2020

REPORT AND ACCOUNTS

"A winner is a dreamer who never gives up"

Table of Contents

1

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 2020 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)
Vanessa Alexandra Ferreira Rodrigues (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
Nuno Manuel Rodrigues de Oliveira Matos

Officer responsible for the actuarial key function
Nuno Manuel Rodrigues de Oliveira Matos

Officer responsible for the key function of compliance verification
Ricardo Nuno Barbosa Marinho Tavares Rodrigues

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 12 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:

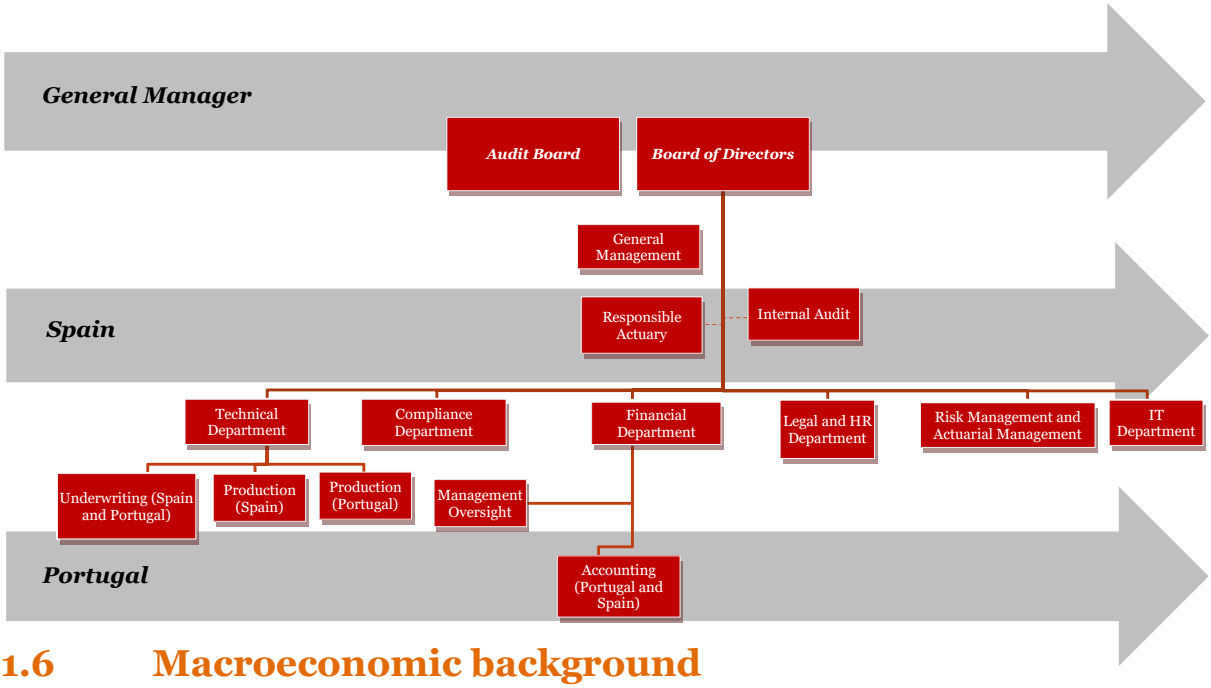
- ✓ By the General Meeting, with regard to members of the managing and supervisory boards;
- ✓ By the Board of Directors, with regard to managers, holders of key functions.

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 31 March 2021.

The Board of Directors reviews the remuneration policy annually. There have been no significant changes from the version approved in 2019. This revision has been recorded in the Board of Directors minutes dated 30 April 2020.

1.5 Organisation Chart



1.6 Macroeconomic background

Global economy

The global economy saw a reduction in produced wealth of 4.4% in 2020. The world entered the Covid-19 pandemic with persistent and pre-existing external imbalances. The crisis has led to a sharp drop in international trade, significant fluctuations in exchange rates, a significant increase in budget deficits and an increase in public and private indebtedness.

The immediate policy priorities have been to provide crucial relief to economic agents and to promote the recovery of the global economy. Once the pandemic is overcome, reducing the world's external imbalances will require collective efforts and far-reaching structural reforms. New trade barriers, on top of existing ones, will not help to reduce such imbalances.

With the world economy still struggling with the Covid-19 crisis, the global outlook is still very uncertain. Although a slight decrease in global imbalances is expected in 2021, the situation varies asymmetrically from country to country. In economies dependent on severely affected sectors, such as oil and tourism, or remittances, the current account balance may fall by more than 2% of Gross Domestic Product, still in 2021. These high-intensity external shocks may have long-lasting effects and require significant economic adjustments in the post-pandemic phase.

At the beginning of the crisis caused by Covid-19, in the emerging economies, more restrictive conditions of external financing were felt, which triggered sudden capital outflows, with the sharp depreciation of the exchange rates of these economies. Since then, the exceptionally vigorous response of budgetary, fiscal and monetary policies, especially in the advanced economies, has contributed to the recovery of the sentiment of confidence among global investors, with the partial reversal of the strong initial fluctuations in the exchange rates of these economies. However, there are still many risks, such as new waves of contagion, deep economic scars and renewed trade tensions between the world's two largest economies.

The US economy contracted by 3.5% in 2020, the worst year since 1946. US Gross Domestic Product fell to an annual rate of 32.9% between April and June 2020. The US economy has made a significant recovery since the first months of the pandemic. Unemployment fell dramatically from a record high of 14.7% in April 2020 to 6.7% in December 2020; even so, the economy lost 140,000 jobs in December 2020 alone and the number of people who applied for unemployment benefit remains more than four times that of before the pandemic.

The Biden administration has outlined an ambitious economic recovery program and promised a significant increase in vaccinations, but the coronavirus remains an important obstacle to the recovery of the American economy. Joe Biden has developed a $1.9 trillion economic stimulus plan, recently approved in Congress, which involves long-term policies designed to stimulate the economy and address the racial and wealth inequalities that have been exacerbated by this crisis.

Federal Reserve Chairman Jerome Powell recently warned that the United States' economy is a long way from a full recovery, citing the millions of unemployed workers, including the many who have already stopped looking for work. The Federal Reserve President of the United States of America, Jerome Powell, reinforced the view that monetary policy will remain accommodative and that the Fed will continue with its program of purchases of treasury bills until substantial progress has been made, since the Fed is not especially concerned about inflation. These statements resulted in a sharp increase in the yield curve for US Treasury bills. Jerome Powell said it will take some time to reach the Fed's targets and that the labour market is not likely to get back to normal in 2021.

Markets are listening to Jerome Powell's comments as they try to work out the potential impact of the stimulus package, recently approved in Congress. The volatility of the yield curve on US treasury bills in recent weeks reflects investor uncertainty about the effects that the combination of monetary and fiscal policies is likely to have on the United States economy.

Estimates suggest that the US economy is currently operating at around USD $1 trillion below its installed capacity. Now that the USD $1.9 trillion package is certain, a big question is what will be the multiplier of this stimulus.
If the multiplier is 1, it means that each dollar spent by the federal government will add one dollar to the US Gross Domestic Product. This package could cause the economy to overheat, thus increasing inflation. However, we don't know what that multiplier will be. Several factors can lead to a lower multiplier, for example, if consumers save a large part of the money they receive, the multiplier will be smaller. If imports are boosted significantly by the increase in domestic consumption, the multiplier will be smaller. Both scenarios are plausible.

The yield curve for US securities has increased due to expectations of faster economic growth and higher inflation. Jerome Powell did not give investors' confidence that the Fed is prepared to fight inflation quickly. Powell seems to be more concerned with reducing unemployment than fighting inflation. It is said that he wants to avoid what happened after the global financial crisis of 2008/9, when the Fed began to tighten monetary policy too early, initiating the so-called "taper tantrum", leading to a rapid increase in yields on public debt. Also, the Biden administration wants to avoid the mistake made in 2009, when the Obama administration did not exploit the full capacity of the gap between the potential and the real Gross Domestic Product. Thus, we are now witnessing a period in which there will be exceptionally aggressive monetary and fiscal policies.

During this crisis, China adopted its own form of fiscal stimulus, slightly different from the one found in the United States of America and Europe. In China, local governments and state-owned companies have borrowed heavily by issuing bonds and borrowing from state-owned banks. This increase in debt financed investments that stabilised the economy during the period of greatest stress. However, the increase in debt has to be paid. Unlike Beijing's central government, local and state governments cannot print money.
Local governments have limited powers to increase revenue, and state-owned companies are now forced to make a profit or compelled to roll over debt. The central government estimates that about a quarter of Chinese provinces currently use more than half of their revenue to service their debts.

It is possible that the Chinese central government's fiscal stimulus will be reduced, with likely negative implications for economic growth. The Beijing central government saw revenue drop 3.9% in 2020, the first drop since 1976. Additionally, public expenditure increased by 2.8%. The result was a sharp increase in public debt and costs related to debt service.

Although the optimism of Chinese business has improved, there has been a decline in export orders and a slowdown in domestic orders; the latter probably due to concerns about new outbreaks of the virus. At the same time, there was a slowdown in hiring by service companies in China.

China still faces risks from the United States of America, namely the monetisation of the US public debt, through purchases of government bonds carried out by the Federal Reserve, exacerbating

potential bubbles in asset prices, with no basis in the real economy. In fact, many economists have been expressing concern about the dichotomy between the real economy and the financial economy in the United States. However, the recent increase in US government bond yields suggests expectations of stronger economic growth and the possibility of a correction in the prices of those assets.

In 2020, the UK economy saw the biggest annual decline in three centuries (-9.9%), since the Great Frost of 1709, when the economy shrank 13%. No sector of the UK economy was unaffected. Far surpassing the damage caused by the 2008/9 financial crisis, the annual fall in production caused by the emergence of Covid-19 narrowly exceeded the 9.7% decline of 1921, when the United Kingdom was recovering from the First World War and the Spanish flu pandemic.

The UK is now fighting the threat of an increase in post-Covid unemployment, with the unemployment rate peaking well below the level reached after the 2008/9 financial crisis, official data show. The UK National Office of Statistics now expects half a million more people to be out of work in 2021.

The British government expects to spend £ 65 billion over the next two years, supporting jobs, businesses, investments and the UK's economic recovery. But that will be followed by £25 billion in corporate income taxes (an increase from 19% to 23% in the nominal rate of this tax, starting in 2023).

The outlook remains highly uncertain, as risks of new waves of contagion, inversion of capital flows and a further decline in international trade, more likely to affect the United Kingdom, now outside the European Union, still loom on the horizon.

In short, once the pandemic is under control and the global economy begins to recover, budgetary, fiscal and monetary policies will have an impact on the global financial stability and economic growth of the various countries. Emerging countries' economies will face a double impact, with economic risk exacerbating fiscal and financial risks, increasing the risk of a global debt crisis.

Economy of the Eurozone

The Eurozone's Gross Domestic Product contracted 6.8% in 2020, the biggest contraction since records began.

Inflation is at historically low levels, as a result of some transitory factors, but also of weak domestic and foreign demand and the appreciation of the Euro.

Eurozone Gross Domestic Product decreased 14.7% in the second quarter of 2020, when compared to the same period in 2019.

After strong growth in activity in the Eurozone during the third quarter, the measures implemented to prevent the expansion of the pandemic negatively affected economic activity in the final stretch of 2020.

Inflation fell in the last months of 2020 to historically low levels, although some of the factors that pushed prices downwards are of a transitory nature and, therefore, predictably reversed in 2021.

The Eurozone's Gross Domestic Product increased 12.5% in the third quarter, more than anticipated by the main international organisations and 4.1% above the forecast made in the Eurosystem's projection. The positive surprise was widespread, by country, although its magnitude was uneven.

The strength of domestic consumption, investment and the external sector, with respect to the historic falls recorded in the second quarter, caused a drop in Gross Domestic Product of 11.7%, which was the fundamental factor driving the recovery in the following quarter, which benefited from the significant improvement in the health situation in Europe during the summer, allowing for a gradual relaxation of the containment measures at that time. In fact, the recovery in economic activity was widespread in the third quarter, both in industry and services, which meant an improvement in employment.

