SOLVENCY AND FINANCIAL CONDITION REPORT

2019

Coface PKZ zavarovalnica d.d.

SOLVENCY AND FINANCIAL CONDITION REPORT

2019

MEMBERS OF THE MANAGEMENT BOARD

Sergej Simoniti
President

Mindaugas Sventickas
Member

Ljubljana, 31 March 2020

Business name	Coface PKZ zavarovalnica d.d.
Business name in English	Coface PKZ Insurance Company Inc.
Abbreviated business name	Coface PKZ, d.d.
Address	Davčna ulica 1, 1000 Ljubljana
Telephone/secretarial office	+386 1 200 58 00
Fax	+386 1 425 84 45
E-mail	info-si@coface.com
Website	http://www.coface-pkz.si
Registration no.	1903209000
Tax number	71824847
LEI code	4851000020C6NKQDP691
Share capital	EUR 8,412,618.92
Owner	Compagnie francaise d'assurance pour le commerce exterieur, 1 Place Costes et Bellonte, 92270 Bois-Colombes, France

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SUMMARY

Business performance and results

Coface – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: Coface PKZ), performed well in 2019, as its net profit for the accounting period amounted to EUR 1.16 million.

System of governance

Coface PKZ has a two-tier governance system with a supervisory board and management board. At the end of 2019, Coface PKZ was managed by a management board comprising two members. Coface PKZ has four key function holders authorised by the management board (with the consent of the supervisory board) who are responsible for each of the key functions specified by the Insurance Act, i.e. the risk management function, the compliance function, the internal audit function and the actuarial function.

Coface PKZ put in place a risk management system that covers the management of all identified risks. It is a general risk management process that includes the identification, assessment or measurement, management and monitoring of risks. Coface PKZ assesses all identified risks at least qualitatively, while also assessing the most significant risks through the use of quantitative methods and stress scenarios relating to such risks.

Risk profile

The most significant risks comprise underwriting risks (risks associated with non-life insurance contracts), followed by financial risks (market risks, counterparty default risk, concentration risk, liquidity risk and risk associated with asset and liability management), operational risks and capital risk. Coface PKZ also manages reputational risk and strategic risk.

Valuation for solvency purposes

Valuation for solvency purposes is based on the provisions of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter: Delegate Regulation) and the Insurance Act (hereinafter: ZZavar-1). The balance sheet items are therefore revalued through a market-consistent approach (fair value of items). The biggest difference in the valuation method compared with the International Financial Reporting Standards relates to technical provisions and reinsurance recoverables. A material difference also relates to the valuation of intangible assets whose value is not recognised for the purpose of valuation under Solvency II.

Capital management

The capital adequacy ratio of the insurer increased relative to the previous period predominantly due to the increase in the eligible own funds. The solvency capital requirement remained at the same level as in the year before. The increase in the own funds was the result of the decrease in insurance technical provisions.

A. BUSINESS AND PERFORMANCE

A.1 Business

Name and legal form of the company

Coface PKZ was entered in the companies register on 31 December 2004 (entry no. 1/39193/00, Srg 2004/12632) and holds authorisation to conduct insurance business in the category of credit insurance, as well as authorisation to conduct reinsurance business in the category of non-life insurance.

Name and address of the supervisory authority

Coface PKZ is supervised by the Insurance Supervision Agency, Trg republike 3 Ljubljana (hereinafter: AZN).

Name and contact details of the external auditor

The appointed auditor for the business year 2019 is Deloitte revizija d.o.o., Dunajska cesta 165, Ljubljana.

The partner in audit is Barbara Žibret Kralj, bzibretkralj@deloittece.com.

Qualifying shareholders on the company

The sole owner of Coface PKZ is Compagnie francaise d'assurance pour le commerce exterieur (hereinafter: Coface) established in 1 Place Costes et Bellonte, 92270 Bois-Colombes, France.

Information on the status of the company in Coface Group

Coface PKZ is a subsidiary of Coface. Coface Group is present directly or through strategic partners in 100 territories. Coface Group provides coverage to policyholders in approximately 200 territories. The geographical presence of Coface Group is presented in the picture below.

In the scope of Coface Group, Coface PKZ belongs to the Central European Region.

Significant lines of business and geographical area of activity

Coface PKZ is a specialised trade credit insurer that conducts its business in the credit insurance line of business. Additionally, Coface PKZ is also authorised to conduct reinsurance business in the non-life lines of business.

In 2019, Coface PKZ concluded credit insurance with the policyholders on the Slovene market and, to a lesser extent, also in Croatia, Serbia and Austria.

Significant transactions and other significant events in 2019

Ownership structure:
On 12th April 2019, the sales process of Coface PKZ was concluded. Consequently the new owner, Compagnie francaise d'assurance pour le commerce exterieur, became the sole owner of 100% of the stock of Coface PKZ that previously belonged to SID Banka, d.d.
With the transfer of ownership Coface PKZ became a member of Coface Group where the main company is Coface, the new owner of Coface PKZ. The biggest shareholder of Coface is Coface SA, a holding corporation in Coface Group that acts as the main decision-making structure in the group, as it conducts the activities of management, financing and advising group subsidiaries.
Management and supervisory bodies:
With the transfer of ownership of Coface PKZ to Coface the composition of the supervisory and management board changed. More details on the changes are available in section B.1.2.

Strategy: approved content and strategic activities of Coface PKZ's Business Strategy for the period 2020 – 2022.

Organisation:
- amendment to the Act on the Internal Organisation and Classification of Posts at Coface PKZ: the organisational structure was adapted to the structure in place in Coface Group;
- change of holders of the internal audit and risk management function.

Solvency II: annual review of risk policies with emphasis on implementation of the Coface Group risk policies and with effect from 1 January 2020.

Compliance: ensuring compliance with the relevant legislation and practices of administrative organs with emphasis on implementation of the Coface Group compliance policies and an upgrade to the KYC process, and taking proactive measures related to the implementation of strategic goals of Coface PKZ.

Insurance Supervision Agency (AZN): acquisition of authorisation to transfer ownership, and authorisation to carry on the activity of a management board member.

A.2 Underwriting performance

The main factors in Coface PKZ’s performance in 2019 were:

- the favourable economic situation in Slovenia and the foreign markets that are most important for Coface PKZ;
- growth in Slovenian exports;
- an extremely competitive environment and greater complexity in operations (competition, insurance brokers, policyholders' expectations);
- Coface PKZ's increased activities in the sale of insurance;
- commencement of more active entry on the markets of the Western Balkans;
- the favourable claims ratio of individual policyholders;
- integration process with Coface Group.

Coface PKZ performed well in 2019, in spite of facing a demanding market environment. Coface PKZ thus exceeded the financial plan expectations, as it generated a higher profit than planned. The profit was higher in 2019 than in the previous year.

In 2019, primarily due to higher volume of business, Coface PKZ achieved a higher than planned gross written premium, as well as higher gross written premium than in the previous year. The realised volume of insurance operations was higher relative to the previous year. Coface PKZ also recorded a favourable result regarding the coverage of income and expenses for credit reports.

Claims patterns in 2019 were in line with expectations. Fewer claims were registered and therefore resolved in 2019 than in previous years. Moreover, no large claims were registered. As a result, the gross and net claims ratio was favourable.

Key results and indicators from financial statements for 2019 relative to 2018 are presented in detail below.

in EUR	2019	2018	Change	Index
Gross premiums written	14,754,746	14,279,218	475,528	103
Reinsurers' share in premiums written	-8,893,217	-8,619,279	-273,939	103
Net premium income	**5,740,665**	**5,713,854**	**26,811**	**100**
Gross earned premiums	**14,614,219**	**14,406,548**	**207,671**	**101**
Reinsurance share of earned premiums	**-8,873,554**	**-8,692,694**	**-180,860**	**102**
Gross claims paid	-5,847,596	-5,194,448	-653,148	113
Reinsurers’ share in claims	2,795,132	2,631,135	163,997	106
Net claim expenses	**-2,228,476**	**-2,639,999**	**411,523**	**84**
Net expenses for bonuses	**-495,792**	**-266,472**	**-229,320**	**186**
Change in net provisions for unexpired risks	**-414,295**	**-67,363**	**-346,932**	**615**
Operating costs	**-5,144,168**	**-4,605,304**	**-538,864**	**112**
Revenues from reinsurance commission	**2,894,812**	**2,734,221**	**160,592**	**106**
Difference between revenues and expenses for credit report purchases	**311,063**	**308,774**	**2,289**	**101**
Difference between other expenses and revenues	**17,072**	**-186,635**	**203,707**	**-9**

in EUR	2019	2018	Change	Index
Net technical result	**680,881**	**991,076**	**-310,195**	**69**
Gross technical result	**5,044,203**	**4,297,174**	**747,029**	**117**
Effect of reinsurance	**-4,363,322**	**-3,306,098**	**-1,057,224**	**132**
Difference between revenues and expenses from investments	797,987	215,475	582,511	370
Pre-tax profit	**1,478,868**	**1,206,551**	**272,317**	**123**
Net profit for the accounting period	**1,160,357**	**967,391**	**-192,966**	**120**

Ratios (in %)	2019	2018
Gross claims paid / gross premiums written	40%	36%
Net claim expenses / net premium income	39%	46%
Gross claim expenses / gross premium income	24%	31%
Reinsurance share of expenses for claims / reinsurance share of premiums	14%	21%
Enforced recourse claims / gross claims incurred	17%	34%

Gross premiums written in 2019 were up EUR 0.48 million or 3% on 2018. Unearned premiums increased by 0.12 EUR million. Thus, net income from insurance premiums increased only by EUR 0.03 million in 2019.

As in the previous year, claims were moderate in 2019. Gross claims in 2019 were down EUR 0.65 million or 13% on 2018, while net claims expenses in 2019 were down EUR 0.41 million or 16% on 2018.

Net expenses for bonuses were up EUR 0.23 million or 86%. Both gross and net bonuses paid dropped, but due to the lower volume of claims and the resulting more favourable claims ratios of certain policyholders, the provisions for bonuses rose in 2019. Net provisions for unexpired risks also increased in 2019.

Operating costs increased by EUR 0.54 million or 12% in 2019. Labour costs accounted for the majority of costs (57% in 2019 and 2018).

Income from reinsurance commissions was up EUR 0.16 million or 6% on 2018. This was due both to the higher premium volume and a slightly higher percentage commission in 2019 than in 2018, as well as to a slightly adjusted structure of the reinsurance treaty.

The difference between revenues and expenses for credit reports increased. Income from charged credit report fees was up EUR 0.06 million or 6% on 2018 (due to a larger number of limits). Expenses increased by 0.05 million or 8%.

The gross technical result was positive in 2019, as well as the net technical result, which was down EUR 0.31 million or 31% on the previous year. Net profit for the accounting period stood at EUR 1.16 million, representing an increase of EUR 0.19 million on 2018.

A.3 Investment performance

Investment income stood at 0.85 EUR million, representing an increase by 0.58 EUR million or 218 % relative to the previous year. Primarily it consists from the net profit from the sale of financial assets that amounts to 0.66 EUR million, and interest income, amounting to 0.19 EUR million (in the previous year, investment income resulted only from interest income). In 2019, the insurer transferred the asset management activity to the Coface Group asset manager. The resulting investment expenses are up 2% on 2018. The resulting performance of financial assets thus amounts to 0.80 EUR million in 2019, representing an increase relative to the previous year. Due to the realised profits from the sale of financial investments, return on investment has increased relative to prior years and amounts to 3.1 % (0.9 % in 2018).

in EUR	2019	2018
Interest income from available-for-sale financial assets	183,707	260,077
Interest income from loans and deposits	6,968	7,625
Interest income from cash and cash equivalents	160	98
Interest income	**190,835**	**267,800**
Net profit generated from sale of available-for-sale financial assets	660,492	0
Net loss generated from sale of available-for-sale financial assets	-402	0
Other expenses from financial assets	-52,939	-52,324
Investment income	**851,327**	**267,800**
Investment expenses	**-53,341**	**-52,324**
Performance of financial assets	**797,987**	**215,475**

The revaluation surplus, which indicates changes in the fair value of available-for-sale financial assets, stood at EUR 0.25 million as at 31 December 2019 and was down EUR 0.25 million relative to 2018. Coface PKZ transferred 0.66 EUR million to profit in 2019.

in EUR	Available-for-sale financial assets
Balance as at 1 Jan 2018	642,803
Gain/loss recognised as revaluation surplus	-179,570
Gains/losses transferred to profit or loss	0
Tax from these items	34,118
Balance as at 31 Dec 2018	497,351
Gain/loss recognised as revaluation surplus	-970,211
Gains/losses transferred to profit or loss	660,090
Tax from these items	58,923
Balance as at 31 Dec 2019	246,153

A.4 Performance of other activities

Based on the independent expert appraisal report as at 31 December 2019, Coface PKZ reversed a previous impairment of the property for own use amounting to 440.782 EUR through profit and loss account. The impairment was recognised in 2015.

A.5 Any other information

The insurer disclosed all material information relating to performance in sections A.1 to A.4.

B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

The Governance policy defines the elements of the corporate governance framework of Coface PKZ, enabling sound and effective management. Primarily, the corporate governance framework:

a) fosters the development, implementation and efficient management of policies that clearly define and support the goals of Coface PKZ;
b) defines the roles and responsibilities of persons in charge of supervision and management of Coface PKZ, including the system of competencies and responsibilities;
c) defines the requirements related to the decision-making process, including the documentation thereof;
d) includes the rules on remuneration;
e) governs appropriate modes of communication with administrative bodies including the supervision authority, i.e. AZN;
f) provides for control measures in cases of noncompliance or insufficient oversight, ineffective internal control or inadequate management.

At the same time, an efficient system of governance encourages key stakeholders in the framework of corporate governance of Coface PKZ, that is, the management and supervisory board, directors of business units and key function holders, to manage the business of Coface PKZ soundly and prudently.

