Consolidated financial statements

Preliminary version, unaudited financial statements – under audit

free translation

December, 31 2019

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Consolidated balance sheet

Asset

(in thousands of euros)	Notes	Dec. 31, 2019	Jan. 1, 2019 (*)	Dec. 31, 2018
Intangible assets		**220,844**	**220,675**	**220,675**
Goodwill	*1*	155,833	155,058	155,058
Other intangible assets	*2*	65,011	65,617	65,617
Insurance business investments	*3*	**2,990,686**	**2,833,613**	**2,833,613**
Investment property	*3*	288	288	288
Held-to-maturity securities	*3*	1,842	1,848	1,848
Available-for-sale securities	*3*	2,911,034	2,742,533	2,742,533
Trading securities	*3*	43	9,527	9,527
Derivatives	*3*	1,809	2,354	2,354
Loans and receivables	*3*	75,670	77,063	77,063
Receivables arising from banking activities	*4*	**2,346,710**	**2,509,047**	**2,509,047**
Reinsurers' share of insurance liabilities	*17*	**450,367**	**425,398**	**425,398**
Other assets		**1,053,538**	**1,013,283**	**927,888**
Buildings used for operations purposes and other property, plant and equipment	*6*	123,776	134,367	48,972
Deferred acquisition costs	*8*	40,384	42,176	42,176
Deferred tax assets	*19*	64,042	52,809	52,809
Receivables arising from insurance and reinsurance operations	*7*	532,362	498,826	498,826
Trade receivables arising from service activities	*8*	62,112	48,553	48,553
Current tax receivables	*8*	49,675	57,267	57,267
Other receivables	*8*	181,187	179,285	179,285
Cash and cash equivalents	*9*	**320,777**	**302,419**	**302,419**
TOTAL ASSETS		**7,382,922**	**7,304,435**	**7,219,040**

(*) Effects related to the first application of IFRS 16

Liability

(in thousands of euros)	Notes	Dec. 31, 2019	Jan. 1, 2019 (*)	Dec. 31, 2018
Equity attributable to owners of the parent		**1,924,472**	**1,806,452**	**1,806,249**
Share capital	*10*	304,064	307,799	307,799
Additional paid-in capital		810,420	810,420	810,420
Retained earnings		512,438	509,128	508,925
Other comprehensive income		150,821	56,772	56,772
Consolidated net income of the year		146,729	122,333	122,333
Non-controlling interests		**269**	**148**	**148**
Total equity		**1,924,741**	**1,806,600**	**1,806,397**
Provisions for liabilities and charges	*13*	**100,932**	**94,344**	**94,344**
Financing liabilities	*15*	**389,261**	**388,729**	**388,729**
Lease liabilities	*16*	**92,990**	**85,395**	
Liabilities relating to insurance contracts	*17*	**1,827,219**	**1,746,379**	**1,746,379**
Payables arising from banking activities	*18*	**2,362,805**	**2,544,716**	**2,544,716**
Amounts due to banking sector companies	*18*	523,020	660,204	660,204
Amounts due to customers of banking sector companies	*18*	301,058	346,932	346,932
Debt securities	*18*	1,538,727	1,537,580	1,537,580
Other liabilities		**684,974**	**638,272**	**638,475**
Deferred tax liabilities	*19*	107,357	96,058	95,962
Payables arising from insurance and reinsurance operations	*20*	219,863	195,653	195,653
Current taxes payables	*21*	66,295	41,580	41,580
Derivatives	*21*	889	1,666	1,666
Other payables	*21*	290,570	303,315	303,614
TOTAL EQUITY AND LIABILITIES		**7,382,922**	**7,304,435**	**7,219,040**