However, since the end of the summer, the expansion in the number of infections has accelerated in several European countries, requiring the implementation of new restrictions, which, in general, were more selective than those implemented during the spring. This increase in infections was uneven by country, both in intensity and over time. The detection of the health situation affected Spain first, then France and Belgium, eventually expanding to the entire Eurozone. As this worsening pandemic was accompanied by new restrictive measures, in the fourth quarter of the year, economic growth was affected. In fact, some available indicators, such as the Purchasing Managers' Index (PMI) and the European Commission's economic sentiment index, indicate a decline in economic activity in the fourth quarter of 2020. According to the most recent data, systematised by the Eurosystem, this contraction amounted to 2.2% in quarter-on-quarter terms, for the whole of the Economic and Monetary Union.

New containment measures and uncertainty about the evolution of the pandemic will weigh on household spending. In fact, the intention of consumers to make major purchases in the next twelve months was reduced in November, for the second consecutive month. At the same time, the European Commission's indicator of intention to save over the next twelve months has been trending upward since August 2020.

Vaccines will be available in the first half of 2021, although total population vaccination is predicted to be complete only in early 2022.

In this regard, it is assumed that containment measures will remain in place in the short term and will be gradually relaxed, which will allow for a gradual recovery of economic activity in the coming months and years.

In 2021, economic activity is expected to expand again (3.9%), although at a lower rate than expected in September 2020. In the following years, growth is expected to accelerate in 2022 to 4.2%, and moderate in 2023 (2.1%). These forecasts assume the basic scenario that the use of Next Generation EU funds will amount to 0.5% of the Gross Domestic Product of the European Union between 2021 and 2023, which means giving this instrument an important role in the recovery process of the European Union and, in particular, of the Euro Zone. In any case, forecasts are subject to a high degree of uncertainty, such as further pandemic expansion and/or a slower-than-expected generalised vaccination campaign, which may have adverse effects on economic activity in the short term. On the other hand, there is a risk that this health crisis will have medium and long-term growth consequences, which are difficult to specify at the moment, related, among other factors, to problems in the accumulation of human capital and the solvency of the economic agents.

The Spanish Economy

The Spanish economy suffered the biggest contraction since the Civil War, due to the impact of the coronavirus. Spain's Gross Domestic Product contracted by 11% in 2020, solely due to restrictions on mobility and economic activity, which were put in place to halt the pandemic. The recovery that the Spanish economy had in the third quarter, with growth of 16.4%, and in the fourth quarter, of 0.4%, did not compensate for the months of an almost total halt in economic activity. In fact, it should be remembered that with only two weeks of confinement in March 2020, gross domestic product for the first quarter fell by 5.3%, while in the second quarter, with the impact of the virus at its peak, the Spanish economy experienced a historic contraction of 17.9%. The last two quarters did not, therefore, compensate for the sharp drop in the first half.

Exports and imports of goods and services have suffered the negative impact caused by the worsening of the pandemic crisis, both in Spain and in the main foreign markets of the Spanish economy.

In the third quarter, there was a partial recovery in exports and imports, which resulted in a positive contribution of net external demand to gross domestic product growth of 2.2%.

However, the most recent information, provided by the Bank of Spain, suggests that the contribution of net exports to the advance of gross domestic product will have returned to negative territory in the fourth quarter, resulting from a more pronounced weakening of exports.

The Spanish government expects an asymmetric V-shaped recovery of the Spanish economy in 2021, and believes that the acceleration will take place from the second half of 2021, estimating an annual growth of 7% of gross domestic product in 2021.

The Portuguese Economy

The Portuguese economy contracted 7.6% in 2020. The fall in activity in 2020 reflects the reduction in domestic demand and exports, highlighting the very negative contribution of exports of services (-4.8%), in particular services related to tourism and restaurants.

After a 17.3% drop in the first half, compared to the end of 2019, the Portuguese economy recovered rapidly in the third quarter (growth of 13.3% in the chain). In fact, the recovery in the third quarter was higher than anticipated, reflecting a more favourable behaviour of private consumption and exports.

However, the emergence of a second wave meant the reversal of the recovery trajectory in the last quarter of 2020. In this context, there was a fall in economic activity in the fourth quarter of 1.8%.

For the period 2021/23, a recovery of the Portuguese economy is projected, based on the gradual control of the pandemic, the reduction of uncertainty and the budgetary and fiscal policies In 2021, Gross Domestic Product is expected to grow by 3.9%, followed by growth of 4.5% and 2.4% respectively in 2022 and 2023. Portugal's Gross Domestic Product is not expected to recover to pre-pandemic levels until the end of 2022. The projected recovery benefits from the impact of budgetary and fiscal crisis response policy decisions. In the coming years, it is also worth mentioning the increase in the receipt of European funds, in particular those related to the "Next Generation EU".

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 fourth full year of activity, in achieving a volume of gross premiums issued of €18,000,209 (2019:
€15.394.336). This 17% growth compared to the previous year enabled Abarca Seguros to position itself as one of the leaders in the bond insurance industry in Portugal, while continuing to do so in Spain. In Portugal, considering the activity in production abroad, the Company achieved a market share of 80% which compares with the 79% achieved in 2019. If we consider only the production of each country, we have Portugal with a market share of 41% and Spain with a market share of 10% (11% in 2019), calculated with reference to December 31, 2020.

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 a volume of production of €14,369,712 in 2020 (2019: €13,134,907), 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, or an investment grade rating of B+ (Good),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 investment grade 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.

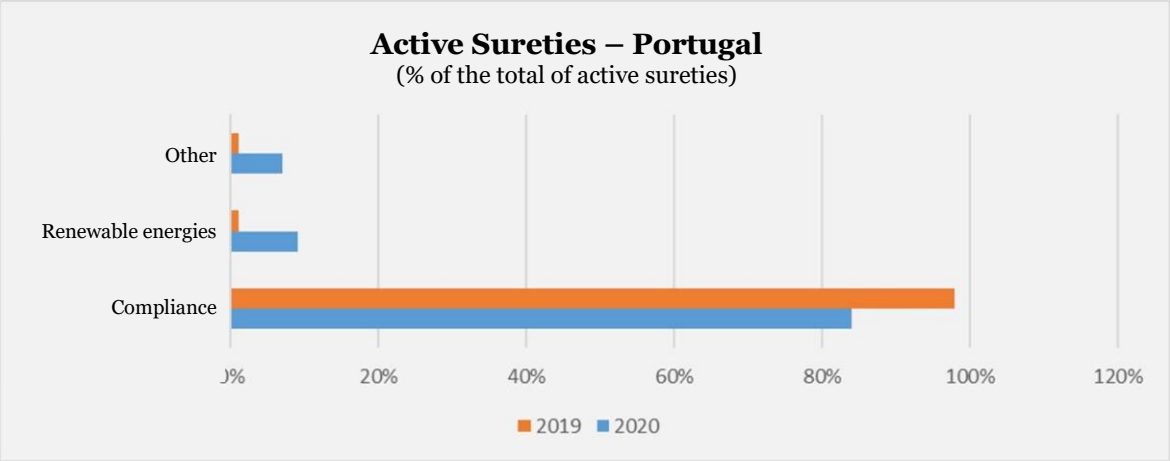
Currently, in the field of surety bonds, Abarca Seguros provides the following types of sureties:

- 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.

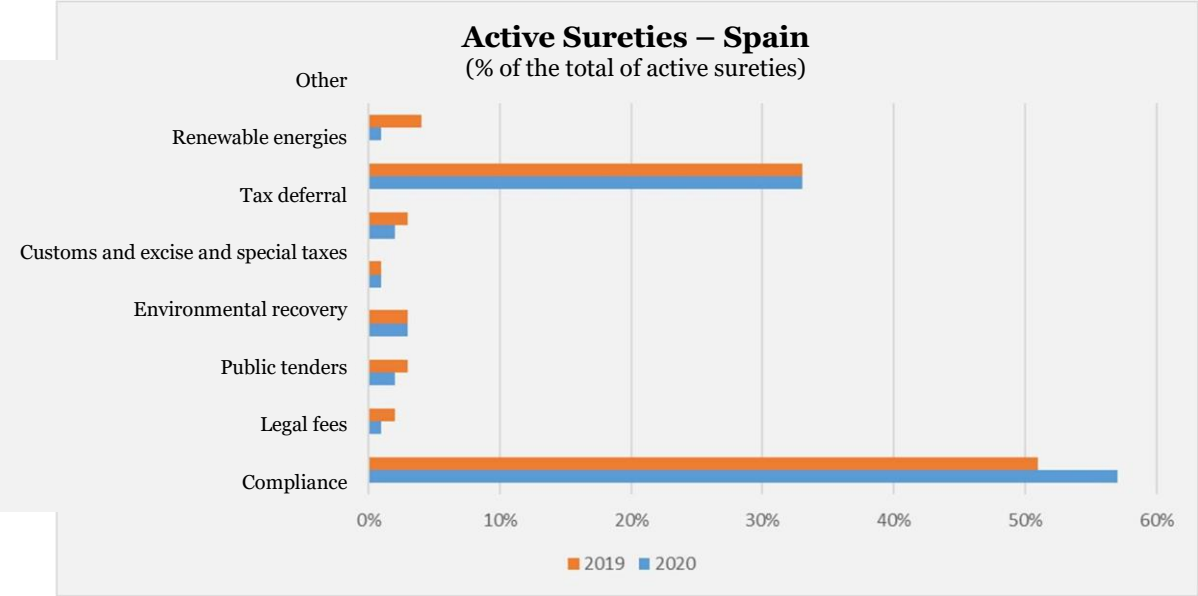
1.7.1 Territorial distribution of certificates issued

Of the total of active certificates on 31 December 2020, 72% (33% on 31 December 2019) are in respect of risks located in Spain and 28% (67% on 31 December 2019) are in respect of risks located in Portugal. The reduction in the volume of the number of active certificates in Portugal is due to the discontinuation of a partnership in a specific business.

In Portugal, compliance guarantees continue to strongly lead the type of guarantees issued (84% in 2020; 98% in 2019), although the Company seeks to diversify risk by other types of guarantees, namely renewable energy, customs and special taxes, tax deferral, temporary employment agencies and law firms.



Also in Spain, completion bonds continue to lead the number of existing active guarantees (57% on 31 December 2020; 51% on 31 December 2019), followed by renewable energy guarantees which accounted for 33% on 31 December 2020 (33% on 31 December 2019), bid bonds (2% on 31 December 2020; 3% on 31 December 2019) and environmental remediation guarantees (3% on 31 December 2020; 3% on 31 December 2019). The remaining 5% (10% on 31 December 2019) 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 2020 and 2019 are broken down as follows:

Costs and expenses by type	2020	2019
Staff-related costs	2 372 453	1 797 808
External supplies and services	1 077 594	1 312 205
Liquid commissions of deferred acquisition costs	1 400 936	674 512
Depreciation and amortisation in the financial year	202 431	246 413
Taxes and levies	71 047	50 274
Interest paid - Leases (Note 12)	15 753	10 614
	5 140 214	**4 091 826**

Operating costs increased by €1,048,388 (+26%) in 2020, essentially due to increasing staff and commission spending as a result of the growth in production volume.

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 – Companhia de 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 very small number of claims (whether in terms of a chronological series or in terms of frequency), the run-off matrices by 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, 2020 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).

For the period from 1 January 2020 to 31 December 2020, there is a new proportional treaty, with some new reinsurers and others already present in the previous treaties. 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 (01 January 2020).