In addition to the Governance policy, the system of governance is also specified by several other internal documents, for example in the areas of risk management, internal control, key functions, outsourcing, and fit and proper assessments.

The rules on the system of governance are adopted by the management board, with the consent of the supervisory board. The rules take into account the business strategy of the company, are consistent with each other and are subject to regular annual reviews.

Pursuant from this report, the insurer has put in place an adequate system of governance that is proportional to the nature and scope of its operation and the complexity of risks it is exposed to.

B.1.1 Supervisory and management bodies

Coface PKZ has a two-tier governance system with a supervisory board and management board. The insurer is managed by the management board (management body), and its work and management of operations are supervised by the supervisory board (supervisory body).

According to the Statute of Coface PKZ (hereinafter: Statute), the management board comprises at least two and at most four members. The number of management board members is decided by the supervisory board with a resolution. The main tasks of the management board are day-to-day management of the company, acting on the resolutions of the Shareholders' Assembly, and implementing the strategic tasks of Coface PKZ. Members of the management body are obligated to ensure compliance of Coface PKZ with the provisions of ZZavar-1 and other relevant laws and by-laws.

According to the Statute, the supervisory board of Coface PKZ comprises at least three and at most six members. The number of the members of the supervisory board is decided by the Shareholders' Assembly. The supervisory board exercises the following principal functions related to business management: supervises the activities of the management board, approves and verifies documents as stipulated in the legislation and the internal rules of Coface PKZ.

In addition to the supervisory board and management board, commissions and committees are in place in the company. They provide an advisory role in relation to the supervisory board or management board, or are decision-makers in individual segments of the insurer's operations with respect to regular operational transactions. These commissions and committees are:

- audit committee of the supervisory board;
- college of the management board;
- Significant Insurance Risk Committee (SIRC)
- risk management committee;
- product management committee.

The company has put in place the following key functions as stipulated in the ZZavar-1:

- risk management function,
- actuarial function,
- compliance function,
- internal audit function.

A detailed description of the key functions’ tasks and responsibilities is provided below.

B.1.2 Significant changes to the management system

With the transfer of ownership of Coface PKZ to Coface the new owner nominated four new members of the supervisory board, as the previous members and representatives of SID Bank tended their resignations.

On 29th May 2019 the mandate of the management board member Mr. Denis Stroligo was terminated. Mr. Mindaugas Sventickas was subsequently appointed the new board member (with the suspensive decision of obtaining authorisation from AZN) and was granted the power of procuration pending the decision on authorisation. Mr. Sventickas assumed the role of the management board member on 4th December 2019. At the same time, the mandate of Mr. Igor Pirnat was terminated. The management board of Coface PKZ is thus comprised of two members since 29th May 2019.

On 29th May 2019 The Shareholders’ Assembly adopted certain changes to the Statute and the firm Coface PKZ.

In the course of 2019, the management board (with consent of the supervisory board) appointed new holders of the internal audit function and the risk management function.

With the inclusion of Coface PKZ in the Coface Group, an intensified integration process was launched, comprising the harmonisation of business processes, organisational structure and internal policies and rules with the framework of the new owner.

B.1.3 Remuneration policy

Basic rules related to remuneration at Coface PKZ are laid down in the Remuneration policy. Detailed rules are further described in the internal Rulebook on salaries, other remuneration and promotions.

The remuneration policy applies the rule of proportionality in that it takes into account the size and internal organisation of the insurer. This is also demonstrated by the principle of balancing fixed and variable parts of remuneration, as well as the fact that the company has not established a dedicated remuneration committee. Clearly determined criteria for variable remuneration are in place for the management board of Coface PKZ and employees holding certain positions. Other employees fall under the scope of the Collective Agreement for insurers in Slovenia and the above-mentioned Rulebook, under which they are entitled to variable remuneration on the basis of individual performance, taking account of the quality and scope of work that cannot exceed the defined percentage of that employee's basic pay. The balance between the variable and fixed portion of remuneration is determined so that the variable portion, which includes a variable portion for individual performance and collective performance, cannot exceed a certain percentage of an employee's basic pay, which is indicated in his or her employment contract and does not account for a significant portion of remuneration.

The management and supervisory bodies and other employees at PKZ do not have the rights to stock options or shares.

The members of Coface PKZ's supervisory board are employees of the parent company or insurer, and are therefore not entitled to be paid fixed or variable remuneration.

All employees at Coface PKZ have the possibility to join the collective supplementary pension scheme based on the agreement between Coface PKZ and a pension scheme provider, and in line with the stipulation of the Pension and Disability Insurance Act. The insurance premiums for management board members are paid in full by Coface PKZ, whereas other employees contribute a certain percentage themselves.

B.1.4 Material transactions

Material transactions with owners

All Coface PKZ shares are owned by Coface, the parent company of Coface PKZ.

In 2019, Coface PKZ did not enter into transactions with the parent company. The transactions with other undertakings in Coface Group are presented in the table below. These are attributable to the purchase of credit reports and other services (the recipient of the services is Coface PKZ).

As at 31 December 2019, Coface PKZ had no outstanding claims or commitments towards the parent company or other Coface Group entities.

Transactions of Coface PKZ with the parent company and other Coface Group entities[1]:

in EUR	Parent company		Other entities	
	2019	2018	2019	2018
Expenses for credit reports	0	0	-126,209	0
Other expenses	0	0	-48,505	0
Total	**0**	**0**	**-174,713**	**0**

Information on material transactions with members of management and supervisory bodies

The gross severance payment to the management board member whose engagement terminated in 2019, amounted to 49,693 EUR. There were no material transactions between Coface PKZ and other

[1] Operating expenses by natural classification

members of the management board in 2019, apart from regular remuneration under point B.1.3, as management board members are not entitled to remuneration in the form of shares or stock options, or in the form of participation in profit, and have no other operations or transactions with the insurer.

The payments to external member of the audit committee whose mandate terminated in May 2019 amounted to 2,752 EUR. There were no material transactions between other members of the supervisory board and Coface PKZ in 2019, since the members receive no payment for their function.

B.2 Fit and proper requirements

The fit and proper principle that applies to members of the supervisory board, management board, directors with power of procuration, and holders of key functions is governed by the Fit and Proper Policy (hereinafter: FPP).

In line with the FPP, the evaluator will take into account the following criteria for fitness and propriety of individuals:

- the skills related to an individual's professional qualifications, experience and ability to understand business issues and related risks, as well as the ability to manage proceses in order to effectively carry out their role;
- the propriety related to personal qualities and financial integrity.

The FPP further specifies additional rules related to fitness and propriety of persons for each relevant category and takes into account regulatory requirements.

The assessment of fitness and propriety commences once the circumstances, defined in the FPP, arise (for example, prior to the appointment of a person to a function for which there exist fitness and propriety criteria).

Supervisory board members have to submit a self-evaluation based on the AZN questionnaire to the HR function, together with other supporting documents which demonstrate how they meet the fitness and propriety criteria (e.g. extract from the criminal records). The holder of the compliance function prepares the materials for the Shareholders' Assembly and ascertains the compliance of the procedure with applicable legislation and internal rules. Once the Shareholders' Assembly has appointed supervisory board members, the supervisory board assesses the diversity of its composition.

In the process of appointing a management board member, the candidate also submits all relevant documentation (questionnaire and supporting documentation) to the HR function. The holder of the compliance function then prepares the materials for the supervisory board enabling the latter to take note of the fit and proper assessment and to assess the composition of the management board. This in turn ensures that the company is run in a competent manner.

The same procedure also applies to the fitness and propriety assessment of a key function holder, whereby the assessment also involves the HR function. The fitness and propriety of the candidate is evaluated by the management board, and the consent to the appointment is provided by the supervisory board.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Description of the risk management system

Key risk management system policies

The risk management system has an important role in Coface PKZ's management system. The purpose of the management system is primarily to ensure the achievement of the Company's long-term objectives, and to ensure secure and stable operations. To that end, Coface PKZ also links its business strategy with its risk management strategy, which also includes the risk appetite, and the appropriate definition of other written rules governing risk management, in which the risk management processes and procedures in individual phases are described, including the roles and responsibilities of stakeholders in the risk management process.

The written rules of the risk management system comprise:

- the risk management strategy which gives rise to the risk appetite framework;
- policies governing the key functions;
- risk policies covering all material risk categories;
- supporting risk management policies;
- other risk management rules.

The risk management system at Coface PKZ takes account of the fact that risks are present in all areas of work, and that these risks change and new risks arise due to the dynamics of business. This is precisely why Coface PKZ also introduced regular reviews of the system of governance and risk management system, through which it continuously verifies and, where necessary, adapts the system in a manner proportional to the nature, scope and complexity of the risks to which Coface PKZ is exposed.

Organisation of risk management

The effectiveness of the risk management system is provided through the organisational structure that is based on the clearly defined roles and responsibilities of all key stakeholders within the risk management system.

The management board has the ultimate responsibility for the functioning of the comprehensive and effective risk management system. In addition, it is also the management board's responsibility to:

- ensure that Coface PKZ has a reliable and transparent reporting system relating to risk management that also complies with the law;
- approve or confirm (depending on whether the supervisory board's approval is required) written risk management system rules, including the risk appetite and the limits on permitted risks;
- validation of reporting determined in the area of risk management, etc.;
- regular monitoring of exposure to risks and the due consideration of risks when making business decisions;
- adoption of important measures to manage risks (when the risk appetite or the limits on permitted risks have been exceeded);
- provision of capable and adequate human resources, sufficient knowledge and the abilities of stakeholders in the risk management system, thereby ensuring compliance with laws and best practices.

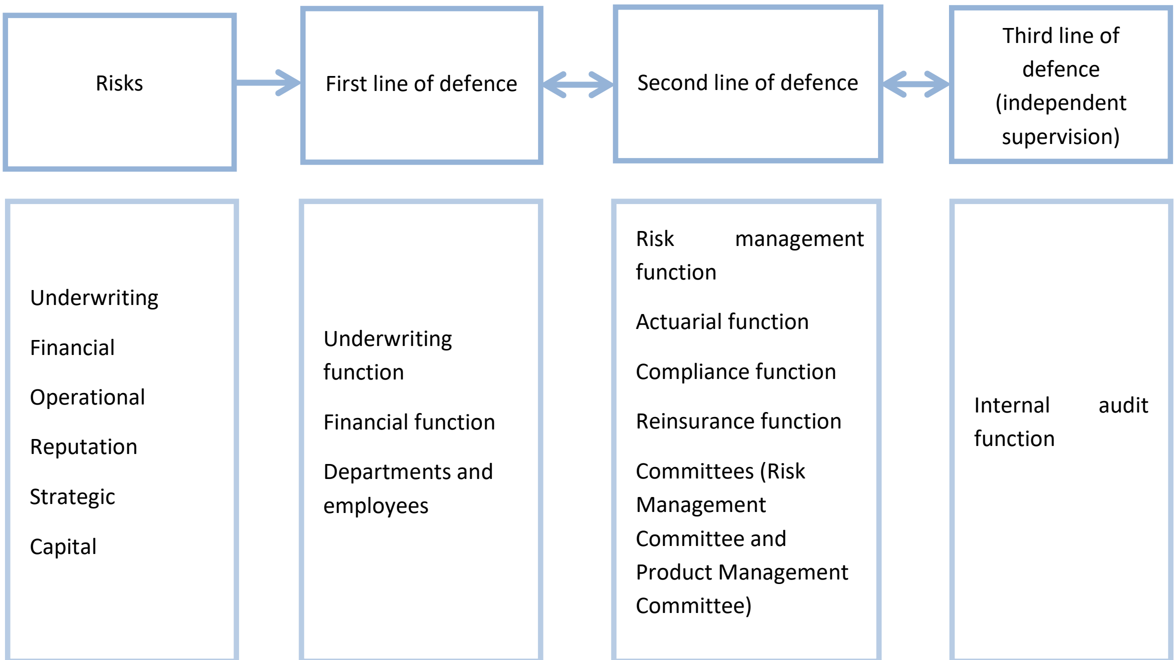
Within the legal framework that applies to rights and obligations, the **supervisory board** is responsible for the approval and regular supervision of the risk management system at Coface PKZ, and is therefore also responsible for the approval of the written rules for the system of governance and the risk management system. The supervisory board confirms or is briefed on all material reports covering the area of risk management. If there is a requirement or need for the submission of materially significant data or information, then all key functions also have direct access to the supervisory board.

In organisational terms, risk management within Coface PKZ relies on a so-called 'three-level system of defence lines', which are presented below.

The first line of defence comprises business functions that actively manage day-to-day risk exposures, including strategic and reputational risks. A particularly important role is played by the underwriting function (including the Significant Insurance Risk Committee), the financial function and the management board.

The second line of defence comprises the functions and committees that implement and manage the risk management system, including the own risk and assessment and the implementatin and management of the system of exposure limits based on the defined risk appetite. The second line of defence thus primarily refers to the three key functions, i.e. the risk management function, the actuarial function and the compliance function. The Risk Management Committee (RMC), the Product Management Committee (PMC) and the reinsurance function also operate in the scope of the second line of defence.

The third line of defence comprises the internal audit function that operates independently of all other functions. The internal audit function carries out regular reviews of the performance and effectiveness of internal controls, and the performance and effectiveness of the management system and the risk management system.



In the system described above the central role is given to the risk management function, which reports directly to the management board, and operates independently of the other organisational units. The holder of the risk management function is the Director of Risk Management.

