

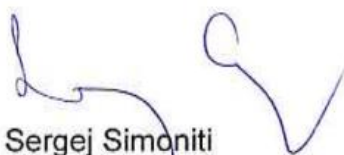


**SOLVENCY AND
FINANCIAL CONDITION
REPORT
2021**

Coface PKZ zavarovalnica d.d.

SOLVENCY AND FINANCIAL CONDITION REPORT 2021

MEMBERS OF THE MANAGEMENT BOARD



Sergej Simoniti
President



Olga Sharkova
Member

Ljubljana, 1 April 2022





Business name	Coface PKZ zavarovalnica d.d., Ljubljana
Business name in English	Coface PKZ Insurance Company Inc., Ljubljana
Abbreviated business name	Coface PKZ d.d.
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Tax number	SI71824847
LEI code	4851000020C6NKQDP691
Share capital	EUR 8,412,618.92
Owner	Compagnie française d'assurance pour le commerce extérieur, 1 Place Costes et Bellonte, 92270 Bois-Colombes, France

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SUMMARY

Business performance and results

Coface PKZ zavarovalnica d.d. (hereinafter: Coface PKZ), performed well in 2021 in spite of the challenging environment due to the COVID pandemic. Thus, Coface PKZ exceeded the planned results and its net profit for the accounting period amounted to EUR 3.19 mln.

System of governance

Coface PKZ has a two-tier governance system with a supervisory board and management board. At the end of 2021, Coface PKZ was managed by a management board comprising two members. Coface PKZ has four key function holders authorised by the management board (with the consent of the supervisory board) who are responsible for each of the key functions specified by the Insurance Act, i.e. the risk management function, the compliance function, the internal audit function and the actuarial function.

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

Risk profile

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

Valuation for solvency purposes

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

Capital management

As a result of business development in 2021, the capital adequacy ratio of the insurer increased slightly relative to the previous period.

A. BUSINESS AND PERFORMANCE

A.1 Business

Name and legal form of the company

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

Name and address of the supervisory authority

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

Name and contact details of the external auditor

The appointed auditor for the business year 2021 is Deloitte revizija d.o.o., Dunajska cesta 165, Ljubljana.

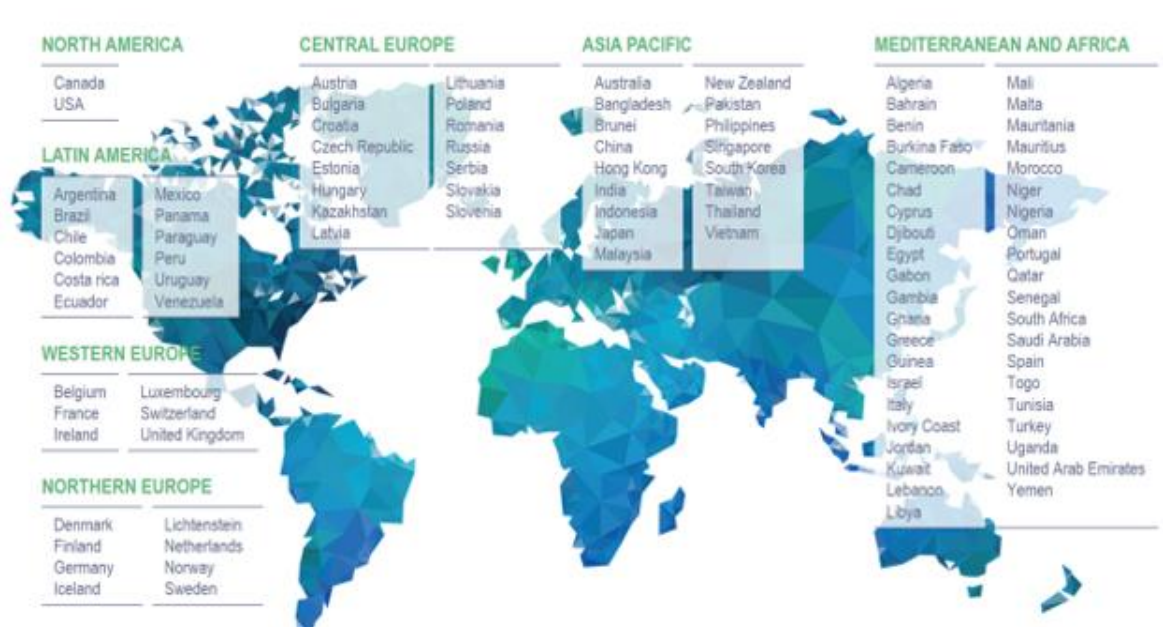
The key partner in audit is Barbara Žibret Kralj, Dunajska cesta 165, Ljubljana.

Qualifying shareholders of the company

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

Information on the status of the company in Coface Group

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



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

The intention of the owner is to transform the insurance company Coface PKZ into a branch in 2022, which is in line with the legal status of other members of the Coface Group. The transformation into a branch will simplify and cost-optimize the way the company is managed, while the business model itself will not change.

On 22 February 2022, at the meeting of the Board of Directors of the Compagnie Française d'Assurance pour le Commerce Extérieur (parent company), a decision was made to establish a Coface branch in Slovenia.

Significant lines of business and geographical area of activity

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

In 2021, Coface PKZ concluded credit insurance with the policyholders on the Slovene market and to a lesser extent in Croatia. Coface PKZ also concluded reinsurance business for the Serbian and Macedonian markets.

Significant transactions and other significant events in 2021

COVID 19:

- the Covid pandemic in 2021 had a different impact on the insurance company's operations than in 2020; while the customers of our policyholders had worse results than expected in 2020, they had much better results in 2021;
- the impact of the pandemic on businesses in 2021 has led to an increase in production and consequent disruptions in supply chains, so demand for some goods has exceeded supply and prices have risen;
- the state scheme for securing receivables through SID Bank, which was established in 2020, continued in 2021.

Management and supervisory bodies:

More details on the changes to the composition of management and supervisory bodies are available in section B.1.2.

Strategy:

- monitoring the activities of the strategy for the period 2018–2022;
- the preparation of Coface PKZ's development strategy for the period 2021–2023.

Organisation: change to the holder of the actuarial key function.

Solvency II:

- implementation of the completely updated Compliance policy;
- update of the Risk Management and ORSA policies.

Compliance: ensuring compliance with the relevant laws and practices of the competent authorities with an emphasis on the implementation of the Group's umbrella bylaws, and proactive taking of action during the implementation of certain of Coface PKZ's strategic policies.

Insurance Supervision Agency (ISA): regular reporting, closure of the regular inspection of Coface PKZ's performance.

A.2 Underwriting performance

The main factors in Coface PKZ's operations in 2021 were:

- circumstances connected with COVID-19;
- the resulting decline in economic activity in Slovenia and on export markets;
- an extremely competitive environment and greater complexity in operations (competition, insurance brokers, policyholders' expectations);
- continuous activity on the Western Balkans market;
- the favourable claims ratio of individual policyholders, also as a result of state aid;
- integration process with the Coface Group.

Coface PKZ performed well in 2021 despite the demanding circumstances. Coface PKZ thus exceeded the expectations from the financial plan, as it generated a higher profit than planned. The profit was higher in 2021 than in the previous year.

In 2021, due to the higher volume of insurance business, Coface PKZ achieved a higher than planned premium, as well as a higher premium than in the previous year. Coface PKZ also recorded a more favourable result regarding the coverage of income and expenses for credit reports relative to the previous year.

The claims situation in 2021 was still favourable despite the COVID-19 circumstances, which was mostly attributed to significant state aid in most of the world. A lot less claims were registered and therefore resolved in 2021 than in previous years. Nevertheless, the gross and net claims ratio was more favourable than in the previous year.

Key results and indicators from financial statements for 2021 relative to 2020 are presented in detail below.

in EUR thousand	2021	2020	Change	Index
Gross premiums written	13,055,873	12,300,097	755,775	106
Reinsurers' share in premiums written	-8,448,736	-7,785,907	-662,828	109
Change in gross unearned premiums	-130,391	924,878	-1,055,268	-14
Change in the reinsurer's share of unearned premiums	160,905	-565,830	726,735	-28
Net premium income	4,637,652	4,873,238	-235,586	95
Gross earned premiums	12,925,482	13,224,975	-299,493	98
Reinsurance share of earned premiums	-8,287,830	-8,351,737	63,907	99
Gross claims paid	-1,578,246	-5,110,703	3,532,456	31
Enforced recourse receivables	1,011,937	1,741,066	-729,129	58
Reinsurers' share in claims	983,155	2,418,295	-1,435,140	41
Reinsurers' share in recourses	-545,564	-1,297,181	751,617	42
Change in gross provisions for claims outstanding	1,600,164	-713,102	2,313,266	-224
Change in the reinsurer's share of provisions for claims outstanding	-1,235,266	1,707,647	-2,942,913	-72
Net claims expenses	236,180	-1,253,978	1,490,158	-19
Net claims paid	-595,091	-2,692,408	2,097,317	22
Gross claims incurred	21,918	-5,823,805	5,845,722	0
Reinsurer's share of claims incurred	-252,111	4,125,941	-4,378,052	-6
Net enforced recourse claims	466,374	443,886	22,488	105
Net claims paid after recourse	-128,717	-2,248,522	2,119,805	6

in EUR thousand	2021	2020	Change	Index
Gross bonuses paid	0	0	0	
Reinsurer's share of bonuses paid	0	0	0	
Change in gross provisions for bonuses	193,030	-829,633	1,022,663	-23
Change in the reinsurer's share of provisions for bonuses	-2,951	763,056	-766,006	0
Net expenses for bonuses	190,079	-66,578	256,657	-285
Gross bonuses incurred	193,030	-829,633	1,022,663	-23
Net bonuses incurred	-2,951	763,056	-766,006	0
Change in gross provisions for unexpired risks	131,428	992,235	-860,807	13
Change in the reinsurer's share of net provisions for unexpired risks	-21,812	-261,289	239,477	8
Change in net provisions for unexpired risks	109,616	730,946	-621,330	15
Operating costs	-5,345,277	-5,155,039	-190,239	104
Revenues from reinsurance commission	3,429,220	2,381,921	1,047,299	114
Difference between revenues and expenses for credit report purchases	148,897	500,400	-351,503	30
Gross difference between other revenues and expenses	460,807	142,536	318,271	323
Reinsurance share of the difference between other revenues and expenses	0	0	0	
Difference between other expenses and revenues	460,807	142,536	318,271	323
Net technical result	3,867,174	2,562,742	1,304,431	151
Gross technical result	9,548,221	5,859,919	3,688,303	163
Effect of reinsurance	-5,681,048	-2,639,288	-3,041,759	215
Difference between revenues and expenses from investments	63,153	51,188	11,965	123
Pre-tax profit	3,930,326	2,613,930	1,316,396	150
Net profit for the accounting period	3,185,288	2,192,570	992,718	145

Ratios (in %)	2021	2020
Gross claims paid / gross premiums written	12%	40%
Net claim expenses / net premium income	8%	39%
Gross claim expenses / gross premium income	10%	24%
Reinsurance share of claim expenses / reinsurance share of premiums	-11%	14%
Enforced recourse receivables / gross claims paid	64%	17%

Gross premiums written in 2021 were up EUR 0.76 million or 6 % on 2020. Net unearned premiums were down EUR 0.33 million. Net income from insurance premiums was therefore down by a mere EUR 0.24 million.

