



Annual
Report
2018

Table of contents

4	1. About Us
4	1.1 Key Events & Business Awards of 2018
4	1.2 Record Results
5	2. KUKE's environment
5	2.1 The Macroeconomic Situation
6	2.2 Insurance Sector
8	3. Organisation
8	3.1 Shareholders and Share Capital
8	3.2 Supervisory Board
9	3.3 Management Board
10	3.4 Employment and Internal Organisational Changes
13	4. Risk Management
13	4.1 Risk Management Policy
13	4.2 Concentration of Insurance and Bond Risk
14	4.3 Reinsurance
16	5. Performance of KUKE in Specific Business Areas
16	5.1 Overall Performance
18	5.2 Activities of KUKE S.A. under the Act on Insurance and Reinsurance of 11 September 2015
18	5.2.1 Trade Receivables Insurance
18	5.2.2 Bonds
19	5.3 Activities of KUKE S.A. under the Act on Export Insurance Backed by the State Treasury of 7 July 1994
19	5.3.1 Insurance of Export Contracts
19	5.3.2 Bonds
21	6. Investment Activities
23	7. Financial Results
23	7.1 Analysis of the Balance Sheet
25	7.2 Analysis of the Technical Insurance Account and the General Profit and Loss Account
26	7.3 Technical account
27	7.4 General profit and loss account
28	7.5 Assets
29	7.6 Equity and liabilities
30	7.7 Statement of cash flows
31	7.8 Solvency parameters as at 31.12.2018
31	7.9 Solvency Capital Requirement (SCR) as at 31.12.2018

Dear Sirs and Madams,

2018 was a year that brought a clear development of the scale of the activities carried out by KUKE, both in the commercial scope and in terms of the export insurance guaranteed by the State Treasury. The Company has successfully made the most of the positive trends in the economy, while at the same time fulfilling all of its statutory tasks, fostering the expansion of Polish entrepreneurs in foreign markets. Thanks to the increasingly attractive product offer, the high quality of services, and active sales policy, KUKE has increased its share in the trade receivables insurance market by almost 10 percent, which translates into insurance of turnover close to PLN 50 billion. Effective management and a responsive approach to risk have, in consequence, given a record value of insured turnover, an increase in the number of insurance contracts and bonds, and higher insurance premium compared to last year.

Aware of the numerous challenges facing the Company, last year we set in motion changes to enable us to secure the position of a leader in the credit insurance market. It is with this aim that we have prepared a KUKE Growth Strategy for the years 2019–2021, which was adopted by the Supervisory Board at the beginning of 2019. Its key objectives include the successful execution of process optimisation, digital transformation, and the further improvement of the quality of our customer service. At the heart of these changes is the implementation of a new IT system that will ultimately help us cut our operational costs, optimise business processes, provide effective tools supporting smaller exporters, and maximise the availability and functionalities of systems and products for our customers.

In 2018, we effectively collaborated with other companies within the Polish Development Fund Group, striving to take even greater advantage of the synergy of Polish development institutions. We have also been advocating for changes in administrative provisions to modernise the export promotion system in place in Poland and to adapt it to the requirements of a modern global economy. The adoption of new solutions will allow us to solicit new clients, increase the scale of our business and effectively support Polish exports. We have also enhanced and reinforced our cooperation with domestic commercial banks in the scope of a joint offer for exporters.

We would like to thank all our clients and business partners for their confidence and fruitful collaboration and we look forward to continuing and furthering our relationship with you, promising to use our best endeavours to better anticipate and meet your needs, and we trust that cooperation with us will continue to prove to be entirely satisfactory to you.



Janusz Władyczak
President of the
Management Board of KUKE



1.

About Us

The Export Credit Insurance Corporation Joint Stock Company (KUKĘ S.A.) has been underwriting the commercial transactions of its clients, both domestic and foreign, since 1991. Its operations focus on insuring trade receivables arising from the sales of goods and services with deferred payment, as well as providing bonds. It is the sole provider of export credit insurance with State Treasury backing in Poland, ensuring safe trade on markets exposed to higher political risk.

1.1 Key Events & Business Awards of 2018

- Initiation of works on the implementation of a new central IT system – key element of the digital transformation of the company (the Focus Project);
- Implementation of a new product management policy also involving the preparation of product information documents to assist in the sales process;
- Moving our headquarters to a modern commercial building meeting stringent environmental sustainability standards;
- Awarded the Customer-Friendly Company emblem also based on a customer satisfaction survey carried out by independent experts from the Digital Knowledge Observatory Foundation;
- Award in the Export Ambassador category conferred by the jury of the European Leadership Awards;
- 2018 Manager Award granted by the Business Magazine Manager Publishing House for record sales in 2017.

1.2 Record Results

PLN 48.9 billion ▲ 19.9% y/y increase

insured turnover and bonds issued

PLN 2.1 billion ▲ 58.2% y/y increase

value of medium- and long-term export credit insurance guaranteed by the State Treasury

PLN 20.8 billion ▲ 20.4% y/y increase

insured export turnover

8.6 % ▲ up from 7.9% in 2017

share in the trade receivables market (Polish Chamber of Insurance)

PLN 197.6 million ▲ 17.3% y/y increase

gross premiums written

10 % ▲ up from 8% in 2017

share in gross premiums written on account of short-term export and domestic credit insurance (Polish Chamber of Insurance)

2.

KUKE's Environment

2.1 The Macroeconomic Situation

The economic growth of Poland in 2018 accelerated to 5.1% from 4.8% the previous year and 2.9% in 2016. The GDP dynamics in individual quarters oscillated on a yearly basis between 4.8% and 5.7%.

The main driving force in 2018, similarly to last year, turned out to be domestic demand. This was influenced by greater household consumption and investment demand. The growth of the latter should be interpreted as particularly beneficial. Having increased by 4% in 2017, last year the growth of investments accelerated to 8.7% y/y. The dynamic expenditure growth in the enterprise sector and local governments helped contribute to this. After the lean years of 2016–2017, last year, capital expenditure of medium-sized and large companies (with headcounts of over 49 persons) reached an all-time high of PLN 142 billion.

In contrast to 2017, the year 2018 was characterised by a negative trade balance impact on the pace of GDP growth, whereas the changes noted in accumulation, comprising gross fixed capital formation and the change in the stock situation, accelerated economic growth.

As for consumption, it was the improvements in household balance sheets that were instrumental. Employment in companies rose, which was accompanied by persistently high wage growth – the average gross monthly remuneration in the national economy rose by 7% y/y. Expenditure on public consumption also grew. In housing, the sales of new homes continued to grow, as did new housing starts.

According to the Polish Central Statistical Office, the increase in Polish exports over the period from January to December of 2018 reached 6.5% and came to PLN 940.4 billion. The biggest growth was in trade with Central and Eastern European countries (7.6%) and with EU countries (7.0%). Export to developing countries rose by 0.7%. These figures indicate that the Polish econ-

omy is showing great resilience to the economic downturn experienced by trading partners, particularly the smaller dependence of exports on the dynamics of industrial production in Germany. It is also worth highlighting the balanced export structure of goods and services, indicating further improvement in the competitiveness of domestic firms on global markets.

Export growth was accompanied by a significant increase in the volume of imports, which closed at a level of PLN 961.8 billion, meaning a 9.3% yearly increase. The biggest increase of imports was recorded in trade with countries of Central and Eastern Europe (25.9%) and with developing countries (13.8%). The trading debit balance resulted mainly from the increasing prices of energy resources.

The Ministry of Entrepreneurship and Technology indicated that the annual average rate of growth of exports in Poland reported over the past few years strongly stands out among the remaining EU states. In the years 2015–2018, it increased on average by 8.1% per year in Poland, which is 3.6 percentage points more than the average in the EU, and puts Poland in third place in the Community. Attention should also be given to the fact that this is another year in a row where technologically advanced products have a high (over 8%) export share.

Preliminary estimates show a 2% decrease in the overall number of people employed in the national economy (in relation to the 2.7% y/y growth in 2017). Despite this, a 3.5% increase of employment in the enterprise sector was recorded compared to last year, although its dynamics was lower. The positive picture of the labour market is also confirmed by significant increases in wages and salaries.