Through its activities the risk management function provides support to the supervisory board, management board and other functions in their effective implementation of the risk management system, monitors the risk profile of the insurer, reports on risk exposures to the supervisory board, management board and other stakeholders, as well as identifies and assesses emerging risks.
The main tasks of the risk management function are:

- the identification, assessment and measurement, management and monitoring of risks;
- the implementation and improvement of the risk management system;
- the coordination of risk management measures between different stakeholders in the risk management process;
- drafting proposals to determine the risk appetite and the resulting limits on permitted risks, including the monitoring of observance of the risk appetite and limits on permitted risks;
- the drafting and update of the risk register, including the performance of an annual risk analysis;
- recording operational risk events and monitoring the efficiency of the internal control system,
- drafting risk reports, with emphasis on internal risk and capital adequacy reporting, the report on the own risk and solvency assessment, the solvency and financial condition report and the regular supervisory report; and
- the transfer of knowledge and best practices related to risk management to all functions at the insurer that are included in the risk management system.

The risk management function cooperates closely with the actuarial function and the financial function, primarily in the valuation of capital adequacy under the Solvency II standard formula (hereinafter: standard formula), the compilation of quantitative reporting templates and in the own risk and solvency assessment process. The risk management function also closely cooperates with the compliance function in relation to the identification, measurement and coordinating of measures related to compliance risks.

The Risk Management Committee, which serves as a support body for the management board in the area of risk management, also operates within the scope of the risk management system. The committee is responsible for the coordination of all actions relating to risk management at the primary level. The Significant Insurance Risk Committee is established in the area of underwriting risk and serves as a support body for the management board when performing operational activities that are associated with significant insurance risks at Coface PKZ. It is also a body included in the scope of the first line of defence.

After the completion of the acquisition process in April 2019, Coface PKZ started to adapt the risk management framework to the risk management framework in place at Coface Group. The new risk management framework will be fully implemented in 2020.

Risk management process

The risk management process at Coface PKZ is based on the following stages:

- identification of risks;
- assessment or measurement of risks;
- risk management; and
- monitoring of risks.

Identification of risks

Identification of risks is a continuous process that also encompasses an annual risk analysis within which the already identified risks are verified and, where required, newly identified or emerging risks are recorded. All identified risks that are important to Coface PKZ represent an element of the risk register (catalogue).

The identification of risks proceeds in two directions, i.e. top-down and bottom-up. The top-down direction comprises, in particular, the identification of risks by the management board, function and bodies in the scope of the second line of defence. The bottom-up direction comprises the identification of risks by business units or persons operating in the scope of the first line of defence.

Assessment and measurement of risks

Coface PKZ assesses and measures all identified significant risks. All risks are assessed in a qualitative manner by using labels (high, medium/moderate, low) for the probability of occurrence and for the impact if a particular risk is realised. On the basis of qualitative assessments of individual risks, the risk management function determines the assessment of exposure for a particular category of risks (at the highest level).

Coface PKZ quantifies its exposure to measurable risks on the basis of the standard formula, which comprises risks on an individual and consolidated basis, and taking into account the correlation between risks. Exposure to individual risks can also be measured by using other methods (e.g. gap analysis) and includes the evaluation of the effect of stress scenarios and other sensitivity analyses.

Risk management

The process of risk management takes account of the business strategy from which it derives its risk appetite. Thus, it ensures that risk exposure moves within the boundaries of the outlined risk appetite and the risk exposure limits. The risk management process is specified in more detail in individual risk policies.

In the annual risk analysis. Coface PKZ assesses the appropriateness of measures for risk management and internal controls for risks that can be quantified to a lesser extent

Monitoring of risks

Coface PKZ regularly monitors risk exposures through risk reports to internal (management board, supervisory board, etc.) and external stakeholders (AZN, Bank of Slovenia, etc.). The contents and frequency of the individual reports, as well as the responsibility for drafting the reports, are defined in individual risk policies, and in the policy on own risk and solvency assessment. Reporting provides information regarding identified risks, the risk exposure amount, the monitoring of adherence to the limits on permitted risks, the identification of potential limit breaches and the actions that need to be taken in those cases.

B.3.2 Own risk and solvency assessment process

The own risk and solvency assessment is defined as a set of processes that form a tool for decision-making and strategic analysis. Its purpose is to assess the overall solvency needs of Coface PKZ based on the business strategy amd business plans. The solvency needs are assessed for the entire duration of the business strategy. The own risk and solvency assessment is typically performed annually. It is carried out more frequently only in case of a significant change in the risk profile during the year. In

2019, Coface PKZ carried out the own risk and solvency assessment process based on its business strategy for 2020 – 2022. The process took into account all identified material risks, as well as all potential changes during the period to which the business strategy applies, and the relevant stress scenarios during this period.

The basis for the own risk and solvency assessment process is the business strategy that defines the current and future risk profile and the eligible own funds (capital).

The own risk and solvency assessment process combines various processes and stakeholders at the insurer, which ensure that Coface PKZ:

- identifies and assesses all risks to which PKZ is or could be exposed, including the risks that could emerge in the future;
- maintains sufficient level of own funds (capital) in order to be able to mitigate potential adverse effects that can arise due to the realisation of risks;
- develops and optimises risk management techniques; and
- takes action or adopts decisions according to the results of the own risk and solvency assessment process.

The own risk and solvency assessment process begins as a top-down process, starting from the baseline parameters proivided to the risk management function by the management board. In operational terms, the own risk and solvency assessment process is performed by the risk management function in collaboration with the actuarial function and other stakeholders in the risk management system.

The phases of the own risk and solvency assessment process are presented in detail below.

1. Identification of risks

In the first step, Coface PKZ identifies all risks to which it is or could be exposed in the future according to the outlined business strategy. To that end it also takes into account all other relevant information that stems from the business strategy and the annual risk analysis. The result of this step is a defined risk profile.

2. Determining the overall solvency needs

Based on the current risk exposures, a valuation of solvency needs is made based on the standard formula. For each component in this analysis, Coface PKZ also assesses whether the capital adequacy calculation with respect tot the standard formula adequately captures the actual risk exposures. Identified deviations are suitably included in the valuation of overall solvency needs.

The risks not covered by the standard formula (e.g. liquidity risk, asset and liability management risk, other concentration risk, strategic risk) are assessed by applying various methods, or the effects of a particular risk are shown through the stress tests or sensitivity analyses.

At this stage of the process, the amount, structure and quality of own funds (capital) are also determined.

3. Future solvency needs

The assessment of the overall solvency needs is forward-looking. Consequently, the next phase in the own risk and solvency assessment process comprises a projection of capital requirements and own funds and, consequently, solvency needs over the entire period of the business strategy. Coface PKZ thereby ensures that the solvency needs are covered by own funds over the entire period of the business strategy.

If the own risk and solvency assessment finds that solvency needs are not covered by own funds over the entire planning period, the management board is committed to adopting measures that will ensure capital adequacy over a long-term period.

4. Adverse scenarios and sensitivity analyses

Stress and scenario analyses are used in the scope of the own risk and solvency assessment to comprehensively determine all potential solvency needs. These tests include, to the extent possible, simultaneous testing of effects of underwriting and financial risks. Additionally, Coface PKZ performs a reverse stress scenario through which it identifies the sequence of events or causes that would result in an insolvency of the insurer.

Stress tests and sensitivity analyses are developed by the actuarial function and risk management function based on the inputs received from the management board and, insofar necessary, other relevant business functions and departments in Coface PKZ. The scenarios also take into accounts the inputs received from the Group risk management function.

5. Assessment of observance of the risk appetite and risk exposure limits

Coface PKZ verifies the observance of the risk appetite and risk exposure limits in the scope of the own risk and solvency assessment process. If there exists a significant non-observance of the risk appetite, the management board must adopt risk management measures.

6. Drafting the own risk and solvency assessment report

The drafting of the own risk and solvency assessment report represents the final step of this process. The report is submitted to the management board for approval, and is subsequently reported to AZN. The report is also presented to the supervisory board.

At the end of the own risk and solvency assessment process the results of the assessment are brought to the attention of department heads and other and other relevant stakeholders, which fosters a decision-making process that properly takes into account Coface PKZ's risk profile.

B.4 Internal control system

B.4.1 General information on the internal control system

The written rules of the system of internal controls or supervision are defined in the Internal Control System Policy. All the business units and activities of the insurer are included in the system of internal controls.

Coface PKZ's system of internal controls is designed so that it meets the following requirements:

- operations - in view of the objectives transactions must be efficient and feasible, with resources being used rationally, and assets secured;
- information - financial and non-financial information are provided in good time and are reliable;
- the risks to which the insurer is or could be exposed are identified, assessed or measured and properly managed so that the Company's capital adequacy is protected;
- compliance - operations comply with laws, other regulations and bylaws.

Coface PKZ's internal control system includes the following components:

- a control environment that represents the point of departure and infrastructure for the system of internal controls;
- risk management that also includes the identification and assessment of risks in all areas of the insurer's operations, which is a prerequisite for establishing sufficient, appropriate and effective control activities;
- control activities, namely their design and functioning;
- monitoring (supervision), which ensures the continuous monitoring of all the components of the system of internal controls, and where required, initiates changes; and
- communication and information channels, which combines all other components into an integrated system of internal controls.

An important part of the system of internal controls is the annual risk analysis, in which all organisational units are involved, and their risk assessments and internal controls relate to all elements of the system of internal controls and to all Coface PKZ's objectives. By identifying and assessing risks, which also includes the assessment of established internal controls and the definition of potential deficiencies, such annual risk analysis ensures that the system of internal controls remains suitable and effective with respect to the nature, scope and complexity of Coface PKZ’s operations. The summary report on the results of the annual risk analysis is presented to the management board for approval. The latter also informs the audit committee and supervisory board of its findings.

B.4.2 Compliance function

The compliance function of Coface PKZ is an independent functional and organisational unit that reports directly to the management and supervisory board. Key activities of the compliance function can be divided into three major areas:

a) corporate integrity

The compliance function contributes to strengthening corporate integrity by conducting its activities in line with Coface PKZ’s internal rules and regulations.

b) regulatory compliance

In the scope of overall activities to ensure regulatory compliance (ensuring compliance of Coface PKZ with the relevant legislation and internal rules), the compliance function carries out activities in the fields of personal data protection, outsourcing, fit and proper assessments, complaints management process, advising the management and supervisory board, providing opinions on compliance issues and analyses of compliance risks. Additionally, the compliance function also conducts inspections related to compliance risks.

c) providing training for employees

The compliance function provides training for employees, cooperates in preparation of training materials when needed, and informs the employees on relevant topics in the field of compliance.

The compliance function conducts these activities continuously and proactively. The process of ensuring compliance is based on the following key steps:

- detection and identification of compliance risks,
- analysis of compliance risks,

- monitoring the activities to address non-compliance,
- corrective measures.

The activities of the compliance function are defined in the yearly work programme. The compliance function regularly reports to the management and supervisory board.

B.5 Internal audit function

The Internal Audit Department carries out continuous and comprehensive supervision of the insurer's operations in order to verify and assess whether the processes for the management of risks, control procedures and management of the insurer are adequate and function in a manner that ensures the insurer's successful and efficient operations. In addition to providing assurance (mostly conducted in cooperation with Coface Group), the Internal Audit Department, as specified by the applicable annual plan of work, approved by the supervisory board, also independently provides consultancy services, cooperates with Coface Group internal audit (both providing assurance for other business areas within Coface Group, as well as for other assignments), with external auditors and other supervisory authorities, monitors the implementation of the recommendations and attends to quality and the development of internal auditing at the insurer.

The management board provides the Internal Audit Department with suitable conditions for work, both in terms of organisational independence and the volume of funds for its work, which enables the independent and impartial performance of internal auditing activities. The Internal Audit Department is organised as an independent function that reports directly to the management board, and is functionally and organisationally segregated from the insurer's other organisational units. The Director of Internal Audit is the holder of the internal audit key function that administratively reports to the management board, and functionally reports to the supervisory board and to the Coface Group internal audit. In determining the areas, aim and scope of internal auditing, the performance of work and reporting on internal auditing, the Internal Audit Department is independent. The holder of the internal audit function does not perform any other tasks for the insurer that could give rise to a conflict of interest and jeopardise its impartiality, and does not take decisions on activities in areas subject to internal auditing.

The Internal Audit Department reports on its activity, the results of the completed internal audits and on the implementation of recommendations directly to the management board (thereby maintaining its independence from other business segments or functions at the insurer), audit committee and supervisory board (thereby strengthening its independence from the management board), and to the Coface Group internal audit. The holder of the internal audit function is obliged to notify the audit committee and supervisory board of any restriction on the amount of funds for the implementation of the risk-based internal auditing plan or of the occurrence of any circumstances that could give rise to a conflict of interest and therefore impair the impartiality in the performance of internal auditing tasks.

The Internal Audit Policy, which was adopted by the insurer's management board with the consent of the supervisory board, sets out the rules on the functioning of internal audits, among others also the obligation of internal auditing providers relating to the ensuring of independence and impartiality, avoidance of conflict of interest and reporting on the emergence of any circumstances that could impair the independence and impartiality of internal auditing and the providers of internal audits.

The Internal Auditing Policy represents the key document governing internal audit, as defined by the International Standards for the Professional Practice of Internal Auditing.
The Internal Audit Department informs the senior management of the area under audit of the completed internal audit transactions, whereby it takes into account the internal audit methodology of Coface Group. In addition, the Internal Audit Department reports to the management board, the audit committee and supervisory board every six and twelve months on the matters defined in the Internal audit policy.

B.6 Actuarial function

In addition to the Actuarial Function Policy, the actuarial function, in terms of its position in the organisational structure, objectives, tasks, processes and reporting is primarily defined in the Articles of Association, the Corporate Governance Memorandum and the Act on the Classification of Positions at Coface PKZ.

In organisational terms the actuarial function is positioned within the Finance Department, while the holder of the actuarial function is the director of the department.

The actuarial function is functionally independent by directly reporting to the management board and supervisory board, as required. The rules on avoidance of conflicts of interest are indicated in the Actuarial Function Policy.

