize through its internal control system. In addition, remediation plans and improvement actions are put in place to prevent recurrence of past operational loss events that are subject to ongoing *follow-up* .

The Company monitors operational risk, namely through the following sources:

(I) Recording of operating losses (internal and external) recorded in the accounts;

(ii) Registration of complaints;

(iii) Results of internal audits; and

(iv) Other key risk indicators (e.g. manual procedures, legislative and regulatory changes, money laundering and terrorist financing, online risks, outsourcing, challenging strategic plans, new distribution channels, business continuity, etc.).

The Company has policies in place to control operational risk, namely:

- ✓ Underwriting policy;
- ✓ Ceded reinsurance policy;
- ✓ Claims management policy;
- ✓ *Compliance* policy ;
- ✓ Prevention policy, money laundering and sanctions;
- ✓ Internal audit policy;
- ✓ Investment policy;
- ✓ Subcontracting Policy.

Reputational risk is defined as the risk that the Company may incur losses arising from the deterioration of its reputation or market position due to a negative perception of its image among its customers, shareholders, business partners, supervision and the general public.

The above policies for operational risk also aim to protect the Company from reputational risk.

The Company has policies in place to control strategic and governance risks:

As is well known, fraud is a problem for the entire insurance sector and therefore also affects Abarca – Companhia de Seguros, S.A.

Being aware of this fact, and also the provisions in the matter set forth in Regulatory Standard no. 10/2009-R, of 25 June, issued by the ASF, a policy was created in which the creation of clear rules and objectives is defined that make it easier for all stakeholders to take concrete action to combat fraud.

Regarding the claims management policy (claims which may be due to fraud), ASF Rule No. 10/2009-R of 25 June, required of insurers, following the regulation of Articles 131 C to 131 F of Legislative Decree 94-B/98 of 17 April, repealed by Legislative Decree 147/2015 of 9 September, which likewise regulates the definition and implementation of a policy for dealing with injured policyholders, insured parties, beneficiaries or third parties, the establishment of an autonomous claim management function, the appointment of a customer ombudsman and the definition and implementation of an anti-fraud policy.

In this context, the Company has implemented/appointed:

- ✓ A policy for treating policyholders, insured parties and beneficiaries;
- ✓ The internal role of the Complaint Manager and the Customer Ombudsman, which shall both be exercised autonomously;
- ✓ A spokesperson with the ASF for complaint handling according to the defined rules;
- ✓ An anti-fraud policy with regard to insurance.

Note 24 Solvency

The current Solvency II regime entered into force on 1 January 2016 and seeks to introduce a robust, prudential and harmonised framework, based on the analysis of the risk profile of each insurance and reinsurance undertaking, in order to ensure the identification of the necessary financial resources, adequate governance and risk management and to ensure transparency and quality of information reported to the supervisor and the general public , promoting comparability, transparency and competitiveness of the market.

The new regime is essentially embodied through Law No. 147/2015, of 9 September, which transposed directive No 2009/138/EC of the European Parliament and the Council of 25 November 2009 on access to and engagement in insurance and reinsurance activity to the domestic legal system, approving the new legal regime for access to and engagement in insurance and reinsurance activities ("RJASR").

Since its incorporation in 2016, the Company has had a margin of solvency manifestly greater than the regulatory minimum required.

Note 25 Subsequent events

No subsequent events were identified that would entail additional adjustments to these financial statements.

Crisis resulting from the Covid-19 pandemic outbreak

On 11 March 2020, the World Health Organisation ("WHO") characterised the Covid-19 outbreak as a global pandemic. As a result, several countries have imposed a nationwide quarantine, restricting the movement of people, goods and the provision of non-essential services.

The Company does not estimate that there will be significant impacts on the accounting estimates resulting from this outbreak, although at thus far it is not yet possible to quantify its concrete impacts.

The Company is closely monitoring the situation from an operational, financial and solvency point of view.

The Board of Directors has specific business continuity plans to ensure continuity of operations, should the situation worsen.

At the present date, despite the potential implications of the Covid-19 pandemic outbreak, the Board of Directors does not consider that there is any evidence that would question the principle of the Company's business continuity.