In 2018, 615 bankruptcies and 465 started restructuring proceedings were recorded, compared to 583 bankruptcies and 333 starter restructuring proceedings in 2017.



2.2 Insurance Sector

The trade receivables insurance segment of the Polish insurance market is growing dynamically. According to data collected by the Polish Chamber of Insurance, the sum of insured turnover of companies operating in the domestic market has, for the first time in history, exceeded half a trillion PLN in 2018 (PLN 504.9 billion), which means a 10% y/y increase. The value of directly insured receivables came to PLN 156.9 billion, which is 9% more than in 2017. Two thirds of this amount is domestic exposure, although it did record a 3% y/y drop to PLN 101.7 billion. However, the involvement of Polish insurers in the protection of receivables within the export business grew by 12%, reaching PLN 55.2 billion. The gross premiums written by insurance companies increased by 11% y/y to PLN 612 million, whereas the value of indemnities paid decreased by 8% to PLN 374 million.

Sector figures show that insured trade credit is a more significant source of funding of current operations on the domestic market than working capital facilities.

The Focus Project



In July, we commenced work on one of the most important projects in KUKÉ's history – building a modern central IT system to manage insurance policies and bonds

2018 was the year of KUKÉ's technological shift. In July, we commenced work on one of the most important projects in the Company's history – building a modern central IT system to manage insurance contracts and bonds.

Work on analysing the market and selecting a system that would meet the highest requirements began in 2017. The system provider was chosen in the second quarter of 2018, and the name "Focus" was selected in a competition among KUKÉ employees.

The acceleration of technological innovations in the financial sector, exploiting to the full the benefits and opportunities provided by the digital revolution, the evolving needs and expectations of clients, and the growing scale of the business have made it imperative for the firm's IT architecture to be completely remodelled. Further development of the current system, which was KUKÉ's custom solution, would no longer be efficient.

The Focus system will allow the spectrum of the offered product range to be expanded, ensuring sufficient capacity to handle the anticipated growth in the customer base, providing the tools necessary for the rapid development of the business in the years to come.

We expect that the project launched in mid 2018 will be completed within three years. In the first phase, scheduled for finalisation in the fourth quarter of 2019, the following modules will be implemented: underwriting, sales and management of insurance policies and bonds, settlements, and partially debt collection along with claim settlement. The second phase, which should be completed by mid-2020, will involve the launch of the fully functional system for commercial products as well as those guaranteed by the State Treasury.

3.

Organisation

3.1 Shareholders and Share Capital

As at 31 December 2018, the share capital of KUKE amounted to PLN 110,702,900 and was split into 1,107,029 registered shares with a face value of 100 zloty each. The share capital was fully paid up.

Table 1 Shareholding Structure as at 31 December 2018

Shareholder	Number of shares (each)	Nominal value of shares (PLN)	Share (%)
State Treasury represented by the Prime Minister	700,828	70,082,800	63.31
Bank Gospodarstwa Krajowego	406,201	40,620,100	36.69
Total	1,107,029	110,702,900	100.0

3.2 Supervisory Board

As at 1 January 2018, the composition of the Supervisory Board of KUKE S.A. was as follows:

- Janusz Cieszyński – Chairman
- Wojciech Rząsiecki
- Adam Barbasiewicz
- Mariusz Sokołowski
- Luiza Modzelewska
- Arkadiusz Urban.

Arkadiusz Urban, on the grounds of KUKE Supervisory Board Resolution of 31 January 2018, was delegated temporarily to perform the activities of a Member of the Management Board of KUKE in the period from 1 February to 30 April 2018.

The KUKE Extraordinary General Meeting of Shareholders of 22 February 2018 appointed Mr Wojciech Hann and Mr Włodzimierz Dola for a joint term to the Supervisory Board of KUKE.

On 22 February 2018, Mr Janusz Cieszyński, Chairman of the Supervisory Board of KUKE S.A., handed in his resignation from the KUKE Supervisory Board. On 21 March 2018, Adam Barbasiewicz was appointed the Chairman of the Supervisory Board. Consequently, the composition of the Supervisory Board of KUKE S.A. was the following:

- Adam Barbasiewicz – Chairman
- Włodzimierz Dola
- Wojciech Hann
- Luiza Modzelewska
- Wojciech Rząsiecki
- Mariusz Sokołowski
- Arkadiusz Urban.

On 29 June 2018, the Ordinary General Meeting of Shareholders appointed Ms Aneta Fałek as Member of the Supervisory Board, thus, the composition of the Supervisory Board as of 29 June 2018 was as follows:

- Adam Barbasiewicz – Chairman
- Włodzimierz Dola
- Wojciech Hann
- Luiza Modzelewska
- Wojciech Rząsiecki
- Mariusz Sokołowski
- Arkadiusz Urban
- Aneta Fałek.

On 24 January 2019, Mr Wojciech Hann, Member of the Supervisory Board of KUKE S.A., handed in his resignation from the function performed by him, with the effective date of 31 January 2019.

As provided for in the Act on auditors, audit firms, and on public supervision of 11 May 2017 applicable to KUKE as an insurer (a public interest entity), KUKE's Supervisory Board Audit Committee was established from among the Members of the Supervisory Board of KUKE S.A. The composition of the Audit Committee in the 2018 financial year was the following:

- Wojciech Rząsiecki – Chairman
- Adam Barbasiewicz
- Mariusz Sokołowski.



**Janusz
Władyczak**

President of the
Management Board

**Katarzyna
Kowalska**

Vice-President of the
Management Board

**Tomasz
Ślagórski**

Vice-President of the
Management Board

3.3 Management Board

In the period from 1 to 31 January 2018, the composition of the Management Board of KUKI S.A. was the following:

- Piotr Stolarczyk – Vice-President of the Management Board
- Katarzyna Kowalska – Vice-President of the Management Board
- Janusz Władyczak – Vice-President of the Management Board.

On 31 January 2018, the Extraordinary General Meeting of Shareholders dismissed Mr Piotr Stolarczyk from the Management Board effective on 1 February 2018, and entrusted the function of the President of the Management Board of KUKI S.A. to Mr Janusz Władyczak.

Consequently, as of 1 February 2018, the Management Board of KUKI S.A. worked in the following composition:

- Janusz Władyczak – President of the Management Board

- Katarzyna Kowalska – Vice-President of the Management Board
- Arkadiusz Urban – Member of the Supervisory Board of KUKI S.A. acting Member of the Management Board of KUKI S.A. from 1 February until 30 April 2018.

On 26 September 2018, the Extraordinary General Meeting of Shareholders appointed Mr Tomasz Ślagórski as Member of the Management Board of the Company for a joint term, and entrusted the function of Vice-President of the Management Board to him.

From 26 September 2018, the composition of the Management Board of KUKI S.A. was the following:

- Janusz Władyczak – President of the Management Board
- Katarzyna Kowalska – Vice-President of the Management Board
- Tomasz Ślagórski – Vice-President of the Management Board.



3.4 Employment and Internal Organisational Changes

As at 31 December 2018, the headcount at KUKÉ S.A. under employment agreements was 174 persons. The Regional Offices located in cities with the largest economic potential: Warsaw, Kraków, Wrocław, Poznań and Gdańsk, have a total headcount of 18 consultants responsible for direct client acquisition, as well as for cooperation with insurance brokers.

In 2018, the following projects in the field of HR were successfully completed:

- The organisational structure was modified in a manner ensuring efficient and effective process management, as well as allowing actions to be taken aimed at raising customer service standards and quality. Within the organisational structure, a separate Sales Division was established, reporting directly to the KUKÉ's President, along with an Operational Division and a Financial Division managed by relevant Vice-Presidents;
- The Company's headquarters was also moved, which has significantly improved working conditions;
- The car fleet was replaced with mostly modern hybrid cars, which has also translated into: improving driver safety, producing a unified Company image, and optimised costs thanks to long-term rental;
- Internal regulations have been modified to ensure efficient HR process management in the scope of recruitment, worker placement, onboarding, trainings, and employee development;
- A new model of management was introduced when it comes to the Company Social Benefits Fund, allowing employees to use sports benefit system cards, and the My Benefit platform managing employee benefits;
- A structure and process optimisation project was successfully completed in the field of employee management by outsourcing personnel administration and payroll, and the HR business partnering model and Employer Branding were launched through preparations to introduce internship programmes.