(*) Effects related to the first application of IFRS 16

Effects of the first application of IFRS 16 "Leases" on the balance sheet

Asset

(in thousands of euros)	Dec. 31, 2018	Effect of the first application of the standard IFRS 16	Jan. 1, 2019 (*)
Intangible assets	**220,675**		**220,675**
Goodwill	155,058		155,058
Other intangible assets	65,617		65,617
Insurance business investments	**2,833,613**		**2,833,613**
Investment property	288		288
Held-to-maturity securities	1,848		1,848
Available-for-sale securities	2,742,533		2,742,533
Trading securities	9,527		9,527
Derivatives	2,354		2,354
Loans and receivables	77,063		77,063
Receivables arising from banking activities	**2,509,047**		**2,509,047**
Reinsurers' share of insurance liabilities	**425,398**		**425,398**
Other assets	**927,888**	**85,395**	**1,013,283**
Buildings used in the business and other property, plant and equipment	48,972	85,395	134,367
Deferred acquisition costs	42,176		42,176
Deferred tax assets	52,809		52,809
Receivables arising from insurance and reinsurance operations	498,826		498,826
Trade receivables arising from service activities	48,553		48,553
Current tax receivables	57,267		57,267
Other receivables	179,285		179,285
Cash and cash equivalents	**302,419**		**302,419**
TOTAL ASSETS	**7,219,040**	**85,395**	**7,304,435**

(*) Effects related to the first application of IFRS 16

Liability

(in thousands of euros)	Dec. 31, 2018	Effect of the first application of the standard IFRS 16	Jan. 1, 2019 (*)
Equity attributable to owners of the parent	**1,806,249**	**203**	**1,806,452**
Share capital	307,799		307,799
Additional paid-in capital	810,420		810,420
Retained earnings	508,925	203	509,128
Other comprehensive income	56,772		56,772
Consolidated net income for the year	122,333		122,333
Non-controlling interests	**148**		**148**
Total equity	**1,806,397**	**203**	**1,806,600**
Provisions for liabilities and charges	**94,344**		**94,344**
Financing liabilities	**388,729**		**388,729**
Lease liabilities		**85,395**	**85,395**
Liabilities relating to insurance contracts	**1,746,379**		**1,746,379**
Payables arising from banking activities	**2,544,716**		**2,544,716**
Amounts due to banking sector companies	660,204		660,204
Amounts due to customers of banking sector companies	346,932		346,932
Debt securities	1,537,580		1,537,580
Other liabilities	**638,475**	**(203)**	**638,272**
Deferred tax liabilities	95,962	96	96,058
Payables arising from insurance and reinsurance operations	195,653		195,653
Current taxes payable	41,580		41,580
Derivatives	1,666		1,666
Other payables	303,614	(298)	303,315
TOTAL EQUITY AND LIABILITIES	**7,219,040**	**85,395**	**7,304,435**

(*) Effects related to the first application of IFRS 16

Consolidated income statement

(in thousands of euros)	Notes	Dec. 31, 2019	Dec. 31, 2018
Gross written premiums		*1,327,636*	*1,263,364*
Premium refunds		*(95,079)*	*(106,516)*
Net change in unearned premium provisions		*3,041*	*(14,240)*
Earned premiums	*22*	**1,235,597**	**1,142,608**
Fee and commission income		*140,115*	*132,418*
Net income from banking activities		*64,106*	*66,713*
Income from services activities		*41,270*	*42,995*
Other revenue	*22*	**245,491**	**242,127**
Revenue		**1,481,088**	**1,384,735**
Claims expenses	*23*	**(536,247)**	**(504,509)**
Policy acquisition costs	*24*	*(242,675)*	*(243,236)*
Administrative costs	*24*	*(274,784)*	*(241,136)*
Other insurance activity expenses	*24*	*(70,739)*	*(82,556)*
Expenses from banking activities, excluding cost of risk	*24/25*	*(13,742)*	*(13,552)*
Expenses from services activities	*24*	*(75,198)*	*(77,739)*
Operating expenses	*24*	**(677,138)**	**(658,219)**
Risk cost	*25*	**(1,804)**	**(2,122)**
UNDERWRITING INCOME BEFORE REINSURANCE		**265,899**	**219,885**
Income and expenses from ceded reinsurance	*26*	(77,963)	(62,128)
UNDERWRITING INCOME AFTER REINSURANCE		**187,936**	**157,757**
Investment income, net of management expenses (excluding finance costs)	*27*	36,940	51,124
CURRENT OPERATING INCOME		**224,876**	**208,881**
Other operating income and expenses	*28*	(6,000)	(4,974)
OPERATING INCOME		**218,876**	**203,907**
Finance costs		(21,385)	(17,681)
Share in net income of associates			592
Badwill		4,662	
Income tax expense	*29*	(55,434)	(64,132)
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS		**146,719**	**122,686**
Non-controlling interests		10	(353)
NET INCOME FOR THE YEAR		**146,729**	**122,333**
Earnings per share (€)	*31*	0.97	0.40
Diluted earnings per share (€)	*31*	0.97	0.40

