# ANNUAL REPORT **2019**

## Coface PKZ zavarovalnica d.d.

# ANNUAL REPORT
# 2019

MEMBERS OF THE MANAGEMENT BOARD

Sergej Simoniti
Chairman

Mindaugas Sventickas
Member

Ljubljana, 27 January 2020

coface PKZ

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## STATEMENT OF THE MANAGEMENT BOARD

The year 2019 was of key significance for Coface PKZ d.d., both in terms of its internal structure and performance. During this year the company gained a new owner, introduced new tools and work methods and completed the year with the reorganisation and took over the hub function for operations concerning the trade credit insurance in the Adriatic region for the Coface Group. The external environment in Slovenia was marked by fierce competition in the market for trade credit insurance, a still favourable domestic economic environment, increasing global uncertainty, and at the beginning of 2020 the spread of the coronavirus.

In mid-April the company's ownership structure was changed by the global Coface Group taking a 100% stake in the company. The Coface Group, with its headquarters in France, is the third largest provider of trade credit insurance globally and the first provider of export trade credit insurance. With the entry of the Coface Group the company was renamed, a new management board was appointed, which today has two members, and the introduction of new tools and work processes began. Such changes were completed by the end of the year with the reorganisation and takeover of the hub function for the Adriatic region of the Coface Group.

Changes in the company not only impact employees and corporate governance, but also customer relationships. With the change in processes and introduction of new tools we adjusted our work to the “near-customer and near-risk” principle, which means that our customers always have contact with a local representative of the insurer, while the risk assessment takes place where the risk or customer of our policyholder is located. In other words, an employee from Slovenia will be responsible for a policyholder with a registered office in Slovenia, while a customer's risk category will be assessed by an employee within the Coface Group, depending on where the customer is located. We believe this method of work will prove especially important for the Slovenian, export-driven, economy. The company maintains its partnership with SID bank, which will continue to provide our policyholders with the services to which they have become accustomed, as well as all the advantages of concluding insurance with a global group.

The economic environment that is the basis for our operations continued to be favourable in Slovenia in 2019. Economic growth continued with a forecast for GDP growth of 2.6% for 2019, with exports increasing while public debt and unemployment decreased. We remain cautious with our forecasts, nonetheless, as global developments are still characterised by a growth in trade disputes and still strengthening protectionism. This is already reflected in a slowdown in economic growth in 2019. In addition, due to the coronavirus outbreak, we expect increased pressures on supply chains in a broad spectrum of commercial sectors in the coming period.

The company operated with a profit in 2019, despite the declining premium rates and the increasingly fierce competition. We ended the year with EUR 14.8 million in premiums written, EUR 5.8 million in claims paid and EUR 21.9 million in capital. The company's net profit stood at EUR 1.2 million. In 2019 we continued our activities in the Western Balkan markets and Adriatic region, charging a premium for reinsurance from this region for the first time last year.

At the end of February the Coface Group adopted a new strategy, "*Build to Lead*", which focuses on strengthening our leading position in the area of trade credit insurance. We believe that Coface PKZ's role is solidly integrated in the group's strategy. We also believe that we will continue to successfully serve the needs of the Slovenian economy as part of a global group and with help from local partners, such as SID bank, and that we will strengthen our position as the leading insurer in the area of trade credit insurance in the Adriatic region.

Sergej Simoniti
Chairman of the Management Board

# REPORT OF THE SUPERVISORY BOARD FOR 2019

# BUSINESS REPORT

# 2019

# 1. ABOUT THE COMPANY

## 1.1 Key performance indicators[1]

| in EUR thousand | 2019 or 31/12/2019 | 2018 or 31/12/2018 | Index |
|---|---|---|---|
| Gross premiums written | 14,755 | 14,279 | 103 |
| Net income from insurance premiums | 5,741 | 5,714 | 100 |
| Gross claims paid | 5,848 | 5,194 | 113 |
| Recourse receivables claimed | 1,019 | 1,782 | 57 |
| Net claim expenses | 2,228 | 2,640 | 84 |
| Gross operating costs | 5,144 | 4,605 | 112 |
| Pre-tax profit | 1,479 | 1,207 | 123 |
| Net profit or loss | 1,160 | 967 | 120 |
| Net claims ratio | 39% | 46% | 84 |
| Net combined ratio | 78% | 79% | 99 |
| Year-end balance of assets | 50,206 | 56,442 | 89 |
| Year-end balance of equity | 21,861 | 26,386 | 83 |
| Year-end balance of technical provisions | 25,129 | 25,617 | 98 |
| Number of limits - buyers | 48,579 | 40,495 | 120 |
| Number of insurance contracts | 305 | 281 | 109 |
| Number of claims paid | 100 | 117 | 85 |
| Year-end headcount | 68 | 71 | 96 |

## 1.2 Company profile

| | |
|---|---|
| Company name | Coface PKZ zavarovalnica d.d. |
| Company name in English | Coface PKZ Insurance Inc. |
| Abbreviated company 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 | https://www.coface-pkz.si |
| Registration no. | 1903209000 |
| Tax number | 71824847 |
| LEI code | 4851000020C6NKQDP691 |
| Share capital | EUR 8,412,618.92 |
| Owner | Compagnie Française d'Assurance pour le Commerce Extérieur |

[1] The key performance indicators are shown based on the operating costs by type.

| Management and supervisory bodies | MANAGEMENT BOARD<br>Sergej Simoniti, chairman<br>Mindaugas Sventickas, member as of 4 December 2019<br>Igor Pirnat, member until 4 December 2019<br>Denis Stroligo, member until 29 May 2019<br>SUPERVISORY BOARD<br>Declan Gerard Daly, chairman<br>Olivier Jean-Philippe Georges Gerard, deputy chairman<br>Siwa Marcin<br>Coman Constantin-Alexie<br>Andraž Tinta, employee representative<br>Sanja Dimec, employee representative |
|---|---|

## 1.3 Company's establishment, authorisations and share capital

- Entered in the companies register on 31 December 2004, under application number 1/39193/00, Srg 2004/12632;
- registered business activities: non-life insurance;
- authorisation to provide insurance services in credit insurance, Insurance Supervision Agency ruling number 30200-2212/04-22,16 of 30 December 2004 and Insurance Supervision Agency ruling number 30200-1470/05-22,11 of 24 November 2005;
- authorisation to provide insurance services associated with the underwriting of reinsurance in non-life insurance, Insurance Supervision Agency ruling number 40105-4/2018-2 of 14 June 2018.

The company began providing insurance services on 1 January 2005, on which day the portfolio of short-term credit insurance previously provided by SID bank was transferred to it.

On 12 April 2019 the sale of SID-Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: Coface PKZ) was completed. As a result the new owner, Compagnie Française d'Assurance pour le Commerce Extérieur, with its registered office at 1 Place Coste set Bellonte 92270 Bois-Colombes, France (hereinafter: Coface), became the direct holder of 100% participating interest, based on which it became the parent of Coface PKZ and gained all the shares that were held by the previous owner SID bank.

The company's paid-up share capital amounted to EUR 4,206,309.46 at establishment, and has amounted to EUR 8,412,618.92 since the capital increase in January 2010 when it was doubled. It is divided into 2,016 no-par-value shares. These are ordinary registered shares, issued in dematerialised form. The central share register and all procedures for trading the shares are administered at the Central Securities Clearing Corporation in Ljubljana.

## 1.4 Coface Group

With the ownership transfer, Coface PKZ became a part of the Coface Group (hereinafter: the Group) in the scope of which the new owner of Coface PKZ, i.e. Coface, appears as the principal operational and insurance company. The largest shareholder of Coface is Coface

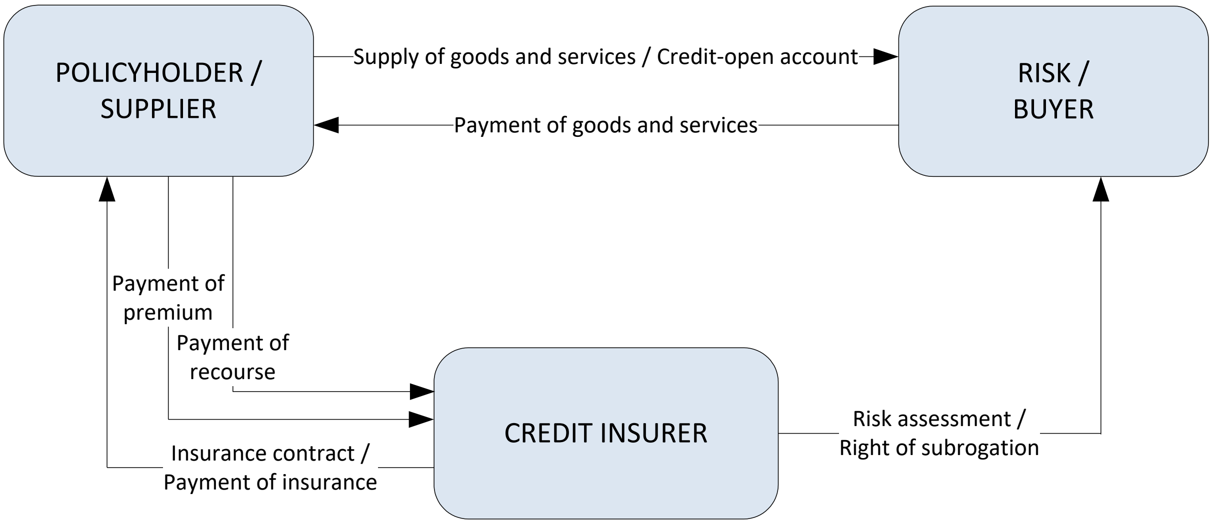
SA, a holding company within the Group, which is the decision-making and management body with the key financial role in the Group, as it provides management, financing and consultancy services to other subsidiaries.

## 1.5 Activity

The company's line of business as defined in the articles of association is the conclusion and provision of non-life insurance services in the category of credit insurance. The company is also active in the area of the conclusion of insurance services associated with the conclusion of reinsurance in the category of credit insurance. The company also provides other services directly related to the insurance business.

Coface PKZ insures short-term receivables, generally with a maturity of up to 180 days, or up to one year when the nature of the transaction or the type of goods so requires. The insurance covers commercial and optional also non-commercial (political) risks. The insurance contracts are generally annual or apply for a two-year period, and cover the policyholder's entire turnover on an open basis. It is also possible to only insure a particular segment of sales (e.g. only exports, only domestic sales, one-time project operations), provided that Coface PKZ assesses that objective criteria apply to the selection of the segment offered for insurance, and there is no moral hazard. Pre-delivery risks (production risks) may also be insured separately in insurance contracts. Coface PKZ also insures factoring-company operations and individual project and engineering operations under adjusted terms, provided that the payment deadlines do not exceed two years.

*Basic scheme of trade credit insurance*

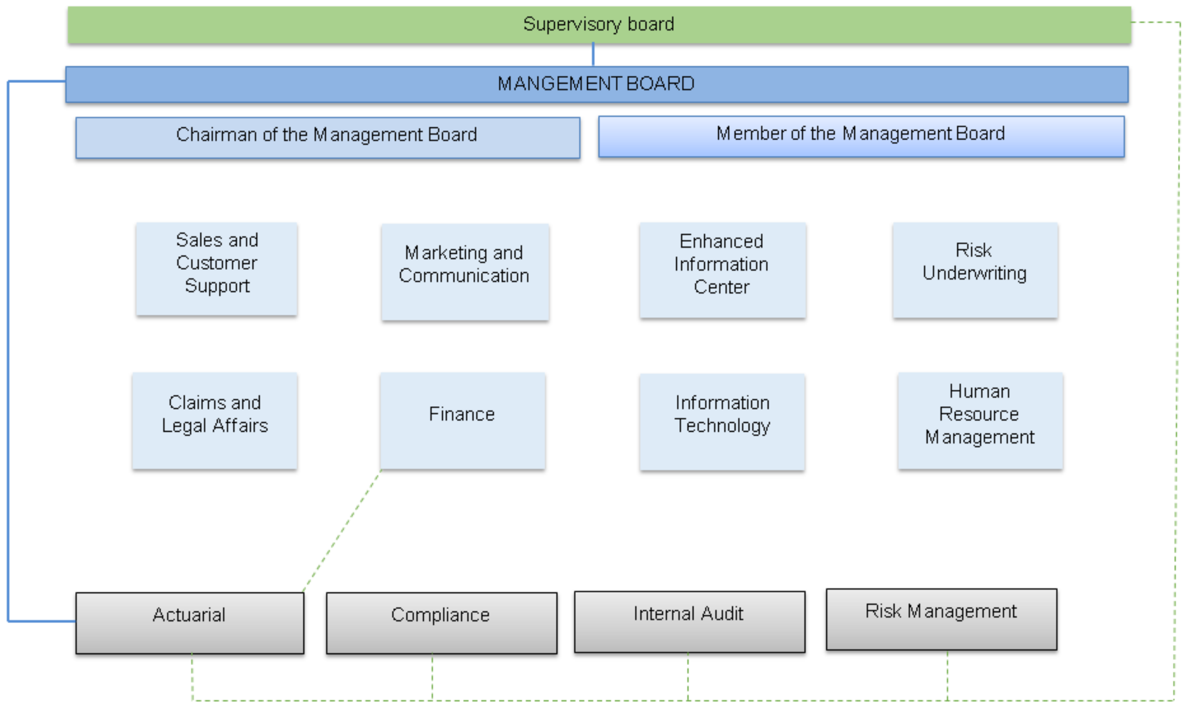



Coface PKZ also provides coverage from suppliers for the repayment of advances paid by the policyholder in accordance with a commercial agreement, where the deadline for the repayment of the advance, which runs from the date on which the supplier received the advance, cannot exceed two years. Commercial as well as political hazards, as an option, are covered.

## 1.6 Organisational chart

With the merging of Coface PKZ with the Group a change was made to the organisational structure in accordance with the Group companies, effective 1 January 2020.

*Coface PKZ's organisational chart*




## 1.7 Significant events in 2019

**Ownership:**

- SID banka, d.d., Ljubljana (hereinafter: SID bank), until 12 April 2019;
- Compagnie Française d'Assurance pour le Commerce Extérieur, as of 12 April 2019.

**Management and supervisory bodies:**

- change to the number of management board members on 29 May 2019 and change in the composition of the management board on 4 December 2019;
- change in the composition of the supervisory board on 24 April 2019.

**Annual report for 2018:** approval; successfully completed financial year and payment of dividends.

**Strategy:** monitoring the strategic activities for the period 2018–2022; approval of Coface PKZ's development strategy for the period 2020–2022.

**Fronting:** On the basis of authorisation to provide insurance services for the conclusion of reinsurance credit, Coface PKZ established a network of partners in 2019 in certain markets of the Western Balkans who on their own behalf market Coface PKZ's products.

**Integration of operations with the Group:**
- change in name and re-branding at Coface PKZ;
- implementation of Group tools for communication with policyholders (Cofanet) and internal communication;
- migration of data;
- integration in the Group's IT infrastructure;
- transfer of the investment portfolio to the Group's asset manager; and
- formation of a centre for the Adriatic region at Coface PKZ.

**Organisation:**
- change to the holders of the internal audit function and risk management function;
- change to the organisational structure in accordance with the Group companies, effective 1 January 2020;
- change in labour law acts, effective 1 January 2020.

**Solvency II:** Annual overhaul of policies, effective 1 January 2020.

**Compliance:** ensuring compliance with the relevant laws and practice of competent authorities with an emphasis on the implementation of the Group's umbrella bylaws, an upgrade to the Know-Your-Customer (KYC) system, and proactive taking of action during the implementation of certain of Coface PKZ's strategic policies.

**International Credit Insurance & Surety Association (ICISA):**
- I. Pirnat, expiry of the term of office as chair of the *Committee of Underwriters*;
- J. Svetin, expiry of the term of office as chair of the *Credit Insurance Committee*.

**Partner-related events in which Coface PKZ took part:**
- Adriatic Journal: Strategic Foresight 2019 (*Delo* newspaper);
- Coface PKZ's annual international conference addressing the business world is becoming increasingly complex (Coface PKZ, *Finance* newspaper);
- partnership in the Pogled / Outlook 2019 project (Managers' Association of Slovenia);
- regional conference on factoring in Central and Southeastern Europe, Belgrade, Serbia (FCI, Netherlands);
- conference on trade credit insurance, Skopje, Macedonia (Sava Osiguruvanje and Stopanska privredna komora);
- Exporters 2019 (*Delo* newspaper);
- The 2019 Slovenian Gazelle awards: *Pogovor leta* (in Eng. Conversation of the Year and closing event at the Cankar Centre (*Dnevnik* newspaper);
- events in collaboration with regional chambers of commerce; and
- business club events organised by different partner states.

## 1.8 Significant events after the balance-sheet date

All operations between the end of 2019 and the time of the compilation of the report proceeded in line with expectations and the information at the company's disposal when the financial statements were being compiled, as the trends seen in 2019 continued. The company's integration with the Group is still in progress and is expected to be completed at the end of 2020.

# 2. CORPORATE GOVERNANCE STATEMENT

In accordance with the fifth paragraph of Article 70 of the ZGD-1, Coface PKZ hereby issues the following corporate governance statement, which forms an integral part of the submitted business report. The corporate governance statement relates to the period 1 January 2019 to 31 December 2019.

## 2.1 List of codes

In terms of its ownership structure, Coface PKZ made a commitment to comply with the Corporate Governance Code for Companies with Capital Assets of the State (hereinafter: the SSH Code)[2] and the Recommendations and Expectations of Slovenian Sovereign Holding issued on its basis (hereinafter: SSH Recommendations), adopted by the Slovenian Sovereign Holding (Slovenski državni holding d.d.; hereinafter: SSH), which are available on the website of the SSH (http://www.sdh.si).

On the date of the ownership transfer Coface PKZ ceased to enjoy the status of a company with capital assets of the state, in accordance with Article 2 of the Slovenian Sovereign Holding Company Act (Official Gazette of the RS, No. 25/14, hereinafter: the ZSDH-1). Consequently, Coface PKZ was no longer bound by the SSH Code and the SSH Recommendations associated therewith.

During the validity of the SSH Code and Recommendations Coface PKZ strived to comply with a large majority of the adopted commitments, as defined by the acts in question.

Notwithstanding the above, Coface PKZ maintains high corporate governance standards, and in doing so also complies with the commitments and requirements applied within the Group. In 2019 the company's competent bodies adopted both key codes of the Group, i.e. the code of conduct and the anti-bribery code, which will enter into force on 1 January 2020, when the internal code of ethics and professional standards will cease to be valid.[3]

[2] As a result, in the segment in which the SSH Code makes reference to the Slovenian Corporate Governance Code (hereinafter: the SCGC), Coface PKZ was also bound to abide by the relevant provisions of the SCGC, which relate to the mandatory content of the corporate governance policy. Since Coface PKZ complied with the recommendations of both codes in this segment, the corporate governance statement makes no reference to the SCGC and does not assess deviations from other content that does not bind Coface PKZ.
[3] Before their entry into force, both codes will be published on Coface PKZ's website (https://www.coface-pkz.si/sl).

In its operations Coface PKZ also complies with the Insurance Code adopted by the Slovenian Insurance Association in June 2013, which is available on the latter's website (http://www.zav-zdruzenje.si).

Coface PKZ operates in accordance with the relevant laws (in particular: the Insurance Act) and EU regulations.

## 2.2 Corporate governance system

By defining the elements of the corporate governance framework, the corporate governance policy sets out the corporate governance system that facilitates sound and diligent management of Coface PKZ.[4] The corporate governance framework specifically:

a) stimulates the development, implementation and effective supervision of policies that clearly define and support the objectives of Coface PKZ;

b) defines the roles and responsibilities of persons responsible for the oversight and management of Coface PKZ, including the system of powers;

c) defines the requirements regarding the adoption of decisions and measures, including the documenting thereof;

d) covers the rules in the area of remuneration;

e) arranges suitable methods of communication with competent authorities, including the supervisory authority, i.e. the Insurance Supervision Agency;

f) envisages control measures in the event of non-compliance or insufficient supervision, insufficient internal controls or improper management.

An effective governance framework also stimulates the key stakeholders, who are responsible for the corporate governance of PKZ, i.e. the supervisory board, management board, heads of organisational units, key function holders, to ensure sound and diligent management of Coface PKZ's operations.

## 2.3 Statement of compliance

The statement of compliance merely presents the scope of deviations from the relevant codes which bind Coface PKZ.

### 2.3.1 SSH Code and SSH Recommendations

Until the change in ownership, Coface PKZ complied with most relevant commitments of the SSH Code and SSH Recommendations that were valid at the time, with the deviations in the period 1 January 2019 to 31 December 2019 being identical to those in 2018.

[4] The company's competent bodies adopted the overhauled policy in 2019, which will enter into force on 1 January 2020.

## 2.4 Diversity policy

Coface PKZ failed to formalise the diversity policy with the adoption of a bylaw. Closely related requirements regarding diversity are included in some other acts, e.g. the Fit & Proper policy, which in accordance with the requirements of the ZZavar-1 stipulates that the diversity of qualifications, knowledge and experience is pursued in the composition of the management board and supervisory board, as well as in holders of key functions and procurators. Coface PKZ also fully complies with the prohibition of discrimination, as set out by the Employment Relationships Act.

## 2.5 System of internal controls and risk management at the company in relation to the financial reporting process

Coface PKZ put in place an effective system of internal controls and risk management, which is defined in detail in the Internal Control System Policy. The system complies with the provision of the Companies Act, the Insurance Act and secondary laws adopted by the Insurance Supervision Agency on establishing and maintaining a suitable system of internal controls and risk management.

Coface PKZ's system of internal controls ensures that:

- transactions are efficient and feasible according to the set objectives, with resources being used rationally, and assets secured;
- financial and non-financial information are provided in good time and are reliable;
- the risks to which the company (insurer) is or could be exposed are identified and properly managed so that Coface PKZ's capital adequacy is protected;
- the requirements regarding compliance with laws, other regulations and bylaws are met.

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. A crucial part of the control environment is corporate integrity, which comprises the determination of the company's mission, vision and values, their disclosure to all employees and abiding thereby in all the company's actions. The development and implementation of internal codes and compliance with the adopted external codes is also a part of the company's corporate integrity. The management of conflicts of interest, management of fraud, corruption and unlawful transactions and the handling of customer complaints also fall within the framework of Coface PKZ's corporate integrity. This shows that the key components of the control environment primarily include the integrity and ethical values of senior management and employees, a suitable organisational structure, the appropriate segregation of powers and responsibilities, suitable employee education and training.
- Risk management that also includes the identification and assessment or measurement of risks in all areas of the insurer's operations, which is a prerequisite for establishing sufficient, appropriate and effective control activities.

- Control activities that are established and adjusted on the basis of an annual risk analysis. In the event of changes to processes or other changes that significantly impact the area in which they operate, internal controls are also updated even more frequently than on an annual basis.
- Regular monitoring of other components, which, where required, give rise to changes in the control environment, including the regular audit of the governance system, and annual risk analysis. A portion of the regular monitoring is also contributed by the internal audit department and compliance function through their reviews and findings.
- Communication and information channels, which combine all other components into an integrated system of internal controls. Communication and informing relates to all levels at the company and proceeds in all directions.

## 2.6 Insurer's bodies

Coface PKZ has a two-tier system of governance: the company is managed by the management board, while the management of its operations is supervised by the supervisory board.

Supervisory board:

- gives consent, as provided for by applicable laws and Coface PKZ's bylaws, in particular:
    - it grants consent to transactions in real estate (acquisition, disposal, encumbrance);
    - it grants consent to transactions for the acquisition or disposal of capital investments;
    - it grants consent to the insurer's business strategy;
    - it grants consent to the definition of the insurer's financial plan;
    - it grants consent to the authorisations of key function holders;
    - it grants consent to the written rules of the system of governance set out in the Insurance Act;
    - it grants consent to the annual and multi-annual plans of work of the internal audit department;
    - it grants consent to the payment of interim dividends;
    - it grants consent to the appointment, dismissal and remuneration of the holder of the internal audit function;
    - it grants consent to the act that governs the purpose, significance and tasks of the internal auditing department.
- it verifies the following documents and:
    - it reviews the books of account and documents of the insurer;
    - it approves the company's annual report, and takes a position on the audit report and gives consent to the proposed use of distributable profit, and verifies the report on relations with affiliates and compiles a written report for the general meeting thereon, in which it takes a position on both the results from auditing the report on relations with affiliates and also senior management's statement cited in the report on relations with affiliates;

– it addresses other matters in accordance with the requirements of applicable regulations and in accordance with the diligence of a good expert in supervising the management of the insurer's operations.

### 2.6.1 Management board

In addition to the Companies Act, the Insurance Act, the Articles of Association, the Governance Policy and supervisory board resolutions, the manner and organisation of the management board's work is also set out in the Rules of Procedure of the Management Board, which is adopted by the management board. In accordance with the Articles of Association the management board will have a minimum of two and a maximum of four members, one of whom will serve as chairman.

The number of members of the management board and the allocation of competences among members is determined by the supervisory board in a resolution on the appointment of members. Members of the management serve a maximum five-year term of office and may be re-appointed. The supervisory board may dismiss a particular member of the management board or its chairman in cases prescribed by law.

In legal transactions, the company is always represented publicly and legally by two members of the management board, one of whom must be its chairman. If a procurator has also been appointed by the management board or supervisory board, they can only represent the company together with the chairman or a member of the management board.

All members of the management board make decisions by a majority of votes within the scope of that body’s competences. All members of the management board take decisions unanimously. The management board generally takes decisions at meetings that are usually convened once a week and for which minutes were kept.

The management board has no powers to issue or purchase treasury shares.

**Management board in 2019**

In the period 1 January 2019 to 29 May 2019 Coface PKZ was headed by a three-member management board: Sergej Simoniti (chairman), Igor Pirnat and Denis Stroligo.

At the meeting of 29 May 2019 the supervisory board determined that the management board had two members and that same day dismissed Denis Stroligo from his position as management board member. At the meeting of 1 July 2019 the supervisory board dismissed Igor Pirnat and appointed Mindaugas Sventickas to serve as a new member of the management board under the suspensive condition of acquiring ISA's authorisation to perform this function. The latter obtained that authorisation on 4 December 2019 and on that same day commenced his function serving as the second member of the management board, which also coincided with the dismissal of Igor Pirnat becoming effective.

## Presentation of Chairman Sergej Simoniti

***Education:*** *bachelor's degree in law*
***Year of birth:*** *1971*

***Positions (jobs) and experience:***

Insurance Supervision Agency (*January 2012 – December 2017*):
- *Director*

Pozavarovalnica Sava, d.d., Ljubljana *(December 2002 – December 2011):*
- *Executive Director – General Affairs and Compliance Sector (September 2009 – December 2011)*
- *Director of the Legal Department (January 2005 – September 2009)*
- *Insurance lawyer (December 2002 – December 2004)*

Narval, d.o.o. *(October 2000 – November 2002):*
- *Executive Director*

Generali SKB zavarovalnica, d.d. *(September 1997 – September 2000):*
- *Lawyer*

***Areas of responsibility:***
Sales, marketing and communication, finances and actuarial, HR, legal affairs, key functions.

## Presentation of member Mindaugas Sventickas

***Education:*** *bachelor's degree in economics*
***Year of birth:*** *1979*

***Positions (jobs) and experience:***

Coface Baltics Services Ltd, Litva *(August 2008 – the present):*
- *Director of the Risk Underwriting Department (January 2016 – the present)*
- *Deputy Managing Director (August 2008 – January 2016)*

Coface Credit Management Services Ltd, Lithuania *(November 2010 – January 2016):*
- *Deputy Managing Director*

Compagnie Française d'Assurance pour le Commerce Extérieur, Lithuania *(December 2013 – January 2016):*
- *Subsidiary Deputy Managing Director and Director of the Risk Underwriting Department*

Coface SA, Lithuania *(January 2013 – December 2013):*
- *Subsidiary Deputy Managing Director and Director of the Risk Underwriting Department*

Coface Austria Kreditversicherung AG, Lithuania *(February 2006 – January 2013):*
- *Subsidiary Deputy Director and Director of the Risk Underwriting Department (January 2007 – January 2013);*
- *Director of the Credit Insurance Department (February 2006 – December 2006);*

Lietuvos Eksporto ir Importo Draudimas Ltd. IC, Lithuania (*August 2003 – February 2006*):
- *Director of the Credit Insurance Department (October 2004 – February 2006);*
- *Specialist at the Risk Underwriting Department (August 2003 – October 2004);*

***Areas of responsibility:***
Risk underwriting, account management, enhanced information, claims, information technology.

### 2.6.2 Supervisory board

The competences (powers) and decision-making of the supervisory board, manner and organisation of work and other questions material to its work are set out by the applicable laws, the Articles of Association, the Corporate Governance Policy and Rules of Procedure of the Supervisory Board. In accordance with the provisions of the Articles of Association the supervisory board is comprised of three to six members (the number is determined by way of a general meeting resolution). In a three-member supervisory board employees have one representative, while in a four-, five- or six-member supervisory board there are two employee representatives on the board. The other supervisory board members comprise shareholder representatives.