Optional Treaties

In 2020, as in the previous three 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 €3 million per risk (€2.5 million in previous years). 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 an important role in asset investment decisions and is responsible for calculating the solvency ratio on a monthly basis, which is based, among other things, 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, virtually 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 2020 and 2019 are as follows:

	31/12/2020	31/12/2019
Instant access bank deposits (Note 4)	20 108 494	20 044 355
Undertaking for collective investment in transferable securities (Note 5)	3 221 654 *	-
Recoverable from reinsurance (Note 8)	31 870 876	7 447 132
Accounts receivable (Note 9)	1 185 241	2 953 927
	56 386 265	30 445 414

* UCITS bonds component only

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, 2020 and 2019:

Rating	31/12/2020	%	31/12/2019	%
A	13 631 554	68%	13 631 698	68%
A-	3 929 632	20%	3 491 541	17%
BBB	34 780	0%	1 334 740	7%
BB	2 512 527	12%	1 586 376	8%
	20 108 494		20 044 355	

As of December 31, 2020, the Company held 37,031 units in an undertaking for collective investment in transferable securities, valued at €4,894,430 at that date, which consisted of shares (34.18%) and debentures (65.82%), well-diversified by issuer, sector and geographical region. The modified duration of the bonds was 4.44 years as of December 31, 2020.

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, 2020 and 2019 is as follows:

Proportional Agreements in force - 31/12/2020

% participation in reinsurance agreements

Rating	Agreements 2020	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20.00%	20.00%	0.00%	0.00%
A++	0.00%	0.00%	0.00%	27.50%
A+	40.00%	12.00%	16.00%	27.50%
A	4.00%	32.00%	48.00%	0.00%
A-	8.00%	16.00%	16.00%	25.00%
BBB	8.00%	0.00%	0.00%	0.00%
	80.00%	80.00%	80.00%	80.00%

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%

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, 2020 and 2019, the fair value by financial asset and liability class may be detailed as follows:

	31/12/2020		31/12/2019	
	Balance amount	Fair value	Balance amount	Fair value
Financial assets				
Cash and cash equivalents and demand deposits	20 109 141	20 109 141	20 044 998	20 044 998
Financial assets classified in initial recognition of the JV via P&L	4 901 861	4 901 861	6 709	6 709
Bills to receive	1 185 241	1 185 241	2 953 927	2 953 927
	26 196 243	26 196 243	23 005 634	23 005 634
Financial liabilities				
Bills to pay	8 569 197	8 569 197	9 743 329	9 743 329
Other financial liabilities	453 409	453 409	667 788	667 788
	9 022 606	9 022 606	10 411 117	10 411 117

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 2020.

Financial assets classified in initial recognition of fair value through profit and loss amounted to €4,901,861 as of 31 December 2020 and consisted of:

(i) Contributions to the Labour Compensation Fund, which were invested in units in securities investment funds, valued at €7,432, based on the unit value officially published by the respective management company, which is why the Company's Board of Directors considers that the balance sheet value corresponds to its fair value on 31 December 2020.

(ii) Investment units, in a securities investment fund, valued at €4,894,429, based on the unit value officially published by the respective management company, which is why the Company's Board of Directors considers that the balance sheet value corresponds to its fair value as of 31 December 2020.

The potential net capital gains resulting from the units held in these securities investment funds amounted to €94,430 for the year ended 31 December 2020.

The balance of accounts receivable and accounts payable is entirely recoverable in the short term, so the Company's Board of Directors takes the view that the value on the balance sheet on 31 December 2020 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. The Company's Board of Directors considers that the value of the balance sheet on 31 December 2020 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, 2020 and 2019 are valued at level 2 fair value, except for financial assets classified in the initial recognition at their fair value through profit and loss, 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 greater or lesser maturity of these assets.

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.

In general, the Company's assets sensitive to changes in interest rates are bank deposits and units held in an undertaking for collective investment in transferable securities.

	31/12/2020	31/12/2019
Demand deposits	20 108 494	20 044 355
Undertaking for collective investment in transferable securities	3 221 654 *	-
	20 152 690	20 044 355

* UCITS bonds component only

The Board of Directors considers that the interest rate risk in respect of bank deposits is marginal because they are being remunerated at negligible or zero interest rates.

As of December 31, 2020, the Company held 37,031 units in an undertaking for collective investment in transferable securities, valued at €4,894,430 at that date, which consisted of shares (34.18%) and debentures (65.82%), well-diversified by issuer, sector and geographical region. The modified duration of the bonds was 4.44 years as of December 31, 2020.

Exchange rate risk

The Company's functional currency is the Euro.

The Company is exposed to this risk in a completely marginal manner, since almost all assets and liabilities are denominated in Euros.

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, 2020, 33% of the Company's assets consist of cash on hand at credit institutions;

(ii) As of December 31, 2020, 8% of the assets was invested in an undertaking for collective investment in transferable securities, rapidly convertible into liquidity;

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

(iv) Within the scope of the right of recourse, the Company has guarantees and collateral obtained from the respective policyholders, which are complementary to the existing reinsurance treaties.

With the exception of some financial liabilities due to leases, the Company's financial liabilities as at 31 December 2020 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.

1.9 Result of the financial year and proposal of distribution

The net result of the financial year was €429,991, the Board of Directors proposed the following distribution of results:

- ✓ €42,999 to legal reserves; and
- ✓ €386,992 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:

	2020	2019 (restated)
Profit/(loss) attributable to holders of ordinary equity	429 991	1 129 733
Average weighted number of ordinary shares in circulation (*)	10 150 000	10 150 000
	0.042	0.111

(*) Average number of common shares in circulation changed in 2020, due to the merger by acquisition, now having a nominal value of €1 per share.

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 2021

Subsequent events

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

Prospects for financial year 2021

After an uneven year in terms of production growth, the Company is focused on maintaining the current pace of growth. We believe that such is possible due to the development of public works post-Covid-19.

The Board of Directors further intends that the Company will continue in 2021 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;
- To the shareholders, for their support in this fourth 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 and Agents, for their effort and commitment to developing the business and for continuing to believe in this Company;
- The Reinsurers, for their technical support; and
- The Staff, for their professionalism and dedication.

We express our sincere gratitude to you all.

Lisbon, 31 March 2021

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 2020 and 2019

Abarca - Companhia de Seguros, S.A.

Assets on 31 December 2020 and 2019

Figures in Euros

Statement of the financial position	Notes to the Annex	31 /12/2020			31 /12/2019
		Gross value	Impairment or adjustments/Depreciation and amortization	Liquid Value	
ASSET					
Cash and cash equivalents and demand deposits	4	20 109 141	-	20 109 141	20 044 998
Financial assets classified in initial recognition at fair value through profit and loss	5	4 901 861	-	4 901 861	6 709
Loans granted and accounts receivable		-	-	-	-
Other tangible assets	6	987 119	(462 601)	524 517	773 291
Other intangible assets	7	394 424	(209 291)	185 133	263 045
Technical reinsurance provisions provided	8	31 870 876	-	31 870 876	7 447 132
Provision for unearned premiums		4 582 833	-	4 582 833	4 874 274
Provision for claims		26 038 624	-	26 038 624	2 428 880
Provision for profit-sharing		1 249 420	-	1 249 420	143 978
Assets for post-employment benefits and other long-term benefits					
Other debtors for insurance transactions and other transactions	9	1 190 407	(5 166)	1 185 241	2 953 927
Accounts receivable for direct insurance transactions		1 053 331	(5 166)	1 048 165	1 261 100
Accounts receivable for other reinsurance transactions		-	-	-	366 925
Accounts receivable for other transactions		137 076	-	137 076	1 325 902
Tax assets	10	365 281	-	365 281	733 646
Current tax assets		-	-	-	-
Deferred Tax Assets		365 281	-	365 281	733 646
Accruals and deferrals	12	1 374 683	-	1 374 683	537 149
TOTAL ASSETS		61 193 791	(677 058)	60 516 733	32 759 895

The explanatory Notes are an integral part of these statements

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

Abarca - Companhia de Seguros, S.A.

Liabilities and shareholder equity on 31 December 2020 and 2019

Figures in Euros

Statement of the financial position	Notes to the Annex	31/12/2020	31/12/2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Technical provisions	**8**	**41 684 465**	**12 768 762**
Provision for unearned premiums		8 617 729	8 133 495
Provision for claims from other branches		30 650 160	3 498 073
Provision for deviations in accident rates		2 416 576	1 137 194
Provision for risks in progress			
Other technical provisions			
Other financial liabilities	**11**	**453 409**	**667 788**
Liabilities for post-employment benefits and other long-term benefits			
Other creditors for insurance transactions and other transactions	**13**	**8 569 197**	**9 743 329**
Accounts payable for direct insurance transactions		6 935 199	5 359 568
Accounts payable for other reinsurance transactions		1 575 626	3 494 326
Accounts payable for other transactions		58 372	889 435
Tax liabilities	**10**	**447 900**	**529 534**
Current tax liabilities		433 767	297 844
Deferred tax liabilities		14 133	231 691
Accruals and deferrals	**12**	**121 410**	**243 765**
Other Provisions			
TOTAL LIABILITIES		**51 276 381**	**23 953 178**
SHAREHOLDERS' EQUITY			
Capital	**14**	10 150 000	10 150 000
Revaluation reserves due to adjustments to the fair value of financial assets		-	-
Reserve for taxes		-	-
Other reserves	**14**	116 618	-
Retained earnings		(1 456 256)	(2 473 017)
Result (profit/loss) for the financial year	**14**	429 991	1 129 733
TOTAL EQUITY		9 240 352	8 806 717
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**60 516 733**	**32 759 895**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

2.2. Profit and Loss Account for the financial years ended on 31 December 2020 and 2019

Abarca - Companhia de Seguros, S.A.

Profit and Loss Account for the financial years ended on 31 December 2020 and 2019

Figures in Euros

Profit and Loss Account	Notes to the Annex	2020			2019
		Surety	Non-technical	Total	
Earned premiums net of reinsurance	**15**	**5 756 729**	**-**	**5 756 729**	**3 303 126**
Gross premiums issued		18 000 209	-	**18 000 209**	**15 371 048**
Ceded reinsurance premiums		(11 721 880)	-	**(11 721 880)**	**(11 053 382)**
Provision for unearned premiums (change)		(623 618)	-	**(623 618)**	**(3 425 787)**
Provision for unearned premiums, reinsurers part (change)		102 018	-	**102 018**	**2 411 248**
Costs with claims, net of reinsurance	**16**	**(3 693 490)**	**-**	**(3 693 490)**	**(709 649)**
Amounts paid out		**(151 147)**	-	**(151 147)**	**(209 736)**
Gross amount		(189 691)	-	**(189 691)**	**(460 314)**
Reinsurers part		38 545	-	**38 545**	**250 577**
Provision for claims (change)		**(3 542 343)**	-	**(3 542 343)**	**(499 913)**
Gross amount		(27 152 087)	-	**(27 152 087)**	**(1 814 010)**
Reinsurers part		23 609 744	-	**23 609 744**	**1 314 097**
Other technical provisions, net of reinsurance	**17**	**(1 279 382)**	**-**	**(1 279 382)**	**179 848**
Net costs and operating expenses	**18**	**(762 386)**	**-**	**(762 386)**	**(2 152 419)**
Acquisition costs		(3 963 011)	-	**(3 963 011)**	**(3 224 902)**
Deferred acquisition costs (change)		139 385	-	**139 385**	**329 136**
Administration costs		(943 866)	-	**(943 866)**	**(854 328)**
Commissions and reinsurance profit sharing		4 005 106	-	**4 005 106**	**1 597 676**
Costs of financing	**19**	(186 361)	-	**(186 361)**	**(170 866)**
Net asset gains and financial liabilities valued at their fair value through profit and loss.	**20**	94 430	-	**94 430**	**10 767**
Other income/expenditure	**21**	-	**780 123**	**780 123**	**556 703**
Earnings before taxes		**(70 460)**	**780 123**	**709 663**	**1 017 510**
Taxes on earnings of the financial year - Current taxes	**10**			(128 865)	(121 460)
Taxes on earnings of the financial year - Deferred taxes	**10**			(150 807)	233 684
Net income for the year		**(70 460)**	**780 123**	**429 991**	**1 129 733**
Basic earnings per share				**0.042**	**0.111**

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

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

2.3. Comprehensive income statements for the financial years ended on 31 December 2020 and 2019

Abarca - Companhia de Seguros, S.A.