Consolidated statement of comprehensive income

(in thousands of euros)	Notes	Dec. 31, 2019	Dec. 31, 2018
Net income of the period		**146,729**	**122,333**
Non-controlling interests		(10)	353
Other comprehensive income			
Currency translation differences reclassifiable to income		**19,163**	**(2,870)**
Reclassified to income			
Recognised in equity		19,163	(2,870)
Fair value adjustments on available-for-sale financial assets	3;12;19	**78,024**	**(17,985)**
Recognised in equity – reclassifiable to income – gross		107,140	(39,298)
Recognised in equity – reclassifiable to income – tax effect		(21,795)	20,627
Reclassified to income – gross		(8,927)	1,913
Reclassified to income – tax effect		1,606	(1,227)
Fair value adjustments on employee benefit obligations	3;12;19	**(3,229)**	**1,395**
Recognised in equity – not reclassifiable to income – gross		(4,386)	1,823
Recognised in equity – not reclassifiable to income – tax effect		1,157	(428)
Other comprehensive income of the period, net of tax		**93,958**	**(19,460)**
Total comprehensive income of the period		**240,677**	**103,226**
- attributable to owners of the parent		240,679	102,979
- attributable to non-controlling interests		(2)	247

Statement of changes in equity

(in thousands of euros)	Notes	Share capital	Premiums	Consolidated reserves	Treasury shares	Other comprehensive income			Net income for the period	Equity attributable to owners of the parent	Non-controlling interests	Total equity
						Foreign currency translation reserve	Reclassifiable revaluation reserves	Non-reclassifiable revaluation reserves				
Equity at December 31, 2017		314,496	810,420	523,027	(4,666)	(24,913)	124,623	(23,579)	83,213	1,802,621	160	1,802,781
Effect of the first application of the standard IFRS 9				**(198)**						**(198)**		**(198)**
2017 net income to be appropriated				83,213					(83,213)			
Payment of 2017 dividends in 2018				(52,895)						(52,895)	(6)	(52,901)
Total transactions with owners		**(0)**	**(0)**	**30,318**	**(0)**	**(0)**	**(0)**	**(0)**	**(83,213)**	**(52,895)**	**(6)**	**(52,901)**
December 31, 2018 net income									122,333	122,333	353	122,686
Fair value adjustments on available-for-sale financial assets recognized in equity							(18,668)			(18,668)	(3)	(18,671)
Fair value adjustments on available-for-sale financial assets reclassified to income							686			686	(0)	686
Change in actuarial gains and losses (IAS 19R)								1,395		1,395		1,395
Currency translation differences						(2,767)				(2,767)	(103)	(2,870)
Cancellation of COFACE SA shares		(6,697)		(23,303)	30,000							
Treasury shares elimination		0			(46,786)					(46,786)		(46,786)
Free share plans expenses				515						515		515
Transactions with shareholders				18		(5)				13	(253)	(240)
Equity at December 31, 2018		307,799	810,420	530,377	(21,452)	(27,685)	106,641	(22,184)	122,333	1,806,249	148	1,806,397
Effect of the first application of the standard IFRS 16				**202**						**202**		**202**
2018 net income to be appropriated				122,333					(122,333)			
Payment of 2018 dividends in 2019				(119,424)						(119,424)	(6)	(119,430)
Total transactions with owners		**(0)**	**(0)**	**2,909**	**(0)**	**(0)**	**(0)**	**(0)**	**(122,333)**	**(119,424)**	**(6)**	**(119,430)**
December 31, 2019 net income									146 729	146,729	(10)	146,719
Fair value adjustments on available-for-sale financial assets recognized in equity	3 ; 12 ; 14 ; 19						85,338			85,338	7	85,345
Fair value adjustments on available-for-sale financial assets reclassified to income statement	3 ; 12 ; 14 ; 19						(7,320)			(7,320)	(1)	(7,321)
Change in actuarial gains and losses (IAS 19R)								(3,229)		(3,229)		(3,229)
Cancellation of COFACE SA shares		(3,735)		(11,265)	15,000							
Treasury shares elimination					(4,738)					(4,738)		(4,738)
Free share plans expenses				1,277						1,277		1,277
Transactions with shareholders				128		99				227	129	356
Equity at December 31, 2019		**304,064**	**810,420**	**523,628**	**(11,190)**	**(8,425)**	**184,659**	**(25,413)**	**146,729**	**1,924,472**	**269**	**1,924,741**