Shareholder representatives are elected by the general meeting, while the two employee representatives are elected by the works council of Coface PKZ. Their appointment and dismissal are carried out in accordance with applicable laws and the company’s Articles of Association. The chairman and vice-chairman of the supervisory board are elected among shareholder representatives. The members of the supervisory board serve a term of office of 4 (four) years, and may be re-elected without limitation. The general meeting may dismiss a supervisory board member before the end of their term of office. It elects a new member with the same four-year term of office to replace the dismissed member.

The supervisory board decides on matters at meetings for which minutes are kept. The supervisory board also drafts an annual report on its work, which it submits to the general meeting.

**Supervisory board in 2019**

*Members of the supervisory board of Coface PKZ*

| Members | Title | Start of term of office | Duration of term of office |
|---|---|---|---|
| Goran Katušin | Chairman (as of 1/1/2017) | 1/9/2016 | 24/4/2019 |
| Bojan Pecher | Deputy Chairman (as of 1/1/2017) | 26/2/2017 | 24/4/2019 |
| Dr Matejka Kavčič | Member | 1/9/2016 | 24/4/2019 |
| Mirjam Janežič | Member | 1/9/2016 | 24/4/2019 |
| Declan Gerard Daly * | Chairman | 24/4/2019 | 24/4/2023 |
| Jean-Philippe Oliver * | Deputy Chairman | 24/4/2019 | 24/4/2023 |
| Anca Andreea Dan | Member | 24/4/2019 | 1/7/2019 |
| Marcin Siwa * | Member | 1/7/2019 | 1/7/2023 |
| Constantin-Alexie Coman * | Member | 24/4/2019 | 24/4/2023 |
| Andraž Tinta * | Workers' Representative | 26/2/2017 | 26/2/2021 |
| Sanja Dimec * | Workers' Representative | 1/9/2016 | 1/9/2020 |

* members of the supervisory board as at 31 December 2019

The supervisory board has an audit committee, which is an advisory body for the supervisory board that drafts resolutions for the supervisory board in the areas it is responsible for, attends to their implementation, and carries out other expert duties set out by regulations, its rules of procedure adopted by the supervisory board, and supervisory board resolutions. The audit committee is primarily concerned with accounting and financial information, risk management and internal controls, internal and external auditing, reviews and findings by other supervisory authorities in supervisory processes carried out on the company.

*Members of the audit committee of Coface PKZ*

| Members | Title | Start of term of office | Duration of term of office |
|---|---|---|---|
| Dr Matejka Kavčič | Chairman | 2/9/2016 | 24/4/2019 |
| Mirjam Janežič | Deputy Chairman | 2/9/2016 | 24/4/2019 |
| Bojan Pecher | Member | 2/9/2016 | 24/4/2019 |
| Blanka Vezjak | Independent expert | 23/11/2010 | 29/5/2019 |
| Jean-Philippe Oliver * | Chairman | 24/4/2019 | 24/4/2023 |
| Ana-Maria Constantinescu * | Deputy Chairman, Independent expert | 24/4/2019 | 24/4/2023 |
| Anca Andreea Dan | Member | 24/4/2019 | 1/7/2019 |
| Marcin Siwa * | Member | 1/7/2019 | 1/7/2023 |

* members of the audit committee as at 31 December 2019

### 2.6.3 General meeting

The general meeting convenes at least once a year, i.e. after the end of the financial year and also as required, when it is convened by a body or person who is authorised to do this under the law or the articles of association.

The company's general meeting takes decisions on the following:
- adoption, amendments and additions to the articles of association;
- measures to increase and decrease capital;
- the use of distributable profit;
- the appointment and dismissal of members of the supervisory board;
- remuneration to members of the supervisory board for their work;
- the conferral of official approval on members of the management board and supervisory board for their work in the previous year;
- winding-up of the company, and status transformation;
- the appointment of an auditor;
- number of supervisory board members;
- other matters prescribed by the articles of association and by law.

# 3. STRATEGIC GUIDELINES AND PLANS

## 3.1 Mission, vision and values

**Mission**
With insuring receivables we mitigate default risk and ensure financial security in the sale of goods and services, thereby promoting trade and economic development.

**Vision**
We are a highly respected credit insurer in our region with a dominant market share in the Western Balkans in the segment of insurance of company receivables. Policyholders who identify us as the first and best choice for the management of default risk are the central focus of our business activity.

**Values**
The Group's core values: client focus, expertise, courage and accountability, collaboration.

## 3.2 Strategy for the period 2020–2022

Coface PKZ generally prepares a three-year strategy, with the exception of 2017, when due to the process of verifying sales possibilities it drafted a five-year plan (for the period 2018–2022). It regularly monitors the strategy and adjusts it smoothly on an annual basis. The strategic guidelines form the basis for drawing up annual financial plans. The implementation of the outlined objectives is monitored quarterly. In the event of significant deviations corrective measures are adopted, and upon major changes, even due to external effects, documents can be adjusted prematurely.

In 2019, together with key employees, a three-year strategy was drawn up for Coface PKZ for the period 2020–2022.

The growth forecast in the insurance business will be achieved by Coface PKZ through numerous strategic activities focused on increases in premiums. In the scope of this, it is essential that Coface PKZ provides better service to policyholders than the competition, which it mainly builds on the following key areas:

- Ensuring a significantly higher level of limit approval in the context of ensuring the target claims ratio.
- Securing the capacity for non-marketable risks, taking into account that Coface PKZ has already entered into an appropriate reinsurance contract. The implementation of this contract provides Coface PKZ with one of its key competitive advantages, and as such has identified the activities associated with the insurance of non-marketable risks as strategically important.
- Activities focused on mitigating the losses suffered by policyholders, where strategic activities will focus on improving the risk management systems within policyholders, which also includes raising the awareness of policyholders in terms of their expert knowledge regarding risks.

The new premiums will also be generated by strengthening our own sales network and through active penetration onto foreign markets – the Western Balkans, in the direction of which the insurer will direct its operations via the performance of ‘fronting’.

Coface PKZ will expand the recognition of its brand and recognition of trade credit insurance product, by creating a network of banks that will operate as intermediaries for the EasyLiner product. Cooperation with insurance brokers is also key in order to expand recognisability and increase new sales, where Coface PKZ will also seek possibilities for cooperation with insurance brokers it currently does not cooperate with, in particular in terms of collaborating with insurance brokers who are focused on legal entities, international insurance brokers and locale insurance brokers on foreign markets. A significant portion of the strategic activities also focuses on the activation of idle brokers.

Coface PKZ also sees the compliance of the product with the CRR as one of its crucial strategic activities.[5] This is clearly an opportunity to develop a new product, i.e. the provision of credit insurance as a technique for the mitigation of risks at banks under the CRR. Through the use of certain instruments, the latter enables banks to lower their exposure to credit risk and also their capital requirements for that risk.

A key strategic result of this strategy relates to the achievement of a return, which Coface PKZ, in addition to the aforementioned actions, will also impact through its claims ratio and costs. Sound management of the claims ratio and costs will be significant during ambitious growth in the volume of the insurance business. Management of costs will be achieved

[5]Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

through the optimisation of operating costs. This will be monitored through the average claims ratio, the cost ratio and the combined ratio.

## 3.3 Implementation of objectives in 2019

*Realisation of planned objectives in 2019*[6]

| in EUR mio or in % | Plan 2019 | Actual 2019 | Index | |
|---|---|---|---|---|
| Gross premiums written | 14,20 | 14,75 | 104 | Plan achieved |
| Gross cost ratio | 36% | 37% | 102 | Plan not achieved |
| Net claims ratio | 48% | 37% | 76 | Plan achieved |
| Pre-tax profit | 1,35 | 1,48 | 110 | Plan achieved |

Coface PKZ performed well in 2019, but nevertheless faced a demanding market environment. Coface PKZ thus exceeded the expectations of the financial plan, as it generated a pre-tax profit of EUR 1.48 million, which was higher than planned.

Gross premiums written were EUR 0.55 million higher than planned, or 4%, primarily due to the higher volume of insurance business.

The cost ratio was up one percentage point on the planned figure, and in 2019 stood at 37%.

Claims in 2019 were favourable, as also evidenced by the net claims ratio, which is 2019 stood at 37% and was down on the planned figure (48%).

## 3.4 Plans for 2020

*Plans for the 2020 financial year*[7]

| in EUR mio or in % | Actual 2018 | Actual 2019 | Plan 2020 | Index P2020/2019 |
|---|---|---|---|---|
| Gross premiums written | 14.28 | 14.75 | 14.30 | 97 |
| Net claims ratio | 44% | 37% | 53% | 143 |
| Pre-tax profit | 1.21 | 1.48 | 0.64 | 43 |

Coface PKZ is planning for lower gross premiums written for 2020 relative to 2019 resulting from the continued decline in the premium rate and the increased activity of competitors.

The 2020 financial plan forecasts that the claims ratio will be higher than that realised in 2019. Coface PKZ is forecasting that it will maintain stability in the net claims ratio because of the expectation of a relatively favourable economic situation in its important markets, and because of the quality of its system for transferring risk to reinsurance. Since credit insurance is highly exposed to economic and political cycles and to individual major claims, there is always a possibility for the gross claims ratio of a particular claims year to significantly

[6] Coface PKZ draws up financial plans on the basis of operating costs by nature.
[7] Coface PKZ draws up financial plans on the basis of operating costs by nature.

deviate from the planned figures, and thus Coface PKZ uses reinsurance protection to a significant extent in order to reconcile the business results and manage insurance risks.

In 2020 Coface PKZ expects to generate an operating profit, which is envisaged to be a smaller amount than that realised in 2019.

### 3.5 Investments and development of IT support

In 2019, efforts in the area of IT support development were mostly focused on implementing the Group's IT system. In terms of software, it all began with the implementation of the following software solutions:

- ATLAS: software solution for the management of credit limits;
- CUBE: software solution for the administration of contracts and contractual stakeholders; and
- COFAnet: web portal for access to and granting of credit limits.

The INCA implementation project also began, comprising a software solution for the management of compensation claims, which will also continue into 2020.

In terms of hardware, network and telephony projects have begun. A contract was awarded for the purchase of standardised computer equipment.

## 4. BUSINESS ENVIRONMENT

### 4.1 General global economic environment

Global economic growth was at 3.6% in 2018. In its autumn World Economic Outlook report the International Monetary Fund (hereinafter: the IMF)[8] forecast 3.0% global economic growth for 2019 and 3.4% for 2020. The IMF thus established that the global economy is in a synchronised slowdown, and the growth forecast for 2019 will be the worst since the period of the economic and financial crisis in 2009. Low growth in 2019 is the result of a geographically broad-based slowdown in manufacturing and global trade. Higher tariffs and prolonged uncertainty surrounding trade policy have dented investment and demand for capital goods. The automobile industry is also contracting owing to shocks, such as disruptions from new emission standards in the euro area and China that have had lasting effects. In contrast to weak manufacturing and trade, the services sector has kept labour markets buoyant and wage growth healthy in advanced economies.

The slowdown in economic growth in the international environment is largely the result of increased risks, which in the opinion of the IMF are the result of increasing trade tensions, in particular the ongoing United States – China trade war, which also affects the rest of the world, with Europe in the forefront, along with macroeconomic tensions in numerous emerging markets and other structural factors, such as low growth in productivity and ageing

[8]IMF, World Economic Outlook, October 2019

of the population in developed countries. The IMF also cautions that risks continue to rise, meaning that future growth could be a little lower than forecast. These risks could jeopardise weak growth in emerging countries and in the euro area. Developed countries could fall into a trap of deeply-rooted low inflation, which would minimise the space for further action by central banks. For now a loose monetary policy contributes significantly to the economic dynamics; without stimulus provided by central banks global economic growth in both 2019 and 2020 would decline by an additional 0.5 percentage points, according to the IMF's opinion. Increasing trade and geopolitical tensions increase uncertainty regarding the future of the global trading system and international cooperation in general, primarily negatively affecting business confidence, investment decisions and global trade.

Global trade significantly supports the global economy, and grew at 3.0% in 2018.[9] In October 2019 the World Trade Organisation forecast growth in global trade at 1.2% in 2019 and 2.7% in 2020. The lower growth forecasts were the result of increased trade tensions and the slowdown of the global economy. All geographic regions recorded positive growth in exports in the first half of 2019, despite the significant downturn in global demand. North America recorded the fastest growth in exports (1.4%), followed by South America (1.3%), Europe (0.7%) and Asia (0.7%). North America also leads all regions in terms of the fastest growth in imports (1.8%), and was followed by Europe with 0.2%. Two regions recorded a decline in imports (South America with -0.7% and Asia with -0.4%). Collectively, the growth in the imports of other regions (2.4%) was more pronounced than in North America. Import demand was especially weak in Asia, which heavily burdened exporters of industrial products (e.g. in Japan, South Korea and Germany).

The European economy recorded growth in 2019 for the seventh consecutive year, with this trend expected to continue in 2020 and 2021. Euro area GDP, according to the European Commission's autumn economic forecast[10], is expected to increase by 1.1% in 2019, and by 1.2% in 2020 and 2021. GDP for the EU as a whole is expected to increase by 1.4% in 2019, 2020 and 2021. Labour markets remain strong and unemployment rates are continuing to fall. However, the external environment is far less encouraging, which is linked with major uncertainty. Further trade tensions between the US and China and major policy uncertainty, particularly regarding trade, undermine investment, the manufacturing sector and international trade. Given that global GDP is expected to remain weak, growth in Europe will depend on the strength of sectors that are more focused on the local environment, which will rely on a labour market that supports growth in wages, favourable financing terms and, in some member states, fiscal support measures. The economies of all member states are expected to continue to grow, although it is unlikely that domestic growth factors alone will suffice for strong growth. So it seems that the European economy is approaching a protracted period of slower growth and limited inflation.

The number of insolvent companies is increasing worldwide. The forecast for 2019 is that the number of insolvent companies would increase globally by 2.8%, and then by a further 1.2% in 2020. This will mark the first annual increase of the decade, since the global financial crisis in 2008 and 2009. An increase of 1.2% in the number of insolvent companies is forecast for the euro area in 2019.[11]

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[9] WTO, World Trade Statistical Review 2019
[10] European Commission, European Economic Forecast Autumn 2019, November 2019
[11] Atradius, Insolvency Forecast, August 2019

According to a D&B study[12] conducted in 2019, which analysed the payment discipline of companies in 23 European countries in 2018, a total of 42.8% (41.7% in 2017) of companies at the common European level adhered to the agreed payment deadlines, while liabilities were paid up to 30 days in arrears by 47.5% of companies (48.8% in 2017). Significant payment delays (more than 90 days in arrears) were linked to 3.8% of companies (3.7% in 2017), of which delays extending over 120 days were seen in 2.2% of companies (the same as in 2017).

## 4.2 Economic environment in Slovenia

Slovenia is the largest individual market within Coface PKZ's portfolio. In 2019 domestic insured turnover accounted for 28% of the entire volume of Coface PKZ's insurance business. The macroeconomic and political situation in the country thus has a major impact on Coface PKZ's operations.

*Important indicators for Slovenia*

| | 2017 | 2018 | 2019 forecast | 2020 forecast | 2021 forecast |
|---|---|---|---|---|---|
| GDP growth (in %, real) | 4.8 | 4.1 | 2.8 | 3.0 | 2.7 |
| GDP (in EUR million) | 42,987 | 45,755 | 48,242 | 50,910 | 53,581 |
| GDP per capita (in EUR) | 20,809 | 22,083 | 23,350 | 24,641 | 25,934 |
| Registered unemployment rate (in %) | 9.5 | 8.2 | 7.7 | 7.2 | 6.9 |
| Inflation rate (annual average in %) | 1.4 | 1.7 | 1.8 | 2.0 | 2.3 |
| Total exports (goods and services) from Slovenia (in EUR million) | 35,753 | 39,065 | 42,500 | 45,100 | 47,746 |
| Total imports (goods and services) into Slovenia (in EUR million) | 31,943 | 35,276 | 38,890 | 41,540 | 44,273 |
| Number of bankruptcies | 1,316 | 1,497 | / | / | / |
| Change in number of bankruptcies | -4.4% | 13.8% | / | / | / |

Source: IMAD, Autumn Forecast Of Economic Trends in 2019
Source for the number of bankruptcies: Creditreform, Corporate insolvencies in Europe 2018/2019

Economic growth, which after pronounced growth in 2017 (4.8%) began to slow in 2018 (4.1%), and continued to slow in the first half of 2019 (2.9%). The Autumn Forecast of Economic Trends[13] projects 2.8% GDP growth in 2019, which will then maintain a similar level over the next two years (3.0% and 2.7%). The slowdown in economic growth in 2019 will largely be a result of the significant negative contribution made by net trade and the low growth in gross investments, both connected with the slowdown in the growth in foreign demand and increased uncertainty in the international environment. In the context of continued high growth in the construction sector, growth in investments is still relatively high. Despite slightly lower growth in foreign demand, growth in exports in 2019 is expected to continue to strengthen, which will be an indication of significantly faster growth in exports of pharmaceutical, medical and oil products, which is largely derived from imports (re-exports) and not so much from domestic production. In addition to the gradual deterioration in cost competitiveness (due to rising labour costs and the relatively low growth in productivity), the slowdown of this segment of exports will also impact the lower growth in exports over the coming two years. After increasing in 2019, growth in imports is expected to slow, but will

[12] CRIBIS D&B, Payment study 2019
[13] IMAD, Autumn Forecast Of Economic Trends in 2019

remain above the growth in exports in the context of solid growth in domestic consumption. The contribution made to GDP growth by net trade will therefore remain negative, but to a lesser extent than in 2019. Domestic consumption will significantly contribute to maintaining solid growth over the projection horizon. Its growth will be supported by the continuation of favourable trends on the labour market and the still-positive sentiment among consumers and in the service sector. Growth in private and government consumption will gradually slow. This is strongly connected with the projected lower growth in employment. Employment growth will gradually slow in the period 2019–2021, which will be an indication of lower growth in economic activity, which will be increasingly affected by demographic changes. The inflation rate is expected to rise slightly, from 1.8% in 2019 to 2.3% in 2021.

A total of 49.9% of all companies in Slovenia in 2018 (compared with 51.8% in 2017) paid their liabilities on time, which exceeded the European average (42.8%). A total of 42.3% of companies (compared with 40.2% in 2017) paid their liabilities up to 30 days in arrears. A total of 6.1% of Slovenian companies (6.0% in 2017) paid their liabilities between 30 and 90 days in arrears, and 1.7% of them (2.0% in 2017) more than 90 days in arrears[14].

There were 1,497 bankruptcies filed in Slovenia in 2018.[15] This figure was up by 13.8% relative to the previous year.

## 4.3 Economic environment in key foreign trade countries for Coface PKZ

Since 2008, in addition to the domestic market, the most important buyer countries in Coface PKZ's portfolio have been Germany, Croatia, Italy, and Russia, which in 2019 collectively accounted for 30% of the volume of insurance business. Economic trends in these countries, which are key foreign trade partners of Slovenia, significantly affect the performance of Coface PKZ.

[14] CRIBIS D&B, Payment study 2019
[15] Creditreform, Corporate insolvencies in Europe 2018/2019

*Basic economic indicators for the countries that most affect Coface PKZ's performance*

| | | Russia | Germany | Croatia | Italy |
|---|---|---|---|---|---|
| GDP per capita (in EUR) | 2018 | 9,555 | 40,341 | 12,586 | 29,049 |
| GDP growth (in %, real) | 2018 | 2.3 | 1.5 | 2.6 | 0.8 |
| | forecast 2019 | 1.0 | 0.4 | 2.9 | 0.1 |
| | forecast 2020 | 1.4 | 1.0 | 2.6 | 0.4 |
| Unemployment rate (in %) | 2018 | 5.0 | 3.4 | 8.4 | 10.6 |
| | forecast 2019 | 5.1 | 3.2 | 6.9 | 10.0 |
| | forecast 2020 | 4.9 | 3.4 | 5.8 | 10.0 |
| Inflation rate (annual average in %) | 2018 | 2.9 | 1.9 | 1.6 | 1.2 |
| | forecast 2019 | 4.5 | 1.3 | 0.9 | 0.6 |
| | forecast 2020 | 3.7 | 1.2 | 1.4 | 0.8 |
| Slovenian exports to the country (in EUR million) | 2018 | 790 | 6,267 | 2,511 | 3,851 |
| | 1-9/2019 | 649 | 4,850 | 2,195 | 2,966 |
| Slovenian imports from the country (in EUR million) | 2018 | 370 | 5,550 | 1,684 | 4,622 |
| | 1-9/2019 | 415 | 4,143 | 1,252 | 3,590 |
| Growth/Decline in Slovenian exports to the country in 1-9 2019/1-9 2018 | | 13.4% | 2.4% | 17.0% | 9.1% |
| Number of bankruptcies in 2018 | | 12,897 | 19,410 | 8,094 | 13,695 |
| Change in number of bankruptcies 2018/2017 | | -4.0% | -3.6% | -24.7% | -2.9% |

Source: European Commission, European Economic Forecast Autumn 2019, November 2019
Source for GDP per capita: World Economic Outlook Database, October 2019
Source of data on imports and exports: SORS, SI-STAT Database (Foreign trade), www.stat.si
Source for the number of bankruptcies: Creditreform, Corporate insolvencies in Europe 2018/2018
Source for the number of bankruptcies in Russia: Trading Economics, https://tradingeconomics.com/russia/bankruptcies

## Russia

After strong real GDP growth to 2.3% in 2018 spurred by transient factors related to the completion of major infrastructure projects, economic activity slowed in the first half of 2019. Private consumption is weakened by an increased VAT burden, relatively tight monetary policy and weak wage growth. Investment growth is hampered by delays in the implementation of public investment projects. Exports suffered from weakening global demand for hydrocarbons and metals, last year's below-average grain harvest, and temporary disruption of oil flows. Low global oil prices and weak demand for oil and gas hamper the outlook for exports.

## Germany

After slipping into a technical recession in mid-2019, Germany's economy is expected to see slow growth in the coming period. Foreign demand seems to be weaker than previously expected and domestic demand is set to be dampened by weak investment. The labour market, by contrast, should remain supportive of private consumption, though likely less than in previous years. The current account surplus and domestic savings remain high. The situation in the external environment has a negative impact on exports in production. The car manufacturing sector is undergoing a structural transformation. The production of combustion engine vehicles is being scaled down and relocated abroad. Equipment manufacturers, construction and key services are also affected.

## Croatia

As growth in Croatia's main trading partners' moderates, domestic demand will remain the main driver of economic activity. Domestic demand is based on strong household consumption, which is driven by growing employment and wages as well as low inflation. Investment is set to continue growing strongly, backed by EU funds, and government consumption is also expected to support growth. The economy should continue adding jobs, but at a slower pace as labour shortages appear in some sectors. The debt ratio is set to continue declining steadily as the general government balance turns from mildly positive to neutral. Despite a recovery in exports, net exports are set to contribute negatively to growth due to strong imports.

## Italy

Italy's economy stalled at the beginning of 2018 and still shows no signs of a meaningful recovery. In line with global trends, manufacturing weakened further in 2019. In addition, there are growing signs that the weakness in the manufacturing sector has started to spread to services. However, favourable financing conditions and waning political uncertainty may support growth beyond the very near term. In 2020, growth is set to pick up modestly on the back of rising external demand and moderate household spending, though the latter will be partly dampened by a weakening labour market. The government deficit and debt are set to increase over the coming years, amid weak economic growth and the rising costs of past measures.

This economic situation that Coface PKZ has summarised in its annual report on the basis of the aforementioned sources could have changed significantly from the date on which a particular source had been published.

## 4.4 Insurance market and market position of Coface PKZ

The Slovenian insurance market achieved 7.4% growth in premiums in 2019. Insurers, members of the Slovenian Insurance Association (hereinafter: SIA), collected EUR 2,513.3 million in insurance premiums. Non-life insurance recorded growth of 8.4% in 2019 relative to the previous year, and stood at EUR 1,761.3 million. This accounted for 70.1% of the total insurance premiums collected.

A total of EUR 37.3 million was collected in 2019 in the category of credit insurance, which was 10.5% less in insurance premiums than in the previous year. In the scope of non-life insurance, credit insurance accounted for 2.1%.

*Information about the insurance market in Slovenia*

| | Insurance premium (in EUR million) | | | Change in growth (in %) | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2019/2018** | **2018/2017** |
| Total all insurance classes | 2,513.3 | 2,341.1 | 2,179.3 | 7.4% | 7.4% |
| Non-life insurance | 1,761.3 | 1,624.4 | 1,525.8 | 8.4% | 6.5% |
| - Credit insurance | 37.3 | 41.6 | 46.2 | -10.5% | -9.8% |
| - Trade credit insurance (international and domestic) | / | 17.8 | 18.3 | / | -3.2% |
| - Coface PKZ | 14.8 | 14.3 | 15.1 | 3.3% | -5.2% |
| - Coface PKZ share in credit insurance | 39.6% | 34.3% | 32.6% | 15.4% | 5.2% |
| - Coface PKZ share in trade credit insurance | / | 80.4% | 82.1% | / | -2.1% |

Specific data for 2019 was not yet available at the time of drafting the annual report.
Source: Slovenian Insurance Association

A total of 19 insurers that are members of the SIA operated on the Slovenian insurance market in 2019. The level of market concentration is quite high, as four of the largest insurers (Triglav, Sava, Vzajemna and Adriatic Slovenica) account for 69.5% of the entire market, with this percentage being even higher for non-life insurance, as these four insurers account for 80.3% of the market (figures for the period January–September 2019). Coface PKZ's market share for non-life insurance stood at 0.8% in 2019. In terms of trade credit insurance Coface PKZ recorded a high market share, standing at 80.4% in 2018. The calculation only includes data from insurers that are SIA members.

In addition to insurers that are members of the SIA (Triglav), trade credit insurance on the Slovene market is also marketed by some foreign insurers (Atradius, Acredia).

## 4.5 Impact of the environment on Coface PKZ's 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 to 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; and
- integration procedures with the Group.

The countries that have a material impact on the operations of Coface PKZ continued to record economic growth in 2019, which brought an increase in volume of insurance businessand more favourable claims developments for the majority of policyholders. Owing to market activity by competitors and also by insurance intermediaries (with pressure to reduce premium rates), Coface PKZ again operated in a very competitive environment in 2019, which had an impact on its sales activities and the quest for new approaches in the sale and monitoring of insurance operations, and in the development of products and Coface PKZ’s future strategy.

The influence of the environment and Coface PKZ’s prompt responses to it were reflected in an increase in volume of insurance business and a fall in premium rates. The growth in insurance business was largely attributable to an increase in business with existing policyholders, and also to business with new policyholders and an increasing focus on sales and on servicing existing policyholders. Alongside the competitive environment, the decline in premium rates and thus in premiums was also attributable to more favourable claims ratios in recent years, which Coface PKZ took into account when setting its premium rates. On the other hand, Coface PKZ's increased sales activities have also brought higher insurance acquisition and implementation costs. Owing to the above, the company saw a rise in its premiums in 2019 relative to the previous year.

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

Coface PKZ will also continue to operate in a highly competitive environment in 2020, as is customary nowadays. Coface PKZ will continue to face fierce competition and the increased activity of intermediaries in 2020. Coface PKZ has responded to these circumstances in recent years by increasing sales activities, through new recruitment in sales, sales promotion via new sales channel, initiating activities for penetration onto Western Balkans markets, continuing to improve its services for policyholders and with the continued computerisation of processes.

Given the European Commission's forecast on future economic growth in all countries in which Coface PKZ generates the most turnover, and the projected growth in Slovene exports, we are expecting continued growth in the volume of insurance business. In the context of a relatively favourable economic forecast, despite the growth in the volume of insurance business, the company is not expecting a major spike in claims developments, but is expecting their upturn relative to 2019. The economic situation remains uncertain due to the complex geopolitical situation, sanctions, increasing trade conflicts, etc. which in the wake of rapid changes could affect Coface PKZ's performance.

# 5. KEY STAKEHOLDERS AND THE ENVIRONMENT

## 5.1 Responsibility to policyholders

The company provides all of its services with the aim of directly and indirectly generating added value for policyholders. It is also responsible for the protection of the policyholders' rights, benefits and risks, and for the confidentiality of such relationships.

The company, in being responsible for its policyholders, places to the forefront its long-term relationships with the policyholder that are based on identifying their needs beforehand and adjusting to them accordingly. In striving to ensure superior service to internal and external customers, the company has put in place a standard of excellence. The adopted standard also defines internal excellence and thereby enables the achievement of the same target orientation of all departments, which is seen in meeting of the expectations of policyholders and so gaining their satisfaction.

## 5.2 Responsibility to reinsurers

Due to the specific nature of trade credit insurance, the insurer mostly reinsures all the risks taken-up. In that respect, long-term, open and trustworthy relationships with reinsurers are extremely important.

The company continuously coordinates any changes with the leading reinsurer and informs other reinsurers of all implemented changes that could increase the underwritten risk.