The key tasks of the actuarial function are defined in the Actuarial Function Policy and mainly focus on the following substantive areas:

- coordination of the technical provisions' calculation;
- assessment of the appropriateness of applied methods, basic models and assumptions made in the calculation of technical provisions;
- the assessment of the relevance and quality of data used in the calculation of technical provisions;
- comparison of the best estimate with experience;
- notifying the management board and supervisory board of the reliability and appropriateness of the calculation of technical provisions;
- putting forth opinions regarding the general policy of taking up insurance risks and the appropriateness of the reinsurance arrangements;
- participation in the development and effective implementation of the risk management system, in particular in relation to insurance risks and reinsurance, during the compilation of company reports and in the own risk and solvency assessment.

In accordance with the legislation and Actuarial Function Policy the actuarial function drafts an annual report on its work and findings, which it submits to the management board, supervisory board and the AZN. In addition to the annual report, the actuarial function also drafts separate reports and opinions, as required.

B.7 Outsourcing

Outsourcing is determined in the Outsourcing Policy, which sets out the criteria for the definition and identification of excluded transactions, special requirements for the external contractor, the mandatory content of contracts with the external contractor and the transaction exclusion procedure, which comprises the transaction exclusion plan, the selection of the transaction exclusion provider, the procedure for the regular valuation of the excluded transaction and the audits of excluded transactions. Coface PKZ also keeps a record of the excluded transactions.

In 2019, changes in outsourcing arrangements relating to internal audit and investment management have been implemented. Due to the complexity of its operations and the need for permanent physical presence of an internal auditor, Coface PKZ decided to terminate the agreement with the previous provider of the outsourced activity, the company BDO Revizija d.o.o., and employ a full-time holder of the internal audit function. Based on the relevant materials submitted to the audit committee in the course of this process, the agreement on termination of the outsourced activity was approved by the supervisory board. AZN was duly informed on the changes in the outsourcing arrangement.

Coface PKZ continues to maintain the outsourcing arrangement related to investment management. Due to the change of ownership, the provider of the outsourced activity has also changed from SID Bank to Amundi Asset Management. After the outsourcing arrangement with SID Bank was terminated, Coface PKZ entered into a new outsourcing agreement with Amundi Asset Management that contains all necessary stipulations required by the law. This was also confirmed in writing by AZN. The new provider of the outsourced activity falls under the jurisdiction of the French Republic.

In 2019, the company S&T Slovenija, d.d. continued to provide the outsourced service related to the management and maintenance of the secondary (backup) location, which enables business continuity and the performance of the insurer's activity if the primary location at the Company's headquarters stops operating due to unexpected events. The provider falls under the jurisdiction of the Republic of Slovenia.

B.8 Any other information

There is no other significant information regarding Coface PKZ's management system that needs to be disclosed.

C. RISK PROFILE

C.1 Underwriting risk

C.1.1 Exposure to underwriting risk

Trade credit insurance is the core business of Coface PKZ. As Coface PKZ is a specialised trade credit insurer, the underwriting risk represents the most important risk it is exposed to. Non-life underwriting risk that Coface PKZ is exposed to consists of non-life premium and reserve risk and non-life catastrophe risk. Due to the nature of the trade credit line of business, non-life lapse risk does not arise from this portfolio.

The exposure to non-life underwriting risk is high, both in terms of frequency (probability) and the impact upon risk realisation, and primarily covers:

- premium rates that are set too low according to the risk taken up and costs of the insurer;
- a lower premium than planned due to the concentration, small size and competitiveness of the market;
- inappropriate assessment of a particular risk;
- inappropriate insurance terms;
- change in claims developments (due to the changed behaviour of policyholders, changes in the economic, political and financial environment of both the insured and the risks);
- higher liabilities than those envisaged in the technical provisions due to the occurrence of potentially larger claims, which are not yet known at the end of the period.

In terms of processes, non-life underwriting risk arises from the definition of contractual clauses, including premium rates, from risk underwriting (buyer limit approvals and monitoring), from changes in claims patterns (due to changes in policyholder behaviour, as well as changes in economic, political and financial environment related to both policyholders and buyers) and from claims reserving. The two key underwriting risks for Coface PKZ are, therefore, setting and using appropriate premium rates, and reserving risk (provisioning adequate technical provisions in order to cover all future liabilities and already underwritten risks).

Thorough examination of buyer ratings is therefore an essential component of Coface PKZ risk underwriting processes, both at inception and over the entire validity period of buyer limits. The quality and reliability of buyer ratings is of key importance for managing the pricing policy and the risk underwriters' decision-making process. It directly influences the distribution of competencies related to risk underwriting limits, thus limiting risk exposure for Coface PKZ.

C.1.2 Risk mitigation techniques

In 2019, Coface PKZ's reinsurance programme comprised two quota-share treaties, one excess-of-loss treaty and two facultative treaties for single risks. In the process of selection of reinsurance providers, Coface PKZ paid particular attention to obtaining high-quality reinsurers, including their diversity and reinsurance treaty shares. In this process, only investment-grade-rated reinsurers are considered.

C.1.3 Underwriting risk concentration

The concentration of underwriting risk may refer to concentration with respect of policyholders, as well as with respect to insured perils, that is limits towards larger individual buyer or group of buyers or larger country limits with respect to non-marketable risks. Coface PKZ regularly monitors and analyses country and sectoral exposures and includes mitigation mechanisms into insurance contracts accordingly. The mitigation mechanisms refer to, for example, limiting the frequency and size of claims and include own retention, maximal overall claim amount, rules for the management of limits, etc.

Coface PKZ manages underwriting risk concentration with various measures, for example:

- transfer of a significant portion of risks to reinsurance, and thereby limiting individual risk exposures (towards buyers, groups of buyers or countries),
- a change to target groups of policyholders (size, activity of undertakings, geographical diversification) and thus by adjusting its product, market approaches and channels.

Coface PKZ further manages and decreases underwriting risks by limiting concentration for buyers or groups of buyers, sectors and countries, as well as by entering into appropriate reinsurance arrangements with high-quality reinsurers and by ensuring the adequacy of insurance technical provisions that are subject to regular review.

C.2 Market risk

C.2.1 Market risk exposure

Market risks that Coface PKZ is exposed to primarily stem from the investment portfolio and, to a lower extent, from other assets and liabilities (e.g. insurance technical provisions and reinsurance recoverables are exposed to interest-rate and currency risk). The following market risks arise from Coface PKZ's operations: interest-rate risk, spread risk, equity risk, currency risk and property risk.

After the transfer of ownership of Coface PKZ, the investment portfolio was restructured in line with Coface Group investment guidelines. As at end 2019, the investment portfolio of Coface PKZ was thus comprised of investments in government and corporate bonds, deposits, money-market funds, equity funds and property for own use.

Coface PKZ outsourced the investment management activities to an external provider. After the transfer of ownership, from May 2019 onwards, this function has been delegated to Amundi Asset Management, Europe's largest investment management company. The service provider manages the investment portfolio in line with the investment policy that defines the target strategic allocation of assets under management. The target allocation is determined by including risk and liquidity constraints, regulatory constraints and constraints based on the duration of Coface PKZ's liabilities.

This organisation allows Coface PKZ to pursue efficient asset management with the aim of ensuring long-term stable performance, while at the same time maintaining a high level of quality and liquidity of the financial assets. The outsourcing of portfolio management to an external provider further lowers operational risks related to investment operations, while at the same time providing the company with access to high-quality asset management services allowing for high responsiveness to changes in external environment and management for the company's financial income in the context of general risk exposure.

The governance and control of the investment policy of Coface PKZ is organised as follows:

- the Management Board approves the investment policy by taking into account the regulatory constraints, defined risk appetite and Coface Group investment guidelines;

- twice a year, the Finance Department reviews the strategic asset allocation proposed by the service provider. In cooperation with the Risk Management function, the Finance Department also reviews the general strategies and limits that are desirable in terms of the defined risk appetite, market conditions, planned cash in- and outflows, optimisation of returns and enforceable regulatory constraints;
- twice a year, the investment committee, comprised of members from the company and the service provider, reviews the management of the investment portfolio with respect to risk management and the service level of the outsourcing provider.

In addition to adhering to the general principles regarding safety, liquidity and profitability of the investment portfolio, the investment process is based on the prudent person principle related to the quality of individual issuers and issues, and adequate diversification in terms of sector and geography. The investment policy defines limits on ratings, issuers and issues. The use of derivatives for investment purposes is not permitted. In exceptional cases, derivatives may be used for the purpose of portfolio macro-hedging, and their use has to be approved in advance. The management of market risks is therefore based on a clearly defined process that is subject to regular review.

The investment policy of Coface PKZ is predominantly focused on investments in debt securities, with the aim to provide stability of financial cash flows during the year. The table below shows the portfolio breakdown by asset classes.

in EUR	**31 Dec 2019**	**31 Dec 2018**
Investments in loans and deposits	**2,501,636**	**4,652,500**
Available for sale investments	**0**	**0**
- government bonds	9,299,038	17,668,572
- corporate bonds	14,559,417	6,928,368
- equity funds	528,960	0
- money-market funds	1,318,488	0
Total available for sale	**25,705,903**	**24,596,940**
Total investments	**28,207,539**	**29,249,440**

As at 31 December 2019, debt securities represented 85 % of total investments. That is about the same share in the portfolio structure as in the year before. However, due to the change in investment policy, the ratio of government bonds fell from 60 % to 33%, while the ratio of corporate bonds increased from 24 % to 52 % of total investments.

In line with the new investment policy, investments in loans and deposits decreased during the year, amounting to 9 % of total investments at end 2019 (16 % at end 2018). At the same time, Coface PKZ began investing in equity and money-market exchange-traded funds (ETFs). As at end 2019, the investments in funds amounted to 6.5% of total investments.

In line with the new investment policy, the bond portfolio was exposed to the developed countries in the Eurozone, EU member states outside of Eurozone and to North America. The table below shows the bond portfolio breakdown by geographical area.

in EUR	**31 Dec 2019**	**31 Dec 2018**
Eurozone	15,628,309	15,433,249
Europe ex. Eurozone	4,889,871	7,654,240
North America	3,340,276	1,509,450

in EUR	31 Dec 2019	31 Dec 2018
Total	**23,858,455**	**24,596,940**

The interest-rate risk of the investment portfolio of Coface PKZ is limited since the maximum duration of the portfolio is capped at 4 years. The analysis of sensitivity to interest-rate risk is presented in Section C.2.3.

The exposure to spread risk stems from investments in debt securities, deposits and money-market funds. Spread risk is best described by the rating of individual investments. Ratings of investments have been determined in line with the relevant legislation (in case there are several available rating grades, the second-best rating is taken into account).

S&P rating	31 December 2019						
	Investments in loans and deposits in EUR	Structure	Available for sale investments in EUR	Structure	Total in EUR	Structure	Cumulative share
AAA	0	0%	1,999,982	8%	**1,999,982**	**7%**	**7%**
From AA+ to AA-	0	0%	5,484,293	21%	**5,484,293**	**19%**	**27%**
From A+ to A-	0	0%	11,050,469	43%	**11,050,469**	**39%**	**66%**
From BBB+ to BBB-	0	0%	3,759,248	15%	**3,759,248**	**13%**	**79%**
From BB+ to BB-	0	0%	1,135,810	4%	**1,135,810**	**4%**	**83%**
Not rated	2,501,636	100%	2,276,102	9%	**4,777,738**	**17%**	**100%**
Total	**2,501,636**	**100%**	**25,705,903**	**100%**	**28,207,539**	**100%**	

S&P rating	31 December 2018						
	Investments in loans and deposits in EUR	Structure	Available for sale investments in EUR	Structure	Total in EUR	Structure	Cumulative share
AAA	0	0%	2,011,380	8%	**2,011,380**	**7%**	**7%**
From AA+ to AA-	0	0%	2,275,286	9%	**2,275,286**	**8%**	**15%**
From A+ to A-	0	0%	16,837,618	68%	**16,837,618**	**58%**	**72%**
From BBB+ to BBB-	0	0%	3,044,002	12%	**3,044,002**	**10%**	**83%**
From BB+ to BB-	1,000,303	22%	0	0%	**1,000,303**	**3%**	**86%**
Not rated	2,501,636	100%	2,276,102	9%	**4,777,738**	**17%**	**100%**
Total	**2,501,636**	**100%**	**25,705,903**	**100%**	**28,207,539**	**100%**	

In line with the investment policy, all investments are denominated in EUR. Consequently, the investment portfolio is not exposed to currency risk. On the other hand, currency risk derives from the nature of the core business, since the company insures trade credit receivables in an international environment. Thus, currency risk derives from the best estimate of insurance technical provisions and reinsurance recoverables.

in EUR - 31 Dec 2019	EUR	HRK	USD	BAM	HUF	GBP	CZK	Other	Total
Investments	28,207,539	0	0	0	0	0	0	0	28,207,539
Amount of technical provisions ceded to reinsurers	11,532,994	566,900	284,063	82,125	63,996	65,714	54,265	171,574	12,821,631
Receivables	5,137,611	0	0	0	0	0	0	0	5,137,611
Other assets	125,498	0	0	0	0	0	0	0	125,498
Cash and cash equivalents	1,262,255	0	0	0	0	0	0	0	1,262,255

in EUR - 31 Dec 2019	EUR	HRK	USD	BAM	HUF	GBP	CZK	Other	Total
Total assets	**46,265,895**	**566,900**	**284,063**	**82,125**	**63,996**	**65,714**	**54,265**	**171,574**	**47,554,533**
Insurance technical provisions	22,585,343	1.148,815	546,368	156,118	137,217	131,584	112,614	311,351	25,129,410
Other technical provisions	156,762	0	0	0	0	0	0	0	156,762
Payables	1,747,079	0	0	0	0	0	0	0	1,747,079
Other liabilities	1,283,484	0	0	0	0	0	0	580	1,284,063
Total liabilities	**25,772,667**	**1,148,815**	**546,368**	**156,118**	**137,217**	**131,584**	**112,614**	**311,931**	**28,317,314**

in EUR - 31 Dec 2018	EUR	HRK	USD	BAM	RSD	PLN	GBP	Other currencies	Total
Investments	29,249,440	0	0	0	0	0	0	0	29,249,440
Amount of technical provisions ceded to reinsurers	12,956,491	573,337	109,514	105,293	78,362	53,916	21,758	63,974	13,962,644
Receivables	4,959,006	0	0	0	0	0	0	0	4,959,006
Other assets	162,578	0	0	0	0	0	0	0	162,578
Cash and cash equivalents	5,523,046	0	0	0	0	0	0	0	5,523,046
Total assets	**52,850,560**	**573,337**	**109,514**	**105,293**	**78,362**	**53,916**	**21,758**	**63,974**	**53,856,713**
Insurance technical provisions	23,728,630	1,074,611	210,400	195,860	150,464	99,113	39,805	118,351	25,617,234
Other technical provisions	127,550	0	0	0	0	0	0	0	127,550
Payables	2,967,103	0	0	0	0	0	0	0	2,967,103
Other liabilities	1,243,837	0	2,584	0	0	0	3,822	1,496	1,251,740
Total liabilities	**28,067,120**	**1,074,611**	**212,984**	**195,860**	**150,464**	**99,113**	**43,626**	**119,847**	**29,963,626**

The assessment of technical provisions and reinsurance recoverables is matched in terms of currency, but there are differences in the net amount (in the amount of net provisions, since the technical provisions exceed reinsurance recoverables). This mismatch is taken into account in the valuation of currency risk for solvency purposes.