The claims situation in 2021 was moderate and similar to that of 2020. Gross claims paid in 2021 were down EUR 3.53 million or 69 % on 2020, while net claims expenses in 2021 were down EUR 2.10 million or 78 % on 2020. In 2021, revenues were realised from the reduction of provisions for bonuses and from the reduction of net provisions for unexpired risks.

Operating costs amounted to EUR 5.35 million and increased by EUR 0.19 million or 4 % in 2021 compared to 2020. The majority of costs are labor costs (48 % in 2021, 50 % in 2020).

Revenues from reinsurance commissions amounted to EUR 1.05 million or 44 % higher than in 2020, mainly due to higher premiums and higher profit sharing payments for previous years.

The difference between revenues and expenses for credit rating information decreased by EUR 0.35 million or 70 % compared to 2020 (higher costs of purchasing credit information and lower revenues from charged credit information).

The gross technical result in 2021 was positive, as was the net technical result, which was EUR 1.30 million or 51 % higher than in the previous year. The net profit for the accounting period amounts to EUR 3.19 million, which is EUR 0.99 million more than in 2020.

A.3 Investment performance

Revenues from investments are slightly higher than in 2020 and amount to EUR 0.14 million. The majority of the positive difference comes from the profit from the sale of investments, as interest income is lower. Investment expenditure consists of investment management expenditure and is slightly higher than in 2020. The impact of investment in 2021 is higher than in 2020 and amounts to EUR 0.06 million. Return on investment remained at about the same level as last year and amounted to 0.20 % (in 2020: 0.18 %).

in EUR	2021	2020
Interest income from available-for-sale financial assets	85,962	121,394
Interest income from loans and deposits	0	196
Interest income from cash and cash equivalents	14	11
Interest income	85,975	121,601
Interest expense	-2,550	-1,240
Net profit generated from the sale of available-for-sale financial assets	57,521	0
Net loss generated from the sale of available-for-sale financial assets	-16,633	-13,327
Other expenses from financial assets	-61,162	-55,846
Investment income	143,496	121,601
Investment expenses	-80,344	-70,413
Performance of financial assets	63,153	51,188

The fair value reserve which indicates changes in the fair value of available-for-sale financial assets, stood at EUR 0.22 million as at 31 December 2021 and was down EUR 0.18 million relative to 2020.

in EUR	Available-for-sale financial assets
Balance as at 1 Jan 2020	246,153
Gains/losses recognised as revaluation surplus	201,723
Gains/losses transferred to profit or loss	-13,327
Tax from these items	-35,795
Balance as at 31 Dec 2020	398,754
Gains/losses recognised as revaluation surplus	-177,448
Gains/losses transferred to profit or loss	-40,888
Tax from these items	41,484
Balance as at 31 Dec 2021	221,901

A.4 Performance of other activities

Coface PKZ realised no profit or loss in other activities in 2021.

A.5 Any other information

Given the aggravated security situation in Ukraine, which arose as a result of the Russian Federation's attack on Ukraine, Coface PKZ closely monitors current developments. Coface PKZ has concluded reinsurance contracts for reinsurance risks with reinsurers CofaceRE SA, SID banka dd, MunichRE and R + V, with which it also actively regulates exposure in Ukraine and surrounding countries and for individual risks of policyholders around the world. The negative impact on the operations of Coface PKZ is still being studied, as business decisions follow the development of events both at the level of Coface PKZ and at the level of the Coface Group. Coface PKZ will comply with all relevant restrictive measures in relation to the situation in Ukraine, to which it will be bound by the legislation and internal rules of the Coface Group. Coface PKZ's investment portfolio does not include funds that would be exposed to the Russian Federation, Ukraine or Belarus. The sum of approved limits in the Russian Federation is 12% of all approved limits under insurance contracts, while the actual utilization of these limits is 37%. According to the above, the impact on the statements cannot be assessed at this time.

On 25 March 2022, an application for a merger permit was sent to the Insurance Supervision Agency pursuant to Article 125 of the Insurance Act, in connection with the proposed merger with the Compagnie Française d'Assurance pour le Commerce Extérieur (Coface).

B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

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. The corporate governance framework, in particular:

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

At the same time, an efficient system of governance encourages key stakeholders responsible for the corporate governance of Coface PKZ, i.e. the management board and supervisory board, directors of business units and key function holders, to manage the business of Coface PKZ soundly and prudently.

In addition to this governance policy, the system of governance is also defined in detail by several other internal documents, for example in the areas of risk management, internal controls, key functions, outsourcing (excluded transactions), and fit and proper assessments.

The governance system rules are adopted by the management board of the company with the consent of the supervisory board. The rules take into account the company's strategy, are harmonised and subject to a regular annual review/audit.

As evident from this report, the company has put in place an adequate system of governance that corresponds to the nature and scope of its operations and the complexity of risks it is exposed to during its operations.

B.1.1 Supervisory and management bodies

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

According to Coface PKZ's Articles of Association (hereinafter: Articles of Association), the management board comprises no less than two and no more than four members. The number of management board members is decided by the supervisory board by way of a resolution on their appointment. The main tasks of the management board: management of regular operations, implementation of the resolutions of the general meeting of shareholders and the ensuring of

circumstances for implementing the strategic tasks of Coface PKZ. Members of the management board are obliged to ensure compliance of Coface PKZ with the provisions of the ZZavar-1 and with other relevant laws and implementing regulations.

In accordance with the Articles of Association, the supervisory board of Coface PKZ comprises no less than three and no more than six members. This number shall be decided on by the general meeting of shareholders. The supervisory board exercises the following main tasks related to business management: supervises the work of the management board, approves and verifies documents as stipulated in the applicable legislation and the internal bylaws of Coface PKZ.

In addition to the supervisory and management boards, audit committee of the supervisory board with an advisory role vis-a-vis the supervisory and management boards functions also within the company.

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

- the risk management function;
- the actuarial function;
- the compliance function; and
- the internal audit function.

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

B.1.2 Significant changes to the managementsystem

In the period of 1 January 2021 to 31 December 2021 Coface PKZ was headed by a two-member management board: Sergej Simoniti (chairman) and Mindaugas Sventickas. The supervisory board appointed Olga Sharkova to serve as member on the management board at an extraordinary session of 19 August 2021. She received authorisation to perform the function of member of the management board from the ISA on 11 November 2021. Despite this, the already adopted resolutions of the supervisory board regarding her appointment had yet to take effect, as the competent authorities of the Republic of Slovenia failed to provide her with a work permit in 2021.

The appointed member of the management board, Olga Sharkova, took up a five-year term of office on 3 February 2022, as she was granted a temporary work and residence permit, which was notified to Coface PKZ on 2 February 2022. The term of office of the previous member of the management board, Mindaugas Sventickas, expired on 2 February 2022, and the term of office of the President of the Management Board Sergej Simoniti was extended for another period in 2021.

In 2021, the management board (with the consent of the supervisory board) appointed a new holder of the actuarial key function. The current composition of the Supervisory Board is as follows:

Members	Title	Start of term of office	Duration of term of office
Declan Gerard Daly	Chairman	24/4/2019	24/4/2023
Jean-Philippe Oliver*	Deputy Chairman	24/4/2019	10/12/2021
Marcin Siwa	Member	1/7/2019	1/7/2023
Constantin-Alexie Coman	Member	24/4/2019	24/4/2023
Andraž Tinta	Workers' Representative	27/2/2021	27/2/2025
Sanja Dimec**	Workers' Representative	1/9/2020	1/9/2024

* Resignation letter took effect with expiry of the 10 December 2021.

** Member also in the period from 1/9/2016 to 1/9/2020

A member of the supervisory board and audit committee resigned in December 2021. The supervisory board has therefore appointed a new member of the audit Committee as well as its chairperson.

The inclusion of Coface PKZ in the Coface Group brought about the continuation of the intensified integration process, comprising the harmonisation of work processes, the organisational structure and internal bylaws with the standards of the new owner.

B.1.3 Remuneration policy

The basic rules relating to remuneration at Coface PKZ are laid down in the Remuneration Policy. The detailed rules are also set out by the Rules on Salaries and Other Remuneration from the Employment Relationship.

The remuneration policy applies the rule of proportionality taking into account the size and internal organisation of the insurer. This is also demonstrated by the fact that no separate dedicated remuneration committee had been established. Clearly determined criteria for variable remuneration eligibility are in place for Coface PKZ's management board and its employees who hold certain positions. Other employees whose positions fall under the scope of the Collective Agreement for the Insurance Sector and the above-specified rules are entitled to a variable portion of remuneration on the basis of completed assignments determined in advance and the targets associated therewith, and the competences that they have demonstrated. The balance between these elements follows from the Coface Group's rules that govern remuneration and the monitoring of the achievement of the goals that it set. The variable portion of remuneration thus depends on the performance of an individual, Coface and the Coface Group, taking into account both financial and non-financial criteria.

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

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

All employees at Coface PKZ with an employment contract concluded for an indefinite period or for more than one year have the possibility to join the collective supplementary pension scheme based on the agreement signed between Coface PKZ and a pension scheme provider, and in line with the stipulation of the Pension and Disability Insurance Act. The insurance premiums for management board members are paid in full by Coface PKZ, while other employees contribute a certain percentage themselves.

B.1.4 Material transactions

Material transactions with owners

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 (hereinafter: Coface SA).

In 2021 the parent company (Coface SA) provided PKZ access to various information systems. Other transactions with other Coface Group companies were derived from the purchase or sale of credit reports, the supervision over the management of PKZ by the CER region, and from advisory and other services.

Illustration of Coface PKZ's transactions with the parent company and other affiliates¹

in EUR	Parent company		Other affiliates	
	2021	2020	2021	2020
Expenses for credit report purchases		0	-599,998	-568,589
IT expenses	-380,748	-159,513	0	0
Other service costs	-17,315	-11,533	-493,453	-370,336
Other income	24,584	0	14,958	0
Revenues from risk assessment	0	0	234,603	105,180
Revenues from advisory services	0	0	195,618	78,541
Reinsurance premiums and bonuses written	0	0	-5,511,262	-4,443,958
Revenues from reinsurance commission	0	0	2,196,060	1,334,339
Reinsurers' shares in claims and recovery costs	0	0	323,773	378,895
Total	-373,479	-171,046	-3,639,701	-3,485,927

Coface PKZ had the following outstanding receivables from/liabilities to the parent company or other affiliates in the Group:

in EUR	Parent company		Other affiliates	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Receivables from affiliates	0	30,510	28,024	105,180
Included deferred revenues	0	0	831	21,404
Included expenses	0	0	-20,583	0
Liabilities for operating costs and credit reports	0	0	-109	-110,474
Receivables/liabilities from reinsurance	0	0	-625,917	-637,533
Total	0	30,510	-617,754	-621,423

Information on material transactions with members of management and supervisory bodies

There were no material transactions between Coface PKZ and the members of the management board in 2021, apart from regular remuneration under point B.1.3, as management board members are not entitled to remuneration in the form of shares or stock options, or in the form of participation in profit, and have no other operations or transactions with the insurer.