ANNEXES TO THE ANNEX

ABARCA
SEGUROS

Annexes to the Annex

Annex I - Inventory of financial instruments and holdings

Identification of the securities		Amount	Average acquisition price	Total acquisition value	Value in the statement of the financial position	
Code	Name				Units	Total
	2.1.2.3 Units held in investment funds Workers Compensation Insurance Fund	6,109.82	1.0793	6,594.33	1.098040	6,708.83

Annex II - Implementation of the provision for losses in relation to accidents that occurred in previous financial years and their readjustments (corrections)

Figures in Euros

BRANCHES	Provision for losses on 31/12/2018 (1)	Costs of losses* amounts of payouts in the financial year (2)	Provision for losses* on 31/12/2019 (3)	Readjustments (3)+ (2)-(1)
Life				
Non-Life				
Accident and Personal Injury				
Fire and Other Damage				
Car Insurance				
Civil Liability				
Other Coverages				
Maritime, Air and Land Transport				
Credit and Surety	1,684,063	-	1,684,063	-
Legal costs				
Assistance				
Miscellaneous Items				
TOTAL	**1,684,063**	-	**1,684,063**	-

* Losses occurred in the year N-1 and previous years

Annex III - Breakdown of costs incurred by claims

Figures in Euros

BRANCHES	Amounts of Payouts (Benefits)	Amounts of Payouts (Costs of administration and losses charged)	Change in provision for claims	Claims costs
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
DIRECT INSURANCE				
Accident and Personal Injury				
Fire and Other Damage				
Car Insurance				
Civil Liability				
Other Coverages				
Maritime, Air and Land Transport				
Credit and Surety	289,448	170,866	1,814,010	2,274,324
Legal costs				
Assistance				
Miscellaneous Items				
TOTAL	**289,448**	**170,866**	**1,814,010**	**2,274,324**
ACCEPTANCE REINSURANCE				
GENERAL TOTAL	**289,448**	**170,866**	**1,814,010**	**2,274,324**

Annex IV - Breakdown of some figures by segments

Figures in Euros

BRANCHES	Gross premiums issued	Gross premiums acquired	Gross claims costs*	Gross operating costs*	Balance of reinsurance
DIRECT INSURANCE					
Accident and Personal Injury					
Fire and Other Damage					
Car Insurance					
Civil Liability					
Other Coverages					
Maritime, Air and Land Transport					
Credit and Surety	15,371,048	11,945,260	2,274,324	3,750,094	(5,479,785)
Legal protection					
Assistance					
Miscellaneous Items					
TOTAL	**15,371,048**	**11,945,260**	**2,274,324**	**3,750,094**	**(5,479,785)**
ACCEPTANCE REINSURANCE					
GENERAL TOTAL	**15,371,048**	**11,945,260**	**2,274,324**	**3,750,094**	**(5,479,785)**

* With no deduction by the reinsurers

Auditor's Report

ABARCA
SEGUROS

LEGAL CERTIFICATION OF THE ACCOUNTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the attached financial statements of **ABARCA - COMPANHIA DE SEGUROS, S.A.** (hereinafter, “Company") which include the Statement of the Financial Position on 31 December 2019 (which shows a total of 32 759 895 euros and a total shareholders’ equity of 8 806 717 euros, including a net profit of 1 129 733 euros), the Profit and Loss Account, the Comprehensive Income Statement, the Statement of Changes in Shareholders Equity and the Statement of Cash Flows in respect of the year ended on that data, and the Explanatory Notes included with the financial statements that include a summary of the significant accounting policies.

In our opinion, the attached financial statements present a true and fair view, in all material aspects, of the financial position of **ABARCA - COMPANHIA DE SEGUROS, S.A.** on 31 December 2019 and its financial performance and cash flows in respect of the year ended on that date in accordance with the generally accepted accounting principles in Portugal for the insurance sector by the Insurance and Pension Funds Supervisory Authority.

Basis of the opinion

Our audit was conducted in accordance with the International Standards of Auditing (ISA) and other technical and ethical rules and guidelines of the Association of Statutory Auditors Our responsibilities in the terms of those rules are described in the section “Auditor's responsibilities for the auditing of the financial statements” below. We are independent of the Company in the terms of the law and we comply with the other ethical requirements in the terms of the code of ethics of the Association of Statutory Auditors.

We are convinced that the evidence of the audit we obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

In the course of the month of March 2020, the World Health Organisation ("WHO") declared a global pandemic as a result of the novel virus ("COVID-19"). As stated in point 1.11 ("Subsequent events and prospects for 2020") of the Company's Management Report and in note 25 ("Subsequent Events") of the explanatory Notes contained in the financial statements, the Company does not estimate that there will be significant impacts on the accounting estimates recorded as of 31 December, 2019, resulting from this outbreak, although it is not yet possible to quantify its concrete impacts.

Our opinion has not changed with regard to this matter.