Potential exposure to currency risk is mitigated with the assignment of buyer limits in EUR to the largest possible extent.

Additionally, Coface PKZ is exposed to property risk through the ownership of the property for own use. Significant changes to property prices can occur over the medium-term, however, Coface PKZ is not overly sensitive to these changes, as it does not hold investment property in its portfolio.

C.2.2 Market risk concentration

A significant portion of market risk concentration in 2019 derived from deposits other than cash equivalents. The concentration therefore relates, to a great extent, to exposure to Slovene banks. Among exposures to individual countries, the largest exposure of Coface PKZ is to the French Republic. The table below shows a breakdown of financial assets by type of issuer.

in EUR	31 Dec 2019	Structure	31 Dec 2018	Structure
Government	7,299,056	26%	15,228,538	52%
Banks	6,676,959	24%	8,851,778	30%
Corporates	8,570,695	30%	3,552,395	12%
Financial intermediaries	5,071,304	18%	1,027,174	4%
Insurers	589,525	2%	589,555	2%
Total	**28,207,539**	**100%**	**29,249,440**	**100%**

Market risk concentrations are managed through limits on exposure towards issuers and the size of single issues. Market risk concetration is further limited through limits on issuer ratings.

C.2.3 Risk mitigation techniques

The investment policy allows for the use of derivatives for the purpose of limiting excess exposure to market risk. During 2019, Coface PKZ did not utilise derivatives for the purpose of hedging.

C.2.4 Sensitivity analysis

The tables below show the interest-rate sensitivity of the Coface PKZ investment portfolio.

The tables are based on the assumption that market interest rates increase/decrease by 1 percentage point. The change in value of debt securities, available for sale, would be reflected in other comprehensive income, whereas the change in interest income would be reflected in the income statement.

in EUR	2019	
	+1 pct. point	-1 pct. point
Change in value of securities available for sale	-9,128	10,000
Change in value of interest income of debt securities, loans and deposits	46,608	-9,965

in EUR	2018	
	+1 pct. point	-1 pct. point
Change in value of securities available for sale	-603,062	766,344
Change in value of interest income of debt securities, loans and deposits	56,833	-31,020

The sensitivity to changes in other market parameters is shown in the table below. The table is based on the assumption that the market value of assets and liabilities changes in line with the parameters of the standard formula for solvency valuation.

		Baseline exposure in EUR		Change in own funds in EUR	
	Parameter used for sensitivity analysis	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Property risk	Drop in property prices by 25%	2,162,375	1,825,037	-540,594	-456,259
Equity risk	Drop in equity prices by 39%	528,960	0	-205,871	0
Spread risk	Drop in the value of assets due to the changes in rating grades in line with the SCR standard formula	25,176,943	29,249,440	-1,219,868	-573,437
Currency risk	Increase of currency rates by 25%	1,428,644	1,018,020	-208,615	-301,463

C.3 Credit risk

C.3.1 Credit risk exposure

In the context of the change in investment policy, as described in section C.2.1, the exposure to government bonds decreased and the exposure to corporate bonds increased. This type of default risk exposure is accounted for in the spread risk submodule of the market risk module.

Default risk arising from credit insurance operations is treated as underwriting risk (risk from non-life insurance contracts), except for the following items: recoverables from reinsurance and receivables from reinsurance, cash funds at banks, receivables from insurance operations, receivables from insurance brokers, receivables from the government, etc.

Default risk arising from reinsurance recoverables is characterised as low on account of the diligent assessment and choice of first-rate reinsurers. When assessing reinsurers Coface PKZ takes into account the ratings issued by the Standard & Poor, Moody's, Fitch or AM Best rating agencies, with the reinsurers required to have an investment grade rating). In addition to ratings Coface PKZ also takes into account other information regarding reinsurers, such as the size of the company, ownership and management, diversification (geographic and by type of operation/business), continuity of relationships with Coface PKZ, information about the past behaviour of the reinsurer in relation to the relationship continuity, etc.

The table below shows the breakdown of exposure to reinsurers by rating (if the reinsurer has multiple ratings the rating that complies with the provisions of the Delegated Regulation is taken into account).

in EUR	**31 Dec 2019**	**31 Dec 2018**
From AA+ to AA-	3,491,075	2,757,556
From A+ to A-	6,756,493	8,627,025
Total reinsurance receivables and recoverables	**10,247,568**	**11,384,581**

Coface PKZ is also exposed to counterparty default risk in terms of cash funds that constitute a cash equivalent (current account, deposit lines).

in EUR	**31 Dec 2019**	**31 Dec 2018**
From A+ to A-	27,609	0
From BBB+ to BBB-	753,787	0
From BB+ to BB-	0	52,026
Not rated	480,858	5,470,862
Total cash at bank	**1,262,255**	**5,522,888**

Counterparty default risk also arises from receivables from insurance operations, where the probability of default is higher. However, these receivables are highly diversified.

Recourse receivables and receivables for premiums and credit reports account for a significant portion of receivables from insurance operations. These receivables are presented in detail below.

Breakdown of receivables for premiums and for credit reports

Defaulting on receivables for premiums can result in the termination of insurance coverage. Because premiums are charged and paid monthly, defaulting on premiums is one of the grounds under which the insurer can terminate coverage under the contract. The cumulative amount of outstanding receivables from a single policyholder is therefore relatively low, and the corresponding risk is limited. Insurance coverage only applies to credit for which insurance premiums have been paid. In the event of claims, there is a possibility of the direct netting of receivables and liabilities.

Recourse receivables

Recourse receivables arise as part of the ordinary claims resolution process in credit insurance. Risks related to recourse receivables are first managed preventively during the phase of risk underwriting (review of limits before approval, monitoring of customers) even before any claims and the resulting recourse receivables arise, and then through appropriate recovery procedures and the diligent and regular assessment of recourse receivables. Risks related to recourse receivables are also indirectly mitigated by reinsurance, as the reinsurers' holdings of recourse receivables are recognised when the recourse is accounted, while the reinsurers are only actually paid when the recourse is paid.

C.3.2 Risk mitigation techniques

Coface PKZ mitigates credit risk exposure by dispersing its portfolio to multiple reinsurers. The risk appetite of Coface PKZ also defines the maximum exposure towards an individual reinsurer for a claims event (on the level of a single risk or a group of risks).

Credit risk stemming from insurance receivables is managed by tying insurance coverage to the repayment of receivables (for premiums and credit reports) and via procedures for approving limits and resolving claims (for recourse receivables).

C.4 Liquidity risk

Liquidity risk encompasses both operational and strategic liquidity. Coface PKZ monitors the exposure to liquidity risk with the help of liquidity gap analyses that measures the differences between anticipated cash in- and outflows in different time intervals. This type of analysis also indicates the time intervals in which the insurer is exposed to liquidity risk (cash outflows are higher than anticipated cash inflows). If the cumulative spread is negative, the gap analysis also provides the potential refinancing cost.

in EUR - 31 Dec 2019	Up to 1M	1- 3 M	3M - 1Y	1 - 5Y	Over 5Y	Total
Assets	12,428,721	4,486,786	2,915,269	17,166,015	6,178,655	**43,175,446**
Liabilities	956,699	1,056,259	6,941,068	9,269,576	218,335	**18,441,937**
Difference	11,472,022	3,430,527	-4,025,799	7,896,439	5,960,320	**24,733,509**
Cumulative difference	**11,472,022**	**14,902,549**	**10,876,750**	**18,773,189**	**24,733,509**	**24,733,509**

in EUR - 31 Dec 2018	Up to 1M	1- 3 M	3M - 1Y	1 - 5Y	Over 5Y	Total
Assets	11,844,744	2,614,150	9,144,605	20,350,326	5,804,079	**49,757,904**
Liabilities	826,912	1,642,408	9,815,227	9,722,337	191,762	**22,198,647**
Difference	11,017,831	971,742	-670,622	10,627,989	5,612,317	**27,559,258**
Cumulative difference	**11,017,831**	**11,989,574**	**11,318,952**	**21,946,941**	**27,559,258**	**27,559,258**

The results of the liquidity gap analysis show that there is a cumulative excess of assets over liabilities, therefore Coface PKZ disposes with sufficient assets to cover future liabilities.

The total own funds do not include the expected profits in future premium (EPIFP) as the valuation of premium reserve assumes that the insurer will not book profits from this part of the portfolio.

Coface PKZ diligently manages liquidity risk by ensuring that the amount of highly liquid assets and short-term deposits is appropriate and allows for a timely settlement of obligations. Additionally, various functions and departments regularly report the anticipated outflows.

The main cash outflows of Coface PKZ are related to insurance obligations, and are fairly predictable in terms of maturity and size. This is due to the fact that the contracts stipulate a waiting period before policyholders can report a claim in case of protracted default (the most frequent reason of insurance claims). Also, the policyholder is obliged to report to the insurer on overdue payments even before the moment of default arises. In the event of settlement of larger claims, Coface PKZ has agreed a so-called cash-call clause with the reinsurers that additionally lowers its exposure to liquidity risk.

C.5 Operational risk

Operational risk arises due to inadequate or failed internal processes, the conduct of people or the functioning of systems, or as the result of external events. In accordance with the definition of operational risk used by Coface PKZ, this also entails compliance risk.

The aim of operational risk management at Coface PKZ is to balance the avoidance of financial losses from these risks and cost-efficiency.

The operational risk management process comprises a set of tools including:

- operational risk mapping;
- reporting on operational risk incidents;
- a business continuity plan that enables planning for business interruption scenarios; and
- the internal control system that ensures the efficiency and accuracy of business processes.

Operational risk management is also based on establishing a system of authorisations, a system for replacing staff during absence, a focus on staff training, the application of social responsibility, sustainable development, business ethics and professionalism.

C.6 Other material risks

Coface PKZ is also exposed to reputational, strategic and emerging risks.

These types of risks are included in the risk register; however, they are not included in the valuation for solvency purposes.

C.6.1 Strategic risk

Strategic risks stem from external and internal sources. They may be defined as risks that impact the profitability and solvency of Coface PKZ due to the changes in the market conditions, political or regulatory environment, client or other stakeholder expectations, and subsequent incorrect implementation of strategic goals or implementation of inappropriate strategic goals.

Strategic risks are managed through a clearly defined process of developing strategic goals by taking into account Coface Group strategic objectives, and translating these objectives into strategic activities. This process also includes timely and efficient communication of the defined business strategy within the company, as well as regular monitoring of the implementation of the business strategy.

C.6.2 Reputational risk

Reputational risk refers to the negative impact of internal or external events on the reputation of Coface PKZ. It can, for example, arise from regulatory non-compliance (with respect to Slovenian or other relevant legislation), complaints or court proceedings initiated by counterparties (policyholders, suppliers and others), negative public opinion, the negative opinion of reinsurers or brokers, etc.

Reputational risk is managed, in particular, by ensuring compliance with the Coface Group code of conduct and anti-bribery code, as well as a clear system of rules regarding internal and external communication, and implementing other internal rulebooks of Coface PKZ, particularly related to Know-Your-Customer procedures. All employees are obliged to attend regular training on the importance of adhering to the rules on corporate integrity.

C.6.3 Emerging risks

Emerging risks cover new events or situations that may lead to increased exposure to existing or to new risks. These risks may impact the earnings of the company or its own funds, on its reputation or on the achievement of its strategic objectives.

C.7 Any other information

There is no other significant information regarding the risk profile that needs to be disclosed.

D. VALUATION FOR SOLVENCY PURPOSES

During the compilation of the balance sheet under Solvency II Coface PKZ relies on the balance sheet under the International Financial Reporting Standards (hereinafter: IFRS), as presented in the audited annual report (where all methods of the valuation of items under the IFRS are also disclosed). Here the IFRS statements need to be translated to the Solvency II scheme (with IFRS values) and certain reclassifications need to be made (parts of individual items from the balance sheet under the IFRS can be classified into several different balance sheet items under Solvency II). Classification of items to the balance sheet under the Solvency II scheme is based on the Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015.

In addition to the reclassifications, Coface PKZ values certain items in the balance sheet under Solvency II in a different manner than in the balance sheet under the IFRS. On the assets side intangible assets, recoverables from reinsurance and deferred tax assets are valued differently, while on the liabilities side technical provisions and deferred tax liabilities are also valued differently. Methods and assumptions of valuation under the IFRS and Solvency II and the distinctions between them are presented in the following sections.

D.1 Assets

D.1.1 Intangible assets

Intangible assets comprise investments in information technology and development. For the purpose of IFRS valuation the investments in information technology are initially valued at historical cost, and the subsequent valuations use the historical cost model.