There were no material transactions between members of the supervisory board and Coface PKZ in 2021, since the members receive no payment for their roles in this regard.

B.2 Fit and proper requirements

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

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

¹ Operating costs by nature.

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

The FPP further specifies additional requirements related to the fitness and propriety of persons for each relevant category (for members of the supervisory board, management board, authorised officers and holders of key functions) and also takes into account regulatory requirements.

The assessment of fitness and propriety commences once the circumstances defined in the FPP arise (for example, prior to the appointment of a person to a position for which a fitness and propriety assessment is required).

Supervisory board members have to submit a self-evaluation based on the ISA questionnaire to the HR function, together with other supporting documents which demonstrate how they meet the fitness and propriety criteria (e.g. an extract from the criminal records). The holder of the compliance function prepares the materials for the general meeting of shareholders and validates the compliance of the procedure with applicable legislation and internal bylaws. Once the general meeting has appointed supervisory board members, the supervisory board assesses the diversity of its composition. In the process of appointing a management board member, the candidate submits all relevant documentation (valid ISA questionnaire and supporting documentation) to the HR function. This is then handed over to the compliance function that prepares the materials that enable the supervisory board to observe the fit and proper assessment and to assess the required diversity in the composition of the management board to run the company in a professional manner. The same procedure also applies to the fit and proper assessment of candidates to become holders of key functions, whereby the proposed fit and proper assessment also involves the HR function. The fitness and propriety of the candidate is evaluated by the management board, and the consent to the appointment is provided by the supervisory board.

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

B.3.1 Description of the risk management system

Key risk management system documents

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

The written rules of the risk management system comprise:

- master risk management policy;
- risk appetite statement;
- key function policies;
- policies for the management of all material risk categories;

- other supporting documents (procedures, guidelines) for risk management.

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

Organisation of risk management

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

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

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

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

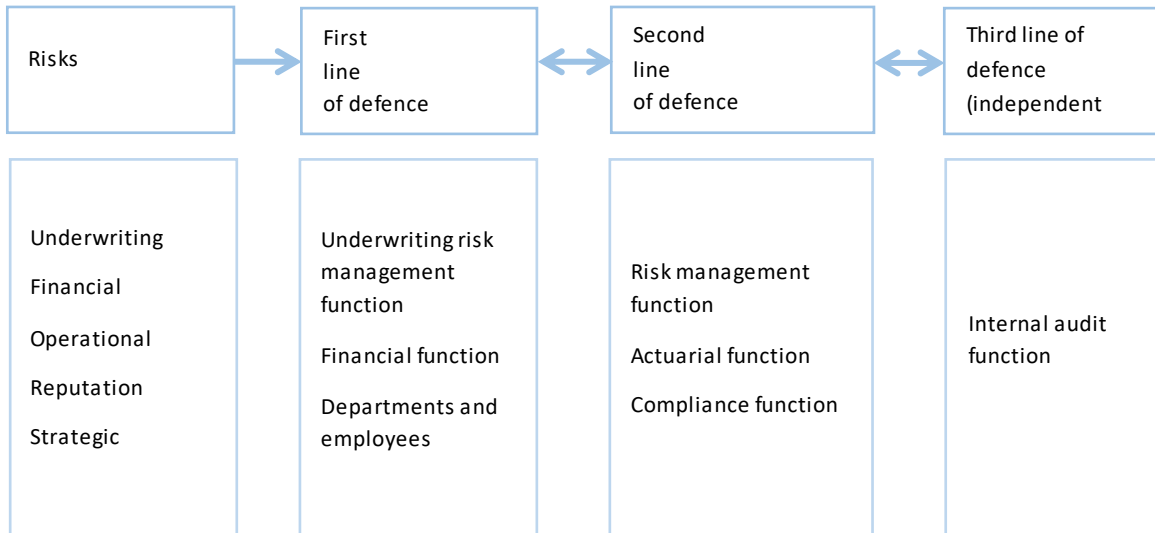
Risk management within Coface PKZ relies on a so-called 'three-level system of defence lines', which are presented below.

The first line of defence comprises business functions that actively take-up and manage business risks, including operational and strategic risks. A particularly important role is played by the function of managing underwriting risks (including the Significant Underwriting Risk Committee), the financial function and the management board.

The second line of defence comprises the functions and committees that implement and manage the risk management system, including the own risk and assessment and the implementation and management of the system of exposure limits based on the defined risk appetite. The second line of defence thus primarily refers to the three key functions, i.e. the risk management function, actuarial function and compliance function. All key functions in the scope of the second line of defence are also

integrated in the risk management system at the Coface Group level, thereby ensuring compliance of Coface PKZ's risk management framework with the Coface Group's risk management system.

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



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

Through its activities the risk management function provides support to the supervisory board, management board and other functions in their effective implementation of the risk management system, monitors the risk profile of the insurer as a whole, reports on risk exposure to the supervisory board, management board and other stakeholders, as well as identifies and assesses emerging risks.

The main tasks of the risk management function are:

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

The risk management function cooperates closely with the actuarial function and the area of finances in the capital adequacy calculation under the standard Solvency II formula (hereinafter: standard formula), the compilation of quantitative forms and in the own risk and solvency assessment process. The risk management function also closely cooperates with the compliance function in relation to the identification, measurement and coordination of measures related to compliance risks.

In the scope of the risk management system at the Coface Group level, the risk management function in 2021 took part in Coface Group's risk management activities at the CER level, particularly in terms of operational risk analysis and implementation of the level I and level II internal controls prescribed by the Coface Group.

Risk management process

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

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

Identification of risks

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

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

Assessment and measurement of risks

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

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

Risk management

The process of risk management takes account of Coface PKZ's business strategy from which it derives its limits on permitted risk exposure. This ensures that risk exposure moves inside the boundaries of the outlined risk appetite and the limits on permitted risks. The risk management process is specified in detail in individual risk management policies.

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

Monitoring of risks

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

B.3.2 Own risk and solvency assessment process

The own risk and solvency assessment is defined as a set of processes that form a tool for decision-making and strategic analysis. Its purpose is to assess the overall solvency needs of Coface PKZ based on the business strategy and business plans for the entire duration of the business strategy. Coface PKZ's own risk and solvency assessment is typically performed annually and more frequently only in the case of a significant change to the risk profile during the year. In 2021, Coface PKZ carried out the own risk and solvency assessment process based on its business strategy for the period 2021 – 2023. The process took into account all identified material risks, as well as all potential changes during the period to which the business strategy applies, and the relevant stress scenarios during this period.

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

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

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

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

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

1. Identification of risks

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

2. Determination of overall solvency needs

Based on the current risk exposures, a capital requirement calculation is made based on the standard formula. For each component of this calculation, Coface PKZ also assesses whether the standard formula adequately captures exposures to specific categories of risk. Identified deviations are duly included in the valuation of overall solvency needs. The risks not covered by the standard formula (e.g. liquidity risk, asset and liability management risk, other concentration risk, strategic risk) are also assessed by applying various methods, or the effects of a particular risk are shown through the use of adverse scenarios or sensitivity analyses.

During the assessment of capital adequacy, the amount, structure and quality of own funds (capital) are also determined.

3. Future solvency needs

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

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

4. Adverse scenarios and sensitivity analyses

Stress and scenario tests are used in the scope of the own risk and solvency assessment to comprehensively determine solvency needs. These tests, to the largest extent possible and where appropriate, include the simultaneous testing of effects in connection with underwriting and financial risks. In addition, Coface PKZ performs a reverse adverse scenario that helps it identify the sequence of events or causes that would result in the insolvency of the insurer.

Adverse scenarios and sensitivity analyses are developed by the actuarial function and risk management function based on the discussions and coordination with the management board and, where necessary, also with other relevant business functions and departments at Coface PKZ, and on the guidelines presented by the Group's risk management function.

5. Assessment of the observance of the risk appetite and limits on permitted risks

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

6. Drafting the own risk and solvency assessment report

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

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

B.4 Internal control system

B.4.1 General information on the internal control system

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

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

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

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

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

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

B.4.2 Compliance function

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

a) corporate integrity

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

b) regulatory compliance

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

c) providing training for employees

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

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

- detection and identification of compliance risks,
- analysis of compliance risks,
- monitoring the activities to address non-compliance,
- corrective measures.

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

B.5 Internal audit function

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

The Management Board provides the Internal Audit Function with suitable conditions for work, in terms of organisational independence and the volume of funds for its work, which enables the independent and impartial performance of internal auditing activities. The Internal Audit Function is

organised as an independent function that reports directly to the Management Board, and is functionally and organisationally segregated from the insurer's other organisational units. The Director of Internal Audit Function is the holder of the internal audit key function that administratively reports to the Management Board, and functionally reports to the Supervisory Board and to the Coface Group Internal Audit. In determining the areas, aim and scope of internal auditing, the performance of work and reporting on internal auditing, the Internal Audit Department is independent. The holder of the internal audit function does not perform any other tasks for the insurer that could give rise to a conflict of interest and jeopardise its impartiality, and does not take decisions on activities in areas subject to internal auditing.

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

The Internal Audit Policy was adopted by the insurer's Management Board with the consent of the Supervisory Board. It sets out the rules on performance of internal audits, among others also the obligation of internal auditing providers to ensure the independence and impartiality, avoidance of conflict of interest and reporting on the emergence of any circumstances that could impair the independence and impartiality of internal auditing and the providers of internal audits.

The Internal Auditing Policy represents the key document governing internal audit, as defined by the International Standards for the Professional Practice of Internal Auditing. The Internal Audit Function informs the senior management of the audited area of the completed internal audits, whereby it takes into account the internal audit methodology of Coface Group. In addition, the Internal Audit Department reports to the Management Board, the Audit Committee and Supervisory Board every six and twelve months on the matters defined in the valid Internal audit policy.

B.6 Actuarial function

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

In organisational terms the actuarial function is positioned within the Finance Department. In 2021, a new holder of a key actuarial function was authorized by the Management Board and with the consent of the Supervisory Board.

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

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

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

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

B.7 Outsourcing

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

Coface PKZ maintains the outsourced activities in the area of financial asset management and IT.