In accordance with the reinsurance contracts, reinsurers are submitted accounts of reinsurance and regular reports on reinsurance contract results at the end of quarters. In the event of major claims reinsurers are notified of the reasons for the claims, the adopted measures and projections regarding the further evolution of these claims and corresponding recourses.

During the year the company welcomes representatives of various reinsurers at which the company reinsured or could reinsure its portfolio, and prior to renewal, as required, also organises a reinsurance meeting at which it presents past results, plans for the future and expectations regarding further cooperation.

The company cooperates with reinsurers in a manner that allows long-term cooperation and security for the company.

By 2020, the company, due to its integration in the Group, will have a good majority of the contacts with Coface Re, which is also a part of the Group. Through it the company will be able to collaborate with a larger number of reinsurers.

## 5.3 Responsibility to employees

The company has put in place standards for the treatment of employees that comply with the applicable laws governing employment relationships and the Group's own bylaws. Ethical principles and instances of good practice are applied to the treatment of personnel. Employees participate directly or indirectly in the management of the company.

The company's responsibility to its employees is demonstrated with the development of all employees via the acquisition of new knowledge and skills, and with the introduction of new tools, both in business and private areas. Employees participate in the setting and achievement of strategic objectives, thereby achieving greater commitment from individuals.

### 5.3.1 Number and structure of employees

As of 31 December 2019 there were 68 employees, of which 35% were male and 65% female. The company failed to formalise a diversity policy in accordance with the third paragraph of Article 70 of the ZGD-1.

*Breakdown of the employees by age group*

| Age group | 31/12/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| | Number | Percentage | Number | Percentage |
| From 21 to 30 | 5 | 13% | 9 | 10% |
| From 31 to 40 | 24 | 39% | 28 | 42% |
| From 41 to 50 | 28 | 37% | 26 | 34% |
| From 51 to 60 | 11 | 10% | 7 | 11% |
| 61 and over | 0 | 1% | 1 | 3% |
| **Total** | **71** | **100%** | **71** | **100%** |

The average age of the workforce was 42.8 in 2019 and 41.2 in 2018.

*Employees by level of qualifications*

| Level of education (qualifications) | 31/12/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| | Number | Percentage | Number | Percentage |
| V. | 7 | 11% | 8 | 13% |
| VI/1. | 5 | 7% | 5 | 6% |
| VI/2. | 14 | 25% | 18 | 24% |
| VII. | 34 | 48% | 34 | 46% |
| VIII. | 7 | 8% | 6 | 11% |
| IX. | 1 | 0% | 0 | 0% |
| **Total** | **71** | **100%** | **71** | **100%** |

The majority of employees have a high school or university (level VI/2 and level VII) education. A total of 71% of employees hold this level of qualifications. The percentage of employees with an academic title of MSc or PhD is 11%.

### 5.3.2 Employee training and development

The organisational culture is based on teamwork and common values. In terms of individuals, the systemic development of knowledge is an important motivational factor. One of the main objectives from Coface PKZ's perspective is the identification of talented individuals and key personnel. Coface PKZ provides training for employees in accordance with the annual training programme that takes into account the requirements of a position and interests of an employee in various fields.

The average number of training hours per employee (considering the average number of employees in 2019) is 38.7. A total of 68 employees took part in training programmes, which accounts for almost 96% relative to the average number of employees.

Department heads conduct annual development interviews with employees aimed at target management and the provision of feedback to employees regarding their work and performance. During interviews employees and department heads discuss proposals and verify the possibility of their implementation.

The company has a competence model established for all positions. The employment (recruitment) system complies with the Solvency II requirements, which requires that members of the management board and key function holders comply with the fit & proper standard.

### 5.3.3 Responsibility for employee and occupational health

The company continuously carries out training courses on occupational health and safety for employees, and refers employees for periodic medical examinations and, as required, provides employees with ergonomically designed equipment.

Different lectures, sports activities and weekly fruit meals are available to employees in accordance with the annual work programme for the promotion of health and quality of life.

The company enables working from home to make it easier for employees to balance their professional and private lives.

## 5.4 Responsibility to other stakeholders

The company defines the standards to avoid conflicts of interest when performing its core activity of trade credit insurance in its compliance monitoring policy, as well as in the purchase process. With the entry into force of the code of ethics and professional standards the rights and benefits of customers are protected if this does not cause damage to the company. The company also does not enter into business relationships with clients which it believes operate unlawfully or unethically.

The company is a member of the Slovenian Insurance Association and acceded to the Insurance Code. The company complies with the adopted agreement and recommendations from the Association.

## 5.5 Responsibility to the environment and community

It is the obligation of each individual to have the smallest possible environmental footprint. The company is aware that people leave environmental footprints in their work, and therefore encourages its employees to protect and preserve the environment through electronic business, omission of document printing, separation of waste, use of recycled paper, use of company bikes, donation of empty printer cartridges to charitable organisations, etc.

Coface PKZ expresses its sensitive approach to the community by verifying and assessing the risk associated with buyers in connection with relevant sanctions, sponsoring the Slovenian Gazelle awards, which promote the fastest-growing companies in Slovenia, organises and participates in meetings at which companies familiarise themselves with risks on foreign markets, organises workshops for the protection and promotion of health, donates second-hand computer equipment to societies engaged in non-profit activities and financial resources to institutions that help people in distress.

# 6. COMPANY'S OPERATIONS IN 2019

## 6.1 Financial result[16]

| in EUR thousand | 2019 | 2018 | Change | Index |
|---|---|---|---|---|
| *Gross premiums written* | 14,755 | *14,279* | *476* | *103* |
| *Reinsurers' share* | -8,893 | *-8,619* | *-274* | *103* |
| *Change in net unearned premiums* | -121 | *54* | *-175* | *-224* |
| **Net income from insurance premiums** | **5,741** | **5,714** | **27** | **100** |
| Investment income | 851 | 268 | 584 | 318 |
| Income from reinsurance commissions | 2,895 | 2,734 | 161 | 106 |
| Income from charged credit reports | 1,061 | 1,004 | 57 | 106 |
| *Gross claims paid* | *-5,848* | *-5,194* | *-653* | *113* |
| *Recourse receivables claimed* | *1,019* | *1,782* | *-763* | *57* |
| *Reinsurers' share of claims* | *2,795* | *2,631* | *164* | *106* |
| *Reinsurers' share of recourses* | *-509* | *-893* | *384* | *57* |
| *Changes in net provisions for claims outstanding* | *314* | *-965* | *1,279* | *-32* |
| **Net claim expenses** | **-2,228** | **-2,640** | **412** | **84** |
| Net expenses for bonuses | -496 | -266 | -229 | 186 |
| Change in net provisions for unexpired risks | -414 | -67 | -347 | 615 |
| Operating costs | -5,144 | -4,605 | -539 | 112 |
| Investment expenses | -53 | -52 | -1 | 102 |
| Expenses for purchased credit reports | -750 | -695 | -54 | 108 |
| Difference between other expenses and income | 17 | -187 | 204 | -9 |
| **Pre-tax profit** | **1,479** | **1,207** | **272** | **123** |
| Corporate income tax | -319 | -239 | -79 | 133 |
| **Net profit for the accounting period** | **1,160** | **967** | **193** | **120** |

### *Claims ratio*

| in EUR thousand or in % | 2019 | 2018 | Change | Index |
|---|---|---|---|---|
| Net claims paid | -3,052 | -2,563 | -489 | 119 |
| Net recourse claimed | 510 | 889 | -378 | 57 |
| **Net claims paid less recourses** | **-2,542** | **-1,675** | **-867** | **152** |
| Claims paid / premiums written | 40% | 36% | | |
| Net claim expenses / net income from premiums | 39% | 46% | | |
| Gross claim expenses / gross income from premiums | 24% | 31% | | |
| **Net income from premiums - net claim expenses** | **3,512** | **3,074** | **438** | **114** |
| Recourse receivables claimed / gross claims paid | 17% | 34% | | |

The items of the income statement that exceed 2% of the gross premium written in 2019 (EUR 295,000) or that are linked to the insurance process are described below.

Gross premiums written in 2019 were up EUR 0.48 million or 3% on 2018. The reinsurer's share of gross premiums written remains unchanged at 60%. Net unearned premiums rose by EUR 0.12 million. Net income from insurance premiums was up by a mere EUR 0.03 million.

The claims situation in 2019 was moderate and similar to that of 2018. Gross claims written in 2019 were up EUR 0.65 million or 13% on 2018, while the difference in net claims paid stood at EUR 0.49 million or 19%. Gross recourse receivables claimed in 2019 accounted for 17% of gross claims paid (34% in 2018), while in absolute terms this figure was down EUR 0.76 million or 43% relative to the previous year. Net recourse claimed was down EUR 0.38

[16]Notes to the income statement, see point 2.6 of the financial report.

million or 43% on 2018. Net provisions for claims outstanding were down by EUR 0.31 million, which in addition to the other already mentioned factors affected net claim expenses, which in 2019 were down by 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 fell, 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.

Income from investments was up by EUR 0.58 million or 218% in 2019 relative to 2018 and stood at EUR 0.85 million, of which EUR 0.66 million was accounted for by the gain on the sale of investments, EUR 0.19 million from interest (in 2018 all income from investments was generated from interest). In 2019 the company transferred its investment portfolio to the manager of the Group's assets. Investment expenses comprise expenses for the management of investments, and were up 2% on 2018. Return on investment was higher than in previous years due to realised profits in the sale of investments, and stood at 3.1% (0.9% in 2018).

Income from reinsurance commissions was up EUR 0.16 million or 6% on 2018, which in addition to the increased premiums was also the result of a slightly higher commission percentage than in 2018 and slightly adjusted reinsurance structure.

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 coverage of the costs of credit report fees was down 2 percentage points relative to 2018, with income being 42% higher than the expenses.

Operating costs increased by 12%, or EUR 0.54 million in 2019. The costs ratio was up three percentage points on 2018 and stood at 35%.[17] Labour costs accounted for the majority of costs (57% in 2019 and 2018). Labour costs were up 11%, mostly due to the changed employee structure, higher performance bonus payments to employees and on account of paid out termination benefits and the higher paid out annual leave allowance than in 2018. Acquisition costs were up 13%, while amortisation and depreciation was down 9%. Other operating costs were up 21%, mostly on account of higher costs for advisory and other services, costs for business trips and marketing costs.

Net profit for the accounting period stood at EUR 1.16 million, which was up EUR 0.19 million on 2018.

| in EUR thousand | 2019 | 2018 | Change | Index |
|---|---|---|---|---|
| Pre-tax profit | 1,479 | 1,207 | 272 | 123 |
| Corporate income tax | -319 | -239 | -79 | 133 |
| **Net profit for the accounting period** | **1,160** | **967** | **193** | **120** |
| Retained earnings | 1 | 4,936 | -4,935 | 0 |
| Loss brought forward covered by the net profit for the financial year | 0 | -2 | 2 | 0 |
| Increase in reserves pursuant to the resolution of the management board | -580 | -483 | -98 | 120 |
| **Distributable profit** | **581** | **5,418** | **-4,837** | **11** |

[17]Cost ratio calculated from costs by type.

## 6.2 Financial position[18]

| in EUR thousand or in % | 31/12/2019 | 31/12/2018 | Change | Index | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|---|
| Available-for-sale financial assets, loans and deposits | 28,208 | 29,249 | -1,042 | 96 | 56% | 52% |
| Amount of technical provisions ceded to reinsurers | 12,822 | 13,963 | -1,141 | 92 | 26% | 25% |
| Receivables from (re)insurance business | 5,131 | 4,950 | 182 | 104 | 10% | 9% |
| Intangible assets and property, plant and equipment | 2,652 | 2,585 | 67 | 103 | 5% | 5% |
| Cash and cash equivalents | 1,262 | 5,523 | -4,261 | 23 | 3% | 10% |
| Other assets | 132 | 172 | -40 | 77 | 0% | 0% |
| **Total assets** | **50,206** | **56,442** | **-6,236** | **89** | **100%** | **100%** |
| Equity | 21,861 | 26,386 | -4,525 | 83 | 44% | 47% |
| *- share capital* | *8,413* | *8,413* | *0* | *100* | *17%* | *15%* |
| *- revenue reserves: legal, under Articles of Association and other reserves* | *12,629* | *12,048* | *580* | *105* | *25%* | *21%* |
| *- revaluation surplus* | *239* | *507* | *-268* | *47* | *0%* | *1%* |
| *- retained earnings* | *1* | *4,936* | *-4,935* | *0* | *0%* | *9%* |
| *- net profit for the financial year* | *580* | *483* | *98* | *120* | *1%* | *1%* |
| Technical provisions | 25,129 | 25,617 | -488 | 98 | 50% | 45% |
| Other provisions | 157 | 128 | 29 | 123 | 0% | 0% |
| Liabilities from reinsurance business | 1,937 | 3,218 | -1,281 | 60 | 4% | 6% |
| Other operating liabilities | 1,122 | 1,093 | 29 | 103 | 2% | 2% |
| **Total equity and liabilities** | **50,206** | **56,442** | **-6,236** | **89** | **100%** | **100%** |

Assets and liabilities items are described below, which as at 31 December 2019 accounted for at minimum a 5% proportion of assets or liabilities, or the change exceeded 2% of the capital (EUR 437 thousand) in the reporting period.

Total assets were down 11%. In the breakdown of assets the proportion of financial assets increased most, with the largest decline being recorded in the proportion of cash and cash equivalents. Capital saw the greatest decline among liabilities, while technical provisions increased.

Investments accounted for the largest proportion of assets (56%, up 4 percentage points in 2019), followed by technical provisions ceded to reinsurers (26%, up 1 percentage point in 2019), receivables from the (re)insurance business (10%, up 1 percentage point in 2019), intangible assets and property, plant and equipment, which as in 2018 accounted for 5% of the assets, and cash and cash equivalents (3%, down 7 percentage points in 2019).

Technical provisions accounted for the largest proportion of total equity and liabilities (50%, up 5 percentage points in 2019), followed by equity (44%, down 3 percentage points in 2019), and liabilities from the (re)insurance business ranked third (4%, down 2 percentage points in 2019).

As of 31 December 2019 financial assets were down 4% or EUR 1.04 million, while the average stock of investments in 2019 was up EUR 1.74 million on 2018. Liquid debt and equity instruments accounted for the majority of financial assets (91% of the total, 84% in 2018). The remaining financial assets (9% of the total; 16% in 2018) were short-term deposits at Slovenian banks.

Receivables from the (re)insurance business were up EUR 0.18 million, or 4%. Receivables from reinsurers were up mostly due to amounts accruing for the final reinsurance account

[18]For the notes to the balance sheet, see point 2.5 of the financial report.

and receivables from direct insurance business, while other receivables (mostly recourse claims) were down.

Intangible assets and property, plant and equipment were up 0.07 million in 2019.

As of 31 December 2019, cash and cash equivalents were down by EUR 4.26 million or 77%, of which 62% were accounted for by cash in bank balances and 38% in call deposits.

Equity was down EUR 4.52 million or 17%, mostly due to the payment of dividends in the amount of EUR 5.42 million. Coface PKZ already used 50% of the net profit in 2019 when drafting the report under the decision of the management board for the increase of other profit reserves in the amount of EUR 0.58 million. Following the creation of profit reserves, net profit for the financial year stood at EUR 0.58 million. Coface PKZ disclosed a minimum amount in retained earnings from actuarial gains from severance payments, due to which distributable profit increased.

*Technical provisions and reinsurers' shares*

| in EUR thousand | 31/12/2019 | Change in 2019 | Change in 2019 % | 31/12/2018 | Reinsurers' shares as at 31/12/2019 | Reinsurers' shares as at 31/12/2018 |
|---|---|---|---|---|---|---|
| Gross unearned premiums | 2,626 | 141 | 6% | 2,485 | | |
| Reinsurers' share | -1,388 | -20 | 1% | -1,368 | -53% | -55% |
| **Net unearned premiums** | **1,238** | **121** | **11%** | **1,117** | | |
| Gross provisions for claims outstanding | 17,438 | -1,328 | -7% | 18,766 | | |
| Reinsurers' share | -9,125 | 1,014 | -10% | -10,139 | -52% | -54% |
| **Net provisions for claims outstanding** | **8,313** | **-314** | **-4%** | **8,627** | | |
| Gross provisions for bonuses and rebates | 3,201 | 529 | 20% | 2,672 | | |
| Reinsurers' share | -1,554 | -97 | 7% | -1,457 | -49% | -55% |
| **Net provisions for bonuses and rebates** | **1,647** | **432** | **36%** | **1,215** | | |
| Gross provisions for unexpired risks | 1,865 | 171 | 10% | 1,694 | | |
| Reinsurers' share | -755 | 244 | -24% | -999 | -40% | -59% |
| **Net provisions for unexpired risks** | **1,110** | **414** | **60%** | **695** | | |
| Total gross technical provisions | 25,129 | -488 | -2% | 25,617 | | |
| Total reinsurers' share | -12,822 | 1,141 | -8% | -13,963 | -51% | -55% |
| **Total net technical provisions (liabilities under the IFRS)** | **12,308** | **653** | **6%** | **11,655** | | |

Gross technical provisions declined by EUR 0.49 million, or 2%. Given that the absolute amount of provisions ceded to reinsurers further declined, this was reflected in the increase of net technical provisions by 6%, or by EUR 0.65 million. Gross provisions for claims outstanding were down by 7%, or by EUR 1.33 million. The reinsurers' share declined at a higher percentage, but net provisions for claims outstanding still remained 4% lower. Gross provisions for bonuses were up EUR 0.53 million or by 20%, while the amount ceded to reinsurers was up by 7%. The reason for the increase in provisions for bonuses in 2019 is the smaller volume of claims and the resulting more favourable claims ratios of certain policyholders. Net provisions for unexpired risks increased by EUR 0.41 million, while the net provision for unearned premiums increased by EUR 0.12 million.

Liabilities from the (re)insurance business declined by 40%, or by EUR 1.28 million. The largest decline is due to the accrued reinsurers' shares for the final reinsurance account in 2019, and also lower accrued reinsurers' shares of recourse payments.

Contingent assets (off-balance-sheet items) derive from the difference between claims paid (claims minus amounts for which there is no longer any basis for claiming under insolvency/restructuring proceedings against debtors) and recourse receivables claimed. Contingent assets were down EUR 2.31 million or 11% on 2018, and stood at EUR 73.49 million. In 2019 Coface PKZ recognised contingent liabilities in the amount of EUR 0.06 million from lawsuits filed by former employees.

## 6.3 Summary of cash flows[19]

| in EUR thousand | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **A. Cash flows from operating activities** | | |
| a) Income statement items, of which: | 1,683 | 2,664 |
| *Net insurance premiums written for the period* | *5,862* | *5,660* |
| *Net claims paid for the period* | *-2,542* | *-1,675* |
| b) Changes in net working capital from balance sheet operating items (insurance receivables, other receivables, other assets and deferred tax assets and liabilities), of which: | -2,044 | 3,086 |
| *Opening less closing receivables from reinsurance business* | *-886* | *1,656* |
| *Opening less closing other receivables from (re)insurance business* | *459* | *405* |
| **c) Net cash flows from operating activities (a + b)** | **-361** | **5,750** |
| **B. Cash flows from investing activities** | | |
| a) Inflows from investing activities, of which: | 18,599 | 7,755 |
| *Inflows from the disposal of financial assets* | *18,063* | *7,100* |
| b) Outflows from investing activities, of which: | -17,081 | -12,279 |
| *Outflows for the acquisition of financial assets* | *-17,005* | *-12,175* |
| **c) Net cash flows from investing activities (a + b)** | **1,519** | **-4,523** |
| **C. Cash flows from financing activities** | | |
| a) Inflows from financing activities | 0 | 0 |
| b) Outflows from financing activities, of which: | -5,418 | -582 |
| **c) Net cash flows from financing activities (a + b)** | **-5,418** | **-582** |
| **D. Closing balance of cash and cash equivalents** | **1,262** | **5,524** |

The net cash flow from operating activities, which derives from categories calculated in the income statement, was generated primarily from the difference between net premiums written and claims during the period, and was lower than in 2018 in this segment (primarily as a result of higher net claims and despite higher net premiums). Net operating working capital was down in 2019 relative to 2018. The deficit was mostly derived from different changes in receivables and liabilities in both years. Due to this there were less inflows than outflows generated from operations (a net cash flow of EUR -0.361 million).

The net cash flow from investing activities derives primarily from the placement and redemption of financial assets. Inflows and outflows from investments were higher in 2019 relative to 2018. The reason for higher outflows than inflows is mostly due to the restructuring of the portfolio (a net cash flow of EUR 1.5 million).

The net cash flow from financing activities relates primarily to dividend payments.

[19]For the notes to the statement of cash flows, see point 2.7 of the financial report.

## 6.4 Performance indicators[20]

All the company's business relates to a single class of insurance, as a result of which the indicators refer uniformly and entirely to the class of credit insurance.

The cost ratio is calculated from costs by type, and costs by type are also taken into account in the calculation of the loss ratio and return on investment.

[20] Performance indicators are shown under the Decision on the Annual Report and the Quarterly Financial Statements of Insurance Undertakings.

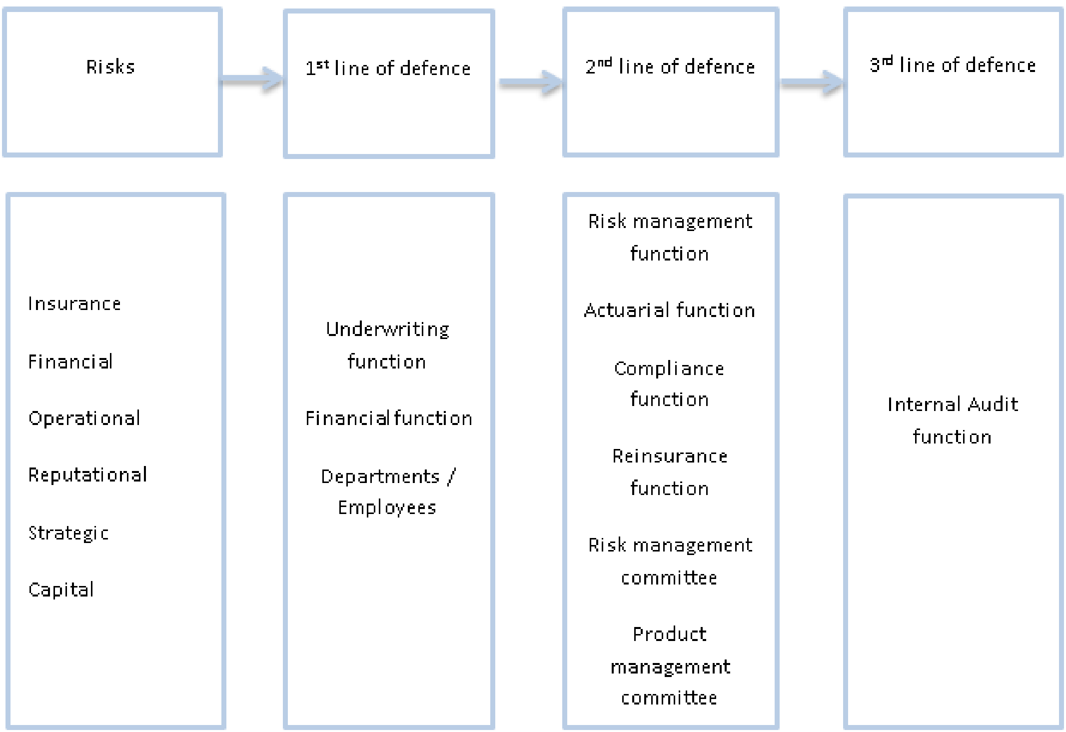
| No. | (ISA decision) | Ratio | Formula for calc. | Data for calc. in EUR Numerator | Data for calc. in EUR Denominator | 2019 | Data for calc. in EUR Numerator | Data for calc. in EUR Denominator | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1 | Growth in gross premiums written (index) | Gross premiums written in the current year x 100 / Gross premiums written in the previous year | 14,754,746 | 14,279,218 | **103** | 14,279,218 | 15,060,330 | **95** |
| 2 | 2 | Net insurance premiums written as a % of gross insurance premiums written | Net insurance premiums written x 100 / Gross insurance premiums written | 5,861,528 | 14,754,746 | **39.73%** | 5,659,940 | 14,279,218 | **39.64%** |
| 3 | 3 | Changes in gross claims paid (index) | Gross claims paid in the current year x 100 / Gross claims paid in the previous year | 5,847,596 | 5,194,448 | **113** | 5,194,448 | 24,892,536 | **21** |
| 4 | 4 | Loss ratio (Claims ratio) | Gross claims paid x 100 / Gross premiums written | 5,847,596 | 14,754,746 | **39.63** | 5,194,448 | 14,279,218 | **36** |
| 5 | 5 | Operating costs as % of gross insurance premiums written | Operating costs x 100/ Gross insurance premiums written | 5,144,168 | 14,754,746 | **34.86%** | 4,605,304 | 14,279,218 | **32.25%** |
| 6 | 6 | Acquisition costs as % of gross insurance premiums written | Acquisition costs x 100/ Gross insurance premiums written | 828,892 | 14,754,746 | **5.62%** | 730,394 | 14,279,218 | **5.12%** |
| 7 | 7 | Net claims ratio | (Net insurance claims + change in provisions for claims outstanding) x 100 / Net income from insurance premiums | 2,228,476 | 5,740,665 | **39** | 2,639,999 | 5,713,854 | **46** |
| 8 | 8 | Combined claims ratio | (Net insurance claims + change in provisions for claims outstanding + net operating costs) x 100 / Net income from insurance premiums | 4,477,832 | 5,740,665 | **78** | 4,511,082 | 5,713,854 | **79** |
| 9 | 11 | Effects of investments as % of the average balance of investments | (Return on investments x 100/ (Balance of investments at the beginning of the year + balance of investments at the end of the year) / 2) | 797,987 | 28,728,490 | **2.78%** | 215,475 | 26,992,106 | **0.80%** |
| 10 | 11.5 | Effects of investments as % of the average balance of investments for non-life insurance | (Return on investments x 100/ (Balance of investments at the beginning of the year + balance of investments at the end of the year) / 2) | 738,444 | 24,751,035 | **2.98%** | 191,666 | 23,011,382 | **0.83%** |
| 11 | 11.6 | Effects of investments as % of the average balance of investments not financed from technical provisions | (Return on investments x 100/ (Balance of investments at the beginning of the year + balance of investments at the end of the year) / 2) | 59,543 | 3,977,455 | **1.50%** | 23,810 | 3,980,725 | **0.60%** |
| 12 | 12 | Net provisions for claims outstanding as % of net income from insurance premiums | Net provisions for claims outstanding x 100/ Net income from insurance premiums | 8,313,082 | 5,740,665 | **144.81%** | 8,626,762 | 5,713,854 | **150.98%** |
| 13 | 13 | Gross profit (loss) for the current year as a % of net premiums written | Gross profit (loss) for the current year x 100 / Net premiums written | 1,478,868 | 5,861,528 | **25.23%** | 1,206,551 | 5,659,940 | **21.32%** |
| 14 | 14 | Gross profit (loss) for the current year as a % of average equity | Gross profit (loss) for the current year x 100 / (Balance of equity at the beginning of the year + balance of equity at the end of the year) / 2) | 1,478,868 | 24,123,431 | **6.13%** | 1,206,551 | 26,252,522 | **4.60%** |
| 15 | 15 | Gross profit (loss) for the current year as a % of average assets | Gross profit (loss) for the current year x 100 / (Balance of assets at the beginning of the year + balance of assets at the end of the year) / 2) | 1,478,868 | 53,324,093 | **2.77%** | 1,206,551 | 55,260,198 | **2.18%** |
| 16 | 16 | Gross profit (loss) for the current year per share | Gross profit (loss) / Number of shares | 1,478,868 | 2,016 | **734** | 1,206,551 | 2,016 | **598** |
| 17 | 17 | Reinsurance receivables and reinsurer's share of technical provisions as a % of the company's equity | Reinsurance receivables and reinsurer's share of technical provisions x 100 / company's equity | 13,709,236 | 21,861,021 | **63%** | 13,963,984 | 26,385,842 | **52.92%** |
| 18 | 18 | Net insurance premiums written relative to average balance of equity and technical provisions | Net insurance premiums written x 100/ (average balance of equity + average balance of technical provisions) | 5,861,528 | 36,104,616 | **16.23** | 5,659,940 | 37,361,067 | **15.15** |
| 19 | 19 | Average balance of net technical provisions relative to net income from insurance premiums | Average balance of net technical provisions x 100 / Net income from insurance premiums | 11,981,185 | 5,740,665 | **208.71** | 11,108,545 | 5,713,854 | **194.41** |
| 20 | 20 | Equity relative to liabilities | Equity x 100 / Liabilities | 21,861,021 | 50,206,289 | **43.54** | 26,385,842 | 56,441,896 | **46.75** |
| 21 | 21 | Net technical provisions relative to liabilities | Net technical provisions x 100 / Liabilities | 12,307,779 | 50,206,289 | **24.51** | 11,654,590 | 56,441,896 | **20.65** |
| 22 | 23 | Gross insurance premiums written relative to number of permanent employees | Gross insurance premiums written / Average number of employees | 14,754,746 | 71 | **207,813** | 14,279,218 | 75 | **190,390** |

# 7. RISK MANAGEMENT

## 7.1 Risk management system

In the scope of its management system Coface PKZ put in place a risk management system that ensures the achievement of the company's long-term objectives and secure operations. The risk management system is based on a ‘three-level system of defence lines’:

- The first line of defence comprises business functions that manage insurance risks (including the Committee for key insurance risks), the financial function, and departments and employees. These functions and/or departments are responsible for the operational management of individual risks, which includes, in particular, the identification of individual risks and their take-up, whereby compliance with the defined written rules and risk appetite must be ensured.
- The second line of defence comprises, in particular, three key functions, i.e. the risk management function, the actuarial function and the compliance function. The Risk Management Committee, the Product Management Committee and the reinsurance function also operated in the scope of this line of defence in 2019. These functions and committees define and maintain a risk management system that also covers the process of the identification, assessment and measurement, management and monitoring of risks (including the own risk and solvency assessment process).
- The third line of defence comprises the internal audit function that operates independently of all business and 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.