For the purpose of Solvency II valuation the value of intangible assets is equal to zero.

D.1.2 Financial investments

Coface PKZ classifies financial assets into two categories. Securities are classified into the category of available-for-sale financial assets, and deposits into the category of loans and receivables.

Coface PKZ values available-for-sale financial assets at fair value. This value is the price agreed upon between a buyer and a seller if an asset were sold in an orderly transaction on the measurement date.

The fair value of debt securities is determined on the basis of the Composite Bloomberg Bond Trader price, if this price is available for a specific debt security. All debt securities that were valued as at 31 December 2019 at the CBBT price were listed on an active and liquid over-the-counter (OTC) market.

Debt securities that are listed on the Ljubljana Stock Exchange and for which a market price is not available are valued at the closing price from the Ljubljana Stock Exchange.

In the course of 2019, Coface PKZ only concluded short-term deposits. Deposits are valued at amortised cost using the effective interest method. The effective interest rate is an interest rate that discounts the estimated flow of future cash payments or receipts over the expected term of the financial instrument. When calculating the effective interest rate Coface PKZ therefore includes cash flows, taking into account all the contractual terms of the financial instrument (deposit), including any costs.

D.1.3 Receivables

Insurance and reinsurance receivables

Receivables from insurance, from reinsurance and from intermediaries are initially recognised at original cost. For subsequent valuations realisable value (original cost - impairment) is used.

Other receivables

Trade receivables (unrelated to insurance), are initially recognised at original cost, whereas recourse receivables are recognised on the basis of an individual assessment of the realisable value. For subsequent valuations realisable value (original cost - impairment) is used.

D.1.4 Cash and cash equivalents

Cash and cash equivalents are valued at amortised cost, both at initial recognition and subsequent valuations.

D.1.5 Other assets

Goodwill

In line with Solvency II principles any goodwill recognised in the IFRS balance sheet is valued at zero.

Deferred tax assets

In line with IAS 12 deferred taxes are accounted for temporary differences between the carrying amount and the value of assets for tax purposes. Assets are recognised when they are materially significant and provided that taxable gains will be available in the future.

For the purpose of Solvency II valuation any effect on deferred tax assets is added to the IFRS value due to the revaluation of individual balance sheet items as explained below.

The basis for the calculation of additional deferred tax assets (liabilities) are the differences between the IFRS and Solvency II values of assets and liabilities. With Coface PKZ the differences in valuation mainly occur in intangible assets, reinsurance recoverables and technical provisions. If the calculated total effect of all the changes in valuation is negative, this gives rise to additional deferred tax assets, and in the event of a positive effect to additional deferred tax liabilities. Coface PKZ recognises the positive value of deferred tax assets only if it is probable that future taxable income will be available against which the deferred tax asset can be utilised.

The basis for the valuation of additional deferred taxes (total effect of all changes in valuation) is multiplied by the tax rate, and the result of this operation are additional deferred tax assets or additional deferred tax liabilities.

Property, plant and equipment for own use

In line with IAS 16 the investment in property for own use is initially recognised at historical cost. For subsequent valuations, the following methods are used: historic cost model, annual assessment of existing objective indications of an impairment of specific assets, particularly for real estate, which is based on the method used for the recoverable value of assets.

All other assets not elsewhere shown

Deferred expenses and accrued revenues, excluding deferred expenses and accrued revenues that relate to the insurance business.

No new or additional assumptions were used during the valuation of assets for Solvency II requirements compared with the methods applied for valuation under the IFRS (except in the part that relates to recoverables from reinsurance contracts, which is described in section D.2.5).

D.2 Technical provisions

D.2.1 Valuation of technical provisions under Solvency II

For the purpose of solvency valuation, technical provisions under Solvency II are valued as the best estimate of liabilities, increased by a risk margin in accordance with the ZZavar-1, section 4.8 Technical provisions. The best estimate of liabilities comprises a realistic estimate of liabilities that is based on past experience, with adjustments according to the expected deviations in the future.

Technical provisions are calculated as discounted cash flow and include:

- the best estimate of premium provisions for events that will occur after the reporting date;
- the best estimate of provisions for claims outstanding for events that occurred before the reporting date;
- a risk margin that comprises the sum required by a reference insurer in addition to the best estimate of provisions for the assumption of liabilities calculated on the basis of the reference insurer's costs of capital.

in EUR	31 Dec 2019	31 Dec 2018
Recoverables from reinsurance - non-life insurance	**8,921,937**	**11,324,346**
for premium provisions	2,958,738	3,720,414
for provisions for claims outstanding	5,963,200	7,603,932
Technical reserves - non-life insurance	**16,518,390**	**20,437,493**
Best estimate	15,504,652	19,432,128
for premium provisions	4,064,925	5,838,414
for provisions for claims outstanding	11,439,726	13,593,714
Risk margin	1,013,738	1,005,365

For the purpose of liability valuation under Solvency II Coface PKZ does not apply the adjustments under Articles 182, 183, 184 and 640 of the ZZavar-1.

Homogeneous risk groups

Coface PKZ insures receivables against commercial and non-commercial risks and treats these risks as a single homogeneous group. In accordance with the ZZavar-1 these types of insurance are classified into the credit insurance category.

Technical provisions

Coface PKZ calculates premium provisions via a cash flow method at the level of a specific financial year.

Future premiums are projected on the basis of existing contracts, taking into account all known information up to the date of valuation. Parameters for projections (claims ratios, bonus ratios, recourse ratios, commission amounts) are set on the basis of the existing portfolio and projections for costs from the insurer's strategy for the coming three-year period.

Premium provisions are discounted by a basic risk-free interest rate term structure, published on the website of the European Insurance and Occupational Pensions Authority (hereinafter: EIOPA), and taking into account the discount rate for major currencies in which Coface PKZ assumes commitments.

When defining claims provisions for outstanding claims, the provisions of insurance contracts and laws governing the statute of limitations for commitments are taken into account in connection with the recognition and derecognition of liabilities.

In the calculation of claims provisions for IBNR claims, the the Bornhuetter–Ferguson method is used for minor claims, taking into account the results of the Munich Chain Ladder method for the determination of the a priori loss ratio, with adjustments made according to the balance of provisions for reported but still unresolved claims, and an expert assessment of a priori loss ratios for the most recent claims year. For large claims, the frequency-severity method, adjusted for the expert assessment of individual major claims for which payment delays were reported, is applied.

Provisions for claims outstanding are discounted by a basic risk-free interest term structure, published on the EIOPA website. Discount rates for major currencies in which Coface PKZ assumes commitments are taken into account. The process takes into account the actual currency structure of reported but unresolved claims and potential large claims.

D.2.2 Description of the level of uncertainty

Coface PKZ asseses that the methods, assumptions and data that were used for the calculation of provisions are appropriate, while having regard to the uncertainty that follows from:

- the environment, as the claims situation of risks already covered by insurance or the risks that will be covered under recognised insurance contracts can be significantly impacted by changes to economic trends and the political situation in the coming months in countries where the insurer insures against risks; this risk is characteristic of credit insurance and can be mitigated through the diligent management of these risks, i.e. by using mechanisms that are characteristic of this product;
- the insurer's portfolio, due to the small size and imbalances in the portfolio and the concentration of underwritten risks (individual high limits).

This can lead to major deviations from the amount of claims, as envisaged in the best estimate of provisions under Solvency II. The insurer manages the increased volume of claims or extremely large claims to a great extent through appropriate reinsurance programmes.

D.2.3 Difference between the valuation of obligations under S II and IFRS

The valuation of obligations under the IFRS produces technical provisions that should suffice to cover all the obligations under insurance contracts (including the permitted level of caution), while the valuation of obligations under Solvency II produces the best estimate of technical provisions. As a result, the insurer uses different methods and parameter estimates for the valuation of obligations for both valuation principles.

Under Solvency II, Coface PKZ distinguishes between premium provisions and claims provisions based on the occurrence of an event and, accordingly, also determines cash flows. Under the IFRS, the insurer separately discloses provisions for unearned premiums, provisions for unexpired risks, provisions for bonuses and claims provisions.

D.2.4 Risk margin

Article 180 of the ZZavar-1 and Articles 37 through 39 of the Delegated Regulation are applied, excluding simplifications, as follows:

- the risk margin under the formula from Article 37 of the Delegated Regulation for a three-year period, applying the risk-free rate for EUR;
- during the transfer of the whole portfolio to the reference undertaking the following is taken into account in the best estimate and solvency capital requirement calculation under Article 38 of the Delegated Regulation:
  - the transfer of insurance and reinsurance obligations includes any reinsurance contracts relating to the transferred obligations;
  - after the transfer, the reference undertaking raises eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof; whereby the funds are raised in a manner to ensure that the market risk is as low as possible and only relates to currency risk.
  - operational risk;
  - the calculation of the best estimate of provisions includes the costs required for the operations of the insurer until the repayment of obligations from the contracts that were valid at the time of the transfer (portfolio run-off*)*.

D.2.5 Reinsurance recoverables

Reinsurance recoverables are determined by the cash flow method on the basis of the cash flows of technical provisions and the provisions of reinsurance contracts. The projected cash flows include:

- a portion of the claims and recourses transferred to reinsurance;
- a portion of the bonuses transferred to reinsurance;
- reinsurance commission and profit participation; and
- a portion of the premiums transferred to reinsurance.

Recoverables from reinsurance are:

- discounted by a basic risk-free interest term structure, published on the EIOPA website, taking into account the discount rate for major currencies in which Coface PKZ assumes commitments; and
- adjusted to account for default risk.

D.3 Other liabilities

D.3.1 Provisions other than technical provisions

This item relates to employee-related provisions. In line with IAS 19, the provisions are created in the amount of the estimated future payments for jubilee benefits and termination benefits at retirement discounted to the reporting date.

D.3.2 Deferred tax liabilities

In line with IAS 12 deferred taxes are accounted for temporary differences between the carrying amount and the value of assets for tax purposes. Liabilities are recognised for all temporary differences.

For the purpose of Solvency II valuation, any effect due to the revaluation of individual balance sheet items under the Solvency II rules is added to the IFRS value of deferred tax liabilities The procedure for calculating the additional effect is explained in section **Error! Reference source not found.**.

D.3.3 Insurance, intermediaries and reinsurance payables

In line with IAS 39, payables related to insurance, intermediaries and reinsurance are initially recognised at original cost. For subsequent valuations, original cost is used.

D.3.4 All other liabilities not elsewhere shown

Accrued costs and deferred revenues or estimated accrued costs.

D.4 Alternative valuation methods

All valuation methods used by Coface PKZ are presented in the previous sections. Coface PKZ does not use any other or alternative valuation methods.

D.5 Any other information

Coface PKZ has disclosed all materially significant information in connection with the valuation of assets and liabilities, including technical provisions, and therefore there is no need to disclose any other information.

E. CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Policies and procedures in capital management

Management of own funds (capital) is a continuous process of making decisions and maintaining an adequate amount and quality of Coface PKZ's own funds. Proper management of own funds in connection with the proper management of risk exposure generally also ensures the management of capital risk.

An adequate level and composition of own funds represents a safety reserve for the various risks to which Coface PKZ is exposed in its operations. The functions of own funds:
- ensuring solvency for Coface PKZ;
- ensuring a going concern basis, and
- provision of financial resources for expanding operations.

The capital management process relates to both capital requirements and the own risk and solvency assessment process. The capital management process includes the procedures for the identification, assessment and measurement, management and monitoring of capital risk.

All risks for which capital requirements are calculated are identified and measured in the capital management process. Capital requirements reflect the level of risk to which Coface PKZ is exposed. On the other hand, Coface PKZ also identifies and measures items that can be taken into account as available and eligible own funds and are intended for the coverage of capital requirements.

Capital adequacy is measured with two ratios, which comprise a ratio between the eligible own funds and the solvency capital requirement, or between the eligible own funds and the minimum capital requirement.

In order to ensure comprehensive and effective capital management Coface PKZ defined its risk appetite, which also includes capital management. The risk appetite is based on the optimal capital adequacy, which is defined by an optimal range of the solvency capital requirement ratio.

The capital management process ensures that capital adequacy remains inside the envisaged optimal range of the solvency capital requirement ratio.

The own risk and solvency assessment that analyses future solvency needs based on the defined business strategy is an integral part of efficient management of capital risk.

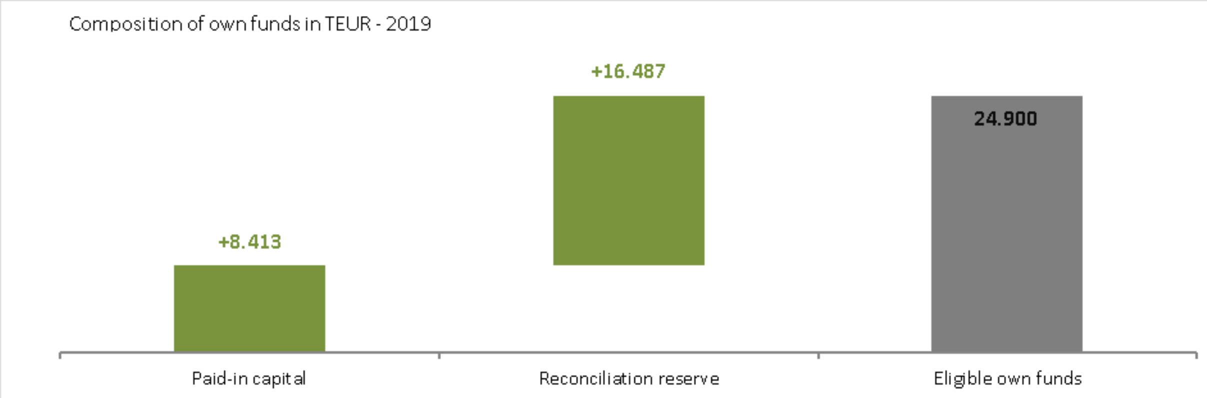
Through the use of these tools Coface PKZ ensures an adequate amount and structure of own funds to continuously fulfil the regulatory capital adequacy requirements. The planning of capital management and capital adequacy is an integral part of the business strategy and the own risk and solvency assessment.