In 2021 Coface PKZ continued with gradual replacement or substitution of the previous provider of the outsourced activity, i.e. S&T Slovenija d.d., under the jurisdiction of the Republic of Slovenia. The insurer notified the ISA in due time of all relevant changes.

B.8 Any other information

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

C. RISK PROFILE

C.1 Risks associated with non-life insurance contracts (underwriting risk)

C.1.1 Exposure to underwriting risk

Trade credit insurance comprises the core business of Coface PKZ, which is a specialised credit insurer, as such underwriting risk poses the largest risk to which the company is exposed. The risk associated with non-life insurance contracts at PKZ comprises the risk associated with non-life insurance premiums and provisions and the risk of a non-life insurance catastrophe. Given the characteristics of the insurance contracts that Coface PKZ concludes there is no risk associated with the early termination of non-life insurance in these transactions.

Exposure to underwriting risk is high, both in terms of frequency (probability) and size of the impact upon risk realisation, and primarily covers:

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

In process terms underwriting risk arises in the specification of contractual terms, including premium rates, in acceptance for underwriting (approval and monitoring of customer limits for the insured), 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. The quality and reliability of information on customers' credit ratings is of key significance for the management of the company's pricing policy, and the decision-making process of the person/body assuming the risk. This directly affects the appropriate segregation of powers for the conclusion of contracts and approval of limits, which mitigates the risks to which Coface PKZ is exposed.

C.1.2 Techniques applied to mitigate underwriting risks

In 2021 Coface PKZ had reinsurance protection in place that comprised two quota share and excess contracts, one excess of loss contract, one optional contract to cover a particular risk and one reinsurance protection of the claims ratio. In that regard Coface PKZ utilises reinsurance capacities that are available in the Coface Group and mostly concludes reinsurance contracts with the reinsurer Coface Re.

C.1.3 Concentration of underwriting risks

The concentration that is derived from insurance business can relate to the concentration of the insured and concentration of insured risks, i.e. individual high approved limits for a particular customer or group, or higher limits by country in the event of non-commercial coverage. Coface PKZ regularly monitors and analyses exposures by country and sector and appropriately includes mechanisms into insurance contracts that allow restrictions to be placed on the occurrence and size of claims (e.g. own stake, maximum total damage, rules for the management of limits, etc.).

Coface PKZ manages the concentration of underwriting risks through various measures, such as:

- the transfer of a significant share of risks to reinsurance and thus the mitigation of risks by individual risk category (customer/group or country);
- by a change to target groups of the insured (size, activity of undertakings, geographical diversification) and thus by adjusting its product, market approaches and channels.

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, and adequate creation of technical provisions according to actuarial methods subject to constant review.

C.2 Market risk

C.2.1 Exposure to market risk

Market risk, to which Coface PKZ is exposed, is derived from financial assets, partly also from other assets and liabilities (e.g. technical provisions and recoverables from reinsurance are exposed to interest rate risk and currency risk). The following four types of market risk occur in the operations of Coface PKZ: interest rate risk, spread risk, equity risk, currency risk and property risk.

After Coface PKZ's transfer of ownership the portfolio of financial assets was restructured in accordance with Coface Group's guidelines, and at the end of 2021 comprised financial assets, which include investments in government and corporate bonds, money market bonds, equity funds, and investments in real estate for own use.

Coface PKZ outsourced the management of the portfolio of financial assets to an external contractor. After the ownership transfer, this function has been carried out by Amundi Asset Management (the largest European asset manager) since May 2019. The external contractor manages the portfolio of investments in accordance with the investment policy that sets out the target allocation of the assets under management. The latter is defined on the basis of limits on exposure to risk and requirements regarding liquidity, limits derived from applicable laws, and the limits derived from the maturity of Coface PKZ's liabilities.

This approach enables Coface PKZ to be able to pursue the effective management of the portfolio of financial assets to ensure long-term profitability, and at the same time ensure the quality and high liquidity of financial investments. The transfer of the portfolio's management to an external contractor also mitigates operational risks associated with the investment process, as well as ensuring the company access to first-rate asset management services that ensure a quick response to changes in an environment and the management of the company's finance income in the context of general exposure to risks.

The system of establishing Coface PKZ's investment policy is organised as follows:

- the management board of the insurer approves the company's investment policy taking into account the limits derived from applicable laws, the adopted risk appetite and the investment policies issued by the Coface Group;
- the strategic allocation of assets proposed by the portfolio's external manager is reviewed twice a year by the finance division. In cooperation with the risk management function it also reviews the general strategies and limits that are desired in terms of risk appetite, market conditions, planned cash flows, optimisation of portfolio returns, and the limits derived from applicable laws.
- The investment committee comprised of representatives of Coface PKZ and of the external contractor reviews the management of the portfolio twice a year in terms of risk management and outsourced services.

The investment process is based on the prudent person principle, where in addition to the general objectives regarding security, liquidity and profitability it pursues the quality of individual issuers and securities, the appropriate sectoral and geographic diversification in accordance with the company's investment policy. In addition, exposure limits have been defined by credit rating, issuer and issue. The use of derivatives for investment purposes is prohibited, only allowing macro-hedging of the portfolio, which must be approved in advance in exceptional cases. The management of market risks therefore takes place in accordance with a clearly defined process and contains a system of internal controls that is subject to regular reviews.

Coface PKZ mostly invests financial assets in debt securities. In doing so it also ensures the stability of finance income throughout the year. The table below presents a breakdown of the investment portfolio by investment category:

in EUR	31 Dec 2021	31 Dec 2020
Investments in loans and deposits	0	0
Available-for-sale financial assets		
- government debt instruments	13,824,657	8,740,966
- corporate debt instruments	16,013,573	16,705,170
- equity funds	1,275,396	1,035,616
- money market funds	1,813,662	2,537,758
Total	32,927,287	29,019,510
Total financial investments	32,927,287	29,019,510

As of 31 December 2021 debt securities accounted for 91 % of the total financial assets, which was up three percentage points on the previous year. The proportion accounted for by government securities

increased from 30 % to 42 %, while the proportion of corporate securities decreased from 58 % to 49 % of total investments.

Investments in loans and deposits decreased during the year in accordance with the investment policy, with their proportion amounting to 0 % at the end of 2021. The proportion of investments in exchange trade funds (ETF) accounted for 9 % of total financial assets at the end of 2021 (12 % at the end of 2020).

The geographical diversification of the portfolio of debt securities at the end of 2021 is presented in the table below. The portfolio is exposed to developed countries of the euro area, EU member states outside the euro area, North America and Asia. The table below shows the geographical distribution of investments in debt securities

in EUR	31 Dec 2021	31 Dec 2020
Euro area	26,969,492	18,864,158
European countries outside the euro area	1,741,450	6,374,772
North America	3,717,615	3,780,580
Asia	498,730	0
Total	32,927,287	29,019,510

The interest rate risk to which Coface PKZ's portfolio of financial assets is exposed is limited as there is a four-year ceiling on the maturity of financial assets. The interest rate sensitivity of the portfolio of financial assets is indicated in section C.2.3.

Coface PKZ is exposed to spread risk due to its investments in debt securities and money market funds. The spread risk is mostly defined by the credit quality of the asset, and an itemisation of financial assets by credit rating is presented below. The definition of ratings is based on applicable laws (the second best estimated rating is taken into account in the event of multiple ratings).

S&P rating	31 Dec 2021						
	Investment s in loans and deposits, in EUR	Structure	Available-for- sale financial assets, in EUR	Structure	Total in EUR	Structure	Cumulative share
AAA	0	0%	498,730	2%	498,730	2%	2%
AA+ to AA-	0	0%	9,185,568	28%	9,185,568	28%	29%
A+ to A-	0	0%	11,966,206	36%	11,966,206	36%	66%
BBB+ to BBB-	0	0%	5,966,080	18%	5,966,080	18%	84%
BB+ to BB-	0	0%	220,361	1%	220,361	1%	85%
Unrated	0	0%	5,090,343	15%	5,090,343	15%	100%
Total	0	0%	32,927,287	100%	32,927,287	100%	

S&P rating	31 Dec 2020						
	Investments in loans and deposits, in EUR	Structure	Available-for-sale financial assets, in EUR	Structure	Total in EUR	Structure	Cumulative share
AAA	0	0%	0	0%	0	0%	0%
AA+ to AA-	0	0%	8,546,906	29%	8,546,906	29%	29%
A+ to A-	0	0%	11,171,211	38%	11,171,211	38%	68%
BBB+ to BBB-	0	0%	4795035	17%	4,795,035	17%	84%
BB+ to BB-	0	0%	932.985	3%	932,985	3%	88%
Unrated	0	0%	3,573,374	12%	3,573,374	12%	100%
Total	0	0%	29,019,510	100%	29,019,510	100%	

All financial investments of Coface PKZ are denominated in euros in accordance with the investment policy. Therefore, there is no currency risk to which the portfolio of financial assets is exposed. It is clear from the nature of the underlying transaction, which comprises the credit insurance of companies operating in the international environment, that currency risk arises from the best estimate of technical provisions and recoverables from reinsurance.

in EUR – 31 December 2021	EUR	RUB	RSD	PLN	USD	HRK	RON	other	total
Financial assets	32,927,287	0	0	0	0	0	0	0	32,927,287
Amount of technical provisions ceded to reinsurers	6,923,665	136,919	89,589	95,606	102,526	72,100	33,430	161,670	7,615,505
Receivables	595,385	0	0	0	0	0	0	0	595,385
Cash and cash equivalents	25,557	0	0	0	0	0	0	0	25,557
Other assets	2,187,637	0	0	0	0	0	0	0	2,187,637
Total assets	42,659,531	136,919	89,589	95,606	102,526	72,100	33,430	161,670	43,351,371
Technical provisions (best estimate)	13,812,376	303,994	198,909	212,268	227,632	160,079	74,222	358,946	15,348,424
Provisions, save for technical provisions	167,796	0	0	0	0	0	0	0	167,796
Deferred tax liabilities	20,170	0	0	0	0	0	0	0	20,170
Liabilities from reinsurance	827,061	0	0	0	0	0	0	0	827,061
Other liabilities	2,018,958	0	0	0	0	0	0	0	2,018,958
Total liabilities	16,846,360	303,994	198,909	212,268	227,632	160,079	74,222	358,946	18,382,409

in EUR - 31 December 2020	EUR	RUB	RSD	PLN	HRK	USD	RON	other	total
Financial assets	29,019,511	0	0	0	0	0	0	0	29,019,511
Amount of technical provisions ceded to reinsurers	6,984,146	267,779	147,023	130,583	184,946	79,961	72,337	275,144	8,141,919
Receivables	1,619,748	0	0	0	0	0	0	0	1,619,748
Cash and cash equivalents	1,262,255	0	0	0	0	0	0	0	1,262,255
Other assets	40,474	0	0	0	0	0	0	0	40,474
Total assets	38,926,133	267,779	147,023	130,583	184,946	79,961	72,337	275,144	40,083,906
Technical provisions (best estimate)	13,611,656	536,926	294,797	261,832	370,837	160,330	145,044	551,692	15,933,114
Provisions, save for technical provisions	156,762	0	0	0	0	0	0	0	156,762
Deferred tax liabilities	755,813	0	0	0	0	0	0	0	755,813
Liabilities from reinsurance	1,904,974	0	0	0	0	0	0	0	1,904,974
Other liabilities	1,393,887	0	0	0	0	0	0	580	1,394,467
Total liabilities	17,823,093	536,926	294,797	261,832	370,837	160,330	145,044	552,272	20,145,130

The assessment of technical provisions and recoverables from reinsurance is matched in terms of currency, but there are differences in the net amount (in the amount of net provisions, since the technical provisions exceed the recoverables from reinsurance), which is appropriately assessed in the scope of the currency risk module in the calculation of the solvency capital requirement.