Consolidated statement of cash flows

(in thousands of euros)	**Dec. 31, 2019**	**Dec. 31, 2018**
Net income for the period	**146,729**	**122,333**
Non-controlling interests	(10)	353
Income tax expense	55,434	64,132
+/- Share in net income of associates		(592)
Finance costs	21,385	17,681
Operating income (A)	**223,538**	**203,907**
+/- Depreciation, amortization and impairment losses	43,499	(5,282)
+/- Net additions to / reversals from technical provisions	26,210	57,428
+/- Unrealized foreign exchange income / loss	(4,845)	(6,958)
+/- Non-cash items	26,181	(15,051)
Total non-cash items (B)	***91,045***	***30,137***
Gross cash flows from operations (C) = (A) + (B)	***314,583***	***234,044***
Change in operating receivables and payables	(8,074)	(74,892)
Net taxes paid	(39,389)	(64,772)
Net cash related to operating activities (D)	***(47,463)***	***(139,664)***
Increase (decrease) in receivables arising from factoring operations	167,125	2,612
Increase (decrease) in payables arising from factoring operations	(44,727)	(74,491)
Increase (decrease) in factoring liabilities	(141,814)	102,295
Net cash generated from banking and factoring operations (E)	***(19,416)***	***30,416***
Net cash generated from operating activities (F) = (C+D+E)	**247,704**	**124,796**
Acquisitions of investments	(773,793)	(341,747)
Disposals of investments	708,711	375,163
Net cash used in movements in investments (G)	***(65,082)***	***33,416***
Acquisitions of consolidated subsidiaries, net of cash acquired	(11,186)	0
Disposals of consolidated companies, net of cash transferred		14,202
Net cash used in changes in scope of consolidation (H)	***(11,186)***	***14,202***
Acquisitions of property, plant and equipment and intangible assets	(14,299)	(20,541)
Disposals of property, plant and equipment and intangible assets	12,942	4,196
Net cash generated from (used in) acquisitions and disposals of property, plant and equipment and intangible assets (I)	***(1,357)***	***(16,345)***
Net cash used in investing activities (J) = (G+H+I)	**(77,625)**	**31,273**
Proceeds from the issue of equity instruments		(0)
Treasury share transactions	(4,122)	(46,786)
Dividends paid to owners of the parent	(119,424)	(52,895)
Dividends paid to non-controlling interests	(6)	(6)
Cash flows related to transactions with owners	***(123,552)***	***(99,687)***
Proceeds from the issue of debt instruments	(0)	(0)
Cash used in the redemption of debt instruments	0	(0)
Lease liabilities variations	(10,902)	(0)
Interests paid	(20,854)	(16,276)
Cash flows related to the financing of Group operations	***(31,756)***	***(16,276)***
Net cash generated from (used in) financing activities (K)	**(155,308)**	**(115,963)**
Impact of changes in exchange rates on cash and cash equivalents (L)	**3,587**	**(2,012)**
NET INCREASE IN CASH AND CASH EQUIVALENTS (F+J+K+L)	**18,358**	**38,094**
Net cash generated from operating activities (F)	247,704	124,796
Net cash used in investing activities (J)	(77,625)	31,273
Net cash generated from (used in) financing activities (K)	(155,308)	(115,963)
Impact of changes in exchange rates on cash and cash equivalents (L)	3,587	(2,012)
Cash and cash equivalents at beginning of period	**302,419**	**264,325**
Cash and cash equivalents at end of period	**320,777**	**302,419**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**18,358**	**38,094**

Basis of preparation

These IFRS consolidated financial statements of the Coface Group as at December 31, 2019 are established in accordance with the International Financial Reporting Standards (IFRS) as published by the IASB and as adopted by the European Union[1]. They are detailed in the note “Accounting principles” of the present consolidated financial statements as at December 31, 2019.