Significant matters of the audit

The significant matters of the audit are those which, in our professional judgement, were of the greatest importance in the audit of the financial statements of the current period. These matters were considered in the context of the audit of the financial statements as a whole, and in the forming of the opinion, and we do not issue a separate opinion on those matters.

Recognition of direct insurance and reinsurance premiums granted in the bond branch	
Description of the relevant matter of the audit	Audit approach and response
As stated in note 16 of the explanatory Notes contained in the financial statements, Abarca - Companhia de Seguros, S.A. issued direct insurance premiums in the amount of 15 371 048 euros and reinsurance premiums ceded in the amount of 11 053 382 euros, in the financial year ended on 31 December 2019. Explanatory Notes 2.3.10, 16 and 24, included in the financial statements present the bases for assessment and disclosure related to the recognition of direct insurance and ceded reinsurance premiums in the bond branch, as well as insurance risks associated with this branch, reinsurance being one of the means that Abarca - Companhia de Seguros, S.A. Uses to manage the insurance risk, having entered into proportional agreements with international reinsurers with a rating that is equal to or higher than A- and an optional agreement with an A-rated international reinsurer, with the aim of meeting responsibilities not covered by the proportional agreements. Thus, the recognition of direct insurance and ceded reinsurance premiums in the bond branch constitutes a relevant matter in our Audit, to the extent that the Company as the direct promoter and vendor is exposed to the risk in the event of default by the reinsurer, with the Company bearing the liability of compensating the beneficiary.	In the recognition of direct insurance and ceded reinsurance premiums, we assess the risk methodology used by the Board of Management, as well as the control procedures implemented to monitor these processes. We carried out the following procedures: • Understanding of the activity of commercialising the bond insurance through meetings with the Management; • Understanding of the methodology of acceptance and ceding, in terms of the reinsurance of the risk; • Analysis of the direct insurance premiums issued during the financial year ended on 31 December 2019, conducting substantive tests and comparing the respective results with those obtained by the Company; • Identification and analysis of the reinsurance agreements currently in force; • Analysis of the ceded reinsurance premiums issued during the financial year ended on 31 December 2019, verifying the compliance with the provisions contained in the ceded reinsurance agreements, conducting substantive tests, including external circularisation procedures, comparing the respective results with those obtained by the Company. Finally, we assess whether the statements made by the Company in the explanatory notes contained in the financial statements in relation to the recognition of the premiums issued in direct insurance and ceded reinsurance are compliant with the requirements of the accounting rules in force (IFRS).

Other tangible assets and other financial liabilities (IFRS - Leases)	
Description of the relevant matter of the audit	Audit approach and response
Explanatory Notes 2.3.15, 6, 12 and 20, included in the financial statements present the bases of measurement and disclosure related to the application for the first time of the IFRS Standard 16 to lease contracts (included in the scope). As referred to in Note 2.3.15 of the explanatory Notes contained in the financial statements, the Company recognises the assets held under financial leasing in its statement of the financial position by the cost of acquisition of the assets leased, equivalent to the current value of the lease payments falling due, which are represented in the assets and liabilities under the heading "Other tangible assets" and "Other financial liabilities", respectively, with recourse at the discount rate and definition of the lease period, both of which involve a high level of judgment, involving several assumptions and methodologies. Notes 6, 12 and 20 of the explanatory notes included in the financial statements present information about the amount determined for the management, in accordance with the accounting standard in force (IFRS 16). The value for which the assets and liabilities are recorded in the financial statements is dependent on the future materialising of the assumptions used in the determination of that value. In this way, this matter was deemed to be a relevant matter of the audit in view of the materiality of the values involved and the degree of underlying judgment of the assumptions used, from which changes could result in the amounts recorded in the financial statements.	In order to respond to the identified risks, among the audit procedures carried out, we highlight the following: • Understanding of the methodology and assumptions used by the Board of Management; • Identification and analysis of the lease contracts (real property and vehicles) currently in force; • Identification and assessment of the assumptions used by the Company in the assessment of the adequacy of the impacts resulting from the first-time adoption of IFRS 16; • Execution of the substantive procedures comparing the respective results with those obtained by the Company. • Review of the accounting record resulting from the determination of the value of the right to use and the financial liability of the various assets under lease; Finally, we assessed whether the disclosures made by the Company in the explanatory notes included in the financial statements, regarding the first adoption of IFRS 16 (Leases), are in compliance with the requirements of the current accounting standards (IFRS).