Potential exposure to currency risk generally decreases with the assignment of limits to customers in EUR to the largest possible extent.

Coface PKZ is also exposed to the risk of changes in real estate prices due to a real estate holding (building), which it possesses for its own personal use. Significant changes to real estate prices can occur over the medium-term. However, Coface PKZ is not overly sensitive to these changes, as in addition to the real estate for its own personal use Coface PKZ owns no investment property.

C.2.2 Market risk concentration

A significant portion of the market risk concentration in 2021 was derived from corporate debt securities. The other segments of the investment portfolio are diversified to such an extent to prevent any significant concentration. Among exposures to individual sovereigns, Coface PKZ has the highest exposure to the Republic of France. The table below shows a breakdown of financial assets by type of issuer.

in EUR	31 Dec 2021	Structure	31 Dec 2020	Structure
Country (sovereign)	11,933,303	40%	9,471,483	37%
Banks	3,366,853	11%	1,429,630	6%
Corporates	9,812,951	33%	9,001,419	35%
Financial intermediaries	4,725,123	16%	5,543,604	22%
Total	29,838,230	100%	25,446,136	100%

Management of market risk concentration is connected with limiting maximum exposure to a specific issuer and to the size of a specific issue. In addition, market risk concentration is also limited through limits on the credit quality of issuers.

C.2.3 Techniques applied to mitigate market risks

The investment policy enables the use of derivatives in order to limit excessive levels of exposure to market risks. During 2021 Coface PKZ did not use derivatives to hedge its portfolio of financial assets.

C.2.4 Sensitivity analysis

The interest rate sensitivity of Coface PKZ's portfolio of financial assets is presented in the tables below.

The tables are compiled under the assumption of a change in market interest rates (rise and fall) of 1 percentage point. The change in the value of available-for-sale debt financial instruments would be reflected in other comprehensive income, while the change in interest income would be reflected in the income statement.

in EUR	2021	
	+1 percentage point	-1 percentage point
Change in the value of available-for-sale financial instruments	-12,211	13,432
Change in the value of the interest income of available-for-sale debt financial instruments and financial assets in the form of loans and deposits	33,474	-33,407

in EUR	2020	
	+1 percentage point	-1 percentage point
Change in the value of available-for-sale financial instruments	-9,055	10,000
Change in the value of the interest income of available-for-sale debt financial instruments and financial assets in the form of loans and deposits	22,014	-35,370

Furthermore, the following table also presents the company's sensitivity to changes in other market parameters. The table is drafted under the assumption of changes to the market value of assets and liabilities in accordance with the parameters of the standard formula for the assessment of capital adequacy.

	Parameter for measuring sensitivity	Basis in EUR		Net change to the value of own funds in EUR	
		31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Risk associated with changes to real estate prices	25% drop in prices	1,919,359	2,040,867	-479,840	-510,217
Risk associated with changes to share prices	39% drop in prices	1,275,396	1,035,616	-585,151	-398,919
Spread risk	decline in the value of assets due to changes in ratings in accordance with the standard formula	31,651,891	27,983,895	-1,480,022	-1,215,459
Currency risk	25% rise in exchange rates	805,930	1,423,559	-201,483	-355,890

C.3 Counterparty default risk (credit risk)

C.3.1 Exposure to credit risk

Coface PKZ's exposure to government and corporate securities is handled in the scope of the market risk module, i.e. in the credit spreads risk.

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

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

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

in EUR	31 Dec 2021	31 Dec 2020
AA+ to AA-	1,901,867	2,307,057
A+ to A-	5,857,579	6,477,473
BBB+ to BBB-	0	7,890
Total receivables and recoverables from reinsurance	7,759,445	8,792,419

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

in EUR	31 Dec 2021	31 Dec 2020
A+ to A-	0	10,205
BBB+ to BBB-	0	0
BB+ to BB-	0	0
Unrated	2,187,637	2,478,942
Total cash at bank	2,187,637	2,489,146

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

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

Breakdown of receivables for premiums and for credit reports

Defaulting on receivables for premiums can result in the termination of insurance coverage. Because premiums are charged and paid monthly, defaulting on premiums is one of the grounds under which

the insurer can terminate coverage under the contract. The cumulative amount of outstanding receivables from a single policyholder is therefore relatively low, and the corresponding risk is limited. Insurance coverage only applies to credit for which insurance premiums have been paid. In the event of claims, there is a possibility of the direct netting of receivables and liabilities.

C.3.2 Techniques applied to mitigate credit risk

Coface PKZ mitigates counterparty default risk by utilising the reinsurance capacities of the Coface Group.

Counterparty default risk, which arises from receivables from the insured, is managed by tying insurance coverage to the repayment of receivables (for premiums and credit reports) and via procedures for approving limits and resolving claims (for recourse receivables).

C.4 Liquidity risk

Liquidity risk covers both operational and strategic liquidity. Coface PKZ monitors exposure to liquidity risk using the method of liquidity gaps, where projected outflows are compared with projected inflows over individual time periods. The analysis also shows time intervals in which the insurer could be exposed to liquidity risk (surplus of liabilities over assets).

in EUR – 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets	8,051,569	555,258	5,038,008	17,807,291	11,899,245	43,351,370
Liabilities	850,956	916,359	5,382,550	10,259,572	229,768	17,639,206
Spread	7,200,612	-361,102	-344,543	7,547,719	11,669,476	25,712,164
Cumulative spread	7,200,612	6,839,511	6,494,968	14,042,688	25,712,164	25,712,164

in EUR - 31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets	9,442,320	1,956,188	3,347,290	21,400,848	6,609,659	42,756,304
Liabilities	1,078,791	1,061,551	6,086,154	9,233,135	221,230	17,680,861
Spread	8,363,529	894,637	-2,738,864	12,167,713	6,388,428	25,075,443
Cumulative spread	8,363,529	9,258,166	6,519,302	18,687,015	25,075,443	25,075,443

The analysis of liquidity gaps for 2020 and 2021 revealed a cumulative surplus of assets over liabilities, meaning that the assets suffice for the settlement of all Coface PKZ's liabilities.

Expected profits included in future premiums (EPIFP) are not included among the insurer's own funds, as the valuation of premium provisions envisaged that the insurer will not generate profit from this part of the portfolio.

Coface PKZ diligently manages liquidity risk, and in that regard always secures a suitable amount of cash, investing in highly-liquid securities and short-term deposits. All these assets facilitate the continuous settlement of liabilities. In addition, various departments and functions regularly report envisaged outflows.

Coface PKZ's main outflows relate to insurance liabilities, which are quite predictable in terms of their maturity and amount. The reason for this is the waiting period that must elapse before the insured can file a compensation claim in the event of protracted payment delays (the most frequent reason for the

payment of the claim amount), with the insurer being required to provide payment delay notifications in advance, even before the expiry of the waiting period. In the event of the payment of major claim amounts, Coface PKZ has agreed on a *cash-call* clause with the reinsurers, which also mitigates exposure to liquidity risk.

C.5 Operational risk

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

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

The operational risk management process covers a set of tools that include:

- operational risk mapping;
- reporting on any loss events that occur;
- a business continuity plan that facilitates the planning of activities in the event of various business interruption scenarios, and
- a two-level system of internal controls that ensures efficiency and the correctness of business processes.

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

C.6 Other significant risks

During its operations Coface PKZ is also exposed to reputational risk, strategic risk, and to newly emerging risks.

These types of risks are an integral part of the risk register, and are also not covered by the assessment of capital adequacy by using the standard formula.

C.6.1 Strategic risk

Strategic risks arise from external and internal sources. They can be defined as risks that affect the profitability and capital adequacy of Coface PKZ due to changing market conditions, the political or regulatory environment, customer expectations and other stakeholders, and the resulting incorrect implementation of strategic policies or the implementation of inadequate strategic policies.

Strategic risks are managed primarily through a clearly defined process for the development of strategic objectives on the basis of guidelines submitted by the Coface Group, and the transfer of these objectives into strategic activities. This process includes the timely and effective communication of the outlined business strategy within the insurer and the regular monitoring of the implementation of the business strategy.

C.6.2 Reputational risk

Reputational risk relates to the adverse effects of internal or external events on Coface PKZ's reputation. It can arise, for example, from non-compliance with the legal provisions in Slovenia and on other markets, complaints or court proceedings initiated by counterparties (the insured, suppliers and others), negative public opinion, the negative opinion of reinsurers or brokers, etc.

Reputational risk is managed in particular by ensuring compliance with the code of conduct and anti-bribery code of the Coface Group, and a clear system of rules regarding internal and external communication, as well as through the implementation of other relevant bylaws of Coface PKZ, particularly focusing on customer due diligence. It is an obligation of all employees to undergo regular training on the importance of complying with corporate integrity rules.

C.6.3 Emerging risks

Emerging risks relate to new events or circumstances that can cause increased exposure to existing risks or the appearance of exposure to new risks. These risks can affect the profits or own funds of Coface PKZ, but can also impact its reputation or the achievement of strategic objectives.

C.7 Any other information

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

D. VALUATION FOR THE PURPOSE OF SOLVENCY

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

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

The aforementioned reclassifications and revaluations in the process of obtaining the S II balance sheet on the basis of IFRS items for the years 2021 and 2020 are presented below.