## 7.2 Risk management process

Coface PKZ has put in place a general risk management process that applies to each category of risk to which the company is exposed. The risk management process is comprised of four levels that are repetitive by nature:

- Identification of risks comprises the first risk management phase. Identification risk is carried out for each category of risk that is significant for Coface PKZ, observing all legal requirements and best practices. Risks to which Coface PKZ is exposed are recorded in the risk register. The key stakeholders in the identification of risks: risk management function, actuarial function, compliance function, reinsurance function, insurance risk management function, financial function and the department heads.
- The assessment or measurement of risks, with a qualitative and/or quantitative assessment of exposure to all risks. In addition to the regulatory method (standard Solvency II formula) Coface PKZ also assesses risks through internal methods and exposure risk disclosures.
- Risk management ensures that risk exposure is inside the boundaries of the outlined risk appetite. Significant risk management measures are approved by the management board, followed by risk management measures being implemented by the risk management function, the actuarial function, the financial function, reinsurance function, insurance risk management function or department heads, depending on the risk type.
- Risk monitoring is carried out in order to identify, assess and measure the missing or newly arisen risks, and measure the exposure to existing risks. Monitoring also includes reporting to the management board, supervisory board, the Insurance Supervision Agency and other key stakeholders within the risk management system.

All organisational units are involved in the risk management process.

## 7.3 Risk profile

Coface PKZ takes up the following risks during its operations:

**Underwriting risks** (risks from non-life insurance contracts) comprise risks of loss or adverse changes in the value of insurance liabilities due to inappropriate premiums and improper assumptions during the calculation of technical provisions.

Coface PKZ is exposed to underwriting risk in the specification of contractual terms, including premium rates, in acceptance for underwriting (approval and monitoring of customer limits for policyholders), in changes in claims developments (as a result of changes in policyholder behaviour and changes in the economic, political and financial environment of both policyholders and risks), and in the creation of provisions for claims outstanding. The key underwriting risks for Coface PKZ are the determination and use of appropriate premium rates, and the risk associated with technical provisions (the risk of ensuring that the technical provisions suffice to cover all future liabilities and the risks that have already been taken up by the company).

The basic guideline for Coface PKZ in concluding insurance contracts is mostly the due diligence of the customers' credit ratings during the approval and also during the validity of the limits. A key element of this process is the appropriate segregation of powers for the conclusion of contracts and approval of limits, which mitigates the risks to which Coface PKZ is exposed. Coface PKZ also mitigates and manages its underwriting risk by means of limits on concentration (in terms of buyer or group of buyers, sector, and country), appropriate reinsurance arrangements with first-rate reinsurers, and adequate creation of technical provisions according to actuarial methods subject to constant review.

**Financial risks** comprise the risks that are presented in detail below:

- Market risks are the risks of loss or of an adverse change to Coface PKZ's financial position, which occur due to fluctuations in the amount and variability of the market prices of assets, liabilities and financial instruments.
- Credit risk is a risk of loss or adverse change to Coface PKZ's financial position due to unexpected default or a deterioration in the credit position of counterparties and obligors of the insurer.
- Concentration risk reflects additional risks to which the insurer is exposed due to the insufficient diversification of the asset portfolio or large exposure to default risk by counterparties or obligors of the insurer. It relates to market risk and underwriting risk.
- Liquidity risk is a risk of loss due to an inability to settle past-due liabilities or in the event of the need to secure funds at significantly higher costs than usual.

Coface PKZ primarily manages financial risks by means of the security and appropriate structuring of its investments, with an emphasis on highly liquid marketable debt instruments of sovereigns and companies with an acceptable credit rating (in terms of investment) that was issued by a recognised rating firm. Coface PKZ also limits exposures to a particular counterparty, both in the area of financial assets and exposure to reinsurers. Coface PKZ only cooperates with reinsurers that have an acceptable credit rating (in terms of investment) that was issued by a recognised rating firm.

Coface PKZ manages its credit risk in association with receivables from the insurance business by means of the matching of the payment of receivables and insurance coverage (for premiums and credit reports), its procedures for approving limits and resolving claims (for recourses), and its choice of first-rate reinsurers, their number and their shares in the contract (for receivables from reinsurance contracts).

**Operational risk** is the risk of a loss occurring as a result of inadequate or failed internal processes, other incorrect actions by staff, inadequacies or failures in systems, and external events or actions. Operational risk also includes legal risk, which comprises the risk of a loss due to breaches or the incorrect application of laws, regulations, guidelines, recommendations, contracts, best practices or ethical norms. Legal risk also includes compliance risk, which is defined as the risk of sanctions, significant financial losses or a loss of reputation as a result of operations failing to comply with regulations and standards of good practice. Operational risk also includes information support risk, which is defined as the risk of loss as a result of inadequate information technology and processing, primarily from the point of view of manageability, access, integrity, control and continuity.

The aim of operational risk management at Coface PKZ is to balance the avoidance of financial losses from these risks and the loss of reputation with cost-effectiveness, and to facilitate initiative, creativity and independence of action among the staff while maintaining adequate active controls. The management board, risk management function and department heads bear the key responsibility for operational risk management. Operational risk management at Coface PKZ is based on the establishment of the control environment, the system of internal controls, the system of authorisations, the system for replacing staff during absences, a focus on staff training, the application of ethical standards, and investment in information support. The system of governance is also a component of the operational risk management framework.

**Reputational risk** is defined as the risk of potential loss due to deterioration in the reputation or negative perception of the insurer among policyholders, counterparties, supervisory authorities and other stakeholders.

Reputational risk is managed, in particular, by ensuring compliance with the corporate integrity policy and constantly making sure that all employees are aware of the significance of compliance with the rules on corporate integrity and other rules and procedures, with the defined internal controls, timely communication and preparation of responses if events arise that could impair the reputation of the insurer, and so on.

**Strategic risk** is the risk of potential loss that occurs due to the failure to implement business plans. Strategic risk can be a result of incompatibility between the insurer's strategic objectives, development of business strategies, funds earmarked for the attainment of these objectives, the quality of implementation and economic trends on the markets where the insurer operates, as well as the result of other external and internal factors.

Strategic risks are managed primarily through a clearly defined process for the development of strategic objectives and the transfer of these objectives into strategic activities, by ensuring effective communication regarding the outlined business strategy within the insurer, and with regular, timely and appropriate reporting on the implementation of the business strategy.

**Capital risk** relates to an inadequate level and/or composition of own funds in terms of the scope and method of operations and to the possibility of acquiring additional own funds, in particular, should a need arise for a rapid increase in own funds and/or in adverse conditions for the acquisition of additional own funds.

Coface PKZ manages capital risk such that it covers all significant risks through capital, regularly identifying solvency requirements that are derived from strategic objectives and business plans. Due to this, capital management comprises one of the vital components of Coface PKZ's risk management, which includes, in particular, the calculation of the capital requirements according to taken-up risks, due concern for profitability, analysis of the impact of business decisions on capital adequacy, and proposals for the use of the distributable profit.

In order to effectively manage capital risk Coface PKZ also defines the optimal capital adequacy, which is determined by an interval or with specific minimum and maximum capital adequacy thresholds.

In accordance with Solvency II rules Coface PKZ is also drafting a solvency and financial position report that is earmarked for public disclosure. The report presents the entire management system, which also includes the risk management system. It also provides a detailed presentation of exposure to all types of risks which Coface PKZ faces in its operations. The report also includes a presentation of the capital management system, calculation of capital, capital requirements (solvency capital requirements, minimum capital requirements), capital adequacy, and so on.

# 8. REPORT ON RELATIONS WITH AFFILIATES

***Statement of senior management***

All legal transactions between SID bank (the controlling company until 12 April 2019) and its affiliates were undertaken in a manner such that in the circumstances known to SID-Prva kreditna zavarovalnica d.d. at the time of the execution of the legal transaction, it did not suffer any deprivation. PKZ also refrained from any acts or omissions at the initiative or in the interest of these companies. No deprivation that would necessitate compensation was suffered by the subsidiary in the period from 1 January 2019 to 12 April 2019.

All legal transactions between Compagnie Française d'Assurance pour le Commerce Extérieur (the controlling company as of 12 April 2019) and its affiliates were undertaken in a manner such that in the circumstances known to Coface PKZ at the time of the execution of the legal transaction, it did not suffer any deprivation. Coface PKZ also refrained from any acts or omissions at the initiative or in the interest of these companies. No deprivation that would necessitate compensation was suffered by the subsidiary in 2019.

The nature and amounts of the transactions are described in point 2.8.1 of the financial report.

# FINANCIAL REPORT

# 2019

Deloitte.

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# INDEPENDENT AUDITOR'S REPORT
# to the owner Coface PKZ zavarovalnica d.d.

## Opinion

We have audited the financial statements of the insurance company Coface PKZ zavarovalnica d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

## Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How matter was addressed in our audit |
|---|---|
| Technical provisions are explained in Note 2.3.10 (Accounting policies), Note 2.9.2. (Risk Management) and Note 2.5.7 (Value and assumptions). | |
| Insurance Company recognizes the following types of technical provisions: unearned premiums, provisions for claims outstanding, provisions for bonuses and provisions for unexpired risks.<br><br>As of December 31, 2019 the value of insurance technical provisions is 25.129t EUR respectively, which are measured in accordance with accounting policies set in the financial statements.<br><br>Provisions are an accounting estimate and are therefore subject to a high degree of judgment/assessment, which is why we considered this accounting estimate as a key audit matter. | We gained understanding and tested the key controls and revewed the process of analyzing the economic and non-economic assumptions used in calculation of provisions.<br><br>We also obtained understanding of design and implementation of the process in using assumptions, including experience analysis.<br><br>We examined the adequacy of key management assumptions used in assessing the amount of provisions for individual cases and reconciled them in accordance with appropriate supporting documentation.<br><br>We assessed, whether the provisions recorded were in accordance with the requirements of the accounting framework, industry best practice and regulatory requirements and performed independent recalculation of provisions.<br><br>In addition, we have reviewed the information disclosed in the financial statements to assess whether the balances are sufficiently disclosed for users of the financial statements.<br><br>We also included experts from the actuarial field for the assessment of actuarial assumptions, including the treatment and judgment of management's assumptions and reliance on industry information. We rely only on independent internal and external sources in each of the major areas of assumption where possible. |

**Other information**

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

**Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated to Supervisory Board and Audit Committee we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 30 May 2019. Our total uninterrupted engagement has lasted 5 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 February 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret Kralj, certified auditor.

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 February 2020

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**

# STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The management board has approved the financial statements of Coface PKZ, for the year ending 31 December 2019, the accounting polices applied, and the notes to the financial statements. The financial statements and accompanying notes have been compiled in accordance with the IFRS as adopted by the EU, under the assumption of a going concern basis.

The management board hereby confirms its responsibility for ensuring that the financial statements and notes present a true and fair picture in accordance with the IFRS applicable in the EU. The management board is also responsible for the application of the relevant accounting policies, and the use of reasonable and prudent accounting estimates in the compilation of the financial statements.

The management board is also responsible for administering the accounts correctly, for taking appropriate measures to secure assets, and for preventing and detecting fraud and other irregularities and unlawful acts.

The tax authorities may audit the company's operations at any time in the five years after the date that tax was due to be levied, which may result in additional tax liabilities, penalty interest and fines in connection with corporate income tax or other taxes and levies. The management board is not aware of any circumstances that could give rise to any significant liability on this account.

Sergej Simoniti
Chairman of the Management Board

Mindaugas Sventickas
Member of the Management Board

Ljubljana, 27 January 2020

# 1. FINANCIAL STATEMENTS

## 1.1 Balance sheet

| in EUR | Notes | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **ASSETS** | | **50,206,289** | **56,441,896** |
| **Intangible assets** | **2.5.1** | **211,798** | **332,520** |
| **Property, plant and equipment** | **2.5.1** | **2,439,959** | **2,252,663** |
| **Financial assets:** | **2.5.2** | **28,207,539** | **29,249,440** |
| - loans and deposits | | 2,501,636 | 4,652,500 |
| - available-for-sale | | 25,705,903 | 24,596,940 |
| **Amount of technical provisions ceded to reinsurers** | **2.5.7** | **12,821,631** | **13,962,644** |
| **Receivables** | | **5,137,611** | **4,959,006** |
| 1. Receivables from direct insurance business | 2.5.3 | 2,072,369 | 1,931,987 |
| 2. Receivables from reinsurance and coinsurance | 2.5.3 | 887,605 | 1,340 |
| 3. Current tax assets | 2.6.9 | 0 | 0 |
| 4. Other receivables | 2.5.3 | 2,177,637 | 3,025,679 |
| **Other assets** | **2.5.4** | **125,498** | **162,578** |
| **Cash and cash equivalents** | **2.5.5** | **1,262,255** | **5,523,046** |
| **Off-balance sheet items** | **2.5.10** | **73,492,377** | **75,738,692** |
| | | | |
| **EQUITY AND LIABILITIES** | | **50,206,289** | **56,441,896** |
| **Equity** | **2.5.6** | **21,861,021** | **26,385,842** |
| 1. Share capital | | 8,412,619 | 8,412,619 |
| 2. Profit reserves | | 12,628,668 | 12,048,490 |
| 3. Revaluation surplus | | 239,052 | 506,556 |
| 4. Retained earnings | | 503 | 4,935,554 |
| 5. Net profit for the financial year | | 580,179 | 482,623 |
| **Technical provisions** | **2.5.7** | **25,129,410** | **25,617,234** |
| 1. Unearned premiums | | 2,626,002 | 2,485,475 |
| 2. Provisions for claims outstanding | | 17,437,664 | 18,765,611 |
| 3. Other technical provisions | | 5,065,744 | 4,366,148 |
| **Other provisions** | **2.5.8** | **156,762** | **127,550** |
| **Deferred tax liabilities** | **2.6.9** | **27,955** | **92,428** |
| **Operating liabilities** | | **1,747,079** | **2,967,103** |
| 1. Liabilities arising from direct insurance business | 2.5.9 | 21,590 | 21,264 |
| 2. Liablities from reinsurance and coinsurance | 2.5.9 | 1,636,675 | 2,842,820 |
| 3. Current tax liabilities | 2.6.9 | 88,813 | 103,019 |
| **Other liabilities** | **2.5.9** | **1,284,063** | **1,251,740** |
| **Off-balance sheet items** | **2.5.10** | **73,492,377** | **75,738,692** |

The notes to the financial statements are part of the financial statements and must be read together with them.

## 1.2 Income statement

| in EUR | Notes | 2019 | 2018 |
|---|---|---|---|
| **NET INCOME FROM INSURANCE PREMIUMS** | **2.6.1** | **5,740,665** | **5,713,854** |
| - Gross insurance premiums written | | 14,754,746 | 14,279,218 |
| - Premiums written ceded to reinsurance and coinsurance | | -8,893,217 | -8,619,279 |
| - Change in unearned premiums | | -120,863 | 53,915 |
| **INVESTMENT INCOME, of which** | **2.6.2** | **851,327** | **267,800** |
| - interest income calculated using the effective interest rate method | | 190,737 | 267,800 |
| - gains from the disposal of financial assets | | 660,492 | 0 |
| **OTHER INSURANCE INCOME, of which** | **2.6.3** | **3,958,714** | **3,738,109** |
| - income from fees and commissions | | 2,894,812 | 2,734,221 |
| **OTHER INCOME** | **2.6.10** | **443,251** | **8,569** |
| **NET CLAIM EXPENSES** | **2.6.4** | **2,228,476** | **2,639,999** |
| - Gross claims paid | | 4,828,616 | 3,412,779 |
| - Reinsurers' and coinsurers' shares | | -2,286,459 | -1,738,082 |
| - Change in provisions for claims outstanding | | -313,680 | 965,302 |
| **CHANGE IN OTHER TECHNICAL PROVISIONS** | **2.6.5** | **-414,295** | **-67,363** |
| **EXPENSES FOR BONUSES AND REBATES** | **2.6.6** | **495,792** | **266,472** |
| **OPERATING COSTS, of which** | **2.6.7** | **5,144,168** | **4,605,304** |
| - acquisition costs | | 828,892 | 730,394 |
| **INVESTMENT EXPENSES, of which** | **2.6.2** | **53,341** | **52,324** |
| - impairment of financial assets | | 0 | 0 |
| - losses on disposal of investments | | 402 | 0 |
| **OTHER INSURANCE EXPENSES** | **2.6.8** | **1,163,460** | **882,165** |
| **OTHER EXPENSES, of which** | **2.6.10** | **15,557** | **8,153** |
| - financing costs | | 0 | 0 |
| **PRE-TAX PROFIT** | **2.6.9** | **1,478,868** | **1,206,551** |
| **CORPORATE INCOME TAX** | **2.6.9** | **318,511** | **239,161** |
| **NET PROFIT FOR THE ACCOUNTING PERIOD** | **2.6.9** | **1,160,357** | **967,391** |
| **Basic and diluted earnings per share (of the sole owner)** | **2.5.6** | **576** | **480** |

The notes to the financial statements are part of the financial statements and must be read together with them.

## 1.3 Statement of comprehensive income

| in EUR | Notes | 2019 | 2018 |
|---|---|---|---|
| **NET PROFIT/LOSS FOR THE FINANCIAL YEAR AFTER TAX** | **2.6.9** | **1,160,357** | **967,391** |
| **OTHER COMPREHENSIVE INCOME AFTER TAX (a+b)** | **2.6.9** | **-267,000** | **-118,929** |
| **a. Items that will not be reclassified later to profit or loss** | | **-15,802** | **26,523** |
| 1. Actuarial net gains/losses for pension plans | | -13,199 | 29,618 |
| 2. Tax from items that will not be reclassified to profit or loss | | -2,603 | -3,096 |
| **b. Items that may be reclassified later to profit or loss** | | **-251,198** | **-145,452** |
| 1. Net gains/losses from remeasurement of available-for-sale financial assets | | -310,121 | -179,570 |
| 1.1 Gains/losses recognised in revaluation surplus | | -970,211 | -179,570 |
| 1.2. Reclassification of profit/loss from revaluation surplus to profit or loss | | 660,090 | 0 |
| 2. Tax from items that may be reclassified subsequently to profit or loss | | 58,923 | 34,118 |
| **COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX** | **2.6.9** | **893,357** | **848,461** |

The notes to the financial statements are part of the financial statements and must be read together with them.

## 1.4 Statement of cash flows

| | in EUR | Notes | 1-12/19 | 1-12/18 |
|---|---|---|---|---|
| **A.** | **Cash flows from operating activities** | | | |
| **a)** | **Cash flows from operating activities before changes in operating balance sheet items** | **2.7** | **1,364,325** | **2,424,901** |
| | Pre-tax profit | | 1,478,868 | 1,206,551 |
| | *Adjustments:* | | *-114,543* | *1,218,349* |
| | Corporate income tax recognised in profit or loss | | -318,511 | -239,161 |
| | Financing costs recognised in profit or loss | | -190,675 | -267,702 |
| | Net (gain) / loss on disposal of available-for-sale financial assets | | -660,090 | 0 |
| | Expenses from value adjustments of trade receivables | | 385,899 | 149,540 |
| | Reversal of expenses from value adjustments of trade receivables | | -3,309 | 0 |
| | Depreciation / amortisation of non-current assets | | 424,663 | 468,598 |
| | Impairments of non-current assets | | -427,308 | 4,407 |
| | Net foreign exchange (gains) / losses | | -72 | 881 |
| | Expenses and revenue from provisions | | 674,860 | 1,101,785 |
| **b)** | ***Changes in net working capital / liabilities of operating balance sheet items*** | | **-1,725,556** | **3,323,858** |
| | Opening less closing receivables | | -524,115 | 2,754,101 |
| | Closing less opening liabilities | | -1,195,782 | 573,020 |
| | Closing less opening provisions | | -5,659 | -3,263 |
| **c)** | ***Net cash flow from operating activities (a + b)*** | | **-361,231** | **5,748,758** |
| | | | | |
| **B.** | **Cash flows from investing activities** | | | |
| **a)** | ***Inflows from investing activities*** | **2.7** | **18,599,238** | **7,755,224** |
| | Inflows from interest relating to investment: | 2.5.2 | 524,301 | 647,977 |
| | Inflows from the disposal of property, plant and equipment | 2.5.1 | 11,693 | 7,247 |
| | Inflows from the disposal of financial assets | 2.5.2 | 18,063,244 | 7,100,000 |
| ***b)*** | ***Outflows from investing activities*** | | **-17,080,621** | **-12,278,539** |
| | Outflows for the acquisition of intangible assets | 2.5.1 | -24,705 | -9,054 |
| | Outflows for the acquisition of property, plant and equipment | 2.5.1 | -50,916 | -94,972 |
| | Outflows for the acquisition of financial assets | 2.5.2 | -17,005,000 | -12,174,513 |
| ***c)*** | ***Net cash flow from investing activities (a + b)*** | | **1,518,617** | **-4,523,315** |
| | | | | |
| **C.** | **Cash flows from financing activities** | | | |
| ***a)*** | ***Inflows from financing activities*** | | **0** | **0** |
| ***b)*** | ***Outflows from financing activities*** | | **-5,418,177** | **-581,823** |
| | Outflows for the payment of dividends and other shares in profit | 2.5.6 | -5,418,177 | -581,823 |
| ***c)*** | ***Net cash flow from financing activities (a + b)*** | | **-5,418,177** | **-581,823** |
| | | | | |
| **D.** | **Closing balance of cash and cash equivalents** | **2.5.5** | **1,262,255** | **5,523,046** |
| x) | Net cash flow in period (sum of Ac, Bc and Cc) | | -4,260,791 | 643,621 |
| y) | Opening balance of cash and cash equivalents | | 5,523,046 | 4,879,425 |

The notes to the financial statements are part of the financial statements and must be read together with them.

## 1.5 Statement of changes in equity

| in EUR | | I. Share capital | II. Profit reserves: Legal and reserves under the articles of association | II. Profit reserves: Other reserves | III. Revaluation surplus | IV. Retained earnings | V. Net profit or loss: Net profit / loss for the financial year | TOTAL EQUITY (from 1 to 6) |
|---|---|---|---|---|---|---|---|---|
| | | 1. | 2. | 3. | 4. | 5. | 6. | 7. |
| **OPENING BALANCE IN PERIOD AS AT** | **1/1/2018** | **8,412,619** | **5,062,366** | **11,439,056** | **623,340** | **2,180** | **579,643** | **26,119,203** |
| Comprehensive income for the period after tax | | 0 | 0 | 0 | -118,929 | 0 | 967,391 | 848,461 |
| a. Net profit or loss | | 0 | 0 | 0 | 0 | 0 | 967,391 | 967,391 |
| b. Other comprehensive income | | 0 | 0 | 0 | -118,929 | 0 | 0 | -118,929 |
| Payment (settlement) of dividends | | 0 | 0 | 0 | 0 | -581,823 | 0 | -581,823 |
| Allocation of net profit to profit reserves | | 0 | 0 | 482,623 | 0 | 0 | -482,623 | 0 |
| Transfer to retained earnings | | 0 | 0 | -4,935,554 | 2,145 | 5,515,198 | -581,788 | 0 |
| **CLOSING BALANCE IN PERIOD AS AT** | **31/12/2018** | **8,412,619** | **5,062,366** | **6,986,124** | **506,556** | **4,935,554** | **482,623** | **26,385,842** |
| **OPENING BALANCE IN PERIOD AS AT** | **1/1/2019** | **8,412,619** | **5,062,366** | **6,986,124** | **506,556** | **4,935,554** | **482,623** | **26,385,842** |
| Comprehensive income for the financial year after tax | | 0 | 0 | 0 | -267,000 | 0 | 1,160,357 | 893,357 |
| a. Net profit or loss | | 0 | 0 | 0 | 0 | 0 | 1,160,357 | 1,160,357 |
| b. Other comprehensive income | | 0 | 0 | 0 | -267,000 | 0 | 0 | -267,000 |
| Payment (settlement) of dividends | | 0 | 0 | 0 | 0 | -5,418,177 | 0 | -5,418,177 |
| Allocation of net profit to profit reserves | | 0 | 0 | 580,179 | 0 | 0 | -580,179 | 0 |
| Transfer to retained earnings | | 0 | 0 | 0 | -503 | 483,126 | -482,623 | 0 |
| **CLOSING BALANCE IN PERIOD AS AT** | **31/12/2019** | **8,412,619** | **5,062,366** | **7,566,303** | **239,052** | **503** | **580,179** | **21,861,021** |

The notes to the financial statements are part of the financial statements and must be read together with them. The notes to the statement of changes in equity are given in point 2.5.6 of this report.

# 2. NOTES TO THE FINANCIAL STATEMENTS

## 2.1 Basic information about the company

The registered office of Coface PKZ zavarovalnica d.d., Ljubljana (hereinafter: Coface PKZ) is at Davčna ulica 1, 1000 Ljubljana, Slovenia. The company has no subsidiaries, and the financial statements presented are individual financial statements.

All the shares of Coface PKZ are held by Compagnie Française d'Assurance pour le Commerce Extérieur, with its registered office at 1 Place Coste set Bellonte 92270 Bois-Colombes, France (the controlling company; hereinafter: Coface).

Coface PKZ is a specialist credit insurer engaged exclusively in the insurance of short-term trade credits.

## 2.2 Basis for compiling the financial statements

### 2.2.1 Statement of compliance

Coface PKZ's financial statements for 2019 and the comparative data have been compiled in accordance with the International Financial Reporting Standards (hereinafter: IFRS) and the interpretations as adopted by the EU.

### 2.2.2 Basis for compiling the financial statements

The financial statements have been compiled on a historical cost basis, except for available-for-sale financial assets, which are measured at fair value. The methods of measurement at fair value are described in point 2.3.4.

The financial statements have been compiled in euros, which is the company's functional and reporting currency. Amounts have been rounded to the nearest whole euro.[21]

The financial statements used by the company are required by secondary legislation pursuant to the Insurance Act (Decision Amending the Decision on the Annual Report and the Quarterly Financial Statements of Insurance Undertakings) and comply with the IFRS.

Financial assets and liabilities are only netted in the balance sheet disclosures when there exists an enforceable legal basis for so doing, and an intention of settling the balance only or settling the receivables and liabilities simultaneously. Revenue and expenses are also not

[21]Discrepancies may arise in the final digits of the summed amounts in tables, as a result of rounding from cents to whole euros.

subject to netting before disclosure in the income statement, unless the standards or interpretations stipulate otherwise.

The management board compiles and approves the annual report, and submits it to the supervisory board for approval. Should the supervisory board refuse to approve the annual report, or defer the decision to the general meeting, the general meeting decides on the approval of the annual report.

The management board approved the annual report on 27 January 2020.

### 2.2.3 Use of estimates and judgements

The compilation of the financial statements on the basis of the IFRS requires the use of certain critical accounting estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The actual results may differ from the estimates. The estimates are reviewed on a regular basis. Revisions to accounting estimates are recognised in profit or loss in the period in which the estimate is revised, and in all future periods affected by the revision.

Critical accounting estimates and assumptions were applied to the following items, where the sources of uncertainty in the estimates are disclosed:

- provisions for claims outstanding, in particular in the part for claims incurred but not reported (see points 2.3.10, 2.5.7, 2.9.1.1);
- receivables for insurance business as a result of the estimated premiums for risks already taken up but not yet invoiceable (see points 2.3.6, 2.3.13, 2.5.3);
- impairments of receivables for premiums and recourses (see points 2.3.6, 2.5.3, 2.9.2.1).

The estimate of provisions for claims outstanding for previous years was revised in 2019 (see point 2.9.1.1).

## 2.3 Significant accounting policies

The company applied the same accounting policies in all the periods presented in the financial statements. Comparative information is in line with the presentation of information for the current year.