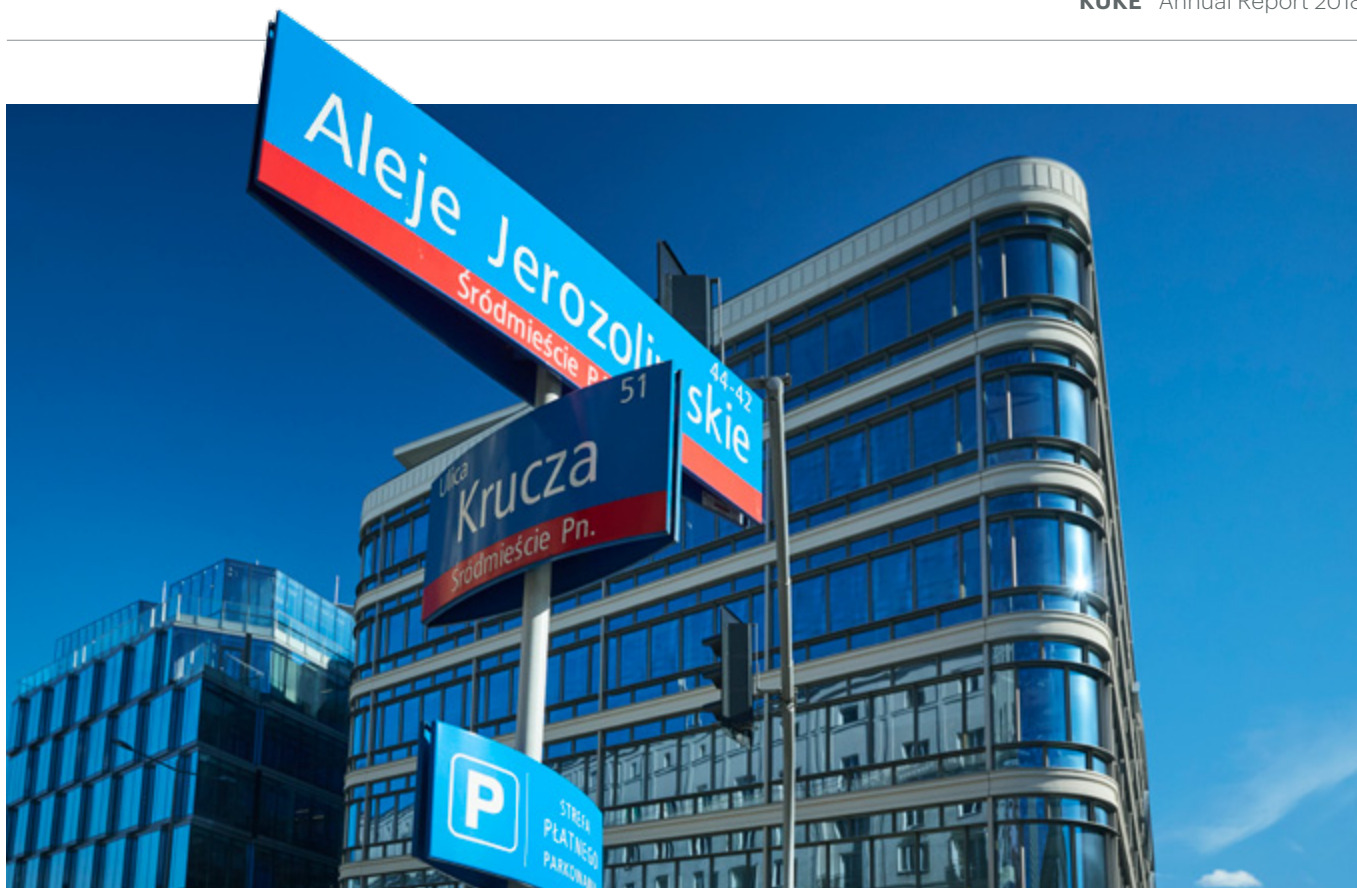
Relocation of KUKE's Headquarters

After 14 years in the office building at Sienna Street in Warsaw, KUKE's headquarters were relocated.

Since November 2018, the Company's headquarters are located in the notable Cedet building, in the very heart of Warsaw.

Cedet is an important point on the map of Warsaw. The building was constructed in the years 1948–52 and is the work of renowned architects Zbigniew Ihnatowicz and Jerzy Romański. The designers assumed that it will be a “lantern illuminating the city”. Designed in a modernist style, despite the Socialist Realism style in architecture that dominated the time of the reconstruction of Warsaw. Cedet quickly became a landmark in the Capital City. It was one of the first buildings in Poland to have a completely glazed façade, escalators, and underground parking. The avant-garde architecture and stylish interiors have led to the building being used as a film set for the following films: “The Best Cure for Love” directed by Jan Batory, Aleksander Ford’s “The Eighth Day of the Week”, and “See you tomorrow” directed by Janusz Morgenstern. In September 1975, Cedet was consumed by fire and its reconstruction brought with it a change in the structure of the glass façade, leading it to lose its most distinct element. That was also when the arrow neon sign disappeared. The renovation work that was completed in 2018 restored the shape and form of the building to its greatest splendour.





The relocation of KUKE's headquarters was driven by several factors. The growing scale of conducted operations required more office space. The new office provides over 200 sqm more space. The restored building also offers much greater comfort. KUKE's employees can take advantage of a well equipped kitchen and coffee points located close to their office rooms. They also have "recharge rooms" at their disposal to relax and take in the view of a sunlit green patio. The new headquarters are also in line with the paradigm of change and new company strategy, and have reinforced its position in the scope of employer branding.

Equally significant is the fact that other companies within the Polish Development Fund Group, to which KUKE also belongs, along with the Fund itself, have also chosen Cedet for their headquarters. There are significant advantages of this, resulting from reducing the operational costs, as well as greater efficiency of business processes and communication (proximity of other Group undertakings, including Bank Gospodarstwa Krajowego or other KUKE stakeholders). This also translates into an image advantage since it naturally emphasises the strong integration and collaboration between the various elements of the PDF Group.

The new headquarters of KUKE and other PDF Group entities at the heart of Warsaw and in the middle of Poland in terms of its address (00-025 post code) also means symbolically taking a central position on the economic map of the country and the position of these institutions in the development strategy of Poland.

4.

Risk Management

4.1 Risk Management Policy

Risk management within KUKĘ is based on risk assessment of individual debtors and bond beneficiaries, and setting adequate credit limits for each entities, capital groups and transactions. In the process of risk assessment KUKĘ uses one of the three underwriting strategies:

- expansive (where most liberal criteria of qualifying entities to each class of risk is employed);
- standard;
- restrictive.

Current underwriting policy regarding each country, industrial sector and product offered by KUKĘ are determined by KUKĘ's Risk Committee. In the case of domestic risks KUKĘ employs the industrial sector diversification strategy. Given the upward trend of the Polish economy, expansionary measures were applied to most sectors in 2018. Mining, the metal industry, the furniture industry, and construction were covered by a standard approach.

As for export risks, the adopted strategy depends on the country of origin of the risk. The vast majority of the portfolio of commercial risks in export trade is located in countries of the European Union, with a high concentration on the German market. An expansionary underwriting strategy is applied to most EU countries and the so-called high income OECD countries. The remaining export risks were assessed under a standard approach.

The commercial insurance risk portfolio can be considered as well diversified in terms of sectoral risk – none of the sectors exceeded 15% in terms of their proportion in the aggregate value of the portfolio.

4.2 Concentration of Insurance and Bond Risk

At the end of 2018, the commercial insurance exposure reached PLN 16.8 billion in total, PLN 7.3 billion of which were on account of commercial export credit insurance, and PLN 9.5 billion due to domestic receivables insurance. The commercial insurance risk portfolio can be considered as well diversified in terms of sectoral risk – none of the sectors exceeded 15% in terms of their proportion in the aggregate value of the portfolio. Five of the leading sectors in the insurance portfolio include: the fuel industry (14% share in the portfolio), the metals industry (12%), the plastics industry (12%), the chemical industry (11%), as well as the non-specialised wholesale industry (11%).