Comprehensive Income Statement for the financial years ended on 31 December 2020 and 2019

Figures in Euros

Notes to the Annex	Comprehensive income statement	2020	2019
16	Net income for the year	429 991	1 129 733
	Other comprehensive income of the financial year		
	TOTAL COMPREHENSIVE INCOME NET OF TAXES	**429 991**	**1 129 733**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

2.4. Statements of changes in equity for the financial years ended on 31 December 2020 and 2019

Abarca - Companhia de Seguros, S.A.

Statements of changes in equity for the financial years ended on 31 December 2020 and 2019

Figures in Euros

2020 **Statement of changes in shareholders' equity**	**Notes to the Annex**	**Share capital**	**Other reserves**	**Retained earnings**	**Result (profit/loss) for the financial year**	**TOTAL**
Balance sheet as at 31 December 2019		10 150 000	-	(2 473 017)	1 129 733	8 806 716
Realisation of share capital		-	-	-	-	-
Merger Reserve		-	-	3 645	-	3 645
Net income for the year	**14**	-	-		429 991	429 991
Distribution of results		-	116 618	1 013 115	(1 129 733)	-
Balance sheet as at 31 December 2020		**10 150 000**	**116 618**	**(1 456 257)**	**429 991**	**9 240 352**

Figures in Euros

2019 **Statement of changes in shareholders' equity**	**Notes to the Annex**	**Share capital**	**Other reserves**	**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		-	-	(16 182)	-	(16 182)
Net income for the year	**14**	-	-	-	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**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

2.5. Statements of cash flows for the financial years ended on 31 December 2020 and 2019

Abarca - Companhia de Seguros, S.A.

Statements of cash flows for the financial years ended on 31 December 2020 and 2019

		Figures in Euros
	2020	**2019**
OPERATIONAL ACTIVITIES		
Net income for the year (+/-)	**429 991**	**1 129 733**
ADJUSTMENTS:		
Depreciation/Amortisation/Impairment of Tangibles and Intangibles (+)	**202 431**	**246 413**
Provisions (+/-)	**4 491 958**	**1 550 065**
To direct insurance	27 636 320	4 910 661
To reinsurance	(24 423 744)	(3 180 749)
Other	1 279 382	(179 848)
Operating financial income (interest and similar earnings) (+/-)	**(94 430)**	
Potential capital gains	(94 430)	
Increase in debts owed to third parties (-)		**(2 097 927)**
To direct insurance		(348 975)
To reinsurance		(366 925)
States and Other Public Entities		(465 375)
Other		(916 653)
Reduction in debts owed to third parties (+)	**2 046 025**	
To direct insurance	212 935	
To reinsurance	366 925	
States and Other Public Entities	277 339	
Other	1 188 826	
Increase in debts owed to third parties (+)	**1 585 023**	**5 132 415**
To direct insurance	1 575 631	2 551 938
To reinsurance		1 344 741
States and Other Public Entities	9 392	397 708
Other		838 028
Reduction in debts owed to third parties (-)	**(2 749 763)**	**(64 590)**
To reinsurance	(1 918 700)	
Other	(831 063)	(64 590)
Decrease in cost accruals (-)	**(149 744)**	
Increase in accruals of profits (-)	**(735 740)**	**(493 538)**
Increase in deferred costs (-)	**(101 794)**	**(23 305)**
Increase in accruals of profits (+)		**102 412**
Increase in deferred profits (+)	**27 390**	
Other (+/-)	**157 765**	
Flow from Operational Activities (1)	**5 109 111**	**5 481 680**
INVESTMENT ACTIVITIES		
RECEIPTS FROM:		
Investments		**10 767**
Total Receipts		**10 767**
PAYMENTS IN RESPECT OF:		
Investments	**(4 800 000)**	
Acquisition of tangible fixed assets	**(14 282)**	**(16 272)**
Acquisition of intangible fixed assets		**(137 283)**
Total Payments	**(4 814 282)**	**(153 555)**
Flow from Investment Activities (2)	**(4 814 282)**	**(142 788)**
INVESTMENT ACTIVITIES		
PAYMENTS IN RESPECT OF:		
Repayments of financial leasing contracts	**230 686**	**147 701**
Total Payments	**230 686**	**147 701**
Flow from financing activities (3)	**(230 686)**	**(147 701)**
Changes in cash and cash equivalents [4]=[1]+[2]+[3]	**64 143**	**5 191 191**
Cash and cash equivalents at the start of the period	**20 044 998**	**14 853 807**
Cash and cash equivalents at the end of the period	**20 109 141**	**20 044 998**
Changes in cash and cash equivalents (Final balance-Closing balance)	**64 143**	**5 191 191**

The explanatory Notes are an integral part of these statements

The Chartered Accountant

Paula Sofia de Oliveira Cruz

Paula Cruz
CA No. 45385

The Board of Directors

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.

On 31 December 2019, Company was 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. During 2020, the merger was carried out through the incorporation of the Group in Abarca Seguros, as explained in Note 2.3.9, which produced retroactive accounting effects as of 1 January 2020, with the Company now being held directly by shareholders, natural persons, who previously held the shares of Grupo Azuaga Morales, SL

Abarca Seguros was created, based on the accumulated experience of its shareholders 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 2020 were approved by the Board of Directors on 31 March 2021, with the shareholders in a General Meeting 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 2020 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 2020.

2.2 Accounting standards and recently issued interpretations

Impact of adopting new standards, changes to standards that became effective for annual periods beginning on or after 1 January 2020:

(a) IFRS 3 (amendments), 'Definition of a business'. This amendment constitutes a revision of the definition of a business for the purpose of accounting of 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 allowed to determine whether a transaction relates to the acquisition of an asset or a business. This amendment had no impacts on the Company's financial statements.

(b) IFRS 9, IAS 39 and IFRS 7 (amendment) – "Interest rate benchmark reform - Phase 1": These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the benchmark reform for reference interest rates. The exemptions refer to hedge accounting, in terms of: (i) risk components; (ii) 'highly probable' requirement; (iii) prospective assessment; (iv) retrospective effectiveness test (for IAS 39 adopters); and (v) recycling of the cash flow hedge reserve, and their objective is that the reform of the reference interest rates does not result in the cessation of hedge accounting. However, any ineffectiveness of the hedging determined must continue to be recognised in the income statement. This amendment had no impacts on the Company's financial statements.

(c) IAS 1 and IAS 1 (amendments), 'Definition of material'. This amendment introduces a change to the concept of "material" and clarifies 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. This amendment had no impacts on the Company's financial statements.

(d) Conceptual structure, "Changes with reference to other IFRS". As a result of the publication of the new conceptual framework, the IASB made amendments to the text of several standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, 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. This amendment had no impacts on the Company's financial statements.

Published standards (new and amended), whose application is mandatory for annual periods beginning on or after 1 January 2021, already endorsed by the European Union:

(a) IFRS 16 (amendment), "Leases - Income subsidies related to COVID-19" (effective for annual periods beginning on or after 1 June 2020). This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether rebates granted by lessors under COVID-19, qualify as "modifications" when three criteria are cumulatively met: (i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; (ii) any reduction in lease payments only affects payments due on or until 30 June 2021; and (iii) there are no significant changes to other lease terms and conditions. Lessees who choose to avail of this exemption, account for the change in rental payments as variable rentals in the period (s) in which the event or condition that triggers the rebate occurs. This change is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or other equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies the change for the first time. This amendment had no impacts on the Company's financial statements.

(b) IFRS 4 (amendment), "Insurance contracts - deferral of application of IFRS 9" (effective for financial years beginning on or after 01 June 2021). This amendment refers to the temporary accounting consequences that result from the difference between the date of entry into force of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. In particular, the amendment made to IFRS 4 postpones until 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17. The adoption of this standard will have a material effect on the Company's financial statements.

Published standards (new and amended), whose application is mandatory for annual periods beginning on or after 1 January 2021, already endorsed by the European Union:

(a) IAS 1 (amendment), 'Presentation of financial statements - classification of liabilities' (effective for financial years beginning on or after 1 January 2023). This amendment is still subject to the process of endorsement by the European Union. This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as non-fulfilment of a "covenant". This amendment also includes a new definition of the "settlement" of a liability. This amendment is retrospectively applicable. No significant impacts are expected on the Company's financial statements resulting from the adoption of this amendment.

(b) IAS 16 (amendment), "Proceeds obtained before an asset enters effective use" (effective for financial years beginning on or after 1 January 2022). This amendment is still subject to the process of endorsement by the European Union. Change in the accounting treatment given to the consideration obtained from the sale of products that result from the production in test phase of the tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This change is retrospectively applicable, without restating comparisons. No impacts are expected on the Company's financial statements resulting from the adoption of this amendment.

(c) IAS 37 (amendment)' Onerous (loss-making) contracts - costs of honouring a contract" (effective for financial years beginning on or after 1 January 2022). This amendment is still subject to the process of endorsement by the European Union. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other expenses directly, can be considered. related to the allocation of depreciation expenses of tangible assets used to fulfil the contract. This change will have to be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, still

include contractual obligations to be fulfilled, with no need to restate the comparison. No impacts are expected on the Company's financial statements resulting from the adoption of this amendment.

(d) IFRS 1 'Subsidiary as a first-time adopter of the IFRS'. This improvement clarifies that, when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements, the measurement of accumulated translation differences, of all foreign operations, can be made at the amounts that would be recorded in the consolidated financial statements, based on the parent company's transition date to IFRS. No impacts are expected on the Company's financial statements resulting from the adoption of this improvement.

(e) IFRS 9, 'Derecognition of liabilities - costs incurred to be included in the 10% variation test'. This improvement clarifies that in the scope of the derecognition tests carried out on renegotiated liabilities, the borrower must determine the net amount between fees paid and fees received considering only the fees paid or received between the borrower and the financier, including fees paid or received, by any of the entities on behalf of the other. No impacts are expected on the Company's financial statements resulting from the adoption of this improvement.

(f) IFRS 16, 'Leasing incentives'. This improvement refers to the amendment to Illustrative Example 13 that accompanies IFRS 16, to eliminate inconsistency in the accounting treatment of leasing incentives, attributed by the lessor. No impacts are expected on the Company's financial statements resulting from the adoption of this improvement.

(g) IAS 41, 'Taxation and measurement of fair value'. This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13 - 'Fair value'. No impacts are expected on the Company's financial statements resulting from the adoption of this improvement.

(h) IFRS 3 (amendment), "References to the Conceptual Framework" (effective for annual periods beginning on or after 01 June 2022). This amendment is still subject to the process of endorsement by the European Union. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be adopted regarding liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. This amendment is prospectively applicable. No impacts are expected on the Company's financial statements resulting from the adoption of this amendment.

(i) IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) 'Reform of reference interest rates - phase 2' (effective for annual periods beginning on or after 1 January 2021). This amendment is still subject to the process of endorsement by the European Union. These changes address issues that arise during the reform of a reference interest rate, including the replacement of a reference interest rate with an alternative, allowing for the adoption of exemptions such as: (i) changes in hedging designation and documentation; (ii) amounts accumulated in the cash flow coverage reserve; (iii) retrospective assessment of the effectiveness of a hedging relationship under IAS 39; (iv) changes in hedging ratios for groups of items; (v) presumption that an alternative reference rate, designated as a risk component not specified in the contract, is separately identifiable and qualifies as a hedged risk; and (vi) updating the effective interest rate, without recognising profit or loss, for financial instruments measured at amortised cost with changes in contractual cash flows as a result of the IBOR reform, including leases that are indexed to an IBOR. No impacts are expected on the Company's financial statements resulting from the adoption of this amendment.