They are presented with comparative financial information at December 31, 2018. A comparison on January 1, 2019 following the application of IFRS 16 is provided for detailed information on balance sheet notes.

These IFRS consolidated financial statements for the year ended December 31, 2019 were reviewed by the Coface Group’s Board of Directors on February 5, 2020.

[1] The standards adopted by the European Union can be consulted on the website of the European Commission at: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en#ifrs-financial-statements

Significant events

Acquisition of SID – PKZ (Slovenia)

On April 15, 2019, Coface announced the acquisition of SID - PKZ, the market leader in credit insurance in Slovenia. The business operates under the new brand name Coface PKZ. Founded by SID Bank in 2005, SID - PKZ recorded €14.3m of gross written premium in 2018. The transaction had a neutral impact on Coface's solvency ratio.
The initial recognition of assets and liabilities is finalized and a badwill for €4.7m has been recognized in the income statement. The contribution of Coface PKZ (excluding the impact of badwill) in the group's net income as of 31 December 2019 is not significant.

Coface launches credit insurance offer in Greece

The country has undertaken reforms which pave the way for a promising credit insurance market. This opening of an entity in the country extends Coface's historically strong presence in the Mediterranean and Africa region, which represented 27% of the Group's revenues in 2019. The impact of the new entity on the Groups' financial statements for the year 2019 is not significant.

Coface South Africa new partnership

Following the strategic partnership signed on 16 November 2018, approved by the South African regulatory authorities during the second quarter 2019, Coface South Africa, the South African subsidiary of Compagnie française d'assurance pour le commerce extérieur, opened its capital up to 2.5% to the South African investment fund - B-BBEE Investment Holding Company, Identity Capital Partners (Pty) Ltd.
The opening of Coface South Africa's capital could be increased by up to 25% over a 10-year horizon. In addition, Coface has a call option for the shares of these minority shareholders.The impact of this transaction on the financial statements for the year is not significant.

Takeover of the minority shareholders of its Brazilian subsidiary SBCE (Seguradora Brasileira C.E.)

Compagnie française d'assurance pour le commerce extérieur, has acquired the minority shareholders in its Brazilian subsidiary SBCE (Seguradora Brasileira C.E.). This acquisition of 24.2% of the capital was made from two local banks, each owning 12.1%. This operation is part of the Group's desire to rationalise its presence in Brazil. The purchase of minority interests without any change in the integration method has no impact on the net result and no significant impact on the equity.

Integration into the SBF120 index

The Index Steering Committee of Euronext has decided to include COFACE SA in the SBF120 index and this decision was effective on Monday 26 June 2019. The SBF 120 is one of the leading Paris stock market indices. It tracks the top 120 companies, in terms of market capitalization and liquidity.

This entry follows the increased market capitalization and share liquidity of Coface, which reflect the strengthening of its fundamentals since the launch of its Fit to Win strategic plan.

Fitch affirms Coface AA- rating, with an outlook 'stable'

Fitch Ratings affirmed, on July 10th 2019, Coface AA- Insurer Financial Strength (IFS) rating. The outlook remains stable. The AA- IFS ratings of Coface North America Insurance Company and Coface Re, two other major insurance operating entities of the Group, have also been affirmed with a stable outlook.
In Fitch's press release, the rating agency highlights that these affirmations "are primarily driven by Coface's very strong business profile, very strong 'capitalisation and leverage', and strong profitability".

Fitch views Coface's financial performance and earnings "as strong, underpinned by underwriting profitability and effective risk management, across the cycle".