Due to the geographical structure of domestic exports, also in the portfolio of commercial export insurance, the largest share is held by Germany (24%, with an exposure of PLN 1.7 billion), while European Union countries constitute over 75% in total of the commercial export risk portfolio. Credit limits were set for counterparties from 87 countries. Countries with the largest accumulation of credit limits include, apart from Germany: Switzerland (exposure of PLN 532 million, 8% of the active limits portfolio), Czech Republic (exposure of PLN 530 million, 7% of the active limits portfolio), Great Britain (exposure of PLN 500 million, 7% of the active limits portfolio), Italy (exposure of PLN 430 million, 6% of the active limits portfolio), and Lithuania (exposure of PLN 315 million, 4% of the active limits portfolio).

The insurance bond and guarantee active risk limit portfolio at the end of 2018 amounted to PLN 2.1 billion. The dominant sector in the guarantee and bond portfolio, due to the specific need for contract bonds, is the construction industry, with a 57% share. Diversification with respect to the remaining sectors is maintained at a safe level (vehicle manufacturing 8.4%, metals 7.6%, fuels 5.8%, machinery 3.2%, and other industries totalling 18%).

4.3 Reinsurance

KUKÉ applies passive reinsurance as one of the key insurance and bond risk management instruments in order to conserve capital and increase financial security as well as the stabilisation of the loss ratio and limiting the consequences of catastrophic damage occurring. Reinsurance also guarantees an increase of underwriting capacity and risk retention capabilities. The risks underwritten by KUKÉ are subject to reinsurance cover within the mandatory programme composed of proportional quota share reinsurance and nonproportional surplus reinsurance. Quota share reinsurance protects the portfolio against a high loss ratio caused by a large number of low- and high-value losses. Surplus share reinsurance guarantees further protection of the retention against high and catastrophic losses.

Chart 1 The share of reinsurers in technical insurance provisions according to ratings (as at 31.12.2018)





Rafako



Rafako, leader in the power generation equipment and facilities market, signed an agreement in 2018 for the construction of two steam power plants, each having a capacity of 50 MW, in Indonesia, on the Lombok Island. The 80.8 million euro in financing provided by the Bank Gospodarstwa Krajowego was covered by a KUKĘ policy. Rafako's contribution to the ~850 million zloty investment is 35 percent. The contract between Rafako and the Indonesian contracting entity was underpinned by the financing package developed jointly by BGK and KUKĘ. KUKĘ also gave Rafako a performance bond counter guarantee.

The financing of a foreign company was provided by Bank Gospodarstwa Krajowego within the Financial Support for Export government programme implemented in collaboration with KUKĘ, which provides insurance cover of export credit.



BGK's and KUKĘ's efficient and expeditious handling of the project has made our first large contract in Indonesia a fact. The financing agreement for this investment has made the project completely safe for Rafako in terms of its financial risks. We have high hopes for our collaboration with Indonesia because this country is currently in the phase of implementing the assumptions of the plan to build new capacity of 35,000 MW. We mainly want to build smaller power blocks on individual islands there, with capacities ranging from 50–100 MW.

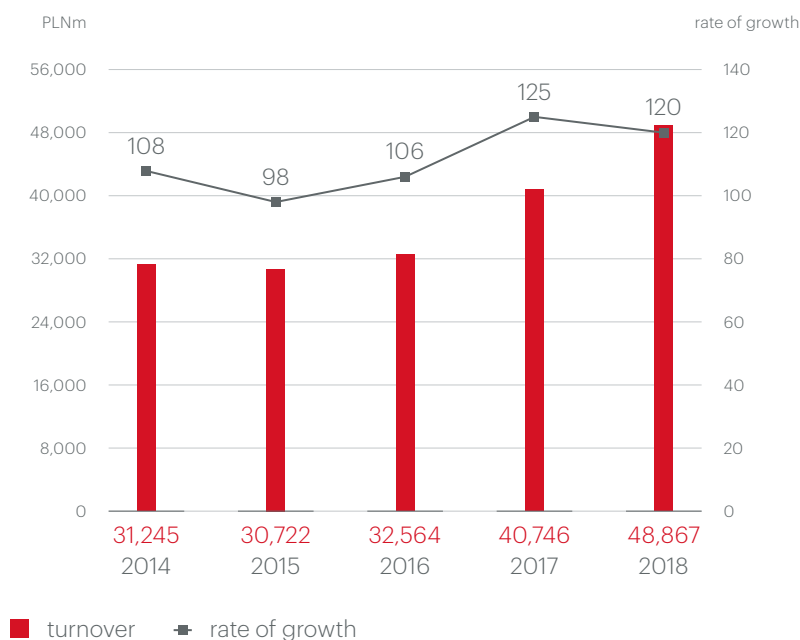
Agnieszka Wasilewska-Semal
President of Rafako

5.

Performance of KUKÉ in Specific Business Areas

In 2018, KUKÉ insured a total turnover of PLN 48.87 billion, which is 19.9% more than in the previous year.

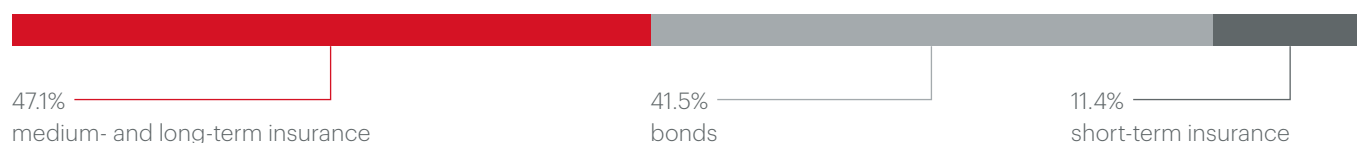
Chart 2 Value of insured export and domestic turnover (all insurance facilities)