### 2.3.1 Classification of insurance contracts

Insurance contracts are contracts under which one party (the insurer) accepts significant underwriting risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. All insurance contracts entered into by Coface PKZ meet the criteria for classification as insurance contracts from the point of view of IFRS 4, and are valued, presented and disclosed as such in the financial statements. The same applies to reinsurance contracts.

### 2.3.2 Translation from foreign currencies

Balance sheet items expressed in foreign currencies have been translated into euros at the ECB's reference exchange rate on the reporting date. Income statement items expressed in foreign currencies have been translated into euros at the ECB's reference exchange rate on the day of the recording of the transaction.

The exchange rate differences arising in the settlement of monetary amounts or in the translation of balance sheet items in the compilation of the financial statements are recognised in the item of exchange rate gains or losses (netted), and are disclosed in the income statement in the period in which they arise, with the exception of debt instruments classed as available-for-sale financial assets, for which exchange rate differences from changes in amortised cost are recognised in profit or loss; exchange rate differences arising in changes between amortised cost and fair value are recognised together with fair value effects in other comprehensive income. Exchange rate differences in equity instruments for available-for-sale financial assets are disclosed together with the change in fair value in the revaluation surplus.

### 2.3.3 Intangible assets and property, plant and equipment

Upon recognition these assets are valued at original cost, which comprises the purchase price and all costs directly related to making the asset fit for use. After recognition assets are valued at original cost less the accumulated amortisation/depreciation adjustment and any accumulated impairment loss (cost model). When the individual components of an asset have different useful lives (which is the case with real estate), they are recorded and amortised/depreciated separately. Gains or losses upon derecognition comprise the difference between the net gain on disposal (if it exists) and the carrying amount of the asset, and are recognised in the income statement. Amortisation is charged on a straight-line basis. The basis for charging amortisation/depreciation is the original cost. Property, plant and equipment and intangible assets become subject to amortisation/depreciation when the asset is available for use. Land and works of art are not subject to depreciation. All intangible assets have a finite useful life. The amortisation/depreciation method, the useful life and the residual value are reviewed at the end of the year, and adjusted as appropriate. The useful lives of assets remained unchanged with respect to 2018.

| Depreciation/amortisation groups | Useful life of asset, years |
|---|---:|
| Intangible assets | 5 |
| Land | unlimited |
| Buildings | 50 |
| Parts of buildings of higher value | 20-25 |
| Furniture | 8 |
| Other equipment | 4 |
| Cars | 8 |
| Computers and computer equipment | 2-4 |
| Works of art | unlimited |
| Fixed assets with an individual value under EUR 500 | 1-2 |

Amortisation/depreciation of all assets is disclosed in the income statement under operating costs (administrative expenses and acquisition costs) and net claim expenses (as part of appraisal costs) (see points 2.3.14 and 2.6.7).

On the reporting date an assessment is made of whether there is any objective indication of impairment of individual assets. If there are such indications, the recoverable amount of the asset is estimated, which is the higher of i) fair value less selling costs or ii) value in use. If the carrying amount of the asset exceeds the recoverable amount, the asset is impaired. The impairment loss is disclosed in the income statement.

### 2.3.4 Financial assets (other than operating receivables and cash)

Financial assets (investments) are assigned to one of two categories upon recognition:

- available-for-sale financial assets, or
- loans and deposits.

Financial assets are recognised as assets on the balance sheet as of the transaction date. A financial asset is derecognised from the balance sheet when the rights to rewards set out in detail in the contract expire or are expunged, or almost all risks and rewards deriving from ownership of the financial asset are transferred, which occurs when the associated contractual rights are no longer controlled.

#### 2.3.4.1 Available-for-sale financial assets

The company classes debt instruments and equity instruments (mutual funds) as available-for-sale financial assets. The period for which the company intends to hold these assets is not predetermined: it can sell them before maturity for reasons of liquidity management or as a result of a change in market conditions.

Available-for-sale financial assets are recognised upon initial recognition at fair value plus the transaction costs from the purchase of the financial asset. Other than contractually imputed interest and other changes in the principal of the investment, the originally recognised value is changed for reason of revaluation of financial assets to fair value, revaluation because of impairment, or reversal of impairment. When the company has obtained units of a financial asset of the same type at different values, the effect of any partial disposal is charged using the FIFO method.

Interest is recognised in profit or loss using the effective interest rate method.

Fair value is evidenced via published prices on an active securities market (Levels 1 and 2 of the fair value hierarchy). In Level 1, the company includes quoted prices on active markets for equivalent assets that can be accessed on the measurement date, and in Level 2 classifies inputs other than the quoted prices included in Level 1, and can be directly or indirectly observed. In Level 2, the company includes financial instruments valued through the use of quoted prices for similar assets on active markets, quoted prices for equivalent or similar assets on inactive markets, or inputs other than quoted prices and that can be observed as assets, e.g. interest rates and yield curves.

Gains or losses as the difference between amortised cost and fair value are recognised in other comprehensive income, unless the change arises from impairment (see point 2.3.4.3) or exchange rate gains/losses (see point 2.3.2). Upon derecognition the cumulative gain or loss previously first recognised in other comprehensive income is reassigned from equity to profit or loss as a reclassification adjustment.

On the reporting date it is assessed whether there is objective evidence of any impairment of available-for-sale assets, and when such evidence exists the asset is revalued for impairment. The criteria for determining impairment are cited in point 2.3.4.3. Impairment is determined on an individual basis.

In the event of revaluation for impairment, the cumulative loss recognised in other comprehensive income is eliminated from equity and recognised in profit or loss, even if the financial asset has not been derecognised. If the fair value of a debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in profit or loss. The impairment loss cannot be reversed via profit or loss for equity instruments. Each additional instrument impairment for equities for which an impairment loss has already been recognised is treated as an additional permanent impairment.

#### 2.3.4.2 Loans (and deposits)

Loans are non-derivative financial assets with fixed or determinable payments not traded on an active market. After initial recognition loans are measured at fair value, and subsequently at amortised cost. Gains or losses from loans are recognised in profit or loss. Gains are recognised over the period of the loan maturing and at repayment, while losses are recognised when the loan is impaired.

On the reporting date it is assessed whether there is objective evidence of any impairment of loans, and when such evidence exists the loan is revalued for impairment. The criteria for determining impairment are cited in point 2.3.4.3. Impairment is determined on an individual basis.

When there is evidence of impairment, the amount is measured as the difference between the amortised cost of the loan and the present value of expected future cash flows discounted at the original effective interest rate of the financial asset. The amortised cost is reduced by conversion in the value adjustment subsidiary account. The amount of the impairment loss is recognised in profit or loss as a revaluation finance cost. If in a subsequent period there is no longer any need for the impairment loss and there is objective evidence of this, the impairment loss is reversed and recognised in profit or loss

#### 2.3.4.3 Criteria for determining impairment of financial assets

On the reporting date it is assessed whether there is objective evidence of any impairment of financial assets. If such evidence exists, the asset is revalued for impairment and the impairment loss is disclosed. Such loss arises if there is objective evidence of impairment as a result of an event after initial recognition of the asset that affects the future cash flows of the financial asset. Such events comprise significant financial difficulties at a debtor, breaches of contract, the likely initiation of insolvency proceedings, the disappearance of an active market for the asset as a result of the issuer's financial difficulties, and other significant information.

***Criteria for determining impairment of debt financial instruments***

For these assets, in addition to the objective evidence of impairment cited in the introduction, in the event of one of the factors below occurring the company assesses whether there is a need for impairment in light of the interaction of factors. The occurrence of the factors below does not mean that impairment is necessary, but is instead a trigger necessitating a review of the likelihood of a change in the future cash flows and thereby an assessment of any necessary impairment:

a) a significant or long-lasting decline in fair value below the purchase price, provided that other factors indicating a decline in expected cash flows have simultaneously been met;
b) a major downgrading in credit rating in light of other available information and in the event of the occurrence of other factors indicating a decline in expected cash flows;
c) the economic situation in the country or local environment, if it has a major direct impact on the actions of the issuer of the instrument.

If the aforementioned triggers exist, the company assesses the need for impairment and the amount of impairment on the basis of available additional information (e.g. credit ratings, annual reports, financial information, developments in the economy and in sectors).

***Criteria for determining impairment of equity instruments***

In addition to the factors listed above the company carries out the following activities for these instruments:

a) monitors adverse market developments that arose in the technological, market, economic or legal environment in which the issuer operates, and which indicates that the value of the financial asset in the equity instrument may not be recovered.
b) the significant or long-lasting decline in fair value of the financial asset in the equity instrument below its purchase price is treated as objective evidence of impairment.

### 2.3.5 Amount of technical provisions ceded to reinsurers, receivables and liabilities from reinsurance

The company cedes a significant portion of taken up underwriting risks to reinsurance on the basis of concluded reinsurance contracts.

The amounts of technical provisions ceded to reinsurers comprise the reinsurers' participation in individual types of technical provisions (see point 2.3.10). They are recognised in amounts deriving from disclosed gross technical provisions, taking into account the provision of individual reinsurance contracts.

If receivables arises on the basis of reinsurance accounting by an individual reinsurer, which includes the reinsurance of unearned premiums, claims, recourses, bonuses and reinsurance commissions and profit sharing, the receivables are disclosed in the amount of the balance between these categories under receivables from reinsurance, and when they give rise to a liability, it is disclosed under liabilities from reinsurance. The same applies to amounts accruing for reinsurance accounting for the most recent period that is not yet final. The reinsurers' shares of premiums written, claims and bonuses are accounted on the basis of reinsurance contracts and recognised in the income statement in the same period, and in the shares set out by the contracts to which the gross premiums written, claims and bonuses covered by the reinsurance relate.

Reinsurers' shares of paid recourses are included in reinsurance accounting in accordance with the reinsurance contracts. Estimated recourses charged (gross amounts) are recognised as revenue in the income statement. In light of the principle of matching of revenues and expenses, reinsurers' shares of recourses charged are accrued in the income statement, irrespective of the reinsurance contract. The amount of accrued liabilities to reinsurers from gross recourses charged but not yet paid is disclosed under liabilities from reinsurance business.

On the reporting date the company tests reinsurers' assets (amounts of technical provisions ceded to reinsurers and receivables from reinsurers) for impairment. When impairment proves necessary, it reduces the carrying amount of the reinsurers' assets and discloses an impairment loss in the income statement. Impairment is determined on an individual basis for each contractual reinsurer, on the basis of the credit rating, monitoring of the financial position of the reinsurer and of its general position, particularly on the specialist market of credit insurance and reinsurance.

### 2.3.6 Receivables from insurance contracts

Receivables from insurance contracts comprise receivables from the direct insurance business, receivables from reinsurance (see point 2.3.5), receivables from charged credit reports for policyholders and recourse receivables.

Receivables are recognised as an asset in the amounts arising from the relevant documents (insurance contracts, invoices or other credible documents such as reinsurance accounts and the basis for recognition of recourse). Upon initial recognition receivables are disclosed at original cost, and in subsequent measurements any reduction for impairment to the realisable value is disclosed as a value adjustment, the difference being disclosed in the income statement under other insurance expenses.

***Receivables from direct insurance business and receivables for credit reports***

Receivables from direct insurance business include premiums charged to policyholders. Receivables also include premiums for risk already taken up but not yet invoiced. Receivables from charged credit reports (disclosed under other receivables) include the costs charged to policyholders for charged (and accrued) costs of credit reports that the company needs when approving or reviewing limits and for administering limits.

The realisable value of these receivables and the adjustments thereto are estimated on the basis of an individual assessment of the policyholder’s solvency, where the policyholder’s financial position and the settlement of the policyholder’s liabilities to the company in previous periods are taken into account.

***Recourse receivables***

Recourse receivables arise when claims are accounted with policyholders and are based on the cession of policyholder receivables from customers (debtors), by way of which these receivables are ceded to the company. They are recorded as claimed when the insurance payout is accounted, in an amount for which the insurer has a reasonable expectation of realisation. The difference between the recourse receivable amount and the accounted insurance payout (the payout minus the amount that under insolvency proceedings can no longer be claimed) is disclosed as a contingent asset until the completion of the recourse case. The amounts recognised when the insurance payout is accounted are created on the basis of an individual assessment of the realisable value. Recourse receivables are divided into three categories in terms of the cause of the claim for which they were incurred (bankruptcy, restructuring proceedings, claim for extended arrears in payment), and each claim is estimated on an individual basis within these three categories. Current information about the debtor and the proceedings, which are being conducted against the debtor for the repayment of receivables, the features of the proceedings in individual countries, the debtor's credit rating, the industry in which the debtor operates, and the company's past experience are taken into account in all cases. When the insurer does not have sufficient information available, the estimated realisable value of a recourse receivable upon recognition amounts to 1% to 5% in cases of bankruptcy, up to 20% in cases of restructuring proceedings, and up to 50% in cases of claims for extended arrears in payment. Impairment of recourse receivables is assessed on the basis of an individual assessment of the recourse case, additional and updated information being taken into account each time in the same way as during the recognition of the receivables when the insurance payout was accounted. The reassessment of recourse receivables (assessment of impairment) is undertaken whenever new information is obtained during the resolution of the recourse case, quarterly, and in any case at least on the reporting date. The monitoring of a recourse case and the acquisition of new information may lead to impairments of recourse receivables (impairment can subsequently be reversed) or the recognition of recourse receivables that are higher than originally recognised during the accounting of the claim.

### 2.3.7 Current tax assets/liabilities, deferred tax assets/liabilities and tax expense

Deferred taxes are accounted for temporary differences between the carrying amount and the value of assets and liabilities for tax purposes. Assets are recognised when they are materially significant and provided that taxable gains will be available in the future. Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets and liabilities are netted for disclosure, because the company has the legal right to do so and because earnings pertain to the same tax authority.

When the tax paid in current and previous periods exceeds the current tax liability, current tax receivables arise.

Corporate income tax is levied on the taxable base determined in accordance with the Corporate Income Tax Act.

Tax expense comprises the current tax liability for the current financial year, adjusted for changes in deferred taxes. The expense is disclosed on a pro rata basis in the income statement, in the statement of other comprehensive income and in the statement of changes in equity, depending on where the transactions giving rise to the tax effect are recognised.

### 2.3.8 Cash and cash equivalents

The balance in the current account and custody account, savings account, and deposits at call are disclosed under cash and cash equivalents.

### 2.3.9 Equity

The company's share capital comprises the nominal value of paid-up ordinary shares.

Revenue reserves comprise legal reserves, reserves under the Articles of Association and other revenue reserves.

The legal reserves are created and utilised in accordance with the Companies Act.

Reserves under the articles of association may be created up to the amount of 50% of the share capital. They may be used to cover a net loss during the financial year, to cover net losses brought forward, to increase the share capital using the company's internal resources, to create reserves for treasury shares and to cover major damage incurred during operations or extraordinary business events.

Under the Companies Act, the company's management board and the supervisory board have the option of allocating up to 50% of the net profit remaining after use for mandatory purposes to the other reserves when the annual report is compiled. These reserves can be used for any purpose.

The company recognises dividends in the financial statements in the period in which the general meeting resolution on dividend payments is passed. After a resolution has been passed at the general meeting, the company recognises a liability for the payment of dividends to shareholders, and reduces equity accordingly.

### 2.3.10 Technical provisions

***Unearned premiums***

Provisions for unearned premiums comprise the unearned portion of premiums written. They are calculated for each account separately (i.e. the invoice issued by the policyholder to its customer). The calculation of unearned premiums takes account of the estimated time distribution of the probability of a loss event occurring. This is linear in cases of bankruptcy or permanent insolvency, and the unearned premium is calculated on a *pro rata temporis* basis. In cases of extended arrears in payment, the distribution is non-linear, and the entire amount of the premium allocated to this risk is assigned to the due date of the invoice. For premiums for risks taken up in December that are not yet invoiceable and are estimated by the company, the unearned premium is calculated using a lump-sum method.

***Provisions for claims outstanding***

Provisions for claims outstanding are created in the amount of the estimated liabilities that the company is obliged to pay on the basis of insurance contracts in respect of which an insurance case will occur before the end of the accounting period, irrespective of whether the insurance case has already been reported, including all costs borne by the company on the basis of the contracts.

Provisions for claims outstanding comprise provisions for claims that have been incurred and reported but not resolved, provisions for claims that have been incurred but not reported, and provisions for appraisal costs.

Provisions for reported but unresolved claims are determined on the reporting date by means of an inventory, separately for each such claim, on the basis of the envisaged costs (insurance payouts, plus external appraisal costs) that will be incurred during the closing of the claim.

Provisions for claims that have been incurred but not reported are determined on the reporting date using the chain ladder method on claims triangles with an adjustment for information about potential, reported and major claims. For more information about this component of the provisions, see point 2.9.1.1.

Projected recourse is not deducted from gross provisions for claims outstanding. The company does not discount gross provisions for claims outstanding.

***Provisions for bonuses***

Provisions for bonuses are created for insurance contracts that include a clause on the repayment of part of the premium i) if no claims are reported under the insurance contract, or ii) if the loss ratio is lower than a contractually defined limit. They are calculated across individual insurance contracts with regard to earned premium in an individual contract year and with regard to the estimated claims ratio prior to the reporting date.

***Provisions for unexpired risks***

On the reporting date the company tests the adequacy of its liabilities from insurance contracts. If it determines that the unearned premium will not suffice to cover the future claims and other costs from risks already taken up, it creates provisions for unexpired risks in the amount of the difference.

### 2.3.11 Other provisions

***Provisions for jubilee benefits and termination benefits at retirement***

The company must pay jubilee benefits to staff and termination benefits at their retirement in accordance with the law (act governing employment relationship, sectoral-level collective agreement). Provisions for these payments are created on the basis of the actuarial valuation method, i.e. the projected unit credit method, under which provisions are created in a linear manner in the period from the month of employment at the company until the month of projected payment of a jubilee benefit or termination benefit. The calculation takes into account the following actuarial assumptions in accordance with IAS 19:

- demographic assumptions (mortality and early termination of employment - fluctuation);
- the discount rate taking into account the return on government securities on the reporting date; and
- wage growth taking inflation, ages and promotions into account.

The costs of termination benefits at retirement and jubilee benefits are recognised upon creation as operating labour costs in the income statement. Changes to these provision due to payment and reversal of provisions are also recognised in the same manner. The revaluation of provisions created as a result of increases or decreases of the present value of liabilities due to changes in actuarial items and experiential adjustments is recognised as actuarial gains or losses in other comprehensive income for provisions for termination benefits at retirement.

### 2.3.12 Operating liabilities and other liabilities

Operating liabilities and other liabilities are recognised when the obligation to pay a liability is evident from contractual provisions. They are disclosed at amortised cost.

Liabilities comprise liabilities from insurance and reinsurance business (see also point 2.3.5), current tax liabilities, other liabilities and short-term accrued costs and expenses and short-term deferred income.

### 2.3.13 Revenue

Premiums are recognised as revenue when invoices are issued to policyholders. They include the estimated but not invoiced amount of premium for sales in December for which the company has already taken up the risks but has been unable to issue invoices as a result of the way in which the insurance is provided (sales from which risks are taken up are made in the current month, but policyholders report the insurance transaction based on which the premium can be charged retrospectively in the month after the sale is made). Premiums do not include the tax levied on insurance services.

The portion of the premiums ceded to reinsurers is deducted from the gross insurance premiums written. Net premiums written are adjusted in net income from insurance premiums by the change in net unearned premiums.

Credit reports charged are recognised as revenue when invoices are issued to policyholders, the period for which the credit report is accounted being taken into account.

For contracts with a sliding commission rate, reinsurance commissions are recognised in revenue with regard to the estimated loss ratio for the contractual year. Commissions from other reinsurance contracts are recognised on the basis of reinsurance accounts.

Finance income (investment income) comprises interest income from available-for-sale financial assets and loans, which is recognised using the effective interest rate method, the net effect of gains realised on available-for-sale financial assets, the net reversal of impairments and the net exchange rate differences from available-for-sale financial assets and from loans (when positive).

Exchange rate gains on other business are disclosed under other insurance income. They also include the potential gain from the revaluation of individual types of receivables. Revenue from the reversal of provisions (other than technical provisions), compensation received from insurance and other types of revenue are disclosed under other revenue.

### 2.3.14 Expenses

Gross claims paid comprise insurance payouts, plus appraisal costs, minus recognised recourses paid. Gross claims paid are recognised when the contractual provisions setting out the conditions for paying claims are met. Before this, the amounts are recognised as changes in gross provisions for claims outstanding. Recourses are recognised in an estimated amount when the insurance payout is accounted (see point 2.3.6). The amounts ceded to reinsurers (for all the aforementioned categories) are deducted from gross expenses for claims.

Bonuses are recognised when all the contractual provisions are met. Before this, expenses for provisions for bonuses are recognised. Gross bonuses paid and changes in gross provisions for bonuses are adjusted for the shares ceded to reinsurers.

Costs are itemised in the income statement in terms of type, as acquisition costs, claim resolution costs (which are a component of claim expenses), asset management costs (which are a component of investment expenses) and (other) operating costs. Costs are also disclosed by nature in the notes.

Investment expenses comprise interest expenses (recognised using the effective interest rate method), net losses realised in the disposal of available-for-sale financial assets, financial asset management costs and other investment-related costs (commissions). They also include net impairments and net exchange rate differences from financial assets (other than receivables) if negative.

Exchange rate losses on insurance and other business are disclosed under other insurance expenses or under other expenses.

The company purchases credit reports for the assessment and monitoring of risks accepted for underwriting, and the amounts that the company is charged are disclosed under other insurance expenses.

When receivables (insurance premium, credit reports charged, recourses, reinsurance assets, other receivables) are impaired, the company reduces their amortised cost, disclosing the difference under revaluation expenses (which are a component of other insurance expenses or other expenses) and transferring it to the value adjustment subsidiary account. Expenses for interest from termination benefits and jubilee benefits, expenses from the impairment of property, plant or equipment and intangible assets and losses upon the disposal of these assets are also disclosed under other expenses.

## 2.4 New effective standards and interpretations in the reporting period and issued/approved standards and interpretations not yet effective and applied

In accordance with the requirements of the IFRS and EU, the company will have to take the new, amended and revised standards and interpretations listed below into consideration for the reporting period and for future periods.

The following standards issued by the International Accounting Standards Board (IASB) and adopted by the EU became effective in 2019:

- IFRS 16 Leases, adopted by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 July 2019);
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation, adopted by the EU on 22 March 2018 (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 Employee Benefits - Plan Amendment, Curtailment or Settlement, adopted by the EU on 13 March 2019 (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures, adopted by the EU on 8 February 2019 (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to Improvements to the IFRS (2015–2017 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate discrepancies and provide

interpretations, adopted by the EU on 14 March 2019 (the amendments apply to annual periods beginning on or after 1 January 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments, adopted by the EU on 23 October 2018 (applicable to annual periods beginning on or after 1 January 2019).

Coface PKZ decided for a temporary exemption from applying IFRS 9 in accordance with IFRS 4.20A.

The adoption of these new standards, amendments to existing standards and interpretations did not lead to any material changes in the financial statements of the company.

On the day that these financial statements were approved, the following new standards and amendments to existing standards had been issued by the IASB and adopted by the EU, but were not yet effective:
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material, adopted by the EU on 29 November 2019 (applicable to annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform, adopted by the EU on 15 January 2020 (applicable to annual periods beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS standards, adopted by the EU on 29 November 2019 (applicable to annual periods beginning on or after 1 January 2020).

New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU:
- IFRS 14 Regulatory Deferral Accounts (applicable to annual periods beginning on or after 1 January 2016). The European Commission opted not to begin proceedings to approve this interim standard, but will wait until the publication of the final version thereof;
- IFRS 17 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 Business Combinations – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform (applicable to annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture, and subsequent amendments (the date of application has been postponed indefinitely until the completion of a research project in connection with the equity method).

IFRS 17, which the IASB published on 18 May 2017, requires the measurement of insurance liabilities under the present value of fulfilment and brings a more uniform measurement and presentation method for all insurance contracts. The purpose of these requirements is to ensure consistent and principle-based accounting of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and interpretations connected therewith.
Coface PKZ has yet to initiate activities in the area covered by the IFRS 17, but has already received certain guidance from the Group.

Coface PKZ does not expect the introduction of these new standards, amendments to existing standards and new interpretations to have a material impact on its financial statements during initial application, other than for IFRS 17, where a material impact is expected but has yet to be assessed. The company decided not to apply any new standards or amendments to the existing ones before the date of mandatory application.

## 2.5 Notes to the balance sheet

### 2.5.1 Intangible assets and property, plant and equipment

| in EUR | Intangible assets | Intangible assets under construction | *Total intangible assets* | Buildings | Computers and computer equipment and other communication equipment | Office furniture and equipment | Cars | Property, plant and equipment under manufacture and advances given | *Total property, plant and equipment* |
|---|---|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | | | |
| **As at 1/1/2018** | 1,102,026 | 8,972 | *1,110,998* | 3,096,179 | 1,016,663 | 321,659 | 64,940 | 0 | *4,499,441* |
| Transfer to use | 7,808 | -11,544 | *-3,736* | 0 | 31,291 | 1,681 | 62,000 | -94,972 | *0* |
| Purchase | 0 | 9,054 | *9,054* | 0 | 0 | 0 | 0 | 94,972 | *94,972* |
| Sale/write-off | -17,439 | 0 | *-17,439* | 0 | -129,013 | -3,283 | -24,980 | 0 | *-157,277* |
| **As at 31/12/2018** | 1,092,394 | 6,482 | *1,098,876* | 3,096,179 | 918,941 | 320,057 | 101,960 | 0 | *4,437,136* |
| Transfer to use | 24,705 | -24,705 | *0* | 0 | 16,366 | 2,067 | 25,660 | -44,093 | *0* |
| Purchase | 0 | 24,705 | *24,705* | 0 | 0 | 0 | 0 | 50,916 | *50,916* |
| *Sale/write-off* | 0 | -6,482 | *-6,482* | 0 | -8,931 | 0 | -19,800 | -2,391 | *-31,122* |
| **As at 31/12/2019** | **1,117,099** | **0** | ***1,117,099*** | **3,096,179** | **926,376** | **322,124** | **107,820** | **4,433** | ***4,456,930*** |
| **Adjustment** | | | | | | | | | |
| **As at 1/1/2018** | -633,896 | 0 | *-633,896* | -1,168,725 | -567,897 | -233,761 | -44,750 | 0 | *-2,015,133* |
| Depreciation/amortisation | -149,899 | 0 | *-149,899* | -102,416 | -166,993 | -37,440 | -11,851 | 0 | *-318,699* |
| Impairment | 0 | 0 | *0* | 0 | 0 | 0 | 0 | 0 | *0* |
| Sale/write-off | 17,439 | 0 | *17,439* | 0 | 126,590 | 3,283 | 19,485 | 0 | *149,359* |
| **As at 31/12/2018** | -766,356 | 0 | *-766,356* | -1,271,141 | -608,299 | -267,917 | -37,116 | 0 | *-2,184,473* |
| Depreciation/amortisation | -138,945 | 0 | *-138,945* | -103,444 | -145,201 | -23,686 | -13,386 | 0 | *-285,718* |
| Impairment | 0 | 0 | *0* | 440,782 | 0 | 0 | 0 | 0 | *440,782* |
| Sale/write-off | 0 | 0 | *0* | 0 | 8,931 | 0 | 3,506 | 0 | *12,437* |
| **As at 31/12/2019** | **-905,302** | **0** | ***-905,302*** | **-933,803** | **-744,570** | **-291,603** | **-46,995** | **0** | ***-2,016,972*** |
| **Carrying amount** | | | | | | | | | |
| **As at 1/1/2018** | 468,129 | 8,972 | *477,102* | 1,927,453 | 448,767 | 87,898 | 20,190 | 0 | *2,484,308* |
| **As at 31/12/2018** | 326,038 | 6,482 | *332,520* | 1,825,037 | 310,642 | 52,140 | 64,844 | 0 | *2,252,663* |
| **As at 31/12/2019** | **211,798** | **0** | ***211,798*** | **2,162,375** | **181,806** | **30,520** | **60,825** | **4,433** | ***2,439,959*** |

On the basis of the appraisal report as at 31 December 2019, which was carried out by a certified appraiser of real estate registered with the Slovenian Institute of Auditors, Coface PKZ reversed the impairment of real estate value in the amount of EUR 440,782 (which was recognised in 2015). The sales comparison approach was used for that purpose. The key assumptions applied in the sales comparison approach were the realised selling prices of comparable real estate in the shortest possible time in an area that is closest to the location where the real estate is located. To that end, other elements of the comparison, such as the scope of real property rights, financing terms, sales terms, expenses that arose during the sale, market conditions, location, the physical properties of the asset, economic characteristics and real estate of higher value, were also taken into account.

Coface PKZ recorded no pledged assets or assets acquired on the basis of a finance lease under property, plant and equipment as at 31 December 2019.