Capital reduction by cancellation of treasury shares

The Board of Directors of COFACE SA, in its meeting of 24 April 2019, decided to cancel the 1,867,312 shares bought under the share buyback programme, as announced on 25 October 2018; and correlatively, to reduce the share capital of the company.
Therefore, the share capital of COFACE SA now stands at €304,063,898 divided into 152,031,949 shares with a nominal value of €2 each.

Approval for Partial Internal Model

On 25 July 2019, Coface submitted to the ACPR, the French Prudential Supervision and Resolution, its partial internal model. On 4th December 2019, COFACE SA announced that it has received authorisation from the French Prudential Supervision and Resolution Authority (ACPR) to use the group's Partial Internal Model for calculating its regulatory capital requirement under the Solvency II Directive as soon as at 31 December 2019.

Coface's partial internal model has been the subject of extensive discussion and review by the group's supervisory authority since the launch of the pre-application phase in 2016. This model covers the insurance underwriting risk module. The other modules (market risk, underwriting risk, operational risk) still use the parameters of the standard formula.

Scope of consolidation

Change in the scope of consolidation in 2019

First-time consolidation

Coface PKZ has been 100% acquired in 2019. Coface Grèce and Lausanne 5 mutual fund (FCP) , hold by Coface Ré, were created in 2019.

Exit from consolidation scope

No scope exit in 2019.

Capital opening

Coface South Africa has opened its capital in 2019 for 2.5%. Coface group hold now 97.5% of the capital.

Buyout of minority interests

Coface group has acquired in 2019, 24.2% of SBCE (Seguradora Brasileira C.E) minority interests. Coface Group hold now 100% of the SBCE capital.

Special purpose entities (SPE)

SPEs used for the credit insurance business

Coface's credit enhancement operations consist of insuring, via a special purpose entity (SPE), receivables securitised by a third party through investors, for losses in excess of a predefined amount. In this type of operation, Coface has no role whatsoever in determining the SPE's activity or its operational management. The premium received on the insurance policy represents a small sum compared to all the benefits generated by the SPE, the bulk of which flow to the investors.
Coface does not sponsor securitisation arrangements. It plays the role of mere service provider to the special purpose entity by signing a contract with the SPE. In fact, Coface holds no power over the relevant activities of the SPEs involved in these arrangements (selection of receivables in the portfolio, receivables management, etc.). No credit insurance SPEs were consolidated within the financial statements.

SPEs used for financing operations

Since 2012, Coface has put in place an alternative refinancing solution to the liquidity line granted by Natixis for the Group's factoring business in Germany and Poland (SPEs used for financing operations).
Under this solution, every month, Coface Finanz – a Group factoring company – sells its factored receivables to a French SPV (special purpose vehicle), the FCT Vega securitisation fund. The sold receivables are covered by credit insurance.
The securitisation fund acquires the receivables at their nominal value less a discount (determined on the basis of the portfolio's past losses and refinancing costs). To obtain refinancing, the fund issues (i) senior units to the conduits (one conduit per bank) which in turn issue ABCP (asset-backed commercial paper) on the market, and (ii) subordinated units to Coface Factoring Poland. The Coface Group holds control over the relevant activities of the FCT.
The FCT Vega securitisation fund is consolidated in the Group financial statements.

SPEs used for investing operations

The "Colombes" mutual funds were set up in 2013 to centralise the management of the Coface Group's investments. The administrative management of these funds has been entrusted to Amundi, and Caceis has been selected as custodian and asset servicing provider.
The European branches of Compagnie Française d'Assurance pour le commerce extérieur, which do not have any specific local regulatory requirements, participate in the centralized management of their assets, set up by the Compagnie française d'assurance pour le commerce extérieur. They receive a share of the global income resulting from

the application of an allocation key representing the risks subscribed by each branch and determined by the technical accruals.
Fonds Lausanne was created in 2015 in order to allow Coface Ré to subcribe for parts in investment funds, the management is delegated to Amundi, the custodian is Caceis Switzerland and the asset servicing provider is Caceis.
The three criteria established by IFRS 10 for consolidation of the FCP Colombes and FCP Lausanne funds are met. Units in dedicated mutual funds (UCITS) have been included in the scope of consolidation and are fully consolidated. They are fully controlled by the Group.