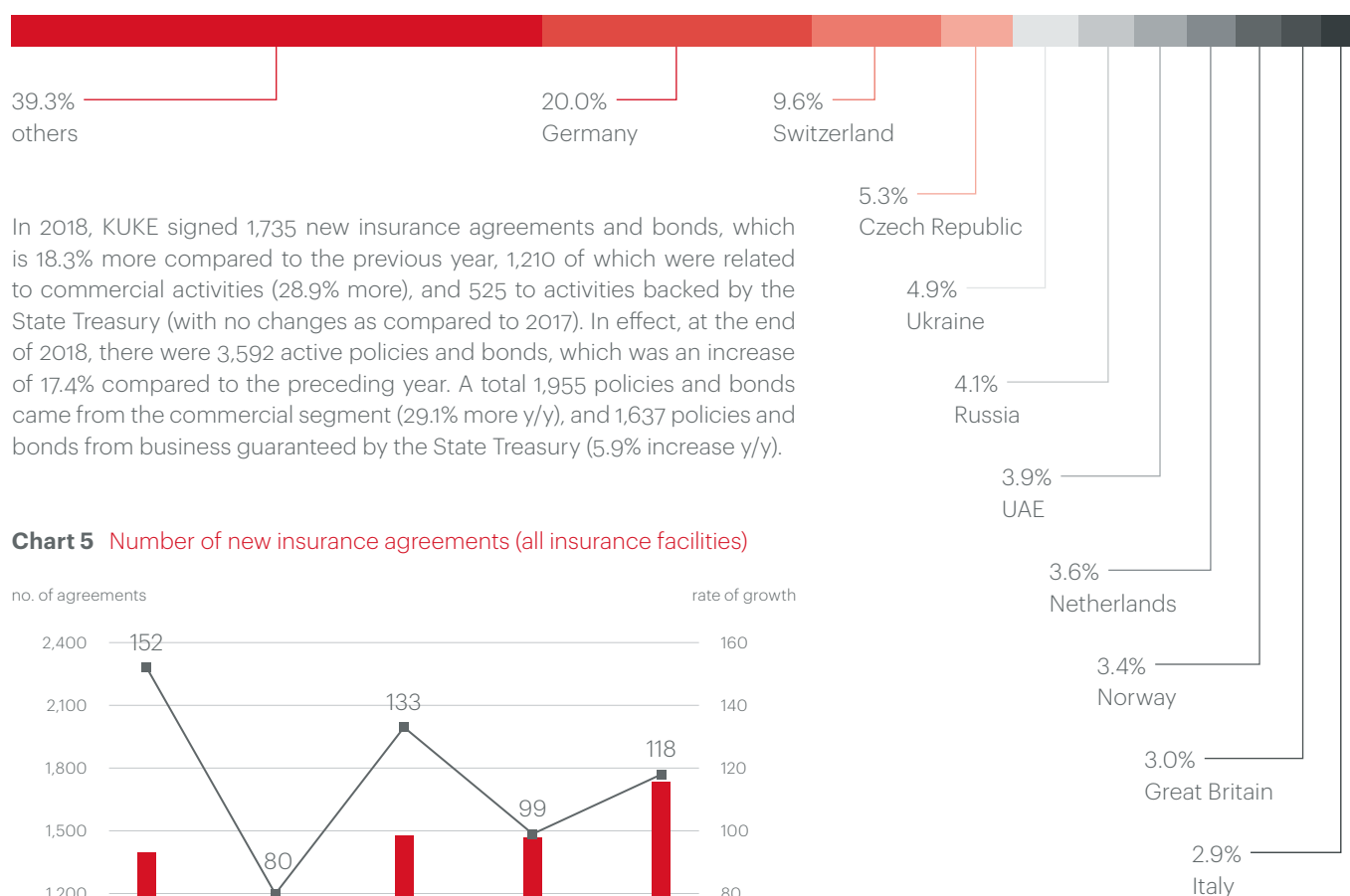
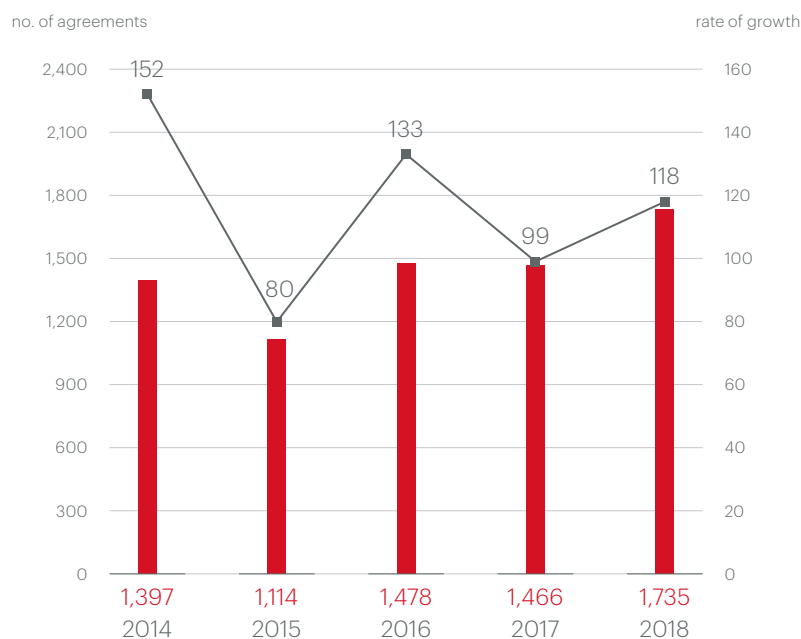
5.1 Overall Performance

The value of insured export turnover increased by 20.4% compared to 2017, reaching PLN 20.79 billion, where the value covered by commercial export insurance amounted to PLN 16.01 billion (an increase of 20.0%), and the value of export insurance and bonds backed by the State Treasury was equal to PLN 4.78 billion (a 21.5% growth).

KUKÉ provided insurance for short-term domestic receivables and commercial bonds for transactions worth PLN 28.08 billion, which was 19.6% more than in 2017.

Chart 3 Structure of premium written in 2018 (all insurance facilities)

As for the geographic structure of the export transactions covered by insurance guarantees and bonds, both commercial and backed by the State Treasury, was, just as in 2017, dominated by Germany (20.0%). It was followed by Switzerland (9.6%), Czech Republic (5.3%), and Ukraine (4.9%). The share of EU countries was equal to 60.4% and that of the CIS States was 12.9%.

Chart 4 Geographic structure of insured export turnover in 2018 (acc. to data presented in PLN)**Chart 5** Number of new insurance agreements (all insurance facilities)

■ no. of agreements (left scale) ■ rate of growth

5.2 Activities of KUKE S.A. under the Act on Insurance and Reinsurance of 11 September 2015

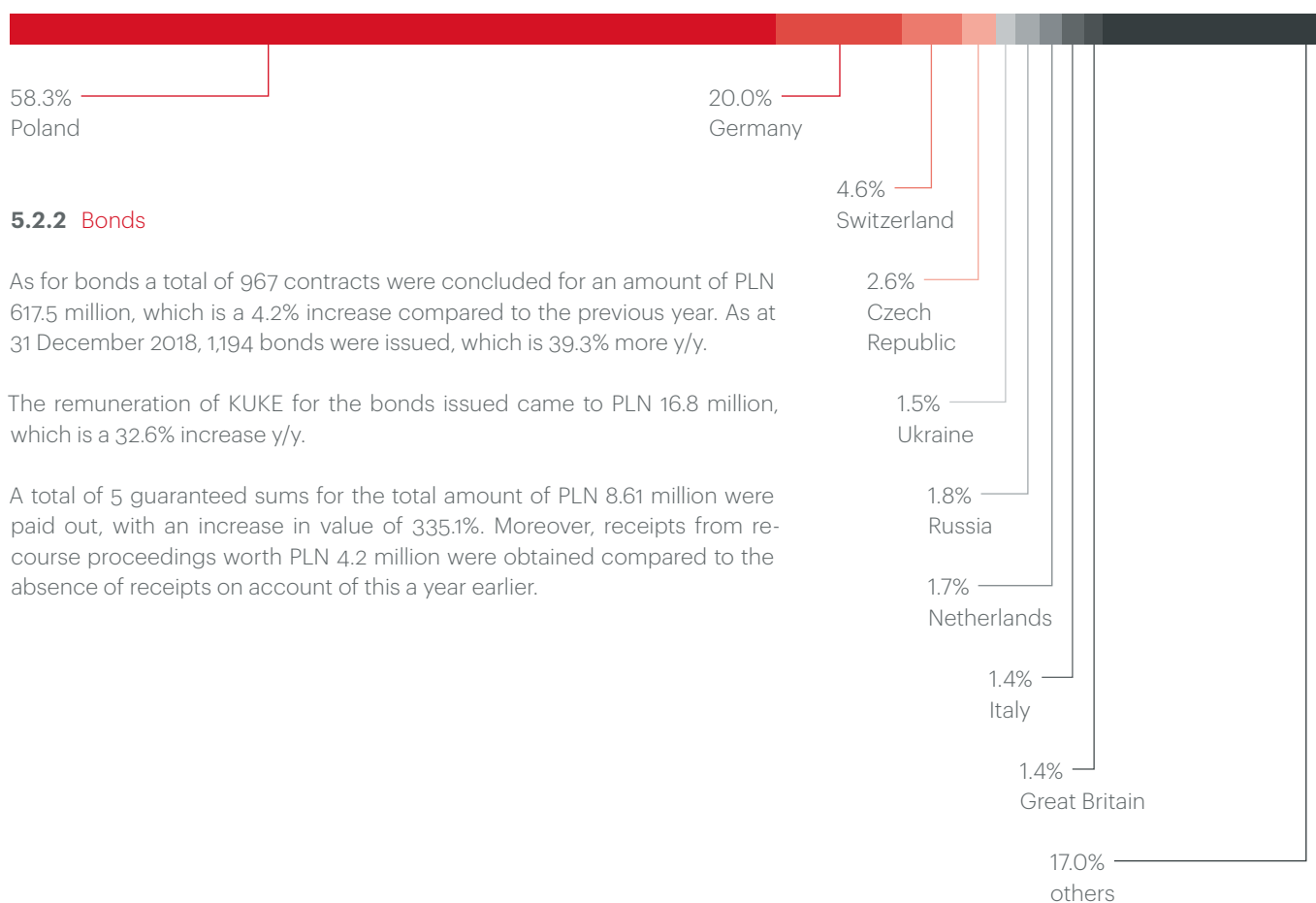
5.2.1 Trade Receivables Insurance

In 2018, KUKE insured short-term export and domestic receivables of a total value equal to PLN 43.47 billion, which is 20.0% more than in 2017. A total of 243 new short-term export and domestic receivables insurance agreements were concluded, which is 20.3% more than in the previous year. At the end of December, there were 761 active policies, which is an increase of 15.8% year on year.