(j) IFRS 17 (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This rule is still subject to the process of endorsement by the European

Union. This new standard replaces IFRS 4 and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical responsibilities, which are revalued on each reporting date. The current measurement can be made by applying the complete model ("building block approach") or simplified model ("premium allocation approach"). The complete model is based on discounted cash flow scenarios weighted by the probability of occurrence and adjusted for risk, and a contractual service margin, which represents the estimated future profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is retrospectively applicable with some exemptions as of the transition date. The adoption of this standard as of 01 January 2023 will have a material effect on the Company's financial statements.

(k) IFRS 17 (amendment), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to the process of endorsement by the European Union. This amendment includes specific changes in eight areas of IFRS 17, such as: (i) scope; (ii) level of aggregation of insurance contracts; (iii) recognition; (iv) measurement; (v) modification and derecognition; (vi) presentation of the Statement of Financial Position; (vii) recognition and measurement of the Income Statement; and (viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and streamline its implementation. The adoption of this amendment from 01 January 2023 will have material effects 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 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) It 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.

(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.

2.3.2 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)”.

2.3.3 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.

2.3.4 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 had 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.

2.3.5 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.

2.3.6 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.

2.3.7 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.

2.3.8 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.

2.3.9 Merger Reserve

As disclosed in Note 1 and Note 14, in the year ended December 31, 2020, Abarca - Companhia de Seguros, S.A. (acquiring company) acquired, by cross-border merger by acquisition, the commercial company incorporated under Spanish law, Grupo Azuaga Morales, S.L. (acquired company) The equity capital of the merged company exceeded its share capital, with this differential being recognised under the heading “Merger reserve”, in equity. The “Merger reserve” is subject to the legal reserve rules, set out in paragraphs 2 and 3 of article 295 of the Portuguese Companies Code (CSC). This transaction was carried out in accordance with the principle of fiscal neutrality, as set out in paragraph 1 of article 74 of the Corporate Income Tax Code (CIRC).

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) <u>Premiums</u>

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 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 . For the year 2020, as a way of capturing possible impacts resulting from the Covid-19 crisis, the Company decided to increase the IBNR to 40% of the premiums acquired.

(c) Loss adjustment expenses ("LAE")

By the estimated administrative costs to be incurred in a settlement of declared 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.
Following the publication of regulatory standard no. 2/2021-R of 2 March, which introduces a specific change to the accounting rules applicable to insurance companies in the scope of the calculation of the Provision for Risks in Progress and whose application is retroactive to the end of the year 2020, Abarca carried out a comparative analysis in order to assess the need to make adjustments to the calculation of the Provision for Risks in Progress (PRC) in 2020 due to the

impacts of the Covid-19 pandemic.
Therefore, considering the historical calculation of the PRC, which has no ratios greater than 1 since 2016, we can conclude that the Company has chosen to report the Provision for Risks in Progress with the book values.

(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 current value of 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.

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.

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.

(ii) <u>Short-term benefits</u>

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) <u>Holidays and holiday pay</u>

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. In Portugal, holiday pay and holiday allowances are recorded in the “Labour costs” account against “Accruals and deferrals” in liabilities. In Spain, holiday pay is included in the monthly pay processing and paid in twelve monthly instalments, together with the month's pay.

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 according to the evolution of the Company's levels of activity.

2.3.18 Comparability

The accounting policies described above were applied consistently, so they are comparable to the periods presented in these financial statements.

2.3.19 Business continuity

The Company operates in accordance with the principle of a going concern, and these financial statements have been prepared in accordance with this principle.

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 liabilities to beneficiaries and amounts to be incurred 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 Portuguese and Spanish 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 Cash and cash equivalents and demand deposits

The balance of this heading, as of 31 December 2020 and 2019, was broken down as follows:

	31/12/2020	31/12/2019
Demand deposits	20 108 494	20 044 355
Cash	647	643
	20 109 141	20 044 998

As of 31 December 2020 and 2019, demand deposits did not bear any interest. In 2020, the Company started to have to pay commissions on the order values in excess of certain amounts, defined by each Bank.

As of 31 December 2020 and 2019, approximately 87% and 85%, respectively, of the Company's current deposits are deposited in banks with a rating equal to or higher than A- (Note 23).

Note 5 Financial assets classified in initial recognition at fair value through profit and loss

The balance of this heading on 31 December 2020 and 2019 is broken down as follows:

	31/12/2020		31/12/2019
	UP JP Morgan	**UP FCT**	**UP FCT**
No. of units	37 031	6 570	6 110

Fair value	4 894 430	7 681	6 709
Acquisition value	4 800 000	6 891	6 594

In terms of the fair value hierarchy, set out in IFRS 7, these financial assets are inserted at level 1, that is, the fair value is based on the valuation of the unit published by the respective management company.

Note 6 Other tangible assets

In the financial year ended 31 December 2020, the movement in the headings of other tangible assets was as follows:

	Gross assets			
	Balance on 31/12/2019	**Acquisitions**	**Disposal of assets**	**Balance on 31/12/2020**
Equipment				
Administrative equipment	84 666	3 620	-	88 286
IT equipment	90 350	10 406	-	100 756
Other equipment	2 734	-	-	2 734
Tools and Utensils	-	256	-	256
Leases - Transport equipment	163 227	16 307	31 140	148 394
Leases - Real Estate	646 693	-	-	646 693
	987 670	**30 589**	**31 140**	**987 119**

	Accumulated depreciations			
	Balance on 31/12/2019	**Depreciations in the financial year**	**Disposal of assets**	**Balance on 31/12/2020**
Equipment				
Administrative equipment	30 052	10 838	-	40 890
IT equipment	46 101	22 460	-	68 561
Other equipment	840	342	-	1 182
Tools and Utensils	-	4	-	4
Leases - Transport equipment	41 475	59 315	15 661	85 129
Leases - Real Estate	95 911	170 924	-	266 835
	214 379	**263 883**	**15 661**	**462 601**

As noted in Note 2.3.15, IFRS 16 had a significant impact on the accounting of lessees (Note 11), 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.

Note 7 Other intangible assets

In the financial year ended 31 December 2020, the movement in the headings of other intangible assets was as follows:

	Gross assets			
	Balance on 31/12/2019	Acquisitions	Adjustments/corrections	Balance on 31/12/2020
IT applications	393 931			393 931
Other	492	-	-	492
	394 424	-	-	394 424

	Accumulated depreciations			
	Balance on 31/12/2019	Depreciations in the financial year	Adjustments/corrections	Balance on 31/12/2020
IT applications	131 378	77 913		209 291
Other				
	131 378	77 913	-	209 291

Note 8 Technical provisions for direct insurance and ceded reinsurance

On 31 December 2020 and 2019, technical provisions for direct insurance and ceded reinsurance were broken down as follows:

	31/12/2020			31/12/2019		
	Direct insurance	Ceded reinsurance	Total	Direct insurance	Ceded reinsurance	Total
Provision for unearned premiums	8 617 729	(4 582 833)	4 034 896	8 133 495	(4 874 274)	3 259 221
Provision for claims	30 650 160	(26 038 624)	4 611 536	3 498 073	(2 428 880)	1 069 193
Provision for deviations in accident rates	2 416 576	-	2 416 576	1 137 194	-	1 137 194
Provision for risks in progress	-	-	-	-	-	-
Provision for profit-sharing	-	(1 249 420)	(1 249 420)	-	(143 978)	(143 978)
	41 684 465	(31 870 877)	9 813 588	12 768 762	(7 447 132)	5 321 630

The provision for unearned premiums for direct insurance and ceded reinsurance on 31 December 2020 and 2019, was broken down as follows:

	31/12/2020			31/12/2019		
	Unearned premiums	Deferred Costs/Income	Total	Unearned premiums	Deferred Costs/Income	Total
To direct insurance						
From non-life insurance	9 382 031	(764 301)	8 617 729	8 758 412	(624 917)	8 133 495
From ceded reinsurance						
From non-life insurance	(6 232 744)	1 649 911	(4 582 833)	(6 130 726)	1 256 452	(4 874 274)
	3 149 287	885 610	4 034 896	2 627 686	631 535	3 259 221

The provision for claims, as of 31 December 2020 and 2019, was broken down as follows:

Provision for claims

	31/12/2020			31/12/2019		
	Direct insurance	Ceded reinsurance	Total	Direct insurance	Ceded reinsurance	Total
Reported (open claims)	20 903 671	(19 559 456)	1 344 215	702 221	(597 657)	104 564
Non-reported (IBNR)	9 746 489	(6 479 168)	3 267 321	2 795 852	(1 831 223)	964 629
	30 650 160	(26 038 624)	4 611 536	3 498 073	(2 428 880)	1 069 193

Note 9 Other debtors in respect of insurance transactions and other transactions

As at 31 December 2020 and 2019, this heading was broken down as follows:

	31/12/2020	31/12/2019
Accounts receivable in respect of direct insurance transactions		
Policyholders	1 048 165	1 261 100
Accounts receivable in respect of reinsurance transactions		
Reinsurers		366 925
Accounts receivable for other transactions		
Other debtors	137 076	1 325 902
	1 185 241	2 953 927

The balances receivable from policyholders on 31 December 2020 refer almost entirely to renewals at the end of the year, whose premiums were settled in 2021.

Note 10 Assets, liabilities, gains and losses due to taxes

(i) Deferred tax assets and liabilities

On 31 December 2020 and 2019, the deferred tax assets were broken down as follows:

	Balance on 31/12/2019	2020 Change in		Balance on 31/12/2020
		Equity	Results	
Deferred Tax Assets				
Due to reportable tax losses	733 646		(368 365)	365 281
	733 646		(368 365)	365 281
Deferred tax liabilities				
Due to differences between the base in books and tax base of the technical provisions of the Branch in Spain	231 691		(217 558)	14 133
	231 691		(217 558)	14 133

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 2020.

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 €985,537 and €1,604,686 as of 31 December 2020 and 2019, respectively, and were broken down as follows:

Reportable tax losses - Portugal

	2020			
	Balance on 31/12/2019	Use	Balance on 31/12/2020	Expiration
Financial year 2017	177 200	177 200	(0)	2022
Financial year 2018	1 427 486	441 948	985 538	2023
	1 604 686	619 148	985 537	

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. As of 31 December 2020, there were no tax losses to report.

Reportable tax losses - Branch in Spain

	2020			
	Balance on 31/12/2019	Use	Balance on 31/12/2020	Expiration
Period from 01 July 2019 to 31 December 2019	1 583 626	1 583 626	-	no expiry date
	1 583 626	583 626	-	

(ii) Current tax liabilities

On 31 December 2020 and 2019, the current recognised tax liabilities were broken down as follows:

Current tax liabilities

	31/12/2020	31/12/2019
Income Tax	37 839	114 612
Withholdings at source	142 118	144 485
Social Insurance Contributions	26 097	30 936
VAT on intra-community transactions	17 474	3 251
Withholdings and stamp duty	203 283	3 080
ASF fees	6 706	1 165
Contributions to the unemployment contribution fund	250	315
	433 767	297 844

As at 31 December 2020 and 2019, 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:

	2020	2019
Pre-tax earnings	709 663	1 017 510
Income Tax	(279 672)	112 223
Effective tax burden on income in profit and loss	-39.41%	11.03%

(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 2020 and 2019, can be shown as follows:

	2020		
	Base	Rate	Tax (Cost)/Profit
Pre-tax earnings			
- Portugal	(154 243)	-21.45%	33 085
- Spain	1 899 892	25%	(474 973)
Nominal tax on income			**(441 888)**
Permanent differences			
- Separate taxation in Portugal			(16 682)
- Other			7 028
Temporary differences			
- Recognised IDA, with regard to 2019 tax losses		21%	-
Due to differences between the base in books and tax base of the provisions technical provisions of the Branch in Spain	818 430	21%	171 870
Effective tax burden on income in profit and loss			**(279 672)**

	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 provisions 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 2020 and 2019, the Company's nominal composite income tax rate, including municipal and state taxes, where applicable, was 21.45%.