Other matters

The Company's financial statements for the year ended 31 December, 2018 were audited by another Auditor who, on 16 April, 2019, issued its Legal Certification of Accounts without reservations or emphasis of matter.

Responsibilities of the Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for the:

- preparation of the financial statements present a true and fair view of the financial position of, the financial performance and cash flows of the Company in accordance with the generally accepted accounting principles in Portugal for the insurance sector established by the Insurance and Pension Funds Supervisory Authority;
- preparation of the management report in accordance with the applicable legal and regulatory terms;
- creation and maintenance of an appropriate internal control system to allow the preparation of financial statements to be free from material misstatement due to fraud or error;
- adoption of accounting policies and criteria that are appropriate in the circumstances; and
- assessment of the Company's ability to maintain continuity, disclosing, when applicable, any matters that may raise significant doubts about the continuity of the activities.

The Supervisory Board is responsible for supervising the process of preparing and disclosing the Company's financial information.

Responsibility of the auditor for the audit of the financial statements

Our responsibility consists in obtaining reasonable assurance as to whether the financial statements as a whole are free of material distortions due to fraud or error, and to issue a report in which our opinion is stated. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with the ISAs will always detect a material distortion when one exists. Distortions may originate in fraud or error and are considered material if, individually or collectively, it could reasonably be expected that they would influence economic decisions of the users taking those financial statements as the basis.

As part of an audit in accordance with the ISAs, we make professional judgments and maintain professional scepticism during the audit, and furthermore:

- we identify and assess the risks of material misstatement of the financial statements due to fraud or error, we design and perform audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting a material misstatement due to error, since fraud may involve collusion, forgery, intentional omissions, false declarations or overlapping internal control;
- we obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control;
- we assess the adequacy of the accounting policies used and the reasonableness of the accounting estimates and respective disclosures made by the Board of Management;
- we draw a conclusion with regard to the appropriation of the use, by the Board of Management, of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that may raise significant doubts about the Company's ability to continue its activities. If we conclude that there is a material uncertainty, we must draw attention in our report to the related disclosures included in the financial statements or, if those disclosures are not adequate, modify our opinion.

Our conclusions are based on the audit evidence obtained as of the date of our report. However, future events or conditions may cause the Company to discontinue its activities;

- we assess the presentation, structure and overall content of the financial statements, including the disclosures, and whether those financial statements represent the underlying transactions and events in order to achieve an appropriate presentation;
- we communicate with those in charge of governance, including the Supervisory Board, among other matters, regarding the scope and planned schedule of the audit, and the significant findings of the audit including any significant deficiencies in internal control identified during the audit;
- of the matters that we communicate to those in charge of governance, including the Supervisory Board, we determine which were the most important in the audit of the current year's financial statements and which are the relevant matters of the audit. We describe these matters in our report, except when the law or regulations prohibit their public disclosure;
- we declare to the Authority that we have complied with the relevant ethical requirements regarding independence and we disclose all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information in the management report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Regarding the management report

In accordance with Article 451, no. 3 item. e) of the Commercial Companies Code, in our opinion the management report was prepared in accordance with the applicable legal and regulatory requirements currently in force, the information contained in it is consistent with the audited financial statements and, taking into account the knowledge and assessment of the Company, we identify no material inaccuracies.

With regard to the additional items set forth in Article 10 of the Regulation (EU) no. 537/2014

In compliance with Article 10 of the Regulation (EU) no. 537/2014 of the European Parliament and Council, of 16 April 2014, and in addition to the aforementioned relevant matters of the audit, we further report as follows:

- We were appointed as auditors of the Company for the first time in the Shareholders General Meeting held on 20 December 2019 for a mandate lasting from 2019 to 2021.
- The Management Body has confirmed to us that it has not knowledge of the occurrence of any fraud or suspicion of fraud. In the approach to and execution of this audit in accordance with the ISAs, we have maintained professional scepticism and we design audit procedures to respond to the possibility of material distortion of the financial statements due to fraud. As a result of our work we did not identify any material distortion in the financial statements of a fraudulent nature.
- We confirm that the audit opinion we issue is consistent with the supplementary report we prepared and submitted to the Company's Supervisory Board on 5 May 2020.
- We hereby state that we do not provide any prohibited services in the terms set forth in Article 77, number 8, of the Articles of the Association of Statutory Auditors and that we maintained our independence from the

Company during the audit.

Lisbon, 5 May 2020

MAZARS & ASSOCIADOS, SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, SA
Represented by Dr. Fernando Jorge Marques Vieira (Statutory Auditor No 564)