The gross premiums written under the insurance of short-term export and domestic receivables was equal to PLN 60.2 million, an increase of 36.2% as compared with the previous year.

KUKE paid out 460 indemnities in the amount of PLN 29.2 million, which means a 17.9% decline in value. Two thirds of the value of indemnities paid out concerned liabilities unpaid by domestic business partners. As a result of recourse proceedings, KUKE obtained revenues equal to PLN 4.0 million (12.0% more than in 2017).

Chart 6 Geographic structure of insured turnover – short-term export and domestic receivables (according to data presented in PLN)



5.2.2 Bonds

As for bonds a total of 967 contracts were concluded for an amount of PLN 617.5 million, which is a 4.2% increase compared to the previous year. As at 31 December 2018, 1,194 bonds were issued, which is 39.3% more y/y.

The remuneration of KUKE for the bonds issued came to PLN 16.8 million, which is a 32.6% increase y/y.

A total of 5 guaranteed sums for the total amount of PLN 8.61 million were paid out, with an increase in value of 335.1%. Moreover, receipts from recourse proceedings worth PLN 4.2 million were obtained compared to the absence of receipts on account of this a year earlier.



5.3 Activities of KUKI S.A. under the Act on Export Insurance Backed by the State Treasury of 7 July 1994

5.3.1 Insurance of Export Contracts

As for medium- and long-term insurance, KUKI concluded insurance agreements with a value of PLN 2.07 billion (58.2% y/y increase). They concerned: four buyer credit facilities made available by banks to borrowers from the Cayman Islands, Belarus, Ukraine, and Norway; two supplier credit facilities for the supply of machinery and grain silo accessories to the Ukraine; and three reinsurance agreements were concluded with agencies from France and Germany. The gross written premium for these agreements came to PLN 93.0 million, which is a 22.3% increase y/y.

When it comes to export credit insurance executed within a credit facility running up to 2 years, a total of 96 block policies and 4 individual policies were signed, while 893 policies were renewed. Consequently, there were 948 active policies at the end of the year. The value of turnover insured came to PLN 2.34 billion, which is a 2.9% increase y/y. Receivables due to Polish exporters from Russian (33.6%), Ukrainian (27.7%), and Belarusian (17.0%) counterparties had the highest share in the geographical structure of insured turnover. The gross written premium for short-term insurance amounted to PLN 21.9 million, which is 14.5% more than in 2017.

As for medium- and long-term insurance, KUKI concluded insurance agreements with a value of PLN 2.07 billion, which means an increase of 58.2% y/y.

5.3.2 Bonds

At the same time, KUKI issued 416 State-backed bonds with the aggregate value of PLN 371.2 million, which is a 5.5% increase y/y. The value of KUKI-issued bond-related contracts amounted to PLN 578.2 million. The structure by type was dominated by bonds concerning letters of credit (65.9% share), contract bonds (34.1%), and bonds concerning the repayment of short-term credit facilities financing export contracts.

The remuneration of KUKI for bonds issued was equal to PLN 5.7 million (65% y/y decrease). KUKI made 21 indemnity payments for the total amount of PLN 66.7 million, which is 73.1% less as compared with the previous year. As a result of recourse proceedings concerning export insurance backed by the State Treasury, KUKI obtained recourse in 2018 with a total value of PLN 8.2 million (compared to PLN 40.7 million in 2017).



Feerum



Feerum is one of Poland's largest producers of complex grain elevators for the drying and storage of plant products. The firm's key clients include large agricultural holdings, grain traders, and industrial plants, e.g.: oleochemical plants, mills, feed manufacturing plants, and the biofuels sector.

In 2018, Feerum signed contracts with Ukrainian Epicentr K LLC from Kiev for the sale of grain silo complexes. KUKE participated in the transaction. Obtaining KUKE's insurance cover allowed Feerum to extend supplier credit to the ordering party. In order to sell in eastern markets, it is necessary to offer a product together with financing. Thanks to its cooperation with KUKE, which offered 5-year loan insurance, Feerum was able to finance it with the financial institution of its choice.

The insurance of export contract receivables by KUKE was a necessary condition for the agreements with the Ukrainian counterparty for the supply of grain silo complexes by the Polish manufacturer to enter into force.

Feerum has a modern plant located in the Legnica Special Economic Zone (LSSE), making components and elements for silos, ensuring high precision manufacturing and product quality. The plant is equipped with sheet metal working machines and devices that meet the highest world technical, manufacturing, and quality standards thanks to innovative solutions and technologies. The company also conducts its own research and development activities. It has been listed on the WSE Main Market since May 2013.



Winning contracts in the Ukrainian market in cooperation with KUKE will provide Feerum with significant growth.

The total value of orders from Ukraine amounts to nearly 210 million zloty. This strengthens our position in the region, and Ukraine will soon become leader among our foreign partners. We hope that this will lead to further orders from Ukraine and continuing cooperation with KUKE.

Daniel Janusz

President of Feerum

6.

Investment Activities

As in previous years, the investment portfolio diversification policy has been maintained in order to maximise its overall profitability while retaining the principle of limited interest rate risk and credit risk. It was to this end that debt instruments of highly reliable issuers were purchased for the portfolio, at the same time offering a higher rate of return than in the case of instruments issued or guaranteed by the State Treasury. However, due to the smaller number of attractive offers of this type of issues, the share of non-Treasury debt instruments has decreased and came to 36.7% of the portfolio at the end of the year, which is 6.5 pp less in comparison to the end of December 2017.

As at the end of 2018 the value of KUKE's investments portfolio stood at PLN 258.1 million.

Chart 7 Structure of investments

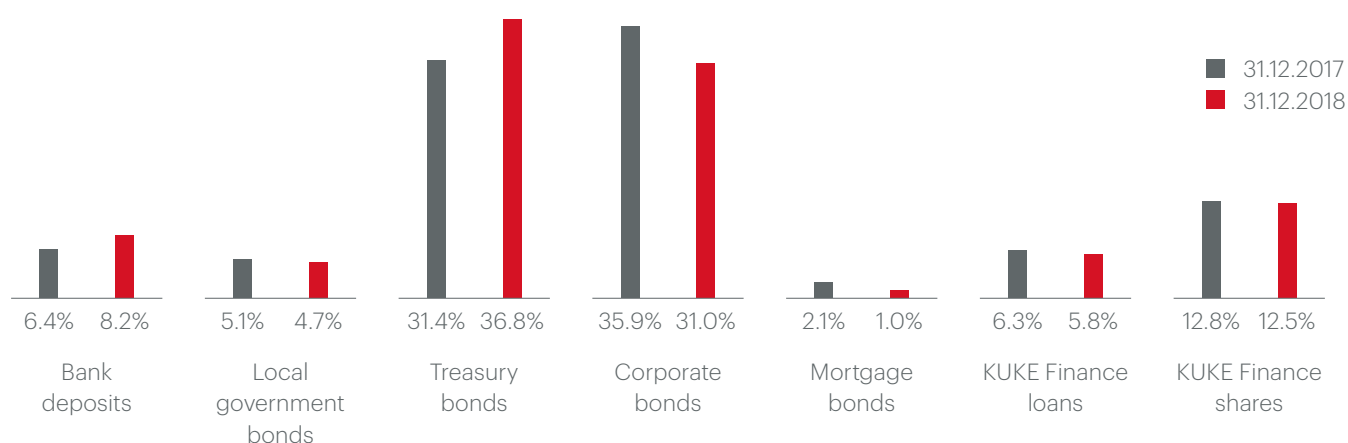


Table 2 Data set comprising investment activities according to its sources

Source of revenue	2017 (in PLNm)	% structure	2018 (in PLNm)	% structure
Bank deposits	0.13	2.1	0.13	1.5
Exchange differences	0.00	0.0	0.00	0.0
Treasury debt instruments	2.85	44.0	2.89	34.2
Non-Treasury debt instruments	2.95	45.5	3.14	37.3
Loans to KUKE Finance	0.55	8.5	0.37	4.4
KUKE Finance listed shares	0.00	0.0	1.91	22.6
Total	6.49	100.0	8.44	100.0

Finally, the value of KUKE's investment portfolio stood at PLN 258.1 million at the end of 2018.