Note 11 Other financial liabilities

On 31 December 2020 and 2019, the changes under this heading were as follows:

	31/12/2020		
	Real estate	Vehicles	Total
Liabilities for lease contracts as at 01 January 2020	541 723	126 065	667 788
Additions		16 307	16 307
Capital redemptions	123 848	91 084	214 932
Interest paid (Note 19)	10 172	5 581	5 753
Liabilities for lease contracts as at 31 December 2020	407 702	45 707	453 409

	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 19)	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, from 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.

Note 12 Accruals and deferrals

(i) Assets

Accruals and deferrals of assets as of 31 December 2020 and 2019 are broken down as follows:

	31/12/2020	31/12/2019
Other accruals of earnings	1 229 278	493 538
Insurance	78 302	19 262
Other	67 103	24 349
	1 374 683	537 149

The other increases in income refer, almost entirely, to non-technical income that reflect the guaranteed minimum non-contingent compensation, contractually established, in projects in which the Company participates on the balance sheet date.

(ii) Liabilities

Accruals and deferrals of liabilities as of 31 December 2020 and 2019 are broken down as follows:

	31/12/2020	31/12/2019
Remunerations and respective contributions to be settled	61 233	77 825
Other accruals of expenses	32 788	165 940
Deferred income	27 390	
	121 410	243 765

Note 13 Other creditors for insurance transactions and other transactions

This heading is broken down as follows on 31 December 2020 and 2019:

	31/12/2020	31/12/2019
Accounts payable for direct insurance transactions		
Premiums received in advance	2 976 625	4 405 540
Pledges received from policyholders	3 744 270	534 768
Brokers	188 718	309 587
Chargebacks payable	25 585	109 673
	6 935 199	5 359 568
Accounts payable for reinsurance transactions		
Reinsurers	1 575 626	3 494 326
Accounts payable for other transactions		
Other creditors	58 372	889 435
	8 569 197	9 743 329

As of 31 December 2020 and 2019, the balance of the item 'Premiums received in advance' was in the amount of €2,460,539 and €3,825,509, respectively, from an insurance policyholder, relating to risk hedging that had not yet started at that date.

Note 14 Equity

(i) Share capital

As of December 31, 2019, 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..

As of December 31, 2020, as a result of the merger by acquisition, described in Notes 1 and 2.3.9, the capital of Abarca Seguros is now represented by 10,150,000 shares with a par value of €1, which were fully subscribed and carried out by the shareholders, who are individual persons, who previously owned Grupo Azuaga Morales, SL.

(ii) Other reserves

As at 31 December 2020, the heading 'other reserves' was broken down as follows:

	31/12/2020	31/12/2019
Legal reserve	112 973	-
Merger Reserve	3 645	-
	116 618	-

(iii) 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:

	2020	2019 (restated)
Profit/(loss) attributable to holders of ordinary equity	429 991	1 129 733
Average weighted number of ordinary shares in circulation (*)	10 150 000	10 150 000
	0.042	0.111

(*) Average number of common shares in circulation changed in 2020, due to the merger by acquisition, now having a nominal value of €1 per share, as referred to in (i) above.

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 15 Acquired premiums net of reinsurance

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

	2020	2019
Gross premiums issued	18 000 209	15 371 048
Ceded reinsurance premiums	(11 721 880)	(11 053 382)
	6 278 329	4 317 665
Change in the provision for unearned premiums (direct insurance)	(623 618)	(3 425 787)
Change in the provision for unearned premiums (ceded reinsurance)	102 018	2 411 248
	(521 600)	(1 014 540)
Earned premiums net of reinsurance	5 756 729	3 303 126

Direct insurance premiums are calculated in accordance with the rate range defined on an actuarial basis 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 2020, as had already occurred in previous years, the Company conducted business in fronting, whose underwritten risk is transferred in full, with the Company's revenue being the brokerage commission.

16 Costs with claims, net of reinsurance

Claims-related costs net of reinsurance in the financial years ended on 31 December 2020 and 2019 are broken down as follows:

	2020	2019
Direct insurance		
Amounts paid out	3 331	289 448
Costs allocated to the claims function (Note 19)	186 361	170 866
Change in provision for claims	27 152 087	1 814 010
	27 341 778	2 274 324
Ceded reinsurance		
Amounts paid out	(38 545)	(250 577)
Change in provision for claims	(23 609 744)	(1 314 097)
	3 693 490	709 649

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 40% of the premiums acquired (2019: 15%). This increase in 2020 was aimed at addressing possible impacts that may arise from the pandemic situation in the countries in which we operate, caused by Covid-19.

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.

Gross reinsurance ratios

	2020	2019
Claims ratio	157%	19%
Commissioning ratio	8%	9%
Expense ratio	19%	16%
Combined ratio	185%	45%

Net reinsurance ratios

	2020	2019
Claims ratio	64%	21%
Commissioning ratio	8%	9%
Expense ratio	-11%	11%
Combined ratio	61%	42%

Note 17 Other technical provisions, net of reinsurance

In the financial years ended on 31 December 2020 and 2019, this heading is broken down as follows:

	2020	2019
Provision for deviations in accident rates	1 279 382	508 144
Provision for risks in progress	-	(687 992)
Other technical provisions, net of reinsurance	1 279 382	(179 848)

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 18 Net operating costs and expenses

The operating costs and expenses net of reinsurance in the financial years ended on 31 December 2020 and 2019 are broken down as follows:

	2020	2019
Acquisition costs		
Direct insurance product brokerage commission costs	1 540 321	1 003 648
Costs allocated to the acquisition function (Note 19)	2 422 690	2 221 254
	3 963 011	3 224 902
Deferred acquisition costs	(139 385)	(329 136)
Costs allocated to the administration function (Note 19)	943 866	854 328
Commissions and reinsurance profit sharing		
Commissions	(2 899 664)	(1 453 698)
Profit-sharing	(1 105 442)	(143 978)
	(4 005 106)	(1 597 676)
	762 386	2 152 418

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 19).

The item 'Reinsurance Commissions' as of December 31, 2020 in the amount of €2,899,664 (2019: €1,453,698) includes deferred fees of €393,459 (2019: €786.560).

Nota 19 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 2020 and 2019 are summarised as follows:

	2020	2019
Claim-related costs (Note 16)	186 361	170 866
Acquisition costs (Note 18)	2 422 690	2 221 254
Administrative costs (Note 18)	943 866	854 328
Investment management costs	186 361	170 866
	3 739 278	3 417 313

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

	2020	2019
Staff-related costs (i)	2 372 453	1 797 808
External supplies and services (ii)	1 077 594	1 312 205
Amortisation/depreciation in the financial year	202 431	246 413
Taxes and levies	71 047	50 274
Interest paid - Leases	15 753	10 614
	3 739 278	3 417 313

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) Staff-related costs

On 31 December 2020 and 2019, the Company recorded twenty-one and twenty-eight employees on its staff, respectively, comprising by professional category as follows:

	2020	2019
Executive Officers	4	4
Directors	5	5
Technical Staff	12	19
	21	28

The heading of labour costs in the financial years ended 31 December 2020 and 2019 were broken down as follows:

	2020	2019
Remuneration of corporate bodies and of staff	2 026 701	1 454 192
Charges on remuneration	298 632	257 646
Payouts	25 206	-
Mandatory insurance	14 552	58 706
Post-employment benefits	5 821	6 176
Other staff-related costs	857	20 281
Costs of social welfare projects	684	807
	2 372 453	1 797 808

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 2020 and 2019 by the members of the Board of Directors and Audit Board:

	2020	2019
Board of Directors	467 381	322 100
Audit Board	24 745	24 745
Directors	873 547	755 918
	1 365 673	1 102 763

(ii) External supplies and services

In the financial years ended on 31 December 2020 and 2019, the balance of this heading is broken down as follows:

	2020	2019
Specialised work	584 746	858 886
Travel and accommodation	138 033	192 924
Rents and leases	129 544	91 306
Maintenance and repairs	51 117	5 574
Communication	30 876	27 741
Membership fees	17 242	33 773
Publicity and advertising	11 600	2 775
Office stationery	4 561	11 703
Lawyers and notaries' fees	1 940	3 931
Other external supplies and services	107 934	83 591
	1 077 594	1 312 205

The heading of specialised work for the financial years ended 31 December 2020 and 2019 includes, among others: (i) consultancy fees, in the amount of approximately €328,716 and €261,463, respectively; (ii) lawyers' fees in the amount of €134,952 and €324,159, respectively; (iii) provision of IT services in the amount of €53,329 and €45,076, respectively; and (iv) fees of the Company's Statutory Auditor, in the amount of €32,472 and €104,550, respectively.

Nota 20 Net asset gains and financial liabilities valued at their fair value through profit and loss

The balance of this heading on 31 December 2020 and 2019 is broken down as follows:

	2020	2019
Net gains resulting from investment units in securities investment funds	94 430	10 767
	94 430	10 767

Note 21 Other income/(expenditure)

In the financial years ended on 31 December 2020 and 2019, the other income/(expenditure) is broken down as follows:

	2020	2019
Contractually established guaranteed minimum non-contingent compensation	735 740	493 538
Subsidies	82 169	-
Current account settlements	547	61 213
Expenditures not duly documented	(9)	(1 102)
Financial revenues and gains	(2 550)	10 108
Banking services	(3 313)	(7 053)
Estimated shortfall in tax on profits	(18 580)	-
Other income/(expenditure)	(13 880)	-
	780 123	556 703

In 2020, the Company recorded a non-technical profit in the amount of €735,740 (2019: € 493,538), which reflects the minimum non-contingent compensation guaranteed, contractually established, in projects participating on the balance sheet date.

Note 22 Transactions with related parties

On 31 December 2019, the firm which directly controlled the Company was Grupo Azuaga Morales, S.L., whose head office is in Spain. On December 31, 2020, as a result of the merger by acquisition referred to in Note 2.3.9, the Company started to be owned by the shareholders, individual persons, who owned the Azuaga Morales Group.

There are no companies that are directly or indirectly under common control as of 31 December 2020 and 2019.

On 31 December 2020 and 2019 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	Income
Costs				
	31/12/2020	73 320		
	31/12/2019	183 032		
Close relatives				
	31/12/2020		51 493	
	31/12/2019		73 951	
Related company				
	31/12/2020	1 080 885		1 080 278

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

Note 23 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 – Companhia de 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 very small number of claims (whether in terms of a chronological series or in terms of frequency), the run-off matrices by 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, 2020 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).

For the period from 1 January 2020 to 31 December 2020, there is a new proportional treaty, with some new reinsurers and others already present in the previous treaties. 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 (01 January 2020).