### 2.5.2 Financial assets

*Itemisation by functional type*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Financial assets in the form of loans and deposits** | **2,501,636** | **4,652,500** |
| **Available-for-sale financial assets** | | |
| - fixed rate debt instruments | 21,858,473 | 22,585,560 |
| - variable rate debt instruments | 1,999,982 | 2,011,380 |
| - mutual funds (ETF) | 1,847,448 | 0 |
| **Total** | **25,705,903** | **24,596,940** |
| **Total financial assets** | **28,207,539** | **29,249,440** |

*Fair value hierarchy*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Level 1 | 24,687,724 | 23,578,731 |
| Level 2 | 1,018,179 | 1,018,209 |
| Level 3 | 0 | 0 |
| **Total available-for-sale financial assets** | **25,705,903** | **24,596,940** |

There were no transfers of securities from Level 1 to Level 2 in 2019.

The fair values of debt securities are determined on the basis of the Composite Bloomberg Bond Trader (hereinafter: CBBT) price. All debt securities that were valued as at 31 December 2019 at the CBBT price were listed on an active and over-the-counter (OTC) market, and are thereby classified to Level 1. Equity instruments are listed on the stock exchange, and are therefore classified to Level 1 by Coface PKZ.

Debt securities that are listed on the Ljubljana Stock Exchange and for which none of the aforementioned market prices are available are valued at the closing price from the Ljubljana Stock Exchange. If the liquidity of a particular security does not suffice, Coface PKZ classifies it to Level 2.

Coface PKZ classifies investments in loans and deposits to Level 2 of the fair value hierarchy.

*Changes in financial assets*

| in EUR | Financial assets in the form of loans and deposits | Available-for-sale financial assets | Total |
|---|---|---|---|
| **As at 1/1/2018** | **5,251,518** | **19,483,255** | **24,734,772** |
| Purchases | 6,000,000 | 6,174,513 | 12,174,513 |
| Added interest | 7,625 | 260,077 | 267,702 |
| Revaluation | 0 | -179,570 | -179,570 |
| Realised gains | 0 | 0 | 0 |
| Maturity, sale - principals | -6,600,000 | -500,000 | -7,100,000 |
| Maturity, sale - interest | -6,643 | -641,334 | -647,977 |
| **As at 31/12/2018** | **4,652,500** | **24,596,940** | **29,249,440** |
| Purchases | 3,000,000 | 14,004,999 | 17,004,999 |
| Added interest | 6,968 | 183,707 | 190,675 |
| Revaluation | 0 | -970,211 | -970,211 |
| Net realised gains | 0 | 660,090 | 660,090 |
| Maturity, sale - principals | -5,150,000 | -12,253,154 | -17,403,154 |
| Maturity, sale - interest | -7,832 | -516,469 | -524,301 |
| **As at 31/12/2019** | **2,501,636** | **25,705,903** | **28,207,539** |

In 2019 Coface PKZ on average achieved a 0.10% interest rate (compared with 0.14% in 2018) for concluded deposit contracts.

*Subordinated financial instruments*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Subordinated instruments | 589,525 | 589,555 |
| **Share of subordinated instruments in available-for-sale financial assets** | **2.3%** | **2.4%** |

### 2.5.3 Receivables(other than current tax assets)

All receivables are current and unsecured. Detailed disclosures relating to the maturity of receivables are shown in section 2.9.2.

*Receivables from direct insurance business*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Receivables from direct insurance business | 901,962 | 811,292 |
| Funds for premiums not yet written for which the company has taken-up risk | 1,170,407 | 1,120,695 |
| **Total receivables from direct insurance business** | **2,072,369** | **1,931,987** |

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Historical cost of receivables from direct insurance business | 1,139,547 | 1,141,854 |
| Impairment | -237,585 | -330,563 |
| **Carrying amount of receivables for premiums** | **901,962** | **811,292** |

*Receivables from reinsurance and co-insurance*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Receivables from accrued and charged amounts for reinsurance account | 887,605 | 1,340 |
| **Total receivables from reinsurance and coinsurance** | **887,605** | **1,340** |

Receivables from reinsurance increased compared to the previous year, mainly due to accrued amounts for the last reinsurance account of the year, reffering to higher gross claims paid at the end of the year.

*Other receivables*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Receivables from charged and accrued credit reports | 7,121 | 34,888 |
| Recourse receivables | 2,164,329 | 2,981,453 |
| Other current receivables | 6,187 | 9,338 |
| **Total other receivables** | **2,177,637** | **3,025,679** |

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Historical cost of receivables from charged and accrued credit reports | 25,126 | 55,274 |
| Impairment | -18,006 | -20,386 |
| **Carrying amount of receivables from charged and accrued credit reports** | **7,121** | **34,888** |

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Historical cost of recourse receivables | 7,502,692 | 7,822,728 |
| Impairment | -5,338,363 | -4,841,275 |
| **Carrying amount of recourse receivables** | **2,164,329** | **2,981,453** |

### 2.5.4 Other assets

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Deferred costs | 125,498 | 162,578 |

The majority of deferred costs relate to a prepaid one-year licence fee for software.

### 2.5.5 Cash and cash equivalents

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance in current account | 753,787 | 52,026 |
| Call deposits, savings account and custody account | 508,467 | 5,470,862 |
| Cash-on-hand | 0 | 158 |
| **Total cash and cash equivalents** | **1,262,255** | **5,523,046** |

The company does not have any automatic overdraft agreements with banks by means of which it could ensure its current solvency.

### 2.5.6 Equity

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Share capital** | **8,412,619** | **8,412,619** |
| Legal and reserves under the articles of association | 5,062,366 | 5,062,366 |
| Other profit reserves | 7,566,303 | 6,986,124 |
| **Total profit reserves** | **12,628,668** | **12,048,490** |
| **Revaluation surplus** | **239,052** | **506,556** |
| **Retained earnings** | **503** | **4,935,554** |
| **Net profit or loss for the financial year** | **580,179** | **482,623** |
| **Total equity** | **21,861,021** | **26,385,842** |

The statement of changes in equity is presented in point 1.5 of the financial report.

The company has EUR 8,412,618.92 in share capital, divided into 2,016 no-par-value shares. This amounted to EUR 4,206,309.46 at establishment, and was divided into 1,008 no-par-value shares, before an additional EUR 4,206,309.46 was paid up in a capital increase in early 2010 via the issue of another 1,008 no-par-value shares. The emission value of the shares at issue was equal to the nominal value. Each no-par-value share represents an adequate portion of the equity.

On 12 April 2019 SID-Prva kreditna zavarovalnica d.d., Ljubljana was sold to Coface, which became the direct holder of a 100% participating interest, based on which it became the parent of Coface PKZ and gained all the shares that were held by the previous owner, SID bank.

The shares were paid up in full in cash. The shares are ordinary registered shares, and are indivisible. Each share gives the holder one vote at the general meeting. The shares are issued in dematerialised form. The central share register and all procedures for trading the shares are administered at the Central Securities Clearing Corporation in Ljubljana.

The company held no own shares in treasury as at 31 December 2019 or in 2019, as was the case in 2018.

The legal reserves and reserves under the Articles of Association were at the maximum level allowed.

Other revenue reserves were increased during the compilation of the 2019 annual report by EUR 580,179 under a resolution by the management board and supervisory board. A total of 50% of the net profit for the 2019 financial year, which after use remained for mandatory purposes, was used for this.

The revaluation surplus derives from the revaluation of available-for-sale financial assets to fair value and from actuarial gains/losses for pension plans.

As at 31 December 2018[22] distributable profit stood at EUR 5,418,177 and was paid out in accordance with the resolution of the general meeting of 3 April 2019 as dividends to shareholders on 11 April 2019 (the dividends per share amount was equivalent to EUR 2,687.59).

Distributable profit amounted to EUR 580,681 as at 31 December 2019. The management board and supervisory board proposed to the general meeting of shareholders that the distributable profit remains undistributed in the amount of EUR 580,681 EUR (retained earnings).

Retained earnings per share amounted to EUR 576 (2018: EUR 480). The company does not have any dilutive capital instruments, and the basic and diluted earnings per share are therefore the same.

### 2.5.7 Technical provisions

| **in EUR** | **31/12/2019** | **Change in 2019** | **31/12/2018** | **Change in 2018** | **1/1/2018** |
|---|---|---|---|---|---|
| Gross unearned premiums | 2,626,002 | 140,527 | 2,485,475 | 47,257 | 2,612,805 |
| Reinsurers' share | -1,387,916 | -19,664 | -1,368,252 | -22,469 | -1,441,667 |
| **Net unearned premiums** | **1,238,087** | **120,863** | **1,117,223** | **24,788** | **1,171,138** |
| Gross provisions for claims outstanding | 17,437,664 | -1,327,947 | 18,765,611 | 753,475 | 17,703,531 |
| Reinsurers' share | -9,124,582 | 1,014,267 | -10,138,849 | -843,495 | -10,042,071 |
| **Net provisions for claims outstanding** | **8,313,082** | **-313,680** | **8,626,762** | **-90,019** | **7,661,460** |
| Gross provisions for bonuses and rebates | 3,200,858 | 528,853 | 2,672,004 | -491,896 | 2,313,754 |
| Reinsurers' share | -1,554,030 | -97,143 | -1,456,887 | 307,382 | -1,211,977 |
| **Net provisions for bonuses and rebates** | **1,646,828** | **431,711** | **1,215,117** | **-184,514** | **1,101,777** |
| Gross provisions for unexpired risks | 1,864,886 | 170,743 | 1,694,143 | 490,692 | 1,410,078 |
| Reinsurers' share | -755,104 | 243,552 | -998,656 | -377,015 | -781,954 |
| **Net provisions for unexpired risks** | **1,109,782** | **414,295** | **695,487** | **113,677** | **628,124** |
| **Gross technical provisions** | **25,129,410** | -487,824 | **25,617,234** | 799,528 | **24,040,169** |
| **Technical provisions ceded to reinsurers** | **-12,821,631** | 1,141,012 | **-13,962,644** | -935,597 | **-13,477,669** |
| **Net technical provisions** | **12,307,779** | 653,188 | **11,654,590** | -136,069 | **10,562,500** |

| **in EUR - gross amount** | **Provisions for unearned premiums** | **Provisions for claims outstanding** | **Provisions for bonuses and rebates** | **Provisions for unexpired risks** | **Total technical provisions** |
|---|---|---|---|---|---|
| **As at 1/1/2018** | **2,612,805** | **17,703,531** | **2,313,754** | **1,410,078** | **24,040,169** |
| Creation | 2,485,475 | 13,209,137 | 853,120 | 1,694,143 | **18,241,876** |
| Utilisation | -2,612,805 | -2,873,712 | -528,829 | -1,410,078 | **-7,425,424** |
| Reversal (elimination) | 0 | -9,273,346 | 33,959 | 0 | **-9,239,387** |
| **As at 31/12/2018** | **2,485,475** | **18,765,611** | **2,672,004** | **1,694,143** | **25,617,234** |
| Creation | 2,626,002 | 10,875,730 | 927,981 | 1,864,886 | **16,294,599** |
| Utilisation | -2,485,475 | -2,567,829 | -590,203 | -1,694,143 | **-7,337,650** |
| Reversal (elimination) | 0 | -9,635,848 | 191,075 | 0 | **-9,444,773** |
| **As at 31/12/2019** | **2,626,002** | **17,437,664** | **3,200,858** | **1,864,886** | **25,129,410** |

[22] The item of distributable profit as defined by the Companies Act.

| in EUR - net amount | Provisions for unearned premiums | Provisions for claims outstanding | Provisions for bonuses and rebates | Provisions for unexpired risks | Total technical provisions |
|---|---|---|---|---|---|
| **As at 1/1/2018** | **1,171,138** | **7,661,460** | **1,101,777** | **628,124** | **10,562,500** |
| Creation | 1,117,223 | 6,496,222 | 339,918 | 695,487 | **8,648,851** |
| Utilisation | -1,171,138 | -1,436,856 | -243,032 | -628,124 | **-3,479,150** |
| Reversal (elimination) | 0 | -4,094,064 | 16,454 | 0 | **-4,077,610** |
| **As at 31/12/2018** | **1,117,223** | **8,626,762** | **1,215,117** | **695,487** | **11,654,590** |
| Creation | 1,238,087 | 5,439,376 | 510,389 | 1,109,782 | **8,297,635** |
| Utilisation | -1,117,223 | -1,291,524 | -280,292 | -695,487 | **-3,384,526** |
| Reversal (elimination) | 0 | -4,461,533 | 201,613 | 0 | **-4,259,920** |
| **As at 31/12/2019** | **1,238,087** | **8,313,082** | **1,646,828** | **1,109,782** | **12,307,779** |

*Itemisation of provisions for claims outstanding*

| in EUR | Gross amount as at 31/12/2019 | Reinsurers' share as at 31/12/2019 | Net amount as at 31/12/2019 |
|---|---|---|---|
| **Insurance business** | | | |
| Loss events incurred and reported | 926,553 | -437,796 | 488,758 |
| Loss events incurred but not reported | 16,511,110 | -8,686,786 | 7,824,324 |
| **Total** | **17,437,664** | **-9,124,582** | **8,313,082** |

| in EUR | Gross amount as at 31/12/2018 | Reinsurers' share as at 31/12/2018 | Net amount as at 31/12/2018 |
|---|---|---|---|
| **Insurance business** | | | |
| Loss events incurred and reported | 1,251,523 | -609,317 | 642,206 |
| Loss events incurred but not reported | 17,514,088 | -9,529,532 | 7,984,557 |
| **Total** | **18,765,611** | **-10,138,849** | **8,626,762** |

## 2.5.8 Other provisions

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Provisions for jubilee benefits | 29,238 | 27,946 |
| Provisions for termination benefits at retirement | 127,524 | 99,604 |
| **Total other provisions** | **156,762** | **127,550** |

| in EUR | Jubilee benefits | Termination benefits at retirement | Total |
|---|---|---|---|
| **As at 1/1/2018** | **31,576** | **119,161** | **159,519** |
| Utilisation | -3,263 | 0 | -3,263 |
| Creation (elimination) | -366 | -19,557 | -19,924 |
| **As at 31/12/2018** | **27,946** | **99,604** | **127,550** |
| Utilisation | -2,175 | -3,484 | -5,659 |
| Creation (elimination) | 3,466 | 31,404 | 34,870 |
| **As at 31/12/2019** | **29,238** | **127,524** | **156,762** |

Changes to provisions for jubilee benefits are recognised under operating costs, interest costs under other expenses and reversal of provisions under other revenues. The same applies to changes to provisions for termination benefits at retirement, save for actuarial gains or losses that are recognised in other comprehensive income.

*Breakdown of present value of commitments for employee benefits*

| in EUR | Jubilee benefits | Termination benefits at retirement | Total |
|---|---|---|---|
| **Present value of commitments as at 1/1/2018** | **31,576** | **119,161** | **150,737** |
| Interest expenses | 368 | 1,549 | 1,917 |
| Costs of current service | 2,999 | 8,512 | 11,511 |
| Actuarial gains and losses | -3,734 | -29,618 | -33,352 |
| Payment of earnings in 2018 | -3,263 | 0 | -3,263 |
| **Present value of commitments as at 31/12/2018** | **27,946** | **99,604** | **127,550** |
| Interest expenses | 103 | 384 | 488 |
| Costs of current service | 2,936 | 17,820 | 20,756 |
| Actuarial gains and losses | 427 | 13,199 | 13,627 |
| Payment of earnings in 2019 | -2,175 | -3,484 | -5,659 |
| **Present value of commitments as at 31/12/2019** | **29,238** | **127,524** | **156,762** |

A sensitivity analysis was prepared solely for a change in one assumption in the amount of +/- 0.5 percentage point or +/-10%, while all other assumptions remain unchanged in individual tests.

| Actuarial assumption | Change in assumption | Change in the present value of commitment for termination benefits at retirement as at | |
|---|---|---|---|
| | | **31/12/2019** | **31/12/2018** |
| Yield | +0,5 % point | -10,422 | -8,080 |
| | -0,5 % point | 11,573 | 8,990 |
| Salary growth | +0,5 % point | 11,441 | 8,972 |
| | -0,5 % point | -10,412 | -8,141 |
| Fluctuation | +10 % | -9,864 | -1,116 |
| | -10 % | 9,864 | 1,116 |

### 2.5.9 Operating liabilities (excluding current tax liabilities) and other liabilities

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Liabilities from direct insurance business** | **21,590** | **21,264** |
| Liabilities from accrued amounts for the last reinsurance account for the year | 448,589 | 1,223,325 |
| Accrued liabilities to reinsurers from invoiced but not yet paid recourses | 1,188,086 | 1,619,495 |
| **Liabilities from reinsurance** | **1,636,675** | **2,842,820** |
| Liabilities to employees | 231,221 | 222,964 |
| Other liabilities for labour costs | 74,235 | 72,203 |
| Liabilities to suppliers | 126,121 | 231,910 |
| Accrued costs of suppliers of goods and services and accrued liabilities to employees | 518,917 | 310,956 |
| Deferred income for credit reports charged | 184,673 | 256,491 |
| Other current liabilities from insurance business | 94,369 | 97,658 |
| Other liabilities | 54,528 | 59,557 |
| **Total other liabilities** | **1,284,063** | **1,251,740** |
| *- of which amount of contractual commitments for the acquisition of intangible assets* | *0* | *0* |
| *- of which amount of contractual commitments for the acquisition of property, plant and equipment* | *4,433* | *0* |

All liabilities are past-due and are not remunerated. Their carrying amounts are the same as their fair values. Debts are not exposed to materially significant currency risk or interest rate risk. The company did not use financial instruments for hedging debts in 2019 (or 2018). As at the reporting date the company held no debts among operating liabilities and other liabilities that would be covered by securities pledged by the company as collateral, or secured by funded protection. Operating liabilities and other liabilities are unsecured.

### 2.5.10 Off-balance-sheet items

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Contingent assets (unclaimed recourse receivables) | 73,428,011 | 75,738,692 |
| Contingent liabilities (lawsuit) | 64,366 | 0 |

Off-balance-sheet items (contingent assets) derive from the difference between claims paid (claims minus amounts for which there is no longer any basis for claiming under insolvency/restructuring proceedings against debtors) and recourse receivables claimed. Contingent assets were down EUR 2.3 million on 2018. In 2019 Coface PKZ recognised contingent liabilities in the amount of EUR 0.06 million from lawsuits filed by former employees.

## 2.6 Notes to the income statement

### 2.6.1 Net income from insurance premiums

| in EUR | 2019 | 2018 |
|---|---|---|
| Gross insurance premiums written | 14,754,746 | 14,279,218 |
| Premiums written ceded to reinsurance | -8,893,217 | -8,619,279 |
| **Net insurance premiums written** | **5,861,528** | **5,659,940** |
| Change in gross unearned premiums | -140,527 | 127,330 |
| Change in unearned premiums for reinsurance share | 19,664 | -73,415 |
| **Change in net unearned premiums** | **-120,863** | **53,915** |
| **Net income from insurance premiums** | **5,740,665** | **5,713,854** |
| Gross income from premiums | 14,614,219 | 14,406,548 |
| Reinsurers' share of income from insurance premiums | -8,873,554 | -8,692,694 |
| **Net income from insurance premiums** | **5,740,665** | **5,713,854** |

All premium relates to credit insurance.

*Itemisation of gross premiums written by location of policyholder/cedent*

| in EUR | 2019 | 2018 |
|---|---|---|
| **Gross premiums written** | | |
| - in Slovenia | 13,247,470 | 13,297,403 |
| - abroad | 1,507,276 | 981,815 |
| *of which EU* | *1,432,801* | *981,815* |
| **Total** | **14,754,746** | **14,279,218** |

### 2.6.2 Investment income/expenses

| 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 |
| **Total interest income** | **190,835** | **267,800** |
| Realised gains on sales (available-for-sale financial assets) | 660,492 | 0 |
| Realised losses on sales (available-for-sale financial assets) | -402 | 0 |
| Other expenses from financial assets | -52,939 | -52,324 |
| **Total investment income** | **851,327** | **267,800** |
| **Total investment expenses** | **-53,341** | **-52,324** |
| **Effect of financial assets** | **797,987** | **215,475** |

Investment income was significantly higher in 2019 than in 2018, which is the result of the sale of a larger number of investments to comply with the Group's investment policy. Investment expenses remained at a similar level to the previous year.

### 2.6.3 Other insurance income

| in EUR | 2019 | 2018 |
|---|---|---|
| Income from reinsurance commission | 2,894,812 | 2,734,221 |
| Income from credit report fees charged | 1,060,592 | 1,003,888 |
| Revaluation effect of receivables from premiums and credit reports charged | 3,309 | 0 |
| **Other insurance income** | **3,958,714** | **3,738,109** |

Income from charged credit reports increased primarily due to the increased number of insurance limits, and reinsurance commissions also increased due to higher premiums written.

### 2.6.4 Net claim expenses

| in EUR | 2019 | 2018 |
|---|---|---|
| Gross claims paid | 5,847,596 | 5,194,448 |
| Income from gross recourse receivables claimed | -1,018,980 | -1,781,669 |
| **Gross claims paid less recourses** | **4,828,616** | **3,412,779** |
| **Reinsurers' share** | **-2,286,459** | **-1,738,082** |
| Changes in gross provisions for claims outstanding | -1,327,947 | 1,062,080 |
| Changes in provisions for claims outstanding for reinsurance share | 1,014,267 | -96,778 |
| **Change in net provisions for claims outstanding** | **-313,680** | **965,302** |
| **Net claim expenses** | **2,228,476** | **2,639,999** |

The year 2019 was also a favourable year regarding claims, as only slightly more gross claims were paid than in 2018 and this was in line with expectations. Net claim expenses were lower than in 2018 due to the slightly changed reinsurance business.

| in EUR | Gross amount 2019 | Reinsurers' share 2019 | Net amount 2019 |
|---|---|---|---|
| Insurance payouts | 5,512,999 | -2,610,668 | 2,902,331 |
| Direct appraisal costs | 53,308 | -26,376 | 26,932 |
| Indirect appraisal costs | 281,289 | -158,088 | 123,202 |
| *Total appraisal costs* | *334,597* | *-184,464* | *150,133* |
| **Total gross claims paid** | **5,847,596** | **-2,795,132** | **3,052,464** |
| Income from recourse receivables claimed | -1,018,980 | 508,673 | -510,307 |
| **Total claims and recourses paid** | **4,828,616** | **-2,286,459** | **2,542,157** |

| in EUR | Gross amount 2018 | Reinsurers' share 2018 | Net amount 2018 |
|---|---|---|---|
| Insurance payouts | 4,870,134 | -2,443,567 | 2,426,567 |
| Direct appraisal costs | 49,983 | -24,991 | 24,991 |
| Indirect appraisal costs | 274,331 | -162,577 | 111,754 |
| *Total appraisal costs* | *324,314* | *-187,568* | *136,746* |
| **Total gross claims paid** | **5,194,448** | **-2,631,135** | **2,563,312** |
| Income from recourse receivables claimed | -1,781,669 | 893,053 | -888,615 |
| **Total claims and recourses paid** | **3,412,779** | **-1,738,082** | **1,674,697** |

| in EUR | 2019 | 2018 |
|---|---|---|
| Gross claims paid | 5,847,596 | 5,194,448 |
| Reinsurers' share | -2,795,132 | -2,631,135 |
| **Net claims paid** | **3,052,464** | **2,563,312** |
| Gross claims paid | 5,847,596 | 5,194,448 |
| Income from gross recourse receivables claimed | -1,018,980 | -1,781,669 |
| Reinsurers' share | -2,286,459 | -1,738,082 |
| **Net claims paid less recourses** | **2,542,157** | **1,674,697** |

| in EUR | 2019 | 2018 |
|---|---|---|
| Gross claims paid | 5,847,596 | 5,194,448 |
| Income from gross recourse receivables claimed | -1,018,980 | -1,781,669 |
| Changes in gross provisions for claims outstanding | -1,327,947 | 1,062,080 |
| **Gross claims incurred** | **3,500,669** | **4,474,859** |
| Reinsurers' share of claims paid | -2,795,132 | -2,631,135 |
| Reinsurers' share of recourse receivables claimed | 508,673 | 893,053 |
| Reinsurers' share of changes in provisions for claims outstanding | 1,014,267 | -96,778 |
| **Reinsurers' share of claim expenses** | **-1,272,192** | **-1,834,860** |
| **Net claim expenses** | **2,228,476** | **2,639,999** |

### 2.6.5 Change in other technical provisions

| in EUR | 2019 | 2018 |
|---|---|---|
| Change in gross provisions for unexpired risks | -170,743 | -284,065 |
| Change in reinsurers' share of provisions for unexpired risks | -243,552 | 216,702 |
| **Net expenses for provisions for unexpired risks** | **-414,295** | **-67,363** |

### 2.6.6 Expenses for bonuses and rebates

| in EUR | 2019 | 2018 |
|---|---|---|
| Gross bonuses paid | 140,998 | 313,973 |
| Reinsurers' share of bonuses paid | -76,917 | -160,842 |
| **Net expenses for bonuses paid** | **64,081** | **153,132** |
| Change in gross provisions for bonuses | 528,853 | 358,250 |
| Change in reinsurers' share of provisions for bonuses | -97,143 | -244,910 |
| **Net expenses for provisions for bonuses** | **431,711** | **113,340** |
| **Expenses for bonuses and rebates** | **495,792** | **266,472** |

### 2.6.7 Operating costs

| in EUR | 2019 | 2018 |
|---|---|---|
| Acquisition expenses | 828,892 | 730,394 |
| Operating costs in narrow sense | 4,315,276 | 3,874,909 |
| **Total operating costs (by function)** | **5,144,168** | **4,605,304** |

| in EUR | 2019 | 2018 |
|---|---|---|
| Labour costs | 3,570,361 | 3,211,379 |
| Costs of materials and services | 1,253,653 | 1,041,380 |
| Depreciation/amortisation | 424,663 | 468,598 |
| Costs of acquisition commissions | 183,419 | 166,682 |
| **Total operating costs (by nature)** | **5,432,096** | **4,888,039** |
| - portion of appraisal costs transferred to claim expenses | -281,289 | -274,331 |
| - portion of financial asset management costs transferred to investment expenses | -6,639 | -8,404 |
| **Transfers** | **-287,928** | **-282,736** |
| **Total operating costs (by function)** | **5,144,168** | **4,605,304** |

Operating costs (and insurance acquisition costs as a component thereof) are disclosed in the income statement in a separate item. Appraisal costs are included in claims paid, while asset management costs are included in investment expenses.

| 2019 | By nature | By function | | | | |
|---|---|---|---|---|---|---|
| in EUR | Total operating costs | Acquisition costs | Operating costs in narrow sense | Total operating costs | Appraisal costs | Asset management costs |
| Labour costs | 3,570,361 | 439,205 | 2,939,543 | **3,378,748** | 191,613 | 0 |
| Costs of materials and services | 1,253,653 | 154,029 | 1,026,100 | **1,180,128** | 66,886 | 6,639 |
| Depreciation/amortisation | 424,663 | 52,240 | 349,633 | **401,873** | 22,791 | 0 |
| Costs of acquisition commissions | 183,419 | 183,419 | 0 | **183,419** | 0 | 0 |
| **Operating costs** | **5,432,096** | **828,892** | **4,315,276** | **5,144,168** | **281,289** | **6,639** |

| 2018 | By nature | By function | | | | |
|---|---|---|---|---|---|---|
| in EUR | Total operating costs | Acquisition costs | Operating costs in narrow sense | Total operating costs | Appraisal costs | Asset management costs |
| Labour costs | 3,211,379 | 384,111 | 2,640,341 | **3,024,451** | 186,928 | 0 |
| Costs of materials and services | 1,041,380 | 123,553 | 849,295 | **972,848** | 60,127 | 8,404 |
| Depreciation/amortisation | 468,598 | 56,049 | 385,274 | **441,322** | 27,276 | 0 |
| Costs of acquisition commissions | 166,682 | 166,682 | 0 | **166,682** | 0 | 0 |
| **Operating costs** | **4,888,039** | **730,394** | **3,874,909** | **4,605,304** | **274,331** | **8,404** |

| in EUR | 2019 | 2018 |
|---|---|---|
| Salaries | 2,585,153 | 2,415,922 |
| Pension insurance costs | 245,539 | 217,700 |
| Supplementary pension insurance | 119,427 | 117,399 |
| Social security costs | 201,721 | 179,076 |
| Annual leave allowance | 121,174 | 89,858 |
| Other labour costs | 297,347 | 191,425 |
| **Total labour costs (by nature)** | **3,570,361** | **3,211,379** |

| in EUR | 2019 | 2018 |
|---|---|---|
| Software maintenance costs | 326,506 | 328,970 |
| Costs of other services | 246,531 | 177,268 |
| Costs of advertising and membership fees | 183,919 | 153,779 |
| Advisory and audit services | 163,327 | 107,311 |
| Reimbursement of costs to employees | 155,705 | 121,766 |
| Costs for maintenance of buildings and other assets | 74,815 | 73,909 |
| Costs of materials | 73,561 | 58,111 |
| Rental costs | 29,290 | 20,266 |
| **Total costs of materials and services (by nature)** | **1,253,653** | **1,041,380** |

Costs associated with the auditing of the annual report and other non-auditing services are shown in point 2.8.4.