Bank Pekao SA



KUKI signed a framework agreement with Bank Pekao S.A. on a joint offer for exporters. KUKI will issue bonds for the payment of receivables under letters of credit opened by foreign banks – confirmed, post-financed, or discounted by Pekao S.A.

This is yet another agreement between KUKI and the Bank facilitating the foreign operations of domestic businesses and greater transaction security. The framework agreement with Pekao S.A. is an important step in reaching out more effectively also to smaller companies, making financial instruments available to them. So far, we have granted over 1,900 bonds with a total value just under 1.5 billion zloty, especially in trade with Belarus, Ukraine, and Russia.

The support of small and medium-sized enterprises is one of the priorities of KUKI's activities as such entities can successfully compete in foreign markets. Various studies have confirmed that over 60% of European countries from this segment have come across payment deadline extension requests, and 23% would increase employment if counterparty payments were made within the agreed terms. One third declares that payment delays are a serious barrier to the development of their businesses.

KUKI offers 86 banks from 28 countries access to the set limits with a total value of just under 6 billion zloty. The conclusion of the agreement with Pekao S.A. will contribute to increasing the availability of bonds and to strengthening export potential.



Thanks to the cooperation between the Bank and KUKI, Polish companies will have access to financing instruments and the clearing and settlement of their trade transactions in markets of most countries around the world. Export letters of credit will be dedicated to Polish exporters planning or already in the process of international expansion in the form of the export of goods or services to the markets of high political risk countries, in particular to countries of Africa, Asia, Eastern Europe and the Middle East.

Michał Krupiński

President of the Management Board of Bank Pekao S.A.

7.

Financial Results

7.1 Analysis of the Balance Sheet

The balance sheet total of KUKE as at the end of 2018 was PLN 339.22 billion and was 0.3% higher than at the end of 2017.

Technical insurance provisions amounted to PLN 61.2 million, which is a 39.0% y/y increase.

Table 3 Main balance sheet items of KUKE

Assets	31.12.2017 (PLNm)	Share (%)	31.12.2018 (PLNm)	Share (%)	2018/2017 change (PLNm)	2018/2017 change (%)
Intangible assets	0.51	0.1	0.80	0.2	0.29	57.7
Deposits	237.95	70.3	258.08	76.1	20.13	8.5
Receivables	48.65	14.4	55.34	16.3	6.69	13.7
Other asset components:	43.09	12.7	14.03	4.1	-29.06	-67.4
incl. funds deposited in the separate "National Interest" bank account	40.04	11.8	9.82	2.9	-30.22	-75.5
Prepayments and accruals	8.10	2.4	10.97	3.2	2.87	35.5
Total assets	338.30	100.0	339.22	100.0	0.93	0.3
Liabilities	31.12.2017 (PLNm)	Share (%)	31.12.2018 (PLNm)	Share (%)	2018/2017 change (PLNm)	2018/2017 change (%)
Equity	211.55	62.5	213.37	62.9	1.82	0.9
Technical insurance provisions (after factoring in the reinsurers share, estimated recourses and recoveries)	44.01	13.0	61.17	18.0	17.15	39.0
Other provisions	4.38	1.3	4.28	1.3	-0.09	-2.1
Other liabilities and special funds:	70.21	20.8	47.97	14.1	-22.24	-31.7
incl. funds deposited in the separate "National Interest" bank account	40.04	11.8	9.82	2.9	-30.22	-75.5
Prepayments and accruals	8.15	2.4	12.43	3.7	4.28	52.6
Total liabilities	338.30	100.0	339.22	100.0	0.93	0.3

Differences in checksums are due to rounding up

Assets

In 2018, the value of intangible assets increased by 57.7% y/y to PLN 0.8 million. Deposits had the highest (76.1%) share in the balance sheet total. Compared with the end of 2017, their value dropped by 8.5%, reaching a level of PLN 258.1 million at the end of 2018.

The value of receivables at the end of 2018 was PLN 55.3 million and constituted 16.3% of the value of the assets. In relation to 2017, the value of receivables increased by 13.7%, of which:

- Direct insurance receivables (applicable mostly to settlements on account of premiums) increased by 38.1% to PLN 30.3 million,
- Receivables on account of reinsurance decreased by 12.1%, reaching PLN 17.0 million,
- Other receivables increased by 9.1%, standing at PLN 8.1 million – this increase was due to settlements related to the commission charged by KUKE for providing State Treasury-backed insurance.

Other asset components as at the end of December 2018 amounted to PLN 14.0 million and were 67.4% lower compared to the end of December 2017. This resulted mainly from the decrease of funds deposited in the separate “National Interest” bank account that is used for settlements related to the activity entrusted to the Company under the Act on export insurance guaranteed by the State Treasury of 7 July 1994, from PLN 40.1 million (as at 31 December 2017) down to PLN 9.82 million (as at 31 December 2018), i.e., a 75.5% decline. These amounts constituted 70.0% of the other asset components item.

Liabilities

As at the end of 2018, the equity of KUKE S.A. amounted to PLN 213.4 million and was 0.9% higher than the previous year. The share of equity capital in the balance sheet total stood at 62.9%, as compared to 62.5% as at the end of 2017.

The value of the remaining liabilities and special funds decreased by 31.7%, down to PLN 48.0 million, of which there was a 75.5% drop in the liabilities on account of the funds deposited in the separate “National Interest” bank account used for settlements related to KUKE activity under the Act on export insurance guaranteed by the State Treasury, down to PLN 9.8 million. The share of liabilities and special funds in the structure of liabilities stood at 14.1%.

Technical insurance provisions (after factoring in the reinsurers share and estimated recourses) amounted to PLN 61.2 million, which was an increase of 39.0% compared to end of 2017 figures. The share of technical insurance provisions after taking the reinsurers share and estimated recourses into account in the structure of the liabilities amounted to 18.0% at the end of 2018.

Table 4 KUKE technical insurance provisions

Technical insurance provisions (after factoring in the reinsurers share and estimated recourses)		31.12.2017 (PLNm)	Share (%)	31.12.2018 (PLNm)	Share (%)	2018/2017 change (PLNm)	2018/2017 change (%)
Provisions for premiums and for unexpired risks		36.76	83.5	49.30	80.6	12.54	34.1
Provisions for undistributed compensations and benefits (after factoring in estimated recourses)		4.31	9.8	8.83	14.4	4.52	104.7
Equalisation reserve		0.00	0.0	0.00	0.0	0.00	n/d
Provisions for bonuses and rebates		2.94	6.7	3.04	5.0	0.10	3.3
Total		44.01	100.0	61.17	100.0	17.15	39.0

Differences in checksums are due to rounding up

7.2 Analysis of the Technical Insurance Account and the General Profit and Loss Account

In 2018, the revenue on account of the net earned premium amounted to PLN 30.3 million, 36.7% more than in 2017. The gross premium written came to PLN 77.0 million, which is a 35.4% increase y/y.

In 2018, compensations and benefits paid amounted to PLN 20.9 million, up 1.9% y/y. The level of provisions for unpaid compensations and benefits paid, taking into account the estimated recourses, increased by PLN 4.5 million compared to the end of 2017. The total compensations and net benefits stood at PLN 25.4 million and were 69% higher y/y.

The costs of insurance activity in 2018 (administrative costs, acquisition costs, and received reinsurance provisions) amounted to PLN 18.1 million, a 6.7% y/y increase. Revenues from reinsurance commissions (decreasing the costs of insurance activity) were 63.3% higher in 2018 than in the previous year, reaching a value of PLN 8.8 million.

The technical result stood at PLN -14.5 million compared to PLN -10.7 million in 2017.

In 2018, the balance of revenues and costs of investment operations (calculated as the sum of revenues from investments, unrealized gains and losses from investments, and costs of investment operations) amounted to PLN 8.0 million and increased 32.0% y/y. The balance of other operating revenues and costs stood at PLN 9.31 million, up by 66.5% from 2017 figures.

In 2018, KUKÉ reported a positive gross financial result of PLN 2.9 million in relation to PLN 0.99 million the previous year. The net financial result amounted to PLN 2.08 million compared to PLN 0.54 million in 2017.