31 December 2021					
	IFRS values	Adjustments	IFRS values	Revaluation	SII values
Assets	51,751,815		49,190,134	-3,765,653	45,424,481
Intangible assets	26,983		26,983	-26,983	0
Deferred tax assets	0		0		0
Property, plant & equipment held for own use	2,073,110		2,073,110		2,073,110
Investments	32,927,287		32,927,287		32,927,287
Bonds	29,838,230		20,725,591		20,725,591
Government Bonds	13,824,657		13,824,657		13,824,657
Corporate Bonds	16,013,573		16,013,573		16,013,573
Equity funds	1,275,396		1,275,396		1,275,396
Money-market funds	1,813,662		1,813,662		1,813,662
Reinsurance recoverables	12,178,005	-823,831	11,354,175	-3,738,670	7,615,505
Insurance & intermediaries receivables	2,252,548	-1,859,326	393,222		393,222
Reinsurance receivables	22,465	121,476	143,941		143,941
Receivables (trade, not insurance)	58,222		58,222		58,222
Cash and cash equivalents	2,187,637		2,187,637		2,187,637
Any other assets, not elsewhere shown	25,557		25,557		25,557
Liabilities	24,532,813		21,971,132	-2,243,195	19,727,937
Technical provisions – non-life	20,796,473	-1,859,326	18,937,147	-2,243,195	16,693,952
Best estimate	/		/		15,348,424
Risk margin	/		/		1,345,528
Provisions other than technical	167,796		167,796		167,796
Debts owed to credit institution	2,321		2,321		2,321
Deferred tax liabilities	20,170		20,170		20,170
Insurance & intermediaries payab	181,695		181,695		181,695
Reinsurance payables	1,529,416	-702,355	827,061		827,061
Payables (trade, not insurance)	1,114,231		1,114,231		1,114,231
Any other liabilities, not elsew	720,712		720,712		720,712
Excess of assets over liabilities	27,219,002		27,219,002	-1,522,458	25,696,544

31 December 2020					
	IFRS values	Adjustmnets	IFRS values	Revaluation	SII values
Assets	50,189,751		48,203,656	-4,633,284	43,570,372
Intangible assets	84,214		84,214	-84,214	0
Deferred tax assets	0		0		0
Property, plant & equipment held for own use	2,269,217		2,269,217		2,269,217
Investments	29,019,511		29,019,511		29,019,511
Bonds	25,446,136		25,446,136		25,446,136
Government Bonds	8,740,966		8,740,966		8,740,966
Corporate Bonds	16,705,170		16,705,170		16,705,170
Equity funds	1,035,616		1,035,616		1,035,616
Money-market funds	2,537,758		2,537,758		2,537,758
Reinsurance recoverables	13,277,128	-595,781	12,681,348	-4,549,071	8,132,277
Insurance & intermediaries receivables	1,976,025	-1,436,997	539,027		539,027
Reinsurance receivables	613,459	46,683	660,142		660,142
Receivables (trade, not insurance)	420,578		420,578		420,578
Cash and cash equivalents	2,489,146		2,489,146		2,489,146
Any other assets, not elsewhere shown	40,474		40,474		40,474
Liabilities	25,963,797		23,977,702	-23,977,702	19,811,211
Technical provisions – non-life	22,590,704	-1,436,997	21,153,706	-4,166,490	16,987,216
Best estimate	/		/		15,913,419
Risk margin	/		/		1,073,798
Provisions other than technical	158,751		158,751		158,751
Debts owed to credit institution	1,488		1,488		1,488
Deferred tax liabilities	63,372		63,372		63,372
Insurance & intermediaries payab	155,106		155,106		155,106
Reinsurance payables	1,846,371	-549,098	1,297,274		1,297,274
Payables (trade, not insurance)	565,078		565,078		565,078
Any other liabilities, not elsew	582,926		582,926		582,926
Excess of assets over liabilities	24,225,955		24,225,955	-466,794	23,759,161

D.1 Assets

D.1.1 Intangible assets

Intangible assets relate to investments in information technology and development. For financial statement requirements under the IFRS IT, equipment is recognised and measured at historical cost, applying the historical cost model in subsequent years.

For the purpose of compiling the balance sheet under Solvency II the value of intangible assets is zero.

D.1.2 Financial assets

There were no transfers of debt securities in 2021.

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 (mutual funds – ETF), and in Level 2 classifies inputs other than the quoted prices included in Level 1, and that can be directly or indirectly observed. The Level 2 fair value includes the debt securities classified by the company for which fair value was measured by applying directly observed prices of third parties (BGN, BVAL). If the liquidity of a particular security does not suffice, the company classifies it to Level 2.

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

D.1.3 Receivables

Receivables from insurance and reinsurance operations

Receivables from insurance and reinsurance, and receivables from brokers were valued at original cost upon recognition. In subsequent valuations they are valued at their realisable value (original cost – impairment).

Other receivables

Trade receivables unrelated to insurance are initially recognised at original cost. In subsequent valuations these receivables are valued at their realisable value (original cost – impairment).

D.1.4 Cash and cash equivalents

Cash and cash equivalents are recognised at amortised costs, both upon initial recognition and in subsequent valuations.

D.1.5 Other assets

Deferred tax assets

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

For the purpose of compiling balance sheets under Solvency II, any effect on deferred tax assets is added to the IFRS value due to the revaluation of individual balance sheet items, as described below.

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

The basis for the calculation of additional deferred taxes (total effect of all changes in valuation) is assigned a tax rate, thereby creating additional deferred tax assets or additional deferred tax liabilities.

Property and equipment for internal use

In accordance with IAS 16, property and equipment for internal use are initially recognised at historical cost. The following approaches are used in subsequent valuations: historical cost model, annual assessment of existing objective indications of an impairment of specific assets, particularly for real estate, which is based on the method used for the recoverable value of assets.

All other assets not disclosed elsewhere

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

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

D.2 Technical provisions

D.2.1 Valuation of technical provisions under Solvency II

Technical provisions under Solvency II are assessed as the best estimate of liabilities, increased by a margin for risk, in accordance with the ZZavar-1, i.e. section 4.8 Technical provisions for the purpose of calculating capital requirements. The best estimate of liabilities comprises a realistic estimate of liabilities that is based on past experience, with adjustments according to the expected deviations in the future.

Technical provisions are calculated as discounted cash flow and include:

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

in EUR	31 Dec 2021	31 Dec 2020
Recoverables from reinsurance - non-life insurance	7,615,505	8,132,277
for premium provisions	1,256,477	1,252,513
for provisions for claims outstanding	6,359,028	6,879,764
Technical provisions - non-life insurance	16,693,952	16,987,217
best estimate	15,348,424	15,913,419
for premium provisions	4,247,780	3,965,299
for provisions for claims outstanding	11,100,644	11,948,119
risk margin	1,345,528	10,737,988

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

Homogeneous risk groups

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

Provisions

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

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

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

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

- When calculating provisions for claims outstanding for claims incurred but not reported, the Bornhuetter–Ferguson method is used for minor claims, taking into account the results of the Munich Chain Ladder method for the determination of the *a priori* claims ratios, with adjustments made according to the balance of provisions for reported but still unresolved claims, and an expert assessment of *a priori* claims ratios for the most recent claims year; the frequency-severity method, adjusted for the expert assessment of individual major claims for which payment delays were reported, is applied for major claims.

Provisions for claims outstanding are discounted by a basic risk-free interest term structure, published by EIOPA, taking into account the discount rate for major currencies in which Coface PKZ assumes commitments. In doing so, the process takes into account the actual currency structure of reported but unresolved claims and potential major claims.

D.2.2 Description of the level of uncertainty

Coface PKZ rates the methods, assumptions and data that were used for the calculation of provisions as appropriate, also including the uncertainty that follows from:

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

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

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

During the valuation of obligations under the IFRS the insurer creates technical provisions to an amount that should suffice to cover all the obligations under insurance contracts (including the permitted level of caution), while during valuation of obligations under Solvency II the insurer calculates the best estimate of technical provisions, and as a result also uses various methods and parameter estimates for the valuation of obligations.

Coface PKZ makes a distinction between provisions for premiums and provisions for claims outstanding under Solvency II according to the occurrence of an event and, accordingly, also determines cash flows; in contrast to the calculation under the IFRS that separately discloses provisions for unearned premiums, provisions for unexpired risks, provisions for bonuses and provisions for claims outstanding, which as of 2020 include recourse provisions.

D.2.4 Risk margin

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

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

D.2.5 Recoverables from reinsurance

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

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

Recoverables from reinsurance are:

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

D.3 Other liabilities

D.3.1 Provisions, save for technical provisions

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

D.3.2 Deferred tax liabilities

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

For the purpose of valuation under Solvency II, any effect on deferred tax liabilities is added to the IFRS value due to the revaluation of individual balance sheet items under the Solvency II rules. The procedure for calculating the additional effect is explained in section D.1.5.

D.3.3 Liabilities from insurance and reinsurance operations

Liabilities arising from insurance and reinsurance, and liabilities to brokers are initially recognised at original cost in accordance with IAS 39. The original cost is also applied for all subsequent valuations.

D.3.4 All other liabilities not disclosed elsewhere

Accrued costs and deferred revenues or estimated accrued costs.

D.4 Alternative valuation methods

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

D.5 Any other information

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

E. CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Policy and procedures in capital management

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

An adequate level and composition of own funds represents a safety reserve for the various risks to which Coface PKZ is exposed in its operations. The functions of own funds:

- ensuring solvency for Coface PKZ;
- ensuring a going concern basis; and
- provision of financial resources to expand operations.

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

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

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

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

Capital management processes ensure that capital adequacy remains inside the envisaged optimal range of the solvency capital requirement ratio.

Own risk and solvency assessment, which analyses the future need for solvency on the basis of the outlined business strategy, is a fundamental element of effective capital risk management.

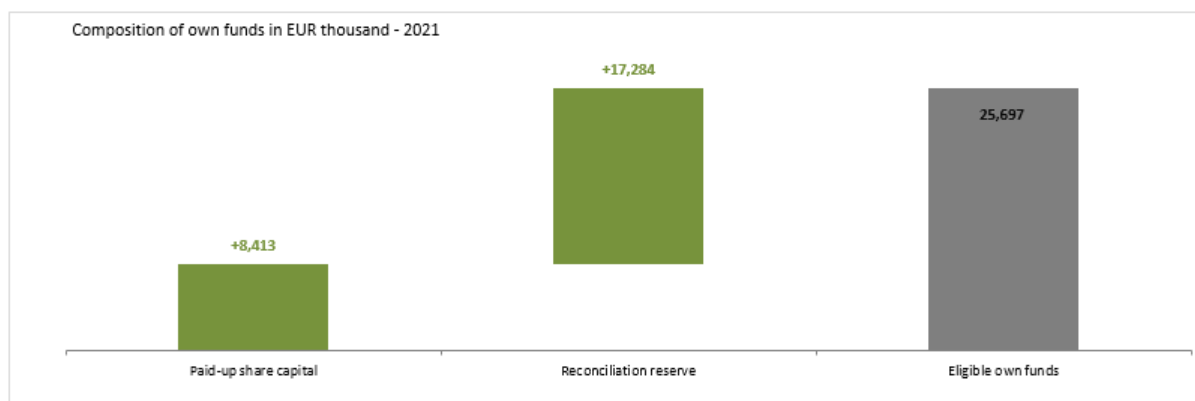
With it Coface PKZ ensures the scope and structure of own funds for the continuous fulfilment of the capital adequacy requirement. The planning of capital management or capital adequacy is an integral part of the business strategy and the own risk and solvency assessment.