All of Coface entities are consolidated by full integration method.

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2019	Interest Dec. 31, 2019	Control Dec. 31, 2018	Interest Dec. 31, 2018
Northern Europe						
Germany	Coface, Niederlassung in Deutschland (ex Coface Kreditversicherung)	-	Branch*		Branch*	
Germany	Coface Finanz GMBH	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Debitorenmanagement GMBH	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Rating Holding GMBH	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Rating GMBH	Full	100,00%	100,00%	100,00%	100,00%
Germany	Kisselberg KG	Full	100,00%	100,00%	100,00%	100,00%
Germany	Fct Vega (Fonds de titrisation)	Full	100,00%	100,00%	100,00%	100,00%
Netherlands	Coface Nederland Services	Full	100,00%	100,00%	100,00%	100,00%
Netherlands	Coface Nederland	-	Branch*		Branch*	
Denmark	Coface Danmark	-	Branch*		Branch*	
Sweden	Coface Sverige	-	Branch*		Branch*	
Western Europe						
France	COFACE SA	Parent company	100,00%	100,00%	100,00%	100,00%
France	Compagnie française d'assurance pour le commerce extérieur	Full	100,00%	100,00%	100,00%	100,00%
France	Cofinpar	Full	100,00%	100,00%	100,00%	100,00%
France	Cogeri	Full	100,00%	100,00%	100,00%	100,00%
France	Fimipar	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 2	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 2 bis	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 bis	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 ter	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 quater	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 4	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 5 bis	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 6	Full	100,00%	100,00%	100,00%	100,00%
Belgium	Coface Belgium Services	Full	100,00%	100,00%	100,00%	100,00%
Belgium	Coface Belgique	-	Branch*		Branch*	
Switzerland	Coface Suisse	-	Branch*		Branch*	
Switzerland	Coface Ré	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 2	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 2 bis	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 3	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 3 bis	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 690, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
UK	Coface UK Holdings	Full	100,00%	100,00%	100,00%	100,00%
UK	Coface UK Services	Full	100,00%	100,00%	100,00%	100,00%
UK	Coface UK	-	Branch*		Branch*	
Ireland	Coface Ireland	-	Branch*		Branch*	