### 2.6.8 Other insurance expenses

| in EUR | 2019 | 2018 |
|---|---|---|
| Expenses for purchased credit reports | 749,530 | 695,114 |
| Effect of revaluation of recourse receivables | 385,899 | 127,664 |
| Effect of revaluation of receivables from premiums and charged credit reports | 0 | 21,876 |
| Effect of foreign exchange differences from operations | -72 | 881 |
| Other insurance expenses | 28,104 | 36,630 |
| **Total other insurance expenses** | **1,163,460** | **882,165** |

## 2.6.9 Corporate income tax

*Deferred tax assets/liabilities*

| in EUR | 1/1/2018 | Changes in the income statement | Changes in the statement of other comprehen-sive income | 31/12/2018 | Changes in the income statement | Changes in the statement of other comprehen-sive income | 31/12/2019 |
|---|---|---|---|---|---|---|---|
| Provisions for jubilee benefits and termination benefits | **28,640** | -1,310 | -3,096 | **24,235** | 8,154 | -2,603 | **29,785** |
| Revaluation surplus - available-for-sale financial assets | **-150,781** | 0 | 34,118 | **-116,663** | 0 | 58,923 | **-57,740** |
| **Deferred taxes** | **-122,141** | **-1,310** | **31,023** | **-92,428** | **8,154** | **56,320** | **-27,955** |

*Current tax assets/liabilities*

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Prepayment of tax | 237,851 | 134,832 |
| Current tax | -326,665 | -237,851 |
| **Total current tax asset/liability** | **-88,813** | **-103,019** |

*Breakdown of tax expense*

| in EUR | 2019 | 2018 |
|---|---|---|
| **Tax expense disclosed in the income statement** | | |
| *Current tax expense (current tax for the financial year)* | *-326,665* | *-237,851* |
| **Deferred tax recognised in income statement** | | |
| *Deferred tax expense/income relating to creation and reversal of temporary differences* | *8,154* | *-1,310* |
| Total deferred tax expense/income | 8,154 | -1,310 |
| **Total tax expense recognised in the income statement** | **-318,511** | **-239,161** |
| **Tax expense recognised in other comprehensive income** | | |
| *Deferred tax income/expense referring to items that will later not be reclassified to profit or loss* | *2,603* | *3,096* |
| *Deferred tax expense relating to creation and reversal of temporary differences* | *-58,923* | *-34,118* |
| **Total tax expense recognised in other comprehensive income** | **-56,320** | **-31,023** |
| **Total tax expense recognised in the statement of comprehensive income** | **-374,831** | **-270,184** |
| **Total tax expense** | **-374,831** | **-270,184** |
| *- of which total current tax in the income statement* | *-326,665* | *-237,851* |
| *- of which total deferred tax expense* | *-48,166* | *-32,332* |

*Note on relationship between tax expense and accounting net profit for the accounting period in the income statement*

| in EUR | 2019 | 2018 |
|---|---|---|
| **Pre-tax profit** | **1,478,868** | **1,206,551** |
| Tax at prescribed 19% tax rate (same tax rate as in 2018) | -280,985 | -229,245 |
| Tax effect of other income exempt from tax assessment | 11,064 | 7,566 |
| Tax effect of expenses not deducted on tax assessment | -127,996 | -95,523 |
| Tax effect of expenses increased on tax assessment | 44,962 | 54,653 |
| Tax effect of higher tax base due to tax allowances used in previous years | -284 | -243 |
| Tax effect of tax allowances | 26,574 | 24,941 |
| Change in temporary differences of deferred taxes | 8,154 | -1,310 |
| **Total tax expense in profit or loss** | **-318,511** | **-239,161** |
| **Net profit for the accounting period** | **1,160,357** | **967,391** |
| **Actual tax rate in the income statement** | **-21.54%** | **-19.82%** |

In accordance with the Corporate Income Tax Act a 19% tax rate applies for 2019.

*Note on tax effect in other comprehensive income*

| in EUR | 2019 | | |
|---|---|---|---|
| | Before tax | Tax expense | Net of tax |
| *Actuarial net gains/losses for pension plans* | *-13,199* | *-2,603* | *-15,802* |
| *Net profit/loss after re-measurement of available-for-sale financial assets* | *-310,121* | *58,923* | *-251,198* |
| Gains/losses recognised in revaluation surplus | -970,211 | 184,340 | -785,871 |
| Transfer of gains/losses from revaluation surplus to profit or loss (net gains/losses realised in the period) | 660,090 | -125,417 | *534,673* |
| **Other comprehensive income** | **-323,320** | **56,320** | **-267,000** |

| in EUR | 2018 | | |
|---|---|---|---|
| | Before tax | Tax expense | Net of tax |
| *Actuarial net gains/losses for pension plans* | *29,618* | *-3,096* | *26,523* |
| *Net profit/loss after re-measurement of available-for-sale financial assets* | *-179,570* | *34,118* | *-145,452* |
| Gains/losses recognised in revaluation surplus | -179,570 | 34,118 | -145,452 |
| Transfer of gains/losses from revaluation surplus to profit or loss (net gains/losses realised in the period) | 0 | 0 | *0* |
| **Other comprehensive income** | **-149,952** | **31,023** | **-118,929** |

## 2.6.10 Other revenue / other expenses

| in EUR | 2019 | 2018 |
|---|---|---|
| Other revenues | 443,251 | 8,569 |
| Other expenses | -15,557 | -8,153 |

Other revenues mostly comprise revenues from a building impairment reversal and revenues from the sale of property, plant and equipment. Other expenses mostly relate to expenses from the write-off of assets and to interest expenses from provisions for jubilee benefits and termination benefits.

## 2.7 Notes to the statement of cash flows

The statement of cash flows in accordance with the Decision on Annual Report and Quarterly Financial Statements of Insurance Undertakings, prescribed by the Insurance Supervision Agency.

| in EUR | 2019 | 2018 |
|---|---|---|
| **A. Cash flows from operating activities** | | |
| **a) Income statement items** | **1,682,836** | **2,664,061** |
| Net insurance premiums written for the period | 5,861,528 | 5,659,940 |
| Investment income (other than finance income) | 161 | 98 |
| Other operating income (other than revaluation and excluding any decline in provisions) and finance income from operating receivables | 1,062,547 | 1,006,971 |
| Net claims paid for the period | -2,542,157 | -1,674,697 |
| Expenses for bonuses and rebates | -64,081 | -153,132 |
| Net operating costs excluding depreciation or amortisation costs and changes in deferred acquisition costs | -1,803,508 | -1,390,973 |
| Investment expenses (excluding depreciation/amortisation or finance costs) | -52,939 | -52,324 |
| Other operating expenses excluding depreciation/amortisation (other than revaluation and excluding any increase in provisions) | -778,716 | -731,821 |
| **b) Changes in net working capital in operating balance sheet items (insurance receivables, other receivables, other assets and deferred tax assets and liabilities)** | **-2,044,139** | **3,085,578** |
| Opening less closing receivables from direct insurance | -136,857 | 281,792 |
| Opening less closing receivables from reinsurance | -886,265 | 1,656,420 |
| Opening less closing other receivables from (re)insurance business | 458,777 | 404,850 |
| Opening less closing other receivables and assets | 40,231 | 411,039 |
| Closing less opening liabilities from direct insurance | 326 | -13,106 |
| Closing less opening liabilities from reinsurance | -1,206,145 | 442,108 |
| Closing less opening other operating liabilities | -75,107 | 31,328 |
| Closing less other liabilities (other than unearned premiums) | -239,099 | -128,853 |
| **c) Net cash flow from operating activities (a + b)** | **-361,303** | **5,749,639** |
| | | |
| **B. Cash flows from investing activities** | | |
| **a) Inflows from investing activities** | **18,599,238** | **7,755,224** |
| Inflows from interest relating to investing activities | 524,301 | 647,977 |
| Inflows from the disposal of property, plant and equipment | 11,693 | 7,247 |
| Inflows from the disposal of financial assets | 18,063,244 | 7,100,000 |
| - Inflows from the disposal of subsidiaries | 0 | 0 |
| - Other inflows from the disposal of financial assets | 18,063,244 | 7,100,000 |
| **b) Outflows from investing activities** | **-17,080,621** | **-12,278,539** |
| Outflows for acquisition of intangible assets | -24,705 | -9,054 |
| Outflows for acquisition of property, plant and equipment | -50,916 | -94,972 |
| Outflows for acquisition of financial assets | -17,005,000 | -12,174,513 |
| - Outflows for acquisition of subsidiaries or other companies | 0 | 0 |
| - Other outflows for acquisition of financial assets | -17,005,000 | -12,174,513 |
| **c) Net cash flow from investing activities (a + b)** | **1,518,617** | **-4,523,315** |
| | | |
| **C. Cash flows from financing activities** | | |
| **a) Inflows from financing activities** | **0** | **0** |
| **b) Outflows for financing activities** | **-5,418,177** | **-581,823** |
| Outflows for the payment of dividends and other participating interests | -5,418,177 | -581,823 |
| **c) Net cash flow from financing activities (a + b)** | **-5,418,177** | **-581,823** |
| | | |
| **Č. Closing balance of cash and cash equivalents** | **1,262,255** | **5,523,046** |
| x) Net cash flow for the period (Ac + Bc + Cc) | -4,260,863 | 644,501 |
| + Exchange rates difference | 72 | -881 |
| y) Opening balance of cash and cash equivalents | 5,523,046 | 4,879,425 |

*Reconciliation of net operating costs in statement of cash flows*

| **in EUR** | **2019** | **2018** |
|---|---|---|
| Operating costs in income statement | -5,144,168 | -4,605,304 |
| Fee and commission income in income statement | 2,894,812 | 2,734,221 |
| **Net operating costs in income statement** | **-2,249,355** | **-1,871,083** |
| *- amortisation/depreciation* | *424,663* | *468,598* |
| *- change in provisions for jubilee benefits and termination benefits at retirement* | *21,184* | *11,511* |
| *Total difference* | *445,847* | *480,110* |
| **Net operating costs in cash flow statement** | **-1,803,508** | **-1,390,973** |

## 2.8 Other disclosures

### 2.8.1 Transactions with affiliates

All the shares of PKZ were owned by SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana, Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia, until 12 April 2019.

In the period 1 January 2019 to 12 April 2019 transactions were carried out with SID bank deriving from the management of financial assets (excluding transactions with authorisation from the supervisory authority), reinsurance (transactions under government authorisation) and certain other services that SID bank provided for PKZ. Transactions with other SID bank Group companies proceeded from an insurance process in which SID bank Group companies were insured at PKZ and from the purchase of credit reports, which was ordered by PKZ.

*Illustration of transactions with the then controlling company SID bank and its Group companies*

| **v EUR** | **Controlling company** | | **Other affiliates** | |
|---|---|---|---|---|
| | **1-3 2019** | **2018** | **1-3 2019** | **2018** |
| Income from gross recourse receivables claimed and the effect of revaluation | 0 | 0 | 6,069 | 142,969 |
| Expenses for purchased credit reports | 0 | -1,519 | -1,913 | -9,326 |
| Costs of other services | -14,995 | -61,913 | 0 | -1,220 |
| **Total** | **-14,995** | **-63,432** | **4,156** | **132,423** |

| **v EUR** | **Controlling company** | | **Other affiliates** | |
|---|---|---|---|---|
| | **1-3 2019** | **2018** | **1-3 2019** | **2018** |
| Reinsurance premiums written | -468,912 | -1,628,047 | 0 | 0 |
| Income from reinsurance fees and commission | 154,546 | 525,806 | 0 | 0 |
| Reinsurers' share of claims | 683 | 255,426 | 0 | 0 |
| Reinsurers' share of bonuses | 97 | 35,081 | 0 | 0 |
| **Total reinsurance** | **-313,585** | **-811,734** | **0** | **0** |

PKZ transferred a dividend to SID bank in the amount of EUR 5,418,177.28 on 11 April 2019.

On 12 April 2019 the sale of SID-Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: Coface PKZ) was completed. As a result the new owner, Compagnie Française d'Assurance pour le Commerce Extérieur, the controlling company, with its registered office at 1 Place Coste set Bellonte 92270 Bois-Colombes, France (hereinafter: Coface), became the direct holder of a 100% participating interest, based on which it became the parent of PKZ and gained all the shares that were held by the previous owner SID bank.

All the shares of Coface PKZ are held by Compagnie Française d'Assurance pour le Commerce Extérieur, with its registered office at 1 Place Coste set Bellonte 92270 Bois-Colombes, France. The consolidated annual report of Coface for 2019 was compiled according to the IFRS, and can be obtained at Coface's registered office in France or on its website.

Coface PKZ had no transactions with the controlling company in 2019. Transactions with other affiliates (other undertakings in the Coface Group, which are also disclosed in the following two tables) derive from the purchase of credit reports and other services (Coface PKZ ordering the services).

As of 31 December 2019 Coface PKZ had no outstanding receivables/liabilities to the controlling company or to other affiliates in the Group.

*Illustration of Coface PKZ's transactions with the controlling company and other affiliates*[23]

| in EUR | Controlling company | | Other affiliates | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Expenses for purchased credit reports | 0 | 0 | -126,209 | 0 |
| Costs of other services | 0 | 0 | -48,505 | 0 |
| **Total** | **0** | **0** | **-174,713** | **0** |

### 2.8.2 Disclosures about management and supervisory body members

**System of establishment and implementation of remuneration, compensation and other benefits of management and supervisory body members**

The provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and the SSH Code and SSH Recommendations were also applied until the change in ownership for remuneration to members of the management board, supervisory board and audit committee.

The system of remuneration to the supervisory board and audit committee is adopted by the general meeting of shareholders. Members of the supervisory board not employed at the controlling company or company (insurer) are entitled to remuneration for performing their function, to session fees, and to the reimbursement of expenses relating to their work on the basis of a resolution of the general meeting.

[23]Operating costs in terms of nature.

**Other disclosures**

The former member of the management board of Coface PKZ Igor Pirnat was a member of the supervisory board of DARS, d.d. until 11 September 2019.

Igor Pirnat was a member of Coface PKZ's management board until 4 December 2019. After obtaining authorisation from the ISA on 4 December 2019 this function was taken over by Mindaugas Sventickas.

*Remuneration of management board members, supervisory board members and employees to whom the tariff schedule of the collective agreement does not apply*

| in EUR | 2019 | 2018 |
|---|---|---|
| Management Board* | 359,071 | 382,582 |
| Supervisory Board | 0 | 0 |
| Audit Committee** | 2,752 | 5,855 |
| Remuneration for employees to whom the tariff segment of the collective agreement does not apply | 208,930 | 160,329 |
| **Total remuneration (gross)** | **570,753** | **548,766** |

*Denis Stroligo, member of the management board of Coface PKZ until 29 May 2019 received severance pay in the gross amount of EUR 49,693.
**Blanka Vezjak, member of the audit committee until 29 May 2019.

The company did not approve any advances, loans or sureties for the persons in the above table.

As of 31 December 2019 Coface PKZ disclosed liabilities to management board members in the amount of EUR 34,080 from remuneration for December and the deferred variable component of remuneration (2016, 2017 and 2018).

### 2.8.3 Educational structure of employees

| Level of education (qualifications) | Average number | |
|---|---|---|
| | **2019** | **2018** |
| V. | 7 | 9 |
| VI/1. | 4 | 5 |
| VI/2. | 15 | 19 |
| VII. | 36 | 35 |
| VIII. | 7 | 7 |
| IX. | 2 | 0 |
| **Total** | **71** | **75** |

### 2.8.4 Amounts paid to the auditor

DELOITE REVIZIJA d.o.o. was the auditor appointed for 2018 and 2019.

The amounts paid for other non-auditing services relate to the review of the report on relations with affiliates in accordance with Article 546 of the ZGD-1 and review of the solvency and financial report in accordance with the ZZavar-1.

| in EUR | 2019 | 2018 |
|---|---|---|
| Auditing of the annual report 2019 | 29,000 | 20,100 |
| Auditing of the annual report 2018 (additional) | 2,250 | 0 |
| Other non-audit services | 6,000 | 4,200 |
| **Total** | **37,250** | **24,300** |

The above amounts are net of value added tax.

### 2.8.5 Reinsurance account

| in EUR | 2019 | 2018 |
|---|---|---|
| Reinsurance premiums written | -8,893,217 | -8,619,279 |
| Reinsurers' share of change in unearned premiums | 19,664 | -73,415 |
| **Reinsurers' share of income from premiums** | **-8,873,554** | **-8,692,694** |
| Reinsurers' share of claims and recourses | 2,286,459 | 1,738,082 |
| Reinsurers' share of change in provisions for claims outstanding | -1,014,267 | 96,778 |
| **Reinsurers' share of claim expenses** | **1,272,192** | **1,834,860** |
| Reinsurers' share of changes in other technical provisions | -243,552 | 216,702 |
| Reinsurers' share of expenses for bonuses | 174,060 | 405,752 |
| Reinsurance commission | 2,894,812 | 2,734,221 |
| Reinsurers' share of change in value adjustments to recourse receivables | 412,720 | 195,062 |
| **Reinsurance account** | **-4,363,322** | **-3,306,098** |

### 2.8.6 Events after the reporting date

There were no business events after the reporting date that would have an impact on the financial statements for 2019. There were no other significant events that would not have an impact on the financial statements but that could otherwise affect the interpretation of the financial statements for 2019.

## 2.9 Risk management

### 2.9.1 Risks from non-life insurance contracts

Coface PKZ insures current trade receivables, generally with a maturity of up to 180 days, or up to one year when the nature of the transaction or the type of goods so requires. The insurance covers commercial and optional also non-commercial (political) risks. The insurance contracts are generally annual or apply for a two-year period, and cover the policyholder’s entire turnover on an open basis. It is also possible to only insure a particular segment of sales (e.g. only exports, only domestic sales, one-time project operations), provided that Coface PKZ assesses that objective criteria apply to the selection of the segment offered for insurance, and there is no moral hazard. Pre-delivery risks (production risks) may also be insured separately in insurance contracts. Coface PKZ also insures factoring-company operations and individual project and engineering operations under adjusted terms, provided that the payment deadlines do not exceed two years. A loss event occurs when there are extended arrears in payment, or when insolvency proceedings are initiated. Coface PKZ has also insured receivables from suppliers for the repayment of advances paid by the policyholder in accordance with a commercial agreement, where the deadline for the repayment of the advance, which runs from the date on which the supplier received the advance, cannot exceed two years.

In its insurance contracts Coface PKZ covers the risk that the debtor will fail to execute payment by the original or amended due date of a debt instrument, and Coface PKZ will have to reimburse the policyholder for the loss incurred by the debtor's default. The debtor in this case is a buyer[24] to which Coface PKZ's policyholder is selling goods or services, and for which Coface PKZ has approved a limit for the policyholder. The debt instrument is the receivable that the policyholder holds in respect of its (Coface PKZ-insured) buyer. By entering into a contract with the policyholder and approving a limit for an individual buyer of the policyholder, Coface PKZ undertakes in exchange for the payment of a premium (specified as a proportion of the value of the policyholder's sales to this buyer) to reimburse the policyholder, in the event of the buyer failing to perform its obligations, for the damage incurred by the default.

The policyholder obtains insurance coverage for an individual buyer alone, when Coface PKZ approves the limit for the buyer. The company sets a maximum limit for each of the buyers. An individual buyer's limit is an important tool of risk management for Coface PKZ, as it thereby determines the maximum claim that Coface PKZ might have to pay to the policyholder (or to all policyholders whose turnover with the buyer is insured) should a loss event occur in respect of the buyer. In addition, Coface PKZ can reduce or terminate an approved limit for most buyers at any time. Coface PKZ can set an overall limit on exposure to individual countries due to political risk, or can totally exclude coverage for a particular country.

In order to manage the concentration of underwriting risks and comply with the provisions of reinsurance contracts Coface PKZ regularly monitors the company's maximum potential exposure by region, country and activity of the buyers of these policyholders, the changes in exposure and reasons for the changes.

The company also mitigates concentration risks by means of reinsurance. The majority of coverage is provided by two quota contracts. In addition the company has entered into excess-of-loss contracts by virtue of which it limits its maximum claim for an individual loss event, which it incurs itself, and optional reinsurance coverage for certain additional risks. In the scope of its concluded reinsurance contracts Coface PKZ limited its highest possible share of a claim for non-commercial risks in countries where these risks are covered. The company's reinsurance coverage does not relieve it of its obligations to policyholders. Due to its cession of risks to reinsurers the company is therefore exposed to counterparty risk (credit risk, see point 2.9.2.1).

[24]The term "buyer" in this report means a customer of a Coface PKZ policyholder, i.e. an entity whose default in respect of a policyholder is insured by Coface PKZ.

### 2.9.1.1 Risk under technical provisions

The table below illustrates the estimated ultimate liabilities from insurance contracts by year, and includes provisions for claims incurred and reported, provisions for claims incurred but not reported, and cumulative amounts of claims paid. The probability of the final development of claims differing from the estimate is greater in the earlier years of development. Given the high uncertainty in the first years of development and the impact of subsequent events (after the first year of development) on the final development of claims paid, the differences in the estimated final development of claims in the first years of development can be significant, particularly in a period of increased uncertainty.

*Estimates of net ultimate claim costs (excluding recourse) in comparison with previous estimates*[25]

| in EUR<br>Claims year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total 2009-2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimated net ultimate claim costs | | | | | | | | | | | | |
| - in year 1 | 14,129,520 | 8,145,394 | 7,377,852 | 8,105,766 | 7,446,974 | 8,599,659 | 7,420,862 | 6,138,234 | 7,279,933 | 7,895,574 | 8,180,344 | |
| - in year 2 | 10,141,985 | 7,287,340 | 6,318,459 | 6,496,290 | 5,551,889 | 6,265,531 | 4,554,153 | 4,303,221 | 3,348,557 | 3,806,568 | | |
| - in year 3 | 7,853,792 | 5,981,739 | 4,916,123 | 4,909,240 | 3,685,464 | 5,669,734 | 3,605,721 | 3,505,686 | 2712965 | | | |
| - in year 4 | 7,457,794 | 5,464,599 | 4,333,635 | 4,667,828 | 3,392,324 | 5,407,573 | 3,412,144 | 3,466,693 | | | | |
| - in year 5 | 7,397,203 | 5,687,828 | 4,298,512 | 4,640,915 | 3,294,673 | 5,305,935 | 3,402,697 | | | | | |
| - in year 6 | 7,353,448 | 5,653,954 | 4,247,894 | 4,608,668 | 3,257,549 | 5,302,535 | | | | | | |
| - in year 7 | 7,306,862 | 5,632,535 | 4,224,844 | 4,584,435 | 3,264,996 | | | | | | | |
| - in year 8 | 7,290,310 | 5,599,920 | 4,211,377 | 4,632,488 | | | | | | | | |
| - in year 9 | 7,290,310 | 5,599,920 | 4,234,573 | | | | | | | | | |
| - in year 10 | 7,290,310 | 5,608,541 | | | | | | | | | | |
| - in year 11 | 7,300,282 | | | | | | | | | | | |
| **Current estimated net ultimate claim costs** | **7,300,282** | **5,608,541** | **4,234,573** | **4,632,488** | **3,264,996** | **5,302,535** | **3,402,697** | **3,466,693** | **2,712,965** | **3,806,568** | **8,180,344** | |
| Cumulative net claims paid | 5,608,484 | 4,228,986 | 4,228,986 | 4,584,614 | 3,241,310 | 5,281,984 | 3,305,414 | 3,274,281 | 2,223,529 | 2,136,113 | 1,659,066 | 39,772,767 |
| Portion for net provisions for unearned premiums and unexpired risks | | | | | | | | | | | -1,574,163 | |
| Net provisions for claims outstanding | 31,058 | 57 | 5,587 | 47,874 | 23,686 | 20,552 | 97,283 | 192,413 | 489,436 | 1,670,455 | 4,947,115 | 7,525,515 |
| Net provisions for appraisal costs | | | | | | | | | | | | 787,567 |
| **Total net provisions for claims outstanding** | | | | | | | | | | | | **8,313,082** |
| **Surplus/deficit relative to the initial estimate** | **6,829,238** | **2,536,854** | **3,143,279** | **3,473,278** | **4,181,978** | **3,297,124** | **4,018,165** | **2,671,541** | **4,566,968** | **4,089,005** | | |

In all the above-indicated years the estimated net ultimate claim costs were sufficient by the end of the first year. The company takes into account the uncertainty of the ultimate claims ratio in the first year of development when creating provisions, which is expressed via a surplus in the initial estimate of net ultimate claim costs.

The development of provisions in the calendar year of 2019 created a surplus, in particular for the claims years of 2017 and 2018, an indication that development in individual years has been more favourable than was projected when these provisions were created in previous periods.

[25] The estimates of net ultimate claim costs, the cumulative net claims paid, and the surplus/deficit in the initial estimate in the table do not include indirect appraisal costs.

*Provisions for claims outstanding at the beginning of the year compared with claims paid during the year and provisions for claims outstanding at the end of the year for cases from the same period (gross and net)*

| in EUR | Claim cases until 2019 in 2019 | Claim cases until 2018 in 2018 |
|---|---|---|
| **Gross amounts** | | |
| Provisions for claims outstanding 1/1 | 18,765,611 | 17,703,531 |
| Claims paid in the current year for claims in previous years | -2,567,829 | -2,873,712 |
| Provisions for claims outstanding 31/12 | -6,561,934 | -5,556,474 |
| **Difference** | **9,635,848** | **9,273,346** |
| Decrease in provisions for unearned premiums and provisions for unexpired risks in the current year, for the part relating to claims, for claims years before the current year | 3,476,977 | 3,409,512 |
| **Difference** | **13,112,825** | **12,682,858** |
| **Net amounts** | | |
| Provisions for claims outstanding 1/1 | 8,626,762 | 7,661,460 |
| Claims paid in the current year for claims in previous years | -1,291,524 | -1,436,856 |
| Provisions for claims outstanding 31/12 | -2,873,705 | -2,130,540 |
| **Difference** | **4,461,533** | **4,094,064** |
| Decrease in provisions for unearned premiums and provisions for unexpired risks in the current year, for the part relating to claims, for claims years before the current year | 1,245,444 | 1,177,979 |
| **Difference** | **5,706,977** | **5,272,043** |

For cases from before 2019, the creation of technical provisions in early 2019 was EUR 13.1 million higher than the claims paid in 2019 for cases from the aforementioned period, and there were residual provisions for claims outstanding at the end of 2019. The differences primarily originate in the improvement in estimates of provisions for previous periods.

The largest positive difference as a result of an improvement in the estimate in 2019 was in provisions for claims outstanding for 2017 and 2018, and the change was reflected in profit or loss.[26]

| in EUR<br>Claims years | 2016 | 2017 | 2018 | Total 2016-2018 |
|---|---|---|---|---|
| **Estimated ultimate claim costs 31/12/2018** | | | | |
| Gross amounts | 23,360,400 | 8,809,822 | 17,866,115 | |
| Net amounts | 3,505,686 | 3,348,557 | 7,895,574 | |
| **Estimated ultimate claim costs 31/12/2019** | | | | |
| Gross amounts | 23,120,977 | 6,669,915 | 8,261,800 | |
| Net amounts | 3,466,693 | 2,712,965 | 3,806,568 | |
| **Difference** | | | | |
| Gross amounts | 239,423 | 2,139,907 | 9,604,315 | 11,983,645 |
| Net amounts | 38,993 | 635,592 | 4,089,005 | 4,763,590 |

[26]The estimates of ultimate claim costs in the table do not include indirect appraisal costs.

***Sensitivity analysis***

Sensitivity analysis is conducted on the basis of changes in individual key assumptions, all other assumptions remaining unchanged. The individual assumptions are not necessarily entirely mutually independent, but for an assessment of the impact of the change in an individual item it is necessary to change them individually.

The key assumptions for the calculation of provisions for claims outstanding are the first development factor for the most recent financial year and the estimated amount of large claims in the calculation of provisions for claims outstanding for claims incurred but not reported. These assumptions consequently have an impact on the calculation of provisions for unexpired risks and on the reinsurers' shares of these provisions. All changes in estimates are reflected in the income statement. The company has assessed that it would be reasonable to expect change in the assumption for the first development factor of +/-5%, and an effect of the change in the assumption for the amount of large claims in the estimate of incurred but unreported claims as of 31 December 2019 of +/-5%.

As of 31 December 2019 the effects of changes were non-proportional.

| in EUR | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Change in technical provisions | | Change in technical provisions | |
| Assumption | Change in assumption | Gross amounts | Net amounts | Gross amounts | Net amounts |
| First development factor under the Chain Ladder method | +5 % | 685,900 | 345,580 | 361,663 | 171,753 |
| | -5 % | -686,359 | -345,615 | -361,663 | -171,753 |
| Amount of large claims in estimated incurred but not yet reported claims | +5 % | 317,818 | 165,517 | 565,154 | 256,565 |
| | -5 % | -310,627 | -161,186 | -555,184 | -251,855 |

## 2.9.2 Financial risks

The types of financial risks and the management of these risks are disclosed from the point of view of the potential impact on individual items in the financial statements that are exposed to these risks. These are asset and liabilities that are exposed to the risk of a change in fair value or future cash flows.