E.1.2 Structure and quality of own funds

The surplus of assets over liabilities, valued in accordance with the Solvency II requirements, as at 31 December 2021, stood at EUR 25,696,544, or EUR 27,219,002 according to the IFRS.

The surplus of assets over liabilities thus remains at roughly the same level as in the previous year.

The surplus of assets over liabilities is solely comprised of basic own funds, while Coface PKZ held no ancillary own funds. Basic own funds are comprised of share capital in the amount of EUR 8,412,619, which did not change relative to the previous year, and the reconciliation reserve in the amount of EUR 17,283,925.



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

As a result, all available own funds correspond to eligible own funds for the coverage of the solvency capital requirement (SCR) and the minimum capital requirement (MCR).

in EUR – 31 December 2021	Tier 1	Tier 2	Tier 3	Total
Basic own funds	25,696,544	0	0	25,696,544
Paid-up ordinary shares	8,412,619	0	0	8,412,619
Reconciliation reserve	17,283,925	0	0	17,283,925
Ancillary own funds	0	0	0	0
				0
Available own funds for the coverage of the solvency capital requirement	25,696,544	0	0	25,696,544
Available own funds for the coverage of the minimum solvency capital requirement	25,696,544	0	0	25,696,544
Eligible own funds for coverage of the solvency capital requirement	25,696,544	0	0	25,696,544
Eligible own funds for coverage of the minimum solvency capital requirement	25,696,544	0	0	25,696,544
<hr/>				
in EUR - 31 December 2020	Tier 1	Tier 2	Tier 3	Total
Basic own funds	23,759,161	0	0	23,759,161

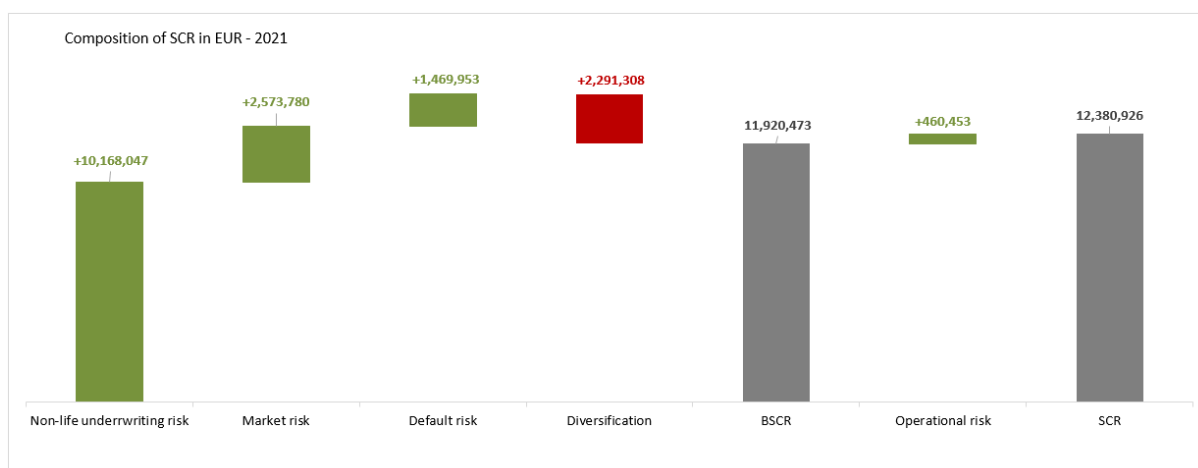
in EUR - 31 December 2020	Tier 1	Tier 2	Tier 3	Total
- Paid-up ordinary shares	8,412,619	0	0	8,412,619
Reconciliation reserve	15,346,542	0	0	15,346,542
Ancillary own funds	0	0	0	0
				0
Available own funds for the coverage of the solvency capital requirement	23,759,161	0	0	23,759,161
Available own funds for the coverage of the minimum solvency capital requirement	23,759,161	0	0	23,759,161
Eligible own funds for coverage of the solvency capital requirement	23,759,161	0	0	23,759,161
Eligible own funds for coverage of the minimum solvency capital requirement	23,759,161	0	0	23,759,161

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency capital requirement

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

The structure of the solvency capital requirement is presented in the figure below.



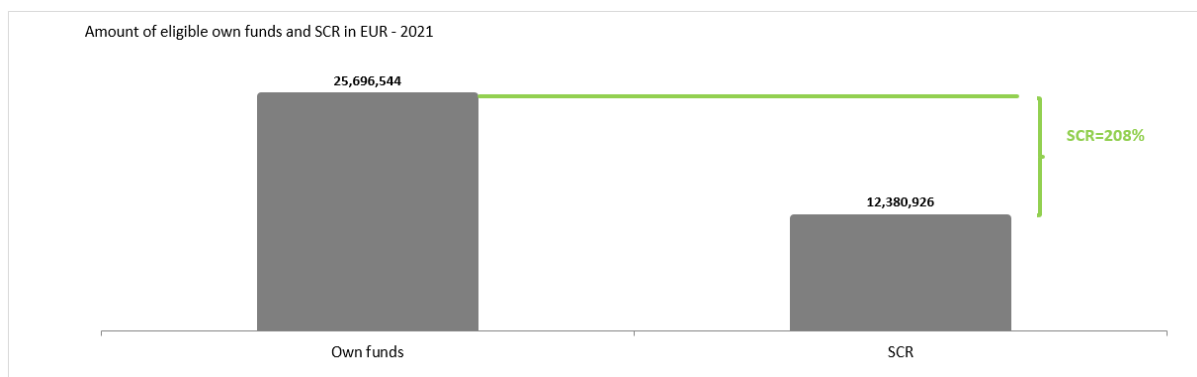
The highest proportion of the solvency capital requirement comprises the risk associated with non-life insurance contracts, followed by market risks and counterparty default risk. The smallest proportion is accounted for by operational risk. The value of the solvency capital requirement for the risk associated with intangible assets is zero, as Coface PKZ assigns these assets the value of zero euros in accordance with the rules of valuation under Solvency II.

Relative to the previous period, the solvency capital requirement rose, and as at 31 December 2021 amounted to EUR 12,380,926.

in EUR	31 Dec 2021	31 Dec 2020
Risk from non-life insurance contracts	10,168,047	9,332,541
Market risks	2,573,780	2,241,282
Counterparty default risk	1,469,953	1,744,750
Risk associated with intangible assets	0	0
Diversification effect	-2,291,308	-2,189,313
Basic solvency capital requirement	11,920,473	11,129,261
Operational risk	460,453	477,403
Solvency capital requirement	12,380,926	11,606,664

Changes in the structure of the company's solvency capital requirement are mostly derived from the investment process and the adjustments to market conditions during the year associated therewith, as well as from the amount of technical provisions that constitute the basis for calculating risks associated with non-life insurance. The total effect of all these changes led to an increase in Coface PKZ's capital requirement by EUR 774,262, or by 6.7 %.

The own funds that are eligible for the coverage of the solvency capital requirement exceed the solvency capital requirement by EUR 13,315,618 (31 December 2020: EUR 12,152,498). The solvency capital requirement ratio therefore amounts to² 208 % (31 December 2020: 205 %).



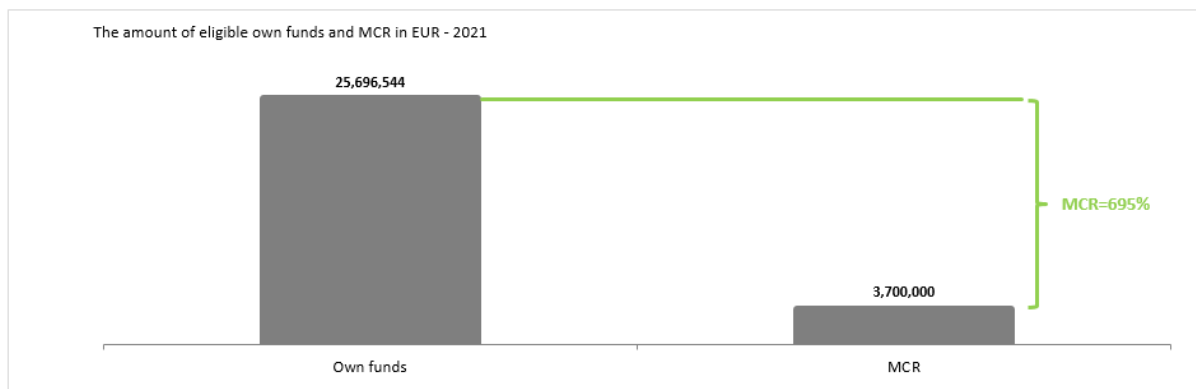
A.1.1 Minimum capital requirement

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

in EUR	31 Dec 2021	31 Dec 2020
Technical provisions, excluding the risk margin, after deducting the recoverables from reinsurance contracts	7,732,919	7,781,141
Factor for technical provisions for credit insurance	17.70%	17.70%
Premiums written after deducting the premiums for reinsurance contracts	4,607,137	4,514,190
Factor for premiums written for credit insurance	11.30%	11.30%
Linear minimum capital requirement	1,889,333	1,887,366
Solvency capital requirement	12,380,926	11,606,664
Combined capital requirement (MCR)	3,095,231	2,901,666
Absolute threshold	3,700,000	3,700,000
Minimum capital requirement	3,700,000	3,700,000

²eligible own funds/solvency capital requirement

Own funds that are eligible for coverage of the minimum capital requirement exceed the minimum capital requirements by EUR 21,996,544 (31 December 2020: EUR 20,059,161). The minimum capital requirement ratio therefore amounts to³ 695 % (31 December 2020: 642 %).



E.3 Application of a duration-based equity risk sub-module

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

E.4 Difference between the standard formula and any type of internal model used

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

E.5 Non-conformity with the minimum capital requirement and non-conformity with the solvency capital requirement

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

E.6 Any other information

As a result of the Covid-19 epidemic, the Republic of Slovenia established various programmes to help aid businesses and households in 2020. Among other measures, it provided state aid to support the corporate sector for credit insurance via SID Bank. This aid was implemented also in 2021 via the TOP UP scheme in the scope of which Coface PKZ concluded an annex to the existing reinsurance contract with SID Bank. This also provided policyholders with limits for those risks that could otherwise not be insured on the market in the desired amount. Policyholders were therefore required to pay an additional premium in accordance with the Commission's decision. This TOP UP scheme has no direct effect on the capital adequacy that was calculated under Solvency II.