E.1.2 Structure and quality of own funds

The excess of assets over liabilities, valued in accordance with the Solvency II requirements, stood at EUR 24,900,009 as at 31 December 2019, or EUR 21,861,021 according to the IFRS.

The excess of assets over liabilities is comprised only of basic own funds. Coface PKZ does not hold ancillary own funds. Basic own funds are comprised of paid-in ordinary shares that amount to EUR

8,412,619 (unchanged from previous year), and of reconciliation reserve that amounts to EUR 16,487,390.



Share capital (paid-in ordinary shares) and the reconciliation reserve are classified into Tier 1 own funds, as they are ranked behind all other receivables in the event of liquidation proceedings, and are available directly after the absorption of losses, with no maturity date, temporary suspension of payment/repayment enabled in the event of non-compliance with the solvency capital requirement or if the repayment/payment would give rise to such non-compliance. The cancellation of classifications is also permitted if there is non-compliance with the solvency capital requirement or if the classification would give rise to such classification. Coface PKZ's own fund items also fulfil all the other Tier 1 characteristics that are specified under the law.

Consequently, the amount of available own funds equals the eligible own funds to cover the solvency capital requirement (SCA) and the minimum capital requirement (MCR).

in EUR - 31 Dec 2019	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Basic own funds	**24,900,009**	**0**	**0**	**24,900,009**
Paid-in capital	8,412,619	0	0	8,412,619
Reconciliation reserve	16,487,390	0	0	16,487,390
Ancillary own funds	0	0	0	0
Available own funds to cover solvency capital requirement	24,900,009	0	0	24,900,009
Available own funds to cover minimum capital requirement	24,900,009	0	0	24,900,009
Eligible own funds to cover solvency capital requirement	**24,900,009**	**0**	**0**	**24,900,009**
Eligible own funds to cover minimum capital requirement	**24,900,009**	**0**	**0**	**24,900,009**

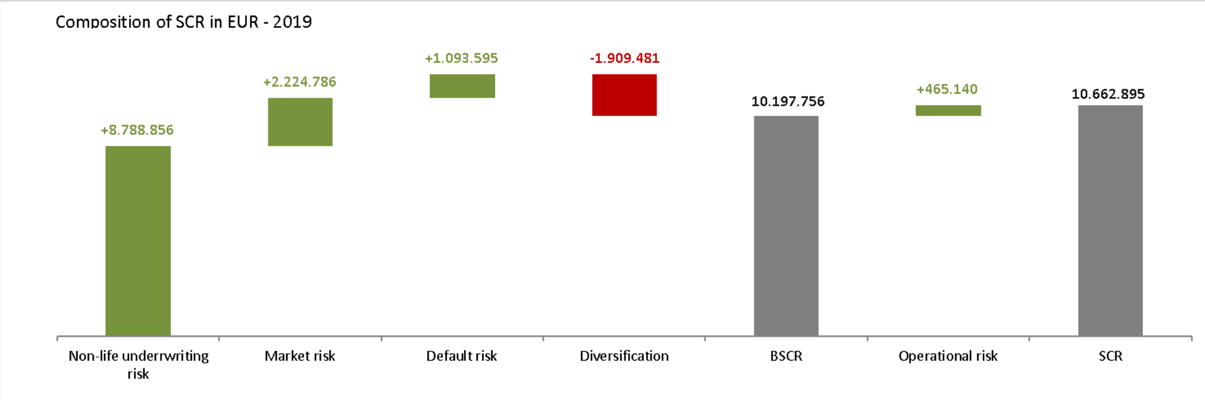
in EUR - 31 Dec 2018	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Basic own funds	**21,613,044**	**0**	**0**	**21,613,044**
Paid-in capital	8,412,619	0	0	8,412,619
Reconciliation reserve	13,200,425	0	0	13,200,425
Ancillary own funds	0	0	0	0
Available own funds to cover solvency capital requirement	21,613,044	0	0	21,613,044
Available own funds to cover minimum capital requirement	21,613,044	0	0	21,613,044
Eligible own funds to cover solvency capital requirement	**21,613,044**	**0**	**0**	**21,613,044**
Eligible own funds to cover minimum capital requirement	**21,613,044**	**0**	**0**	**21,613,044**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency capital requirement

Coface PKZ calculates the solvency capital requirement and minimum capital requirement on the basis of the standard formula, not applying any simplified calculations, except in the calculation of the risk mitigating effect for reinsurance arrangements or securitisation (Article 107 of the Delegated Regulation), which comprises a portion of the calculation of the solvency capital requirement for counterparty default risk. Coface PKZ assessed that the application of this simplification has no material impact on the calculation of the solvency capital requirement. It also did not use undertaking-specific parameters in the calculation of the solvency capital requirement.

The picture below shows the composition of the solvency capital requirement.



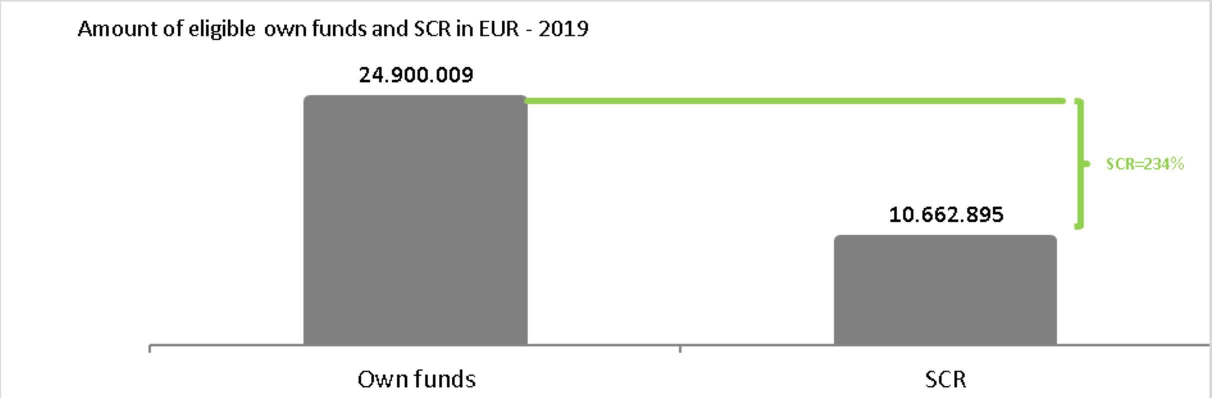
Non-life underwriting risk represents the largest share of the solvency capital requirement, followed by market risk and default risk. The smallest share is accounted for by operational risk. The value of the solvency capital requirement for intangible asset risk is zero, as Coface PKZ assigns to these assets the value of zero in accordance with the rules of valuation under Solvency II.

Relative to the previous year the solvency capital requirement slightly increased and amounted to EUR 10,662,895 as at 31 December 2019.

in EUR	**31 Dec 2019**	**31 Dec 2018**
Non-life underwriting risk	8,788,856	8,413,036
Market risk	2,224,786	1,785,042
Default risk	1,093,595	1,742,336
Intangible asset risk	0	0
Diversification	-1,909,481	-1,904,304
Basic solvency capital requirement (BSCR)	10,197,756	10,036,111
Operational risk	465,140	582,964
Solvency capital requirement (SCR)	**10,662,895**	**10,619,074**

The changes in the structure of the Solvency capital requirement are a result of the change in investment policy, as well as the amount of technical provisions. Due to the change in investment policy, as described in section C.2, there was an overall increase in market risk exposure, and a decrease in counterparty default risk exposure. Due to the growth of insurance volume, the exposure to non-life underwriting risk also increased, while the exposure to operational risk decreased. The overall effect of these changes led to an increase in the SCR of EUR 43,821 (or 0.4%).

Eligible own funds to cover the solvency capital requirement exceed the solvency capital requirement by EUR 14,237,114 (31 December 2018: EUR 10,993,970). The solvency capital requirement ratio therefore amounts to[2] 234% (31 December 2018: 204%).

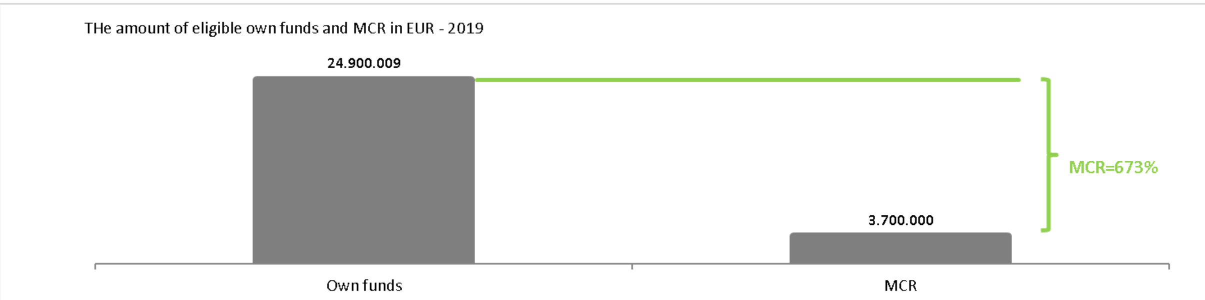


E.2.2 Minimum capital requirement (MCR)

Coface PKZ's minimum capital requirement is equal to the absolute threshold for insurers that provide credit insurance, and is set at EUR 3,700,000. The minimum capital requirement amount did not change relative to the previous period. A detailed breakdown of the solvency capital requirement is found in the table below.

v EUR	31 Dec 2019	31 Dec 2018
Insurance technical provisions without risk margin after deduction of reinsurance recoverables	6,582,714	8,107,782
Risk factor for technical provisions for credit insurance	17.7%	17.7%
Net written premium	5,861,528	5,659,940
Risk factor for written premium for credit insurance	11.3%	11.3%
Linear MCR	**1,827,493**	**2,074,651**
SCR	10,662,895	10,619,074
Combined MCR	**2,665,724**	**2,654,769**
Absolute threshold	3,700,000	3,700,000
MCR	**3,700,000**	**3,700,000**

Own funds eligible to cover the minimum capital requirement exceed the minimum capital requirements by EUR 21,200,009 (31 December 2018: EUR 17,913,044). The minimum capital requirement ratio therefore amounts to[3] 673% (31 December 2018: 584%).



[2]eligible own funds / solvency capital requirement
[3]eligible own funds / minimum capital requirement

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Coface PKZ does not use the duration-based equity risk sub-module.

E.4 Differences between the standard formula and any internal model used

Coface PKZ does not use a partial or full internal model to calculate the solvency capital requirement.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Coface PKZ completely meets all the requirements regarding the minimum capital requirement and solvency capital requirement (the attained coverage of the solvency capital requirement and the coverage of the minimum capital requirement are presented in sections E.2.1 and E.2.2).

E.6 Any other information

After the end of the financial year, a pandemic related to SARS-Cov-2 virus erupted on a worldwide scale. This led to a lockdown of public life and activities everywhere. At the time of preparation of this report, Coface PKZ has not yet experienced significant business-related consequences. However, during 2020, we expect financial and other effects to appear and influence the capital management of the company. Coface PKZ carefully monitors the situation and reacts by managing exposure to underwriting risks, and by taking care of the health and safety of its employees.

F. Independent auditor's report

Deloitte.

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INDEPENDENT AUDITOR'S ASSURANCE REPORT

to the management of the company Coface PKZ zavarovalnica d.d., Ljubljana

Based on the contract concluded with the company Coface PKZ zavarovalnica, d.d., Ljubljana on 5 December 2019, we have:

- reviewed the attached Solvency and Financial Condition Report of Coface PKZ zavarovalnica, d.d., Ljubljana for 2019 (hereinafter the "Report"), which was prepared by the management of the Company and which presents the bases and methods for the evaluation of assets, technical provisions and other liabilities as well as the description of capital management procedures, which the company Coface PKZ zavarovalnica, d.d., Ljubljana applied in the financial year ended 31 December 2019 as stipulated by items 4 and 5 of the 2nd paragraph of Article 261 of the Insurance Act (hereinafter "ZZavar-1") and Articles 296 and 297 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 Supplementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the Taking-Up and Pursuit of the Business of Insurance and Reinsurance (hereinafter the "Delegated Regulation");
- verified enforcement of the procedures for adopting the Insurance Company's capital management strategy;
- verified the correctness and quality of data necessary for the evaluation of assets and technical provisions and the calculation of capital requirements necessary for the compilation of quantitative reports, and verified the procedure for calculating technical provisions and capital requirements under individual risk modules in accordance with the Decision on the Supplementary Audit of an Insurance Company and the Supplementary Audit Report adopted by the Insurance Supervision Agency.

Management's Responsibility for the Report

The management is responsible for:

- assertions and findings in the Report prepared in accordance with ZZavar-1 and the Delegated Regulation,
- enforcement of the procedures for adopting the Insurance Company's capital management strategy,
- correctness and quality of data necessary for the evaluation of assets and technical provisions and the calculation of capital requirements,
- correctness of calculating technical provisions and capital requirements under individual risk modules,
- compilation of quantitative reports in accordance with the Delegated Regulation, and

such internal controls as are necessary in accordance with the decision of the management to enable preparation of reports and implementation of procedures in a way free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to provide, based on the procedures we have performed and the evidence we have obtained, a conclusion on reasonable assurance in relation to:

- adequacy of disclosures in the Report in accordance with the requirements of Article 261 of ZZavar-1 and Articles 296 and 297 of the Delegated Regulation,
- procedures for adopting the Insurance Company's capital management strategy, and
- accuracy of compiling the quantitative reports from Article 4 of the Decision on the Supplementary Audit of an Insurance Company and the Supplementary Audit Report and compliance with the Delegated Regulation.