The financial risks to which the company is exposed cover credit risk, market risk, concentration risk, liquidity risk and risk associated with asset and liability management. In the category of market risks, the company is exposed to spread risk (credit risk in respect of debt securities), interest rate risk, currency risk and risks associated with changes in real estate prices.

### 2.9.2.1 Credit risk

Credit risk is risk[27] that reflects potential loss due to the unexpected default or a deterioration in the credit position of counterparties and obligors of insurers. Financial assets (involving spread risk), cash and cash equivalents, other receivables and assets from insurance contracts (technical provisions ceded to reinsurers, receivables from reinsurers and receivables from policyholders) are exposed to credit risk.

| in EUR | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Available-for-sale financial assets | 25,705,903 | 24,596,940 |
| Financial assets in the form of loans and deposits | 2,501,636 | 4,652,500 |
| Reinsurance receivables | 887,605 | 1,340 |
| Other receivables | 6,187 | 9,338 |
| Cash and cash equivalents | 1,262,255 | 5,523,046 |
| **Total financial instruments** | **30,363,585** | **34,783,163** |
| Receivables for premiums | 2,072,369 | 1,931,987 |
| Receivables for charged credit reports | 7,121 | 34,888 |
| Recourse receivables | 2,164,329 | 2,981,453 |
| Technical provisions ceded to reinsurers | 12,821,631 | 13,962,644 |
| **Total** | **47,429,035** | **53,694,135** |

The company manages credit risk primarily through the setting of limits that are in line with its risk appetite. The company has defined acceptable credit ratings for individual exposures and maximum permitted exposures to issuers of financial instruments or other business partners. The company is also responsible for diversifying the investment portfolio.

#### *Financial assets*

*Breakdown of the financial assets portfolio by credit rating*

| Credit rating by S&P | 31/12/2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans and deposits in EUR | Structure | Available-for-sale financial assets in EUR | Structure | Total in EUR | Structure | Cumulative share |
| AAA | 0 | 0% | 1,999,982 | 8% | **1,999,982** | **7%** | **7%** |
| AA+ to AA- | 0 | 0% | 5,484,293 | 21% | **5,484,293** | **19%** | **27%** |
| A+ to A- | 0 | 0% | 11,050,469 | 43% | **11,050,469** | **39%** | **66%** |
| BBB+ to BBB- | 0 | 0% | 3,759,248 | 15% | **3,759,248** | **13%** | **79%** |
| BB+ to BB- | 0 | 0% | 1,135,810 | 4% | **1,135,810** | **4%** | **83%** |
| No credit rating | 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%** | |

[27]The descriptions of credit risk do not refer to the insurance business, which actually comprises credit insurance; the credit risk associated with the insurance business is a component of underwriting risk, and is described in a separate point of the report.

| Credit rating by S&P | 31/12/2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans and deposits in EUR | Structure | Available-for-sale financial assets in EUR | Structure | Total in EUR | Structure | Cumulative share |
| AAA | 0 | 0% | 2,011,380 | 8% | **2,011,380** | **7%** | **7%** |
| AA+ to AA- | 0 | 0% | 2,275,286 | 9% | **2,275,286** | **8%** | **15%** |
| A+ to A- | 0 | 0% | 16,837,618 | 68% | **16,837,618** | **58%** | **72%** |
| BBB+ to BBB- | 0 | 0% | 3,044,002 | 12% | **3,044,002** | **10%** | **83%** |
| BB+ to BB- | 1,000,303 | 22% | 0 | 0% | **1,000,303** | **3%** | **86%** |
| No credit rating | 3,652,197 | 78% | 428,654 | 2% | **4,080,851** | **14%** | **100%** |
| **Total** | **4,652,500** | **100%** | **24,596,940** | **100%** | **29,249,440** | **100%** | |

The company manages its exposure to credit risk from financial assets by limiting the types and proportions of assets and issuers, and by monitoring the credit quality of assets via credit ratings. In so doing, Coface PKZ focuses on security and liquidity, and imposes additional constraints by not increasing its exposure via investments to partners with whom it works in the performance of insurance contracts. Coface PKZ mostly invests funds in debt instruments, limiting its exposure to credit risk through limits that depend on an issuer's credit rating. A small portion of the investment portfolio is also invested in equity funds and money-market funds. There are no investments that mature without being realised, and there are no impaired financial assets. The company does not use derivatives for hedging.

Investments in loans and deposits excluding credit ratings comprise short-term deposits with Slovenian banks with an original maturity of up to 12 months. The company limits exposure to individual banks through internal limits.

*Breakdown by type of financial asset and guarantee*

| in EUR | 31/12/2019 | in % | 31/12/2018 | in % |
|---|---|---|---|---|
| Securities of EU Member States or guaranteed by one of these entities and international financial institutions | 9,727,692 | 34% | 17,668,572 | 60% |
| Securities traded in EU and OECD | 15,978,211 | 57% | 6,928,368 | 24% |
| Deposits | 2,501,636 | 9% | 4,652,500 | 16% |
| **Total** | **28,207,539** | **100%** | **29,249,440** | **100%** |

*Breakdown of the available-for-sale financial assets portfolio by sector of issuer*

| in EUR | 31/12/2019 | Structure | 31/12/2018 | Structure |
|---|---|---|---|---|
| Government | 7,299,056 | 28% | 15,228,538 | 62% |
| Banks | 4,175,323 | 16% | 4,199,278 | 17% |
| Corporations | 8,570,695 | 33% | 3,552,395 | 14% |
| Financial intermediaries | 5,071,304 | 20% | 1,027,174 | 4% |
| Insurances companies | 589,525 | 2% | 589,555 | 2% |
| **Total** | **25,705,903** | **100%** | **24,596,940** | **100%** |

### *Technical provisions ceded to reinsurers and receivables from reinsurance*

As a result of entering into reinsurance contracts, the company is exposed to credit risk deriving from the possibility that any of the reinsurers might be unable to meet its commitments under the reinsurance contract. Coface PKZ distributes reinsurance coverage among multiple reinsurers in order to ensure diversification and thereby lower risk. The reinsurance contracts are entered into with first-rate reinsurers, and in reinsurance accounts only the balance between receivables and liabilities in the account is settled. Coface PKZ is mostly a net payer under reinsurance accounts.

Credit risk for reinsurers' shares in technical provisions is limited by the breadth of the selection of reinsurers and the corresponding diversification of risk, and by the selection of reinsurers with suitable credit ratings with regard to their shares in the contract. All the reinsurers in the current contract, and all the reinsurers no longer in the contract but to which amounts ceded to reinsurers (provisions for previous years) from the technical provisions relate, have a credit rating of between A and AA (according to S&P) or A3 and Aa3 (according to Moody's). The technical provisions ceded to reinsurers and the receivables from reinsurers are neither past-due nor impaired.

***Receivables for premiums, bonuses and recourses***

Defaulting on receivables for premiums may 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. In the event of claims, there is a possibility of the direct netting of receivables and liabilities.

There is greater credit risk associated with recourse receivables, which arise as part of the ordinary claims resolution process in credit insurance. Risks in connection with recourse receivables are first managed preventively during the phase of risk take-up (review of limits before approval, monitoring of customers) even before any claims and the resulting recourse receivables arise, and then by means of appropriate recovery procedures and the diligent and regular assessment of recourse receivables. Risks in connection with recourse receivables are also indirectly mitigated by reinsurance, as the reinsurers' shares in recourse receivables are recognised when the recourse is accounted, but the reinsurers are only paid when the recourse is actually paid.

The breakdown of recourse receivables derives from the age of the oldest credits that were insured and for which claims were paid. As a result of the insurance terms and the claims resolution process, at least 180 days passes between the oldest insured credit falling due and triggering the claim and the claim being settled (when recourse receivables are recognised). The company's recourse receivables are therefore already more than 180 days past due at recognition. The exceptions are receivables that were part of a claim under coverage for bankruptcy and similar insolvency proceedings, which is some cases can be settled less than 180 days after the oldest insured credit falls due, although they are mostly less recoverable than receivables in cases of extended arrears. The due date of recourse receivables is only reset for significant receivables in the case of restructuring proceedings that include a clearly outlined timetable of payments. In this case the company sets new due dates for the receivables in accordance with the terms of the restructuring proceedings. The date by which customers undergoing restructuring proceedings must settle liabilities to policyholders is set as the due date, with the policyholders transferring the amounts to Coface PKZ with the shortest possible delay.

Receivables are not hedged by means of financial instruments.

*Breakdown of receivables for premiums and for credit reports in terms of arrears*

| in EUR 31/12/2019 | Gross amount | | | Net amount | | |
|---|---|---|---|---|---|---|
| | Unimpaired receivables | Impaired receivables | Total | Unimpaired receivables | Impaired receivables | Total |
| Non-past-due | 455,109 | 0 | **455,109** | 455,109 | 0 | **455,109** |
| Up to 30 days past due | 369,364 | 0 | **369,364** | 369,364 | 0 | **369,364** |
| 31 to 90 days past due | 69,977 | 0 | **69,977** | 69,977 | 0 | **69,977** |
| 91 to 180 days past due | 11,299 | 0 | **11,299** | 11,299 | 1,549 | **12,848** |
| 181 to 270 days past due | 0 | 5,797 | **5,797** | 0 | 278 | **278** |
| More than 270 days past due | 1,507 | 251,620 | **253,127** | 1,507 | 0 | **1,507** |
| **Amount of receivables for premiums and charged credit reports** | **907,256** | **257,418** | **1,164,674** | **907,256** | **1,827** | **909,083** |

| in EUR 31/12/2018 | Gross amount | | | Net amount | | |
|---|---|---|---|---|---|---|
| | Unimpaired receivables | Impaired receivables | Total | Unimpaired receivables | Impaired receivables | Total |
| Non-past-due | 261,128 | 2,163 | **263,291** | 261,128 | 1,081 | **262,210** |
| Up to 30 days past due | 411,211 | 1,783 | **412,994** | 411,211 | 1,218 | **412,429** |
| 31 to 90 days past due | 149,995 | 5,671 | **155,665** | 149,995 | 3,813 | **153,807** |
| 91 to 180 days past due | 16,659 | 1,444 | **18,103** | 16,659 | 1,011 | **17,670** |
| 181 to 270 days past due | 26 | 7,921 | **7,947** | 26 | 0 | **26** |
| More than 270 days past due | 37 | 339,091 | **339,129** | 37 | 0 | **37** |
| **Amount of receivables for premiums and charged credit reports** | **839,056** | **358,072** | **1,197,129** | **839,056** | **7,123** | **846,180** |

*Breakdown of recourse receivables in terms of arrears*

| in EUR 31/12/2019 | Gross amount | | | Net amount | | |
|---|---|---|---|---|---|---|
| | Unimpaired receivables | Impaired receivables | Total | Unimpaired receivables | Impaired receivables | Total |
| More than 270 days past due | 1,501,839 | 6,000,853 | **7,502,692** | 1,501,839 | 662,490 | **2,164,329** |
| **Total recourse receivables** | **1,501,839** | **6,000,853** | **7,502,692** | **1,501,839** | **662,490** | **2,164,329** |
| Reinsurers' share | -772,772 | -415,314 | **-1,188,086** | -772,772 | -415,314 | **-1,188,086** |
| **Net value of recourse receivables** | **729,067** | **5,585,539** | **6,314,606** | **729,067** | **247,175** | **976,243** |

| in EUR 31/12/2018 | Gross amount | | | Net amount | | |
|---|---|---|---|---|---|---|
| | Unimpaired receivables | Impaired receivables | Total | Unimpaired receivables | Impaired receivables | Total |
| More than 270 days past due | 2,252,288 | 5,570,440 | **7,822,728** | 2,252,288 | 729,165 | **2,981,453** |
| **Total recourse receivables** | **2,252,288** | **5,570,440** | **7,822,728** | **2,252,288** | **729,165** | **2,981,453** |
| Reinsurers' share | -1,169,201 | -450,293 | **-1,619,495** | -1,169,201 | -450,293 | **-1,619,495** |
| **Net value of recourse receivables** | **1,083,087** | **5,120,147** | **6,203,234** | **1,083,087** | **278,872** | **1,361,959** |

*Changes in adjustments to the value of receivables*

| in EUR | Receivables from direct insurance business | Credit reports | Recourses | Total |
|---|---|---|---|---|
| **As at 1/1/2018** | **-325,646** | **-17,754** | **-4,774,990** | **-5,118,390** |
| Creation | -18,951 | -3,630 | -976,963 | -999,543 |
| Write-off | 13,628 | 699 | 569,601 | 583,928 |
| Reversal (elimination) | 406 | 298 | 341,077 | 341,781 |
| **As at 31/12/2018** | **-330,563** | **-20,386** | **-4,841,275** | **-5,192,224** |
| Creation | -3,096 | -815 | -908,150 | -912,061 |
| Write-off | 89,453 | 2,596 | 305,354 | 397,404 |
| Reversal (elimination) | 6,621 | 600 | 105,707 | 112,928 |
| **As at 31/12/2019** | **-237,585** | **-18,006** | **-5,338,363** | **-5,593,954** |

### 2.9.2.2 Market risks

#### *Interest rate risk*

Interest-rate risk reflects sensitivity in the value of assets and liabilities to changes in the maturity structure of interest rates or the volatility of interest rates. Exposure to interest rate risk can also change future cash flows.

Financial assets, and cash and cash equivalents are exposed to interest rate risk at Coface PKZ. The company mitigates its interest rate risk by maintaining an appropriate combination of long-term and short-term financial assets with fixed and variable interest rates in its portfolio. Interest rates on fixed-rate instruments are determined at issue and do not change, while interest rates on variable-rate instruments are repriced at least twice a year.

*Interest rate risk – period until the change in interest rate*

| in EUR - 31/12/2019 | Interest bearing | | | | | | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total | | |
| **Financial assets in the form of loans and deposits (fixed rate)** | 1,000,953 | 1,500,683 | 0 | 0 | 0 | **2,501,636** | 0 | **2,501,636** |
| **Available-for-sale financial assets** | **5,730,489** | **1,018,179** | **0** | **12,276,170** | **6,152,105** | **25,176,943** | **528,960** | **25,705,903** |
| - fixed rate debt instruments | 2,412,019 | 1,018,179 | 0 | 12,276,170 | 6,152,105 | 21,858,473 | 0 | 21,858,473 |
| - variable rate debt instruments | 1,999,982 | 0 | 0 | 0 | 0 | 1,999,982 | 0 | 1,999,982 |
| - mutual funds (ETF) | 1,318,488 | | | | | 1,318,488 | 528,960 | 1,847,448 |
| **Cash and cash equivalents** | **1,262,255** | **0** | **0** | **0** | **0** | **1,262,255** | **0** | **1,262,255** |
| **Assets** | **7,993,696** | **2,518,862** | **0** | **12,276,170** | **6,152,105** | **28,940,834** | **528,960** | **29,469,794** |

| in EUR - 31/12/2018 | Interest bearing | | | | | | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total | | |
| **Financial assets in the form of loans and deposits (fixed rate)** | 0 | 0 | 4,652,500 | 0 | 0 | **4,652,500** | 0 | **4,652,500** |
| **Available-for-sale financial assets** | **2,032,821** | **3,524,494** | **0** | **13,226,459** | **5,813,168** | **24,596,940** | **0** | **24,596,940** |
| - fixed rate debt instruments | 2,032,821 | 1,513,114 | 0 | 13,226,459 | 5,813,168 | 22,585,560 | 0 | 22,585,560 |
| - variable rate debt instruments | 0 | 2,011,380 | 0 | 0 | 0 | 2,011,380 | 0 | 2,011,380 |
| **Cash and cash equivalents** | **5,522,887** | **0** | **0** | **0** | **0** | **5,522,887** | **158** | **5,523,046** |
| **Assets** | **7,555,708** | **3,524,494** | **4,652,500** | **13,226,459** | **5,813,168** | **34,772,327** | **158** | **34,772,486** |

Exposure to interest rate risks is also reflected in a sensitivity analysis that reveals how the fair value of financial instruments would change at the reporting date as a result of a change in market interest rates. An analysis was conducted on the basis of a parallel shift in the yield curve in the amount of the assumed change in interest rates. The analysis covered debt securities classed as available-for-sale financial assets, which constitute the majority of interest-bearing assets. A shift in the yield curve would have no impact on the value of loans and deposits stated in the financial statements. A sensitivity analysis can also indicate changes to net interest income, which is calculated for a period of one year. Available-for-sale financial assets and financial assets in the form of loans and deposits were included in the analysis.

The analysis was conducted under the assumption of a change in market interest rates (rise and fall) of 100 basis points (1 percentage point).

Due to a change in the company's investment policy in 2019 and transfer of the investment portfolio to the Group's asset manager in 2019, which applied its own methodology to the sensitivity analysis, it is impossible to compare the analysis for a portion of the change in the value of available-for-sale financial instruments with the previous year.

| in EUR | 2019 | |
|---|---|---|
| | +1 percentage point | -1 percentage point |
| Change in the value of available-for-sale financial instruments | -9,128 | 10,000 |
| Change in interest income of available-for-sale debt financial instruments and loans and deposits | 46,608 | -9,965 |

| in EUR | 2018 | |
|---|---|---|
| | +1 percentage point | -1 percentage point |
| Change in the value of available-for-sale financial instruments | -603,062 | 766,344 |
| Change in interest income of available-for-sale debt financial instruments and loans and deposits | 56,833 | -31,020 |

***Risk associated with shares***

The risk associated with shares relates to the sensitivity of the value of assets to equity fluctuations. Coface PKZ is exposed to this risk via investments in equity funds. The company mitigates this risk by placing limits on permitted exposure and with limits on permitted investments that are sensitive to the risk associated with shares.

***Currency risk***

Currency risk reflects sensitivity in the value of assets and liabilities to changes in value or the volatility of exchange rates. The euro is overwhelmingly the prevalent currency of accounting and payment in connection with all the company’s transactions in all areas of business. Coface PKZ is not exposed to the currency risk of financial assets, as these are denominated in euro. Of the other (non-insurance) items, only cash and cash equivalents and certain liabilities, such as trade payables (primarily for credit reports) are exposed to currency risk, although the small size of these items means that currency risk is negligible, as is sensitivity to changes in exchange rates. In the insurance business technical provisions (gross and shares of reinsurers) are exposed to currency risk.

*Breakdown of assets and liabilities by currency*

| in EUR - 31/12/2019 | EUR | HRK | USD | BAM | HUF | GBP | CZK | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets | 28,207,539 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 28,207,539 |
| 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 |
| **Total assets** | **46,265,895** | **566,900** | **284,063** | **82,125** | **63,996** | **65,714** | **54,265** | **171,574** | **47,554,533** |
| Technical provisions | 22,585,343 | 1,148,815 | 546,368 | 156,118 | 137,217 | 131,584 | 112,614 | 311,351 | 25,129,410 |
| Other provisions | 156,762 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 156,762 |
| Operating liabilities | 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 - 31/12/2018 | EUR | HRK | USD | BAM | RSD | PLN | GBP | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets | 29,249,440 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 29,249,440 |
| 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** |
| Technical provisions | 23,728,630 | 1,074,611 | 210,400 | 195,860 | 150,464 | 99,113 | 39,805 | 118,351 | 25,617,234 |
| Other provisions | 127,550 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 127,550 |
| Operating liabilities | 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** |

Coface PKZ coordinates the currency structure of the company's assets and liabilities, concerning itself with the fact that past-due liabilities in a certain currency are mostly covered by assets that are denominated or realisable in this same currency, keeping in mind that Coface PKZ accepts the risk of a 20% deviation in the coverage of assets by liabilities. Due to permitted deviations in the currency structure of assets and liabilities Coface PKZ believes that no significant currency risks arise, and therefore assesses that the financial implications of any adverse fluctuations in exchange rates are low.

***Risk associated with changes to real estate prices***

The risk associated with real estate prices reflects sensitivity in the value of assets to changes in the value or volatility of real estate market prices. Coface PKZ is exposed to this risk with the real estate held for personal use.

The sensitivity analysis indicates the loss which would incur in the event of a 25% immediate reduction in real estate prices.

| in EUR | 2019 | 2018 |
|---|---|---|
| Change in value of real estate | -540,594 | -456,259 |

### 2.9.2.3 Concentration risk

Concentration risk reflects additional risks to which the insurer is exposed due to the insufficient diversification of the asset portfolio or large exposure to default risk by one of the issuers of securities or group of connected issuers.

Coface PKZ sets the maximum exposure to an individual issuer (separately for sovereign and non-sovereign issuers), as well as defines the limits on the credit quality of security issuers.

The largest individual exposure as at 31 December 2019 was EUR 2,278,153 to the Republic of Poland (31 December 2018: EUR 5,465,846 to the Republic of Slovenia).

### 2.9.2.4 Liquidity risk

Liquidity risk is the risk of the company not having sufficient funds to cover liabilities at maturity, or not having such funds available at reasonable cost. Liquidity risk arises from short-term fluctuations in cash flow, on both the inflow and outflow sides.

Insurance premiums, recourse payments, reinsurance commissions, reinsurers' shares in claims and investment income are the main sources of liquidity, which are used (and generally suffice) to cover the cost of claims and the company's other operating costs. In the event of increased need for liquidity Coface PKZ can also sell debt securities.

Coface PKZ manages its liquidity risk by means of the planning of inflows and outflows, and by an adequate stock of highly liquid financial assets. The majority of the insurer's financial assets comprise marketable government debt securities, other highly liquid debt securities, and short-term deposits at banks. In order to cover an increased demand for liquidity the company has defined a cash-call option in its contract with reinsurers.

*Maturity breakdown of assets and liabilities*

| in EUR 31/12/2019 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Loans and deposits | 1,000,953 | 1,500,683 | 0 | 0 | 0 | 2,501,636 |
| Available-for-sale financial assets | 6,392,151 | 1,029,915 | 77,764 | 12,073,847 | 6,132,226 | 25,705,903 |
| Cash and cash equivalents | 1,262,255 | 0 | 0 | 0 | 0 | 1,262,255 |
| **Financial assets** | **8,655,358** | **2,530,598** | **77,764** | **12,073,847** | **6,132,226** | **29,469,794** |
| Technical provisions ceded to reinsurers | 683,943 | 1,367,887 | 6,155,491 | 4,522,665 | 91,645 | 12,821,631 |
| Receivables from insurance business | 3,960,083 | 1,177,527 | 0 | 0 | 0 | 5,137,611 |
| **Other assets** | **4,644,027** | **2,545,414** | **6,155,491** | **4,522,665** | **91,645** | **17,959,242** |
| ***Total assets*** | ***13,299,385*** | ***5,076,012*** | ***6,233,255*** | ***16,596,512*** | ***6,223,871*** | ***47,429,035*** |
| Technical provisions | 1,333,325 | 2,666,650 | 11,999,927 | 8,947,475 | 182,033 | 25,129,410 |
| Other provisions | 0 | 348 | 346 | 18,589 | 137,479 | 156,762 |
| Operating liabilities | 21,590 | 0 | 1,725,489 | 0 | 0 | 1,747,079 |
| Other liabilities | 641,701 | 254,940 | 342,599 | 44,824 | 0 | 1,284,063 |
| ***Total liabilities*** | ***1,996,616*** | ***2,921,938*** | ***14,068,360*** | ***9,010,888*** | ***319,512*** | ***28,317,313*** |

| in EUR 31/12/2018 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Loans and deposits | 0 | 0 | 4,652,500 | 0 | 0 | 4,652,500 |
| Available-for-sale financial assets | 2,230,790 | 1,573,774 | 81,470 | 14,946,646 | 5,764,260 | 24,596,940 |
| Cash and cash equivalents | 5,523,046 | 0 | 0 | 0 | 0 | 5,523,046 |
| **Financial assets** | **7,753,836** | **1,573,774** | **4,733,970** | **14,946,646** | **5,764,260** | **34,772,486** |
| Technical provisions ceded to reinsurers | 795,623 | 1,591,246 | 7,160,606 | 4,340,127 | 75,043 | 13,962,644 |
| Receivables from insurance business | 3,837,332 | 1,121,674 | 0 | 0 | 0 | 4,959,006 |
| **Other assets** | **4,632,955** | **2,712,920** | **7,160,606** | **4,340,127** | **75,043** | **18,921,649** |
| ***Total assets*** | ***12,386,790*** | ***4,286,694*** | ***11,894,575*** | ***19,286,773*** | ***5,839,303*** | ***53,694,135*** |
| Technical provisions | 1,458,097 | 2,916,193 | 13,122,869 | 7,979,691 | 140,385 | 25,617,234 |
| Other provisions | 0 | 538 | 4,846 | 907 | 121,259 | 127,550 |
| Operating liabilities | 21,264 | 0 | 2,945,839 | 0 | 0 | 2,967,103 |
| Other liabilities | 422,341 | 300,608 | 467,052 | 61,740 | 0 | 1,251,740 |
| ***Total liabilities*** | ***1,901,701*** | ***3,217,339*** | ***16,540,605*** | ***8,042,337*** | ***261,644*** | ***29,963,627*** |

Assets and liabilities from insurance contracts are not discounted.

*Maturity of contractual undiscounted cash flows from financial assets*

| in EUR 31/12/2019 | Carrying amount | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total |
| Loans and deposits | 2,501,636 | 1,001,073 | 1,500,758 | 0 | 0 | 0 | 2,501,832 |
| Available-for-sale financial assets | 25,705,903 | 4,059,573 | 552,836 | 601,113 | 13,676,543 | 7,025,784 | 25,915,849 |
| Cash and cash equivalents | 1,262,255 | 1,262,255 | 0 | 0 | 0 | 0 | 1,262,255 |
| **Financial assets** | **29,469,793** | **6,322,901** | **2,053,594** | **601,113** | **13,676,543** | **7,025,784** | **29,679,935** |

| in EUR 31/12/2018 | Carrying amount | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Total |
| Loans and deposits | 4,652,500 | 0 | 0 | 4,657,474 | 0 | 0 | 4,657,474 |
| Available-for-sale financial assets | 24,596,940 | 2,240,250 | 1,564,644 | 274,815 | 15,579,740 | 5,280,000 | 24,939,449 |
| Cash and cash equivalents | 5,523,046 | 5,523,046 | 0 | 0 | 0 | 0 | 5,523,046 |
| **Financial assets** | **34,772,486** | **7,763,296** | **1,564,644** | **4,932,289** | **15,579,740** | **5,280,000** | **35,119,968** |

### 2.9.2.5 Fair value

| | Carrying amount as at | | Fair value as at | |
|---|---|---|---|---|
| | **31/12/2019** | **31/12/2018** | **31/12/2019** | **31/12/2018** |
| Loans and deposits | 2,501,636 | 4,652,500 | 2,501,636 | 4,652,500 |
| Available-for-sale financial assets | 25,705,903 | 24,596,940 | 25,705,903 | 24,596,940 |
| Receivables | 5,137,611 | 4,959,006 | 5,137,611 | 4,959,006 |
| Cash and cash equivalents | 1,262,255 | 5,523,046 | 1,262,255 | 5,523,046 |
| **Total assets** | **34,607,404** | **39,731,491** | **34,607,404** | **39,731,491** |

When disclosing the fair value of financial instruments in the form of loans and deposits, the carrying amount, which is calculated at amortised cost and given the short-term nature of these assets is a suitable approximation of fair value, is taken into account.

No available-for-sale financial assets or loans are disclosed in the financial statements at values higher than their fair (market) values.

### 2.9.3 Operational risk

Operational risk is a risk of loss by the insurer due to inadequate or failed internal processes, the conduct of people or the functioning of systems, or as the result of external events.

Operational risk also includes legal risk and the ensuing compliance risk. Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss of reputation, which can occur at a company due to failure to comply with laws, rules and standards.

Coface PKZ regularly monitors operational risk events and on the basis of identified events establishes new and improved internal controls. No events associated with operational risk that had a significant financial impact were identified in 2019.

### 2.9.4 Capital adequacy

Laws governing the business of insurance (Directive of the European Parliament and of the Council 2009/138/EC - Solvency II) also provide for a significantly changed calculation of capital adequacy. This is based on the calculation of capital requirements (solvency capital requirement) dependent on risks to which the company is exposed, and the company’s own funds (capital). In accordance with Solvency II, capital adequacy is presented in detail in the scope of the solvency and financial position report that is published on the company's website. Due to different rules for the valuation of assets and liabilities according to the IFRS, the amount of the internal sources of assets (equity) differs depending on the amount of capital on the balance sheet.

The company regularly monitors capital adequacy, and maintains it at a level that ensures the coverage of any losses from unexpected future adverse developments.

| **in EUR** | **31/12/2019** | **31/12/2018** |
|---|---|---|
| Equity from the balance sheet | 21,861,021 | 26,385,842 |
| Minimum Capital Requirement | 3,700,000 | 3,700,000 |