³eligible own funds / minimum capital requirement

F. Independent auditor's report



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INDEPENDENT AUDITOR'S ASSURANCE REPORT

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

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

- reviewed the attached Solvency and Financial Condition Report of Coface PKZ zavarovalnica d.d., Ljubljana for 2021 (hereinafter the "Report"), which was prepared by the management of the Company and which presents the bases and methods for the evaluation of assets, technical provisions and other liabilities as well as a description of capital management procedures that the company Coface PKZ zavarovalnica d.d., Ljubljana applied in the financial year ended 31 December 2021 as stipulated by items 4 and 5 of the 2nd paragraph of Article 261 of the Insurance Act (hereinafter "ZZavar-1") and Articles 296 and 297 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter the "Delegated Regulation");
- verified the establishment of the procedures for adopting the Insurance Company's capital management strategy;
- verified the correctness and quality of data necessary for the evaluation of assets and technical provisions and the calculation of the capital requirements necessary for the compilation of quantitative reports, and verified the procedure for calculating technical provisions and capital requirements under individual risk modules in accordance with the Decision on the Supplementary Audit of an Insurance Company and the Supplementary Audit Report adopted by the Insurance Supervision Agency.

Management's Responsibility for the Report

The management is responsible for:

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



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

Auditor's Responsibility

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

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

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

Identification Criteria

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

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

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

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



Our Independence and Quality Control

We performed our work in accordance with independence and ethical requirements under the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. The code is based on the principles of integrity, objectivity, professional competence and due diligence, confidentiality and professional conduct.

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

Summary of Work Performed

Some of the procedures carried out within the scope of our engagement include the following:

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

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

We believe that the evidence we have obtained is sufficient and provides an appropriate basis for our conclusion.

Conclusion


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



Based on the procedures performed and the evidence obtained, we find that:

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

Emphasis of matter

We draw attention to A.5 *Other information* describing management's evaluation of the actual or potential impact of the effects of the military conflict between Ukraine and Russia on the entity. Our conclusion is not modified in respect of this matter. 

Other Information

Other information includes:

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

We have obtained the other information prior to the date of the Auditor's Report. The responsibility for the adequacy of the disclosures in the Report in accordance with the provisions of Article 261 of ZZavar-1 and Articles 293 to 295 of the Delegated Regulation lies with the management.

Our responsibility in relation with the procedures performed from the first paragraph is to read other information and thus assess whether it is materially inconsistent with the content of the Report.

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

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



Limitation of Access and Use

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj

Certified Auditor

For signature please refer to the original Slovenian version.

Ljubljana, 1 April 2022

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

G. ANNEX Quantitative templates

S.02.01.02 Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment for own use	R0060	2,073
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	32,927
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	29,838
Government Bonds	R0140	13,825
Corporate Bonds	R0150	16,014
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	3,089
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	7,615
Non-life and health similar to non-life	R0280	7,615
Non-life excluding health	R0290	7,615
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	393
Reinsurance receivables	R0370	144
Receivables (trade, not insurance)	R0380	58
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	2,188
Any other assets, not elsewhere shown	R0420	26
Total assets	R0500	45,425

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	16,694
Technical provisions – non-life (excluding health)	R0520	16,694
TP calculated as a whole	R0530	
Best Estimate	R0540	15,348
Risk margin	R0550	1,346
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	168
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	20
Derivatives	R0790	
Debts owed to credit institutions	R0800	2
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	182
Reinsurance payables	R0830	827
Payables (trade, not insurance)	R0840	1,114
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	720
Total liabilities	R0900	19,728
Excess of assets over liabilities	R1000	25,697

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

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Credit and suretyship insurance	
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	12,782	12,782
Gross - Proportional reinsurance accepted	R0120	274	274
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	8,449	8,449
Net	R0200	4,607	4,607
Premiums earned			
Gross - Direct Business	R0210	12,651	12,651
Gross - Proportional reinsurance accepted	R0220	274	274
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	8,288	8,288
Net	R0300	4,638	4,638
Claims incurred			
Gross - Direct Business	R0310	-2,702	-2,702
Gross - Proportional reinsurance accepted	R0320	74	74
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	-1,452	-1,452
Net	R0400	-1,176	-1,176
Changes in other technical provisions			
Gross - Direct Business	R0410	-131	-131
Gross - Proportional reinsurance accepted	R0420		
Gross - Non- proportional reinsurance accepted	R0430		
Reinsurers' share	R0440	-22	-22
Net	R0500	-110	-110
Expenses incurred	R0550	2,856	2,856
Other expenses	R1200		
Total expenses	R1300		2,856

⁴ Coface PKZ has not disclosed the report with the designation S.05.02.01 Premium, claims and expenses by country, as it achieved more than 90% of the gross premiums written in 2021 in the home country (Slovenia).

S.17.01.02 Technical provisions for non-life insurance

		Direct business and accepted proportional reinsurance	Total Non-Life Obligation
		Credit and suretyship insurance	
		C0100	C0180
Technical provisions calculated as a whole	R0010		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	4,248	4,248
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	1,256	1,256
Net Best Estimate of Premium Provisions	R0150	2,991	2,991
Claims provisions			
Gross	R0160	11,101	11,101
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	6,359	6,359
Net Best Estimate of Claims Provisions	R0250	4,742	4,742
Total Best estimate - gross	R0260	15,348	15,348
Total Best estimate - net	R0270	7,733	7,733
Risk margin	R0280	1,346	1,346
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	R0290		
Best estimate	R0300		
Risk margin	R0310		
Technical provisions - total			
Technical provisions - total	R0320	16,694	16,694
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	7,616	7,616
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	9,078	9,078

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

Gross claims (non-cumulative)
(absolute amount)

Year	Development year										
	1	2	3	4	5	6	7	8	9	10 & +	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100										-211
2012	R0160	3,403	5,856	-591	-814	-348	-193	-48	-63	-52	-78
2013	R0170	3,614	3,542	1,106	-337	-26	-112	-33	-2	-16	
2014	R0180	2,402	6,857	1,165	-320	-140	6	-82	-122		
2015	R0190	1,953	4,692	-30	-300	-62	-20	-35			
2016	R0200	603	21,548	230	-297	-268	-219				
2017	R0210	2,524	2,231	152	-8	-8					
2018	R0220	2,042	2,089	-21	-43						
2019	R0230	3,015	3,814	-52							
2020	R0240	819	778								
2021	R0250	289									

	In current year	Sum of years (cumulative)
	C0170	C0180
R0100	-211	-211
R0160	-78	7.071
R0170	-16	7.738
R0180	-122	9.765
R0190	-35	6.198
R0200	-219	21.598
R0210	-8	4.890
R0220	-43	4.067
R0230	-52	6.777
R0240	778	1.598
R0250	289	289
Skupaj R0260	282	69.779

Gross undiscounted best estimate claims provisions
(absolute amount)

Year	Development year										
	1	2	3	4	5	6	7	8	9	10 & +	
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100										
2012	R0160				468	267	155	114			
2013	R0170			351	210	131	25	1			
2014	R0180		366	228	167	39		2			
2015	R0190	1,877	608	530	368	355					
2016	R0200	11,886	1,959	642	543	500					
2017	R0210	10,758	2,240	523	225	227					
2018	R0220	9,640	1,915	746	694						
2019	R0230	7,866	2,621	662							
2020	R0240	7,442	1,233								
2021	R0250	8,238									

	Year end (discounted)
	C0360
R0100	
R0160	
R0170	
R0180	2
R0190	
R0200	
R0210	228
R0220	697
R0230	664
R0240	1,238
R0250	8,273
Total R0260	11,101

S.23.01.01 Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR
- Total eligible own funds to meet the SCR
- Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	8,413	8,413			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	17,284	17,284			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	25,697	25,697			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	25,697	25,697			
R0510	25,697	25,697			
R0540	25,697	25,697			
R0550	25,697	25,697			
R0580	12,381				
R0600	3,700				
R0620	208%				
R0640	695%				

	C0060
R0700	25,697
R0710	
R0720	

Reconciliation reserve

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges

Other basic own fund items
 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
Reconciliation reserve
Expected profits
 Expected profits included in future premiums (EPIFP) - Life business
 Expected profits included in future premiums (EPIFP) - Non- life business
Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
R0730	8,413				
R0740					
R0760	17,284				
R0770					
R0780					
R0790					

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

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
Market risk	R0010	2,574	
Counterparty default risk	R0020	1,470	
Life underwriting risk	R0030		
Health underwriting risk	R0040		
Non-life underwriting risk	R0050	10,168	
Diversification	R0060	-2,291	
Intangible asset risk	R0070		
Basic Solvency Capital Requirement	R0100	11,920	
Calculation of Solvency Capital Requirement			
Operational risk	R0130	460	
Loss-absorbing capacity of technical provisions	R0140		
Loss-absorbing capacity of deferred taxes	R0150		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160		
Solvency capital requirement excluding capital add-on	R0200	12,381	
Capital add-on already set	R0210		
Solvency capital requirement	R0220	12,381	
Other information on SCR			
Capital requirement for duration-based equity risk sub-module	R0400		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420		
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430		
Diversification effects due to RFF nSCR aggregation for article 304	R0440		
Approach to tax rate			
Approach based on average tax rate	R0590	Da/Ne C0109 3 - Not applicable as LAC DT is not used (in this case R0600 to R0690 are not applicable)	
Calculation of loss absorbing capacity of deferred taxes			
LAC DT	R0640		
LAC DT justified by reversion of deferred tax liabilities	R0650		
LAC DT justified by reference to probable future taxable economic profit	R0660		
LAC DT justified by carry back, current year	R0670		
LAC DT justified by carry back, future years	R0680		
Maximum LAC DT	R0690		

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

	C0010
MCR _{NL} Result	R0010 1,887

Medical expense insurance and proportional reinsurance
Income protection insurance and proportional reinsurance
Workers' compensation insurance and proportional reinsurance
Motor vehicle liability insurance and proportional reinsurance
Other motor insurance and proportional reinsurance
Marine, aviation and transport insurance and proportional reinsurance
Fire and other damage to property insurance and proportional reinsurance
General liability insurance and proportional reinsurance
Credit and suretyship insurance and proportional reinsurance
Legal expenses insurance and proportional reinsurance
Assistance and proportional reinsurance
Miscellaneous financial loss insurance and proportional reinsurance
Non-proportional health reinsurance
Non-proportional casualty reinsurance
Non-proportional marine, aviation and transport reinsurance
Non-proportional property reinsurance

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
R0020		
R0030		
R0040		
R0050		
R0060		
R0070		
R0080		
R0090		
R0100	7,733	4,607
R0110		
R0120		
R0130		
R0140		
R0150		
R0160		
R0170		

Linear formula component for life insurance and reinsurance obligations

	C0040
MCR _L Result	R0200

Obligations with profit participation - guaranteed benefits
Obligations with profit participation - future discretionary benefits
Index-linked and unit-linked insurance obligations
Other life (re)insurance and health (re)insurance obligations
Total capital at risk for all life (re)insurance obligations

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
R0210		
R0220		
R0230		
R0240		
R0250		

Overall MCR calculation

	C0070
Linear MCR	R0300 1,889
SCR	R0310 12,381
MCR cap	R0320 5,571
MCR floor	R0330 3,095
Combined MCR	R0340 3,095
Absolute floor of the MCR	R0350 3,700
-	C0070
Minimum Capital Requirement	R0400 3,700