Optional Treaties

In 2020, as in the previous three 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 €3 million per risk (€2.5 million in previous years). 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 an important role in asset investment decisions and is responsible for calculating the solvency ratio on a monthly basis, which is based, among other things, 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 2020 and 2019 are as follows:

	31/12/2020	31/12/2019
Instant access bank deposits (Note 4)	20 108 494	20 044 355
Undertaking for collective investment in transferable securities (Note 5)	3 221 654 *	-
Recoverable from reinsurance (Note 8)	31 870 876	7 447 132
Accounts receivable (Note 9)	1 185 241	2 953 927
	56 386 265	30 445 414

* UCITS bonds component only

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, 2020 and 2019:

Rating	31/12/2020	%	31/12/2019	%
A	13 631 554	68%	13 631 698	68%
A-	3 929 632	20%	3 491 541	17%
BBB	34 780	0%	1 334 740	7%
BB	2 512 527	12%	1 586 376	8%
	20 108 494		20 044 355	

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 reinsurer rating as at 31 December 2020 and 2019 is shown below:

Proportional Agreements in force - 2020

% participation in reinsurance agreements

Rating	Agreements 2020	Agreements 2018	Agreements 2017	Agreements 2016
AA-	20.00%	20.00%	0.00%	0.00%
A++	0.00%	0.00%	0.00%	27.50%
A+	40.00%	12.00%	16.00%	27.50%
A	4.00%	32.00%	48.00%	0.00%
A-	8.00%	16.00%	16.00%	25.00%
BBB	8.00%	0.00%	0.00%	0.00%
	80.00%	80.00%	80.00%	80.00%

Proportional Agreements in force - 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%

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

As of December 31, 2020, the Company held 37,031 units in an undertaking for collective investment in transferable securities, valued at €4,894,430 at that date, which consisted of shares (34.18%) and debentures (65.82%), well-diversified by issuer, sector and geographical region. The modified duration of the bonds was 4.44 years as of December 31, 2020. The contractual maturity of the debenture securities by reference to the reporting date was as follows:

	Maturity						
Rating	Less than 1 year	Greater than 1 year and less than or equal to 3 years	Greater than 3 years and less than or equal to 5 years	Greater than 5 years and less than or equal to 10 years	Greater than 10 years and less than or equal to 20 years	Greater than 20 years	Total
AAA	-	-	-	-	-	-	-
AA+	-	-	-	4,726	4,775	22,788	32,288
AA	-	-	-	-	859	9,036	9,895
AA-	1,691	-	-	1,357	-	11,717	14,764
A+	882	-	-	-	7,193	20,280	28,355
A	1,544	864	2,080	803	3,735	25,485	34,511
A-	180,661	1,455	2,762	40,449	11,379	207,804	444,509
BBB+	2,757	2,539	2,017	7,745	19,274	69,140	103,472
BBB	2,827	5,296	4,004	11,211	7,895	119,298	150,532
BBB-	10,161	14,825	21,514	37,884	11,482	153,858	249,723
BB+, BB, BB-	20,190	70,128	292,869	491,778	140,706	189,173	1,204,844
B+, B, B-	6,115	58,792	200,021	289,789	28,701	28,792	612,210
CCC, CC, C	-	25,687	54,315	56,028	45,419	10,052	191,501
D	-	1,204	3,631	1,987	5,741	1,954	14,518
Not rated	14,449	20,405	37,119	12,845	24,267	21,447	130,532
Total	241,277	201,194	620,334	956,601	311,424	890,824	3,221,654

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 2019, the fair value by financial asset and liability class may be detailed as follows:

	31/12/2020		31/12/2019	
	Balance amount	Fair value	Balance amount	Fair value
Financial assets				
Cash and cash equivalents and demand deposits	20 109 141	20 109 141	20 044 998	20 044 998
Financial assets classified in initial recognition of the JV via P&L	4 901 861	4 901 861	6 709	6 709
Bills to receive	1 185 241	1 185 241	2 953 927	2 953 927
	26 196 243	26 196 243	23 005 634	23 005 634
Financial liabilities				
Bills to pay	8 569 197	8 569 197	9 743 329	9 743 329
Other financial liabilities	453 409	453 409	667 788	667 788
	9 022 606	9 022 606	10 411 117	10 411 117

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 2020.

Financial assets classified in initial recognition of fair value through profit and loss amounted to €4,901,861 as of 31 December 2020 and consisted of:

(i) Contributions to the Labour Compensation Fund, which were invested in units in securities investment funds, valued at €7,432, based on the unit value officially published by the respective management company, which is why the Company's Board of Directors considers that the balance sheet value corresponds to its fair value on 31 December 2020.

(ii) Investment units, in a securities investment fund, valued at €4,894,429, based on the unit value officially published by the respective management company, which is why the Company's Board of Directors considers that the balance sheet value corresponds to its fair value as of 31 December 2020.

The potential net capital gains resulting from the units held in these transferable securities investment funds amounted to €94,430 for the year ended 31 December 2020 (Note 20).

Value-at-Risk ("VaR") is a statistical method, which allows the risk to be measured; in this case, that of the market for financial operations. VaR summarises, in a number, the risk of a financial product or the risk of an investment portfolio. This number represents the worst expected loss in a given time horizon with a certain level of confidence.

By reference to 31 December 2020, the Company determined that the one-year VaR, associated with the 37,031 participation units held in a collective investment undertaking for securities, is as follows:

31/12/2020

	Fair value	VaR 95%	VaR99%	VaR 99.5%	VaR 99.6%	VaR 99.8%
Debt securities	3,221,654	1,179,000	1,240,000	1,261,000	1,266,000	1,286,000
Shares	1,672,776	813,000	1,022,000	1,112,000	1,126,000	1,202,000
	4,894,429	1,992,000	2,262,000	2,373,000	2,392,000	2,488,000

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 values on the balance sheet on 31 December 2020 do 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 2020 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, 2020 and 2019 are valued at level 2 fair value, except for financial assets classified in the initial recognition at their fair value through profit and loss, 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 greater or lesser maturity of these assets.

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.

In general, the Company's assets sensitive to changes in interest rates are bank deposits and units held in an undertaking for collective investment in transferable securities.

	31/12/2020	31/12/2019
Instant access bank deposits (Note 4)	20 108 494	20 044 355
Undertaking for collective investment in transferable securities (Note 5)	3 221 654 *	—
	20 152 690	20 044 355

* UCITS bonds component only

The Board of Directors considers that the interest rate risk in respect of bank deposits is marginal because they are being remunerated at negligible or zero interest rates.

As of December 31, 2020, the Company held 37,031 units in an undertaking for collective investment in transferable securities, valued at €4,894,430 at that date, which consisted of shares (34.18%) and debentures (65.82%), well-diversified by issuer, sector and geographical region. The modified duration of the bonds was 4.44 years as of December 31, 2020.

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, 2020, 33% of the Company's assets consist of cash on hand at credit institutions;

(ii) As of December 31, 2020, 8% of the assets was invested in an undertaking for collective investment in transferable securities, rapidly convertible into liquidity;

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

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

With the exception of some financial liabilities due to leases, the Company's financial liabilities as at 31 December 2020 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 Commitments

On 1 January 2019, the Company adopted IFRS 16 (Notes 6 and 11).

As of 31 December 2020, the minimum non-cancellable payments, according to their maturity, are as follows:

	Amount	Up to 1 year	1 -5 years	Total
Operational leasing of real estate	4	22 657	374 257	396 914
Operational leasing of vehicles	6	36 230	18 413	54 643

Note 26 Subsequent events

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

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 Financial	
Code	Name				Units	Total
	2.1- Domestic Securities 2.1.1- Capital instruments and units held in investment funds 2.1.1.3 - Units held in investment funds Workers Compensation Insurance Fund	6 569.77	1.049	6 890.70	1.169	7 681.08
LU0395794307	2.2- Foreign Securities 2.2.1- Capital instruments and units held in investment funds 2.2.1.3 Units held in investment funds JPM GLOBAL INCOME A DIS EUR	37 031.32	129.62	4 799 999.96	132.17	4 894 429.83

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 31/12/2019 (1)	Costs of losses* amounts of payouts in the financial year (2)	Provision for losses* on 31/12/2020 (3)	Readjustments (3) + (2) - (1)
Life				
Non-Life				
Accident and Personal Injury				
Car Fire and Other Damage				
Civil Liability				
Other Coverages				
Maritime, Air and Land Transport				
Credit and Surety				
Legal protection	3 498 073	-	3 498 073	-
Assistance				
Miscellaneous Items				
TOTAL	**3 498 073**	**-**	**3 498 073**	**-**

* 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 Accidents and Illness Fire and Other Damage Automobile Civil Liability Other Coverages Maritime, Air and Land Transport Credit and Surety Legal protection Assistance Miscellaneous Items	3 331	186 361	27 152 087	27 341 778
TOTAL	**3 331**	**186 361**	**27 152 087**	**27 341 778**
ACCEPTANCE REINSURANCE				
GENERAL TOTAL	**3 331**	**186 361**	**27 152 087**	**27 341 778**

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 Car Fire and Other Damage Civil Liability Other Coverages Maritime, Air and Land Transport Credit and Surety Legal protection Assistance Miscellaneous Items	18 000 209	17 376 591	27 341 778	4 767 492	16 033 533
TOTAL	**18 000 209**	**17 376 591**	**27 341 778**	**4 767 492**	**16 033 533**
ACCEPTANCE REINSURANCE					
GENERAL TOTAL	**18 000 209**	**17 376 591**	**27 341 778**	**4 767 492**	**16 033 533**

* With no deduction by the reinsurers

Auditor's Report

ABARCA
SEGUROS

mazars

Certificação legal das contas

Relato sobre a auditoria das demonstrações financeiras

Opinião

Auditámos as demonstrações financeiras anexas da Abarca – Companhia de Seguros, S.A. (a «Companhia»), que compreendem o balanço em 31 de dezembro de 2020 (que evidencia um total de 60 516 733 euros e um total de capital próprio de 9 240 352 euros, incluindo um resultado líquido de 429 991 euros), a Conta de ganhos e perdas, a Demonstração do rendimento integral, a Demonstração de variações do capital próprio e a Demonstração de fluxos de caixa relativas ao ano findo naquela data, e o Anexo às demonstrações financeiras que inclui um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira da Abarca – Companhia de Seguros, S.A. em 31 de dezembro de 2020 e o seu desempenho financeiro e fluxos de caixa relativos ao ano findo naquela data de acordo com os princípios contabilísticos geralmente aceites em Portugal para o setor segurador estabelecidos pela Autoridade de Supervisão de Seguros e Fundos de Pensões.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISA) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção "Responsabilidades do auditor pela auditoria das demonstrações financeiras" abaixo. Somos independentes da Companhia nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

Reconhecimento de prémios de seguro direto e de resseguro cedido do ramo de caução	
Descrição da matéria relevante de auditoria	Abordagem e resposta de auditoria
Conforme divulgado na nota 15 das notas explicativas integrantes das demonstrações financeiras, a Abarca – Companhia de Seguros, S.A. emitiu prémios de seguro direto no montante de 18 000 209 euros e prémios de resseguro cedido no montante de 11 721 880 euros, no exercício findo em 31 de dezembro de 2020. As notas explicativas 2.3.10, 15 e 23, integrantes das demonstrações financeiras apresentam as bases de mensuração e divulgação relacionadas com o reconhecimento de prémios de seguro direto e de resseguro cedido do ramo de caução, bem como os riscos de seguro associado a este ramo, sendo o resseguro um dos meios que a Abarca – Companhia de Seguros, S.A. utiliza para gerir o risco de seguro, dispondo de tratados proporcionais celebrados com resseguradores internacionais na sua maioria com rating igual ou superior a A- e tratados facultativos com resseguradoras internacionais com rating igual ou superior a A, com a finalidade de cobrir responsabilidades não abrangidas pelos tratados proporcionais. Desta forma, o reconhecimento de prémios de seguro direto e de resseguro cedido do ramo caução constitui uma matéria relevante na nossa Auditoria, na medida em que a Companhia como comercializadora direta, está exposta ao risco em caso de incumprimento do ressegurador, sendo sua a responsabilidade de indemnizar o beneficiário.	Por forma a darmos resposta aos riscos identificados, entre os procedimentos de auditoria realizados destacamos os seguintes: • Compreensão da atividade de comercialização de seguros de caução através de reuniões com a Gestão; • Compreensão da metodologia de aceitação e de cedência, ao nível de resseguro do risco; • Análise aos prémios de seguro direto emitidos durante o exercício findo em 31 de dezembro de 2020, executando testes substantivos, comparando os respetivos resultados com os obtidos pela Companhia; • Identificação e análise dos tratados de resseguro em vigor; • Análise aos prémios de resseguro cedido emitidos durante o exercício findo em 31 de dezembro de 2020, verificando o cumprimento das disposições contidas nos tratados de resseguro cedido, executando testes substantivos, incluindo procedimentos de circularização externa, comparando os respetivos resultados com os obtidos pela Companhia. Por fim, avaliámos se as divulgações efetuadas pela Companhia, nas notas explicativas integrantes das demonstrações financeiras, relativamente ao reconhecimento dos prémios emitidos de seguro direto e de resseguro cedido estavam em conformidade com o requerido pelo normativo contabilístico em vigor (base IFRS).