As at 31 December 2018, the Company demonstrated compliance with all legally required soundness standards applicable to the insurance industry.

*As at 31 December 2018,
the Company demonstrated
compliance with all legally required
soundness standards applicable to
the insurance industry.*

Table 5 Selected items of the technical account and the profit and loss account of KUKÉ

Selected items of the technical account & profit and loss account	Jan-Dec 2017 (PLNm)	Jan-Dec 2018 (PLNm)	2018/2017 change (PLNm)	2018/2017 change (%)
Gross premiums	56.89	77.02	20.13	35.4
Net premiums	22.20	30.33	8.14	36.7
Compensations and payments	-15.02	-25.38	-10.36	69.0
Bonuses and rebates net of reinsurance	-1.50	-1.59	-0.09	5.9
Balance of other technical revenues and costs	0.30	0.24	-0.05	-18.4
Costs of insurance operations	-16.94	-18.07	-1.13	6.7
Change in the equalisation reserves	0.29	0.00	-0.29	-100.0
Technical Result	-10.68	-14.47	-3.79	35.5
Balance of revenues and costs of investment operations	6.08	8.03	1.95	32.0
Balance of other operating revenues and costs	5.59	9.31	3.72	66.5
Gross profit (loss)	0.99	2.87	1.88	189.2
Income tax	-0.45	-0.78	-0.34	75.4
Net profit (loss)	0.54	2.08	1.54	282.5

For presentation purposes, items with a negative impact on the result are shown with a minus (-) sign

7.3 Technical account (PLN thousand)

	01.01.2017 – 31.12.2017	01.01.2018 – 31.12.2018
Premiums	22 196	30 334
Gross written premiums	56 890	77 021
Reinsurers' share in written premiums	25 755	34 149
Change in unearned premium reserve and unexpired risk reserve	13 986	20 784
Reinsurers' share in change in reserves	5 048	8 246
Other net technical income	3 738	3 906
Claims and benefits	15 020	25 382
Net claims and benefits paid	20 481	20 865
Net change in outstanding claims provision	-5 461	4 517
Net premiums and benefits incl. change in provisions	1 505	1 594
General insurance expenses	16 941	18 070
Acquisition costs	9 634	12 369
Administrative expenses	12 683	14 480
Reinsurance commissions and shares in profit	5 376	8 778
Other net technical expenses	3 442	3 665
Change in equalization reserve	-294	0
TECHNICAL RESULT	-10 679	-14 471

7.4 General profit and loss account (PLN thousand)

	01.01.2017 – 31.12.2017	01.01.2018 – 31.12.2018
Technical result	-10 679	-14 471
Investment income	6 723	6 535
Unrealized gains on investments	0	1 905
Investment management expenses	643	413
Unrealized losses on investments	0	0
Other operating income	20 237	23 543
Other operating expenses	14 647	14 233
Operational profit (loss)	991	2 867
Gross profit (loss)	991	2 867
Income Tax	447	783
NET PROFIT (LOSS)	545	2 084

7.5 Assets (PLN thousand)

	31.12.2017	31.12.2018
Intangible assets	507	799
Investments	237 952	258 084
Investments in subordinated undertakings	45 435	47 273
Shares in subordinated undertakings	30 404	32 234
Loans to subordinated undertakings and debt securities issued by those undertakings	15 031	15 040
Other financial investments	192 517	210 811
Debt securities and other fixed income securities	177 327	189 605
Deposits with credit institutions	15 190	21 206
Receivables	48 651	55 336
Direct insurance receivables	21 906	30 260
Reinsurance receivables	19 330	16 984
Other receivables	7 415	8 092
Other assets	43 088	14 032
Tangible fixed assets	1 303	3 019
Cash and cash equivalents	41 785	11 012
Deferred expenses and accrued income	8 099	10 971
Deferred tax assets	2 627	2 384
Deferred acquisition costs	5 140	7 421
Other deferred expenses and accrued income	332	1 165
TOTAL ASSETS	338 297	339 223

7.6 Equity and liabilities (PLN thousand)

	31.12.2017	31.12.2018
Equity	211 553	213 373
Issued share capital	110 703	110 703
Reserve capital	66 135	69 493
Revaluation reserves	898	1 248
Other reserves	33 273	33 273
Profit (loss) brought forward	545	-3 428
Net profit (loss)	0	2 084
Technical insurance provisions	83 597	112 834
Premium reserve and unexpired risk reserve	61 454	82 237
Provision for outstanding claims	17 403	25 499
Provision for bonuses and rebates	4 741	5 097
Equalization provision	0	0
Reinsurers' share in technical provisions (negative figure)	33 583	45 187
Reinsurers' share in unearned premium reserve and unexpired risk reserve	24 692	32 938
Reinsurers' share in provision for outstanding claims	7 089	10 188
Reinsurers' share in provision for bonuses and rebates	1 803	2 061
Estimated salvages and subrogations (negative figure)	6 001	6 481
Estimated salvages and subrogations	10 333	11 098
Reinsurers' share in estimated salvages and subrogations	4 332	4 617
Other provisions	4 376	4 283
Employee benefit provisions	3 261	3 174
Deferred tax liabilities	587	779
Other provisions	528	330
Other payables and special funds	70 209	47 972
Direct insurance payables	2 668	4 070
Reinsurance payables	24 197	29 083
Other payables	2 929	4 601
Special funds	40 415	10 218
Accruals and deferred income	8 146	12 429
TOTAL EQUITY AND LIABILITIES	338 297	339 223

7.7 Statement of cash flows (PLN thousand)

	01.01.2017 – 31.12.2017	01.01.2018 – 31.12.2018
Cash flows from operating activities	-33 678	-18 717
Inflows	400 775	254 918
Inflows from direct insurance and reinsurance assumed	59 339	77 697
Inflows from gross premiums	52 434	65 891
Inflows from recourse, recoveries and refunds	3 563	8 219
Other inflows from direct insurance	3 342	3 587
Inflows from reinsurance ceded	20 402	30 868
Share of reinsurers in claims paid	12 130	20 396
Inflows from reinsurance commissions and share in reinsurer's profits	7 923	10 190
Other inflows from reinsurance ceded	349	282
Other operating inflows	321 034	146 353
Inflows from average adjuster operations	0	0
Sale of intangible assets and tangible fixed assets other than investments	76	689
Other operating inflows	320 958	145 664
Outflows	434 452	273 634
Outflows from direct insurance and reinsurance assumed	76 191	80 857
Gross claims paid	37 301	37 701
Acquisition costs	13 962	16 924
Administrative outflows	17 701	19 509
Outflows on claim settlement and recovery of recourse	4 738	4 385
Other outlays under direct insurance and reinsurance assumed	2 490	2 339
Outflows on reinsurance ceded	29 065	34 842
Other operating outflows	329 196	157 935
Investment cash flows	9 550	-11 659
Inflows	2 427 494	2 754 549
Outflows	2 417 943	2 766 207
Financing cash flows	-110	-398
Total net cash flows	-24 237	-30 773
Cash and cash equivalents opening balance	66 022	41 785
Cash and cash equivalents closing balance	41 785	11 012
of which not fully disposable	40 267	10 177

7.8 Solvency parameters as at 31.12.2018 (PLN thousand)

Ordinary share capital (gross of own shares)	110 703
Share premium account related to ordinary share capital	19 073
Reconciliation reserve	82 129
An amount equal to the value of net deferred tax assets	2 011
Total basic own funds after deductions	181 853
Total eligible own funds to meet the SCR	181 853
Total eligible own funds to meet the MCR	179 841
Solvency Capital Requirement - SCR	70 622
Minimum Capital Requirement - MCR	17 655
Ratio of Eligible own funds to SCR	257,5%
Ratio of Eligible own funds to MCR	1018,6%

7.9 Solvency Capital Requirement (SCR) as at 31.12.2018 (PLN thousand)

Market risk	16 876
Counterparty default risk	2 233
Insurance risk	61 389
Diversification	-11 706
Basic solvency capital requirement	61 792
Operational risk	1 830
Solvency capital requirement	70 622



KUKE S.A.
Ul. Krucza 50
00-025 Warszawa

kontakt@kuke.com.pl
www.kuke.com.pl