We have performed our reasonable assurance engagement in compliance with the International Standard on Assurance Engagements 3000 – *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement so as to obtain reasonable assurance that the Report does not contain, in all material respects, material misstatements as regards, among other things, compliance with ZZavar-1 and the Delegated Regulation.

Definition of Criteria

We have assessed the adequacy of the presentation of valuation procedures for the purpose of solvency and capital management on the basis of items 4 and 5 of the 2nd paragraph of Article 261 of ZZavar-1 and Articles 296 and 297 of the Delegated Regulation.

We have assessed the adequacy of procedures for adopting the Insurance Company's capital management strategy from the viewpoint of ensuring solvency and minimum capital.

We have assessed the correctness and quality of data necessary for the evaluation of assets and technical provisions and the calculation of capital requirements from the viewpoint of compiling quantitative reports in accordance with the Decision on the Supplementary Audit of an Insurance Company and the Supplementary Audit Report and compliance with the Delegated Regulation.

We have assessed the correctness of the procedure for calculating technical provisions and capital requirements from the viewpoint of compliance with the Delegated Regulation.

Our Independence and Quality Control

We have acted in compliance with independence and ethical requirements as provided by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. The respective code is based on the principles of integrity, objectivity, professional competence and due diligence, confidentiality and professional conduct.

We act in compliance with the International Standard on Quality Control (ISQC 1) and accordingly maintain an overall management control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and statutory requirements.

Summary of Work Performed

Within the scope of the work performed, the following procedures were, inter alia, carried out:

- we have verified compliance of disclosures in the Report with the requirements from items 4 and 5 of the 2nd paragraph of Article 261 of ZZavar-1 and Articles 296 and 297 of the Delegated Regulation;
- we have taken due note of the procedures for adopting the Insurance Company's capital management strategy from the viewpoint of ensuring solvency and minimum capital;
- we have verified compliance of data for the evaluation of assets and technical provisions and calculation of capital requirements with analytical records;
- we have verified compliance of procedures for calculating technical provisions and capital requirements under individual risk modules in quantitative reports in terms of requirements of the Delegated Regulation.

The nature and scope of our procedures were defined in line with the risk assessment and our professional judgment to obtain reasonable assurance.

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

Conclusion

In our opinion, the Solvency and Financial Condition Report and the quantitative reports are prepared, in all material respects, in accordance with the provisions of ZZavar-1 and Articles 296 and 297 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 Supplementing Directive 2009/138/EC of the European Parliament and of the Council on the Taking-Up and Pursuit of the Business of Insurance and Reinsurance (Solvency II), published in the Official Journal of the European Communities on 17 January 2015, and, in our opinion, the process for adopting a capital management strategy is in line with the requirements of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 Supplementing Directive 2009/138/EC of the European Parliament and of the Council on the Taking-Up and Pursuit of the Business of Insurance and Reinsurance (Solvency II), published in the Official Journal of the European Communities on 17 January 2015.

Based on the procedures we have performed and the evidence we have obtained, we establish:

- the substance of disclosures in the Report is compliant with items 4 and 5 of the 2nd paragraph of Article 261 of ZZavar-1 and Articles 296 and 297 of the Delegated Regulation;
- the procedures for adopting the Insurance Company's capital management strategy from the viewpoint of ensuring solvency and minimum capital are compliant with the requirements of Article 297 of the Delegated Regulation;
- the data used for the evaluation of assets and technical provisions and the calculation of capital requirements is correct in terms of the requirements of the Delegated Regulation;
- the procedures for calculating technical provisions and capital requirements under individual risk modules in quantitative reports are compliant in terms of the requirements of the Delegated Regulation.

Emphasis of Matter

This Auditor's Report replaces the Auditor's Limited Assurance Report issued on 18 March 2020. The Solvency and Financial Condition Report of Coface PKZ zavarovalnica, d.d., Ljubljana for 2019 has not been modified.

Other Information

Other information includes:
- description of transactions and operations of the Insurance Company,
- description of the governance system and assessment of its adequacy as regards the Insurance Company's risks,
- description of exposure, concentration, sensitivity and techniques applied to mitigate the risks for each type of risks,
- disclosures on potential omissions of certain disclosures,
- voluntary additional information and explanations relating to solvency and financial condition of the Insurance Company.

We have obtained other information prior to the date of the Auditor's Report. The responsibility for adequacy of disclosures in the Report in accordance with the provisions of Article 261 of ZZavar-1 and Articles 293 to 295 of the Delegated Regulation lies with the management.
Our responsibility in relation with the procedures performed from the first paragraph is to read other information and thus assess whether it is materially inconsistent with the substance of the Report.

We have performed the procedures for verifying the adequacy of other information in accordance with ISA 720, limiting ourselves to verifying the adequacy of other information as regards the Report as a whole, ZZavar-1 and the Delegated Regulation.

Other information in the Report is consistent with verified data in the Report and the provisions of ZZavar-1 and the Delegated Regulation.

Limited Access and Use

Our report is intended exclusively for the management of the company Coface PKZ zavarovalnica, d.d., Ljubljana for the purpose of reporting in the Report. It may only be used to satisfy the requirements of the Decision on the Supplementary Audit of an Insurance Company and the Supplementary Audit Report and provisions related to it and may not be used for any other purpose.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj

Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 29 April 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

G. ANNEX Quantitative templates

S.02.01.02 Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	2,440
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	28,208
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	23,858
Government Bonds	**R0140**	9,299
Corporate Bonds	**R0150**	14,559
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	1,847
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	2,502
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	8,922
Non-life and health similar to non-life	**R0280**	8,922
Non-life excluding health	**R0290**	8,922
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	3,326
Reinsurance receivables	**R0370**	1,326
Receivables (trade, not insurance)	**R0380**	6
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	1,262
Any other assets, not elsewhere shown	**R0420**	125
Total assets	**R0500**	45,615

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	16,518
Technical provisions – non-life (excluding health)	**R0520**	16,518
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	15,505
Risk margin	**R0550**	1,014
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
TP calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	157
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	741
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	206
Reinsurance payables	**R0830**	1,905
Payables (trade, not insurance)	**R0840**	669
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	519
Total liabilities	**R0900**	20,715
Excess of assets over liabilities	**R1000**	24,900

S.05.01.02 Premiums, claims and expenses by type of transaction[4]

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**	Total
		Credit and suretyship insurance	
		C0090	**C0200**
Premiums written			
Gross - Direct Business	**R0110**	14,672	14,672
Gross - Proportional reinsurance accepted	**R0120**	83	83
Gross - Non-proportional reinsurance accepted	**R0130**	-	
Reinsurers' share	**R0140**	8,893	8,893
Net	**R0200**	5,862	5,862
Premiums earned			
Gross - Direct Business	**R0210**	14,530	14,530
Gross - Proportional reinsurance accepted	**R0220**	84	84
Gross - Non-proportional reinsurance accepted	**R0230**		
Reinsurers' share	**R0240**	8,874	8,874
Net	**R0300**	5,741	5,741
Claims incurred			
Gross - Direct Business	**R0310**	3,502	3,502
Gross - Proportional reinsurance accepted	**R0320**	-1	-1
Gross - Non-proportional reinsurance accepted	**R0330**	-	
Reinsurers' share	**R0340**	1,527	1,527
Net	**R0400**	1,974	1,974
Changes in other technical provisions			-
Gross - Direct Business	**R0410**	171	171
Gross - Proportional reinsurance accepted	**R0420**		
Gross - Non- proportional reinsurance accepted	**R0430**		
Reinsurers'share	**R0440**	-244	-244
Net	**R0500**	414	414
Expenses incurred	**R0550**	3,422	3,422
Other expenses	**R1200**		
Total expenses	**R1300**		3,422

[4] Coface PKZ has not disclosed the report with the designation S.05.02.01 Premium, claims and expenses by country, as it achieved more than 90% of the gross premiums written in 2019 in the home country.

S.17.01.02 Technical provisions for non-life insurance

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Credit and suretyship insurance	
		C0100	**C0180**
Technical provisions calculated as a whole	**R0010**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	**R0060**	4,065	4,065
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	2,959	2,959
Net Best Estimate of Premium Provisions	**R0150**	1,106	1,106
Claims provisions			
Gross	**R0160**	11,440	11,440
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	5,963	5,963
Net Best Estimate of Claims Provisions	**R0250**	5,477	5,477
Total Best estimate - gross	**R0260**	15,505	15,505
Total Best estimate - net	**R0270**	6,583	6,583
Risk margin	**R0280**	1,014	1,014
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	**R0290**		
Best estimate	**R0300**		
Risk margin	**R0310**		
Technical provisions - total			
Technical provisions - total	**R0320**	16,518	16,518
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	8,922	8,922
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	7,596	7,596

S.19.01.21 Insurance claims from non-life insurance (development triangles)

	Development year											
	Year		1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											32
2010	R0160	3,488	15.718	1,386	258	355	14	2				
2011	R0170	748	7.438	555	21	71	84					
2012	R0180	3,416	6.673	256	113	34	36					
2013	R0190	4,235	4.277	1,995	24	7						
2014	R0200	2,440	7.739	2,071			54					
2015	R0210	1,969	4.783	184	37							
2016	R0220	603	21,743	271	4							
2017	R0230	2,579	2,599	269								
2018	R0240	2,050	2,209									
2019	R0250	3,020										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	32	32
	R0160		21,220
	R0170		8,917
	R0180		10,529
	R0190		10,539
	R0200	54	12,304
	R0210		6,973
	R0220	4	22,621
	R0230	269	5,446
	R0240	2,209	4,259
	R0250	3,020	3,020
Total	R0260	5,588	105,860

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Development year											
	Year		1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											
2010	R0160										1	
2011	R0170									12		
2012	R0180								114			
2013	R0190							25				
2014	R0200						39					
2015	R0210					368						
2016	R0220				543							
2017	R0230			523								
2018	R0240		1,915									
2019	R0250	7,866										

		Year end (discounted data)
		C0360
	R0100	
	R0160	1
	R0170	12
	R0180	114
	R0190	25
	R0200	39
	R0210	369
	R0220	545
	R0230	525
	R0240	1,921
	R0250	7,888
Total	R0260	11,440

S.23.01.01 Own funds

		Total	Tier 1 – unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	8,413	8,413			
Share premium account related to ordinary share capital	R0030					
~~I~~initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	16,487	16,487			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	24,900	24,900			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	24,900	24,900			
Total available own funds to meet the MCR	R0510	24,900	24,900			
Total eligible own funds to meet the SCR	R0540	24,900	24,900			
Total eligible own funds to meet the MCR	R0550	24,900	24,900			
SCR	R0580	10,663				
MCR	R0600	3,700				
Ratio of Eligible own funds to SCR	R0620	233.52%				
Ratio of Eligible own funds to MCR	R0640	672.97%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	24,900	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	8,413	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	16,487	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**		
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**		

S.25.01.21 Solvency capital requirement calculated by using the standard formula

-		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	**R0010**	2,225		
Counterparty default risk	**R0020**	1,094		
Life underwriting risk	**R0030**			
Health underwriting risk	**R0040**			
Non-life underwriting risk	**R0050**	8,789		
Diversification	**R0060**	-1,909		
Intangible asset risk	**R0070**			
Basic Solvency Capital Requirement	**R0100**	10,198		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	465
Loss-absorbing capacity of technical provisions	**R0140**	
Loss-absorbing capacity of deferred taxes	**R0150**	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	10,663
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	10,663
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

		Yes/No
Approach to tax rate		**C0109**
Approach based on average tax rate	**R0590**	3 - Not applicable as LAC DT is not used (in this case R0600 to R0690 are not applicable)

		LAC DT
Calculation of loss absorbing capacity of deferred taxes		**C0130**
LAC DT	**R0640**	
LAC DT justified by reversion of deferred tax liabilities	**R0650**	
LAC DT justified by reference to probable future taxable economic profit	**R0660**	
LAC DT justified by carry back, current year	**R0670**	
LAC DT justified by carry back, future years	**R0680**	
Maximum LAC DT	**R0690**	

S.28.01.01 Minimum capital requirement for insurers engaged exclusively in life insurance or exclusively in non-life insurance, or reinsurance

		C0010
MCR_{NL} Result	**R0010**	1,827

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Medical expense insurance and proportional reinsurance	**R0020**		
Income protection insurance and proportional reinsurance	**R0030**		
Workers' compensation insurance and proportional reinsurance	**R0040**		
Motor vehicle liability insurance and proportional reinsurance	**R0050**		
Other motor insurance and proportional reinsurance	**R0060**		
Marine, aviation and transport insurance and proportional reinsurance	**R0070**		
Fire and other damage to property insurance and proportional reinsurance	**R0080**		
General liability insurance and proportional reinsurance	**R0090**		
Credit and suretyship insurance and proportional reinsurance	**R0100**	6,583	5,862
Legal expenses insurance and proportional reinsurance	**R0110**		
Assistance and proportional reinsurance	**R0120**		
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**		
Non-proportional health reinsurance	**R0140**		
Non-proportional casualty reinsurance	**R0150**		
Non-proportional marine, aviation and transport reinsurance	**R0160**		
Non-proportional property reinsurance	**R0170**		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_{L} Result	**R0200**	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
Obligations with profit participation - guaranteed benefits	**R0210**		
Obligations with profit participation - future discretionary benefits	**R0220**		
Index-linked and unit-linked insurance obligations	**R0230**		
Other life (re)insurance and health (re)insurance obligations	**R0240**		
Total capital at risk for all life (re)insurance obligations	**R0250**		

Overall MCR calculation

		C0070		
Linear MCR	**R0300**	1,827		
SCR	**R0310**	10,663	-	-
MCR cap	**R0320**	4,798		
MCR floor	**R0330**	2,666		
Combined MCR	**R0340**	2,666		
Absolute floor of the MCR	**R0350**	3,700		
-	-	**C0070**		
Minimum Capital Requirement	**R0400**	3,700		