Valorização de Ativos financeiros classificados no reconhecimento inicial ao justo valor através de ganhos e perdas	
Descrição da matéria relevante de auditoria	Abordagem e resposta de auditoria
Conforme divulgado nas notas explicativas 2.3.1, 5 e 23, integrantes das demonstrações financeiras apresentam as bases de mensuração e divulgação relacionadas com os instrumentos financeiros que requerem a utilização de pressupostos e julgamentos na determinação do seu justo valor. Os instrumentos financeiros apresentados na demonstração da posição financeira como ativos financeiros classificados no reconhecimento inicial ao justo valor através de ganhos e perdas, no montante de 4 902 milhares de euros, representam 8% do total do ativo da Companhia, em 31 de dezembro de 2020. Desta forma, esta matéria foi considerada uma matéria relevante de auditoria face à materialidade dos valores envolvidos e ao grau de julgamento subjacente à seleção da base de mensuração para cada natureza de investimentos, da qual poderão resultar variações nos montantes registados nas demonstrações financeiras.	Por forma a darmos resposta aos riscos identificados, entre os procedimentos de auditoria realizados destacamos os seguintes: • Identificação e compreensão do processo de valorização dos instrumentos financeiros da Companhia; • Análise da documentação de suporte à aquisição do titulo; • Confirmação da titularidade (existência) junto do respetivo banco depositário; • Verificação dos preços provenientes de fontes externas para as posições detidas pela Companhia e sua comparação com os preços utilizados, analisando quaisquer diferenças significativas. Por fim, avaliámos se as divulgações efetuadas pela Companhia, nas notas explicativas integrantes das demonstrações financeiras, relativamente aos Instrumentos Financeiros, estão em conformidade com o requerido pelo normativo contabilistico em vigor (base IFRS).

Outros ativos tangíveis e outros passivos financeiros (IFRS 16 - Locações)	
Descrição da matéria relevante de auditoria	Abordagem e resposta de auditoria
Conforme divulgado nas notas explicativas 2.3.15, 6, 11 e 19, integrantes das demonstrações financeiras apresentam as bases de mensuração e divulgação relacionadas com a Norma IFRS 16 aos contratos de locação (considerados em âmbito). Conforme referido na nota 2.3.15, das notas explicativas integrantes das demonstrações financeiras, a Companhia reconhece os ativos detidos sob locação financeira na sua demonstração da posição financeira pelo custo de aquisição dos bens locados, equivalentes ao valor atual das rendas de locação vincendas, os quais são apresentados no ativo e no passivo, na rubrica "Outros ativos tangíveis" e "Outros passivos financeiros",	Por forma a darmos resposta aos riscos identificados, entre os procedimentos de auditoria realizados destacamos os seguintes: • Compreensão da metodologia e pressupostos utilizados pelo Órgão de Gestão; • Identificação e análise a todos os contratos de locação (imóveis e veículos) em vigor; • Identificação e avaliação dos pressupostos utilizados pela Companhia na avaliação da adequação dos impactos decorrentes da aplicação da IFRS 16;

respetivamente, com recurso a taxa de desconto e definição de período de locação, que envolvem ambos um elevado nível de julgamento, envolvendo alguns pressupostos e metodologias.

Apresenta ainda informação relativamente ao montante determinado pela gestão, de acordo com o disposto no normativo contabilístico em vigor (IFRS 16). O valor pelo qual o ativo e o passivo se encontram registados nas demonstrações financeiras encontra-se dependente da concretização futura dos pressupostos utilizados na determinação desse valor.

Desta forma, esta matéria foi considerada uma matéria relevante de Auditoria face à materialidade dos valores envolvidos e ao grau de julgamento subjacente aos pressupostos utilizados, da qual poderão resultar variações nos montantes registados nas demonstrações financeiras.

- Execução de procedimentos substantivos comparando os respetivos resultados com os obtidos pela Companhia;
- Revisão do registo contabilístico decorrente do apuramento do valor do direito de uso e do passivo financeiro dos diversos bens em locação.

Por fim, avaliámos se as divulgações efetuadas pela Companhia, no Anexo às demonstrações financeiras, relativamente à IFRS 16, estão em conformidade com o requerido pelo normativo contabilístico em vigor (base IFRS).

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras

O órgão de gestão é responsável pela:

- preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa da Companhia de acordo com os princípios contabilísticos geralmente aceites em Portugal para o setor segurador estabelecidos pela Autoridade de Supervisão de Seguros e Fundos de Pensões;
- elaboração do relatório de gestão nos termos legais e regulamentares aplicáveis;
- criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorção material devido a fraude ou a erro;
- adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- avaliação da capacidade da Companhia de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira da Companhia.

Responsabilidades do auditor pela auditoria das demonstrações financeiras

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras como um todo estão isentas de distorções materiais devido a fraude ou a erro, e emitir

um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança, mas não é uma garantia de que uma auditoria executada de acordo com as ISA detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISA, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- identificamos e avaliamos os riscos de distorção material das demonstrações financeiras, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;
- obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno da Companhia;
- avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo Órgão de Gestão;
- concluímos sobre a apropriação do uso, pelo Órgão de Gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade da Companhia para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que a Companhia descontinue as suas atividades;
- avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificado durante a auditoria;
- das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública;

- declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos-lhe todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, quais as medidas tomadas para eliminar as ameaças ou quais as salvaguardas aplicadas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do relatório de gestão com as demonstrações financeiras.

Relato sobre outros requisitos legais e regulamentares

Sobre o relatório de gestão

Dando cumprimento ao artigo 451.º, n.º 3, al. e) do Código das Sociedades Comerciais, somos de parecer que o relatório de gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras auditadas e, tendo em conta o conhecimento e apreciação sobre a Companhia, não identificámos incorreções materiais.

Sobre os elementos adicionais previstos no artigo 10º do Regulamento (UE) n.º 537/2014

Dando cumprimento ao artigo 10.º do Regulamento (UE) n.º 537/2014 do Parlamento Europeu e do Conselho, de 16 de abril de 2014, e para além das matérias relevantes de auditoria acima indicadas, relatamos ainda o seguinte:

- Fomos nomeados auditores da Companhia pela primeira vez na Assembleia Geral de acionistas realizada em 20 de dezembro de 2019 para um mandato compreendido entre 2019 e 2021.
- O órgão de gestão confirmou-nos que não tem conhecimento da ocorrência de qualquer fraude ou suspeita de fraude com efeito material nas demonstrações financeiras. No planeamento e execução da nossa auditoria de acordo com as ISA mantivemos o ceticismo profissional e concebemos procedimentos de auditoria para responder à possibilidade de distorção material das demonstrações financeiras devido a fraude. Em resultado do nosso trabalho não identificámos qualquer distorção material nas demonstrações financeiras devido a fraude.
- Confirmamos que a opinião de auditoria que emitimos é consistente com o relatório adicional que preparámos e entregámos ao Órgão de Fiscalização do Companhia em 13 de abril de 2021.
- Declaramos que não prestámos quaisquer serviços proibidos nos termos do artigo 77.º, número 8, do Estatuto da Ordem dos Revisores Oficiais de Contas e que mantivemos a nossa independência face à Companhia durante a realização da auditoria.

Lisboa, 13 de abril de 2021

Mazars & Associados, Sociedade de Revisores Oficiais de Contas, S.A.
Representada pelo Dr. Fernando Jorge Marques Vieira (Revisor Oficial de Contas nº 564)

Report of the Audit Board

ABARCA
SEGUROS

ABARCA – COMPANHIA DE SEGUROS, S.A

RELATÓRIO E PARECER DO CONSELHO FISCAL

Exmo. Senhor Acionista,

Em cumprimento com as disposições estatutárias e a legislação em vigor, e no âmbito do mandato que nos foi conferido, vem o Conselho Fiscal apresentar o seu relatório sobre a atividade fiscalizadora desenvolvida e dar o seu parecer sobre os documentos de prestação de contas do exercício findo em 31 de dezembro de 2020 da ABARCA – COMPANHIA DE SEGUROS, S.A. (Companhia), apresentados por e da responsabilidade do Conselho de Administração.

No decurso do exercício acompanhámos, com a periodicidade e a extensão que considerámos adequada, em função da nossa incumbência legal e estatutária, a gestão e a evolução dos negócios da Companhia, apreciando igualmente o reflexo dessa evolução nas contas da Companhia. Do âmbito dos trabalhos desenvolvidos inerentes à função desempenhada e tendo em conta as diferentes áreas de atuação, referimos em especial os respeitantes:

i. ao cumprimento e controlo das políticas e estratégias definidas pelo Conselho de Administração;
ii. à observância das disposições legais, regulamentares e estatutárias;
iii. à adequação das políticas, critérios e práticas contabilísticas adotados e ao processo de preparação da informação financeira;
iv. à eficácia dos sistemas de controlo interno, gestão de riscos e auditoria interna.

Cumprindo as exigências legais tomámos conhecimento das deliberações que foram sendo tomadas pelos restantes órgãos sociais ou outras estruturas de controlo, apreciando-se o seu conteúdo, tendo igualmente em atenção a observância da lei e dos estatutos.

No acompanhamento que efetuámos, obtivemos do Conselho de Administração e demais colaboradores, regular informação e esclarecimento sobre o funcionamento da Companhia e andamento dos seus negócios, acompanhando também a evolução das atividades desenvolvidas pelas áreas *Compliance*, Financeira e Auditoria Interna.

Ao longo do ano fomos também acompanhando as interações entre a Companhia e o Regulador Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF).

Acompanhámos igualmente os trabalhos desenvolvidos pelo Revisor Oficial de Contas Mazars & Associados, Sociedade de Revisores Oficiais de Contas, S.A., zelando pelo cumprimento das regras de independência que devem pautar a prestação desses serviços. Procedemos também à análise e posterior decisão sobre os pedidos de aprovação prévia de serviços distintos de auditoria feitos pelo Revisor Oficial de Contas em funções.

No final do exercício e no âmbito das nossas funções, foram obtidos os documentos de prestação de contas que incluem, para além do Relatório de Gestão, a informação anual sobre as matérias financeiras, contabilísticas e fiscais, tendo o Conselho Fiscal procedido à apreciação do seu conteúdo e da adequação das políticas contabilísticas e

critérios valorimétricos adotados, que se encontram apropriadamente divulgados nas notas explicativas integrantes das demonstrações financeiras.

No encerramento do trabalho de fim de exercício, foram também obtidos os documentos obrigatoriamente emitidos pelo Revisor Oficial de Contas, nomeadamente a correspondente certificação legal das contas que foi emitida sem reservas e o relatório adicional elaborado nos termos do artº 24º da Lei 148/2015 e do artº 11º, nº 2 e 4 do Regulamento (EU) nº 537/2014, do Parlamento Europeu e do Conselho, os quais foram objeto de cuidada apreciação quanto aos respetivos conteúdos e conclusões.

O Conselho Fiscal acompanhará, de forma atenta, as perspetivas divulgadas no ponto 1.11 do Relatório de Gestão com relação à pós-pandemia Covid-19, recomendando, atendendo à imprevisibilidade de evolução da pandemia, que seja pelo Conselho de Administração da Companhia mantido acompanhamento atento e permanente às consequências do surto do Covid-19 de modo a responder apropriada e eficazmente em caso de risco de materialização de perda significativa.

Nestes termos, somos de parecer que os documentos de prestação de contas, designadamente o Relatório de Gestão, a demonstração da posição financeira, a conta de ganhos e perdas, a demonstração do rendimento integral, a demonstração de variações do capital próprio, a demonstração dos fluxos de caixa e as notas explicativas integrantes das demonstrações financeiras, bem como a proposta de aplicação de resultados, sejam aprovados pela Assembleia Geral.

Finalmente, desejamos expressar os nossos agradecimentos ao Conselho de Administração, ao Revisor Oficial de Contas, e a todos os colaboradores da Companhia com quem contactámos, pela valiosa colaboração recebida no desempenho das nossas funções.

Lisboa, 21 de abril de 2021

O Conselho Fiscal

António José Marques Centúrio Monzelo – Presidente

António Eduardo Monteverde Plantier Saraiva - Vogal

José Manuel D'Ascenção Costa - Vogal