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2019	Interest Dec. 31, 2019	Control Dec. 31, 2018	Interest Dec. 31, 2018
Central Europe						
Austria	Coface Austria Kreditversicherung Service GmbH	Full	100,00%	100,00%	100,00%	100,00%
Austria	Coface Central Europe Holding AG	Full	100,00%	100,00%	100,00%	100,00%
Austria	Compagnie francaise d´assurance pour le Commerce Exterieur SA Niederlassung Austria	-	Branch*		Branch*	
Hungary	Compagnie francaise d´assurance pour le commerce extérieur Hungarian Branch Office	-	Branch*		Branch*	
Poland	Coface Poland Credit Management Services Sp. z o.o.	Full	100,00%	100,00%	100,00%	100,00%
Poland	Coface Poland Factoring Sp. z o.o.	Full	100,00%	100,00%	100,00%	100,00%
Poland	Compagnie francaise d'assurance pour le commerce exterieur Spólka Akcyjna Oddział w Polsce	-	Branch*		Branch*	
Czech Republic	Compagnie francaise d'assurance pour le commerce exterieur organizační složka Česko	-	Branch*		Branch*	
Romania	Coface Romania CMS	Full	100,00%	100,00%	100,00%	100,00%
Romania	Compagnie francaise d'assurance pour le commerce exterieur S.A. Bois - Colombes – Sucursala Bucuresti	-	Branch*		Branch*	
Romania	Coface Technologie - Roumanie	-	Branch*		Branch*	
Slovakia	Compagnie francaise d´assurance pour le commerce extérieur, pobočka poisťovne z iného členského štátu	-	Branch*		Branch*	
Slovenia	Coface PKZ	Full	100,00%	100,00%	100,00%	100,00%
Lithuania	Compagnie Francaise d'Assurance pour le Commerce Exterieur Lietuvos filialas	-	Branch*		Branch*	
Bulgaria	Compagnie Francaise d'Assurance pour le Commerce Exterieur SA – Branch Bulgaria	-	Branch*		Branch*	
Russia	CJSC Coface Rus Insurance Company	Full	100.00%	100.00%	100.00%	100.00%
Mediterranean & Africa						
Italy	Coface Italy (Succursale)	-	Branch*		Branch*	
Italy	Coface Italia	Full	100,00%	100,00%	100,00%	100,00%
Israel	Coface Israel	-	Branch*		Branch*	
Israel	Coface Holding Israel	Full	100,00%	100,00%	100,00%	100,00%
Israel	BDI – Coface (business data Israel)	Full	100,00%	100,00%	100,00%	100,00%
South Africa	Coface South Africa	Full	97,50%	97,50%	100,00%	100,00%
South Africa	Coface South Africa Services	Full	100,00%	100,00%	100,00%	100,00%
Spain	Coface Servicios España,	Full	100,00%	100,00%	100,00%	100,00%
Spain	Coface Iberica	-	Branch*		Branch*	
Portugal	Coface Portugal	-	Branch*		Branch*	
Greece	Coface Grèce	-	Branch*		Branch*	
Turquey	Coface Sigorta	Full	100,00%	100,00%	100,00%	100,00%
North America						
United States	Coface North America Holding Company	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface North America	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface Services North America	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface North America Insurance company	Full	100,00%	100,00%	100,00%	100,00%
Canada	Coface Canada	-	Branch*		Branch*	
Latin America						
Mexico	Coface Seguro De Credito Mexico SA de CV	Full	100,00%	100,00%	100,00%	100,00%
Mexico	Coface Holding America Latina SA de CV	Full	100,00%	100,00%	100,00%	100,00%
Brazil	Coface Do brasil Seguros de Credito SA	Full	100,00%	100,00%	100,00%	100,00%
Brazil	Seguradora Brasileira De Credito Interno SA (SBCE)	Full	100,00%	100,00%	75,82%	75,82%
Chile	Coface Chile SA	Full	100,00%	100,00%	100,00%	100,00%
Chile	Coface Chile	-	Branch*		Branch*	
Argentina	Coface Argentina	-	Branch*		Branch*	
Ecuador	Coface Ecuador	-	Branch*		Branch*	
Asia-Pacific						
Australia	Coface Australia	-	Branch*		Branch*	
Hong-Kong	Coface Hong Kong	-	Branch*		Branch*	
Japan	Coface Japon	-	Branch*		Branch*	
Singapore	Coface Singapour	-	Branch*		Branch*	
Taiwan	Coface Taiwan	-	Branch*		Branch*	

*Branch of Compagnie française d'assurance pour le commerce extérieur

Accounting principles

Applicable accounting standards

Pursuant to European Regulation 1606/2002 of July 19, 2002, the consolidated financial statements of Coface as of December 31, 2019 are prepared in accordance with IAS / IFRS and IFRIC interpretations as adopted in the European Union and applicable at that date.

Standards applied since January 1st , 2019

IFRS 16

IFRS 16 "Leases", adopted by the European Commission on October 31, 2017, will replace IAS 17 "Leases" and interpretations relating to the accounting of such contracts. It is applicable since January 1st, 2019 retrospectively following specific transitional arrangements.
According to IFRS 16, the definition of leasing contracts implies, on one hand, the identification of an asset and, on the other hand, the control by lessee of the right to use this asset.
From the lessor's point of view, the expected impact should be limited, the measures remaining substantially unchanged from the present IAS 17 standard.
For the lessee, the standard will impose the accounting on the balance sheet of all leases as a right of use, registered in the tangible and intangible assets and in the liabilities, the accounting of a financial debt for rents and other payments to be made during the rental period.
Appendix 6 “Operating Building” and appendix 16 “Lease Liabilities” indicate impacts of IFRS16 First-Time Application.
Furthermore, the International Financial Reporting Interpretations Committee issued amendments to clarify some aspects of the standard in 2019. It is relative to unlimited enforceable period for some contracts and the incidence of non-movable adjustments on appreciation of enforceable period. IFRIC published its final decision about this topic on November 26, 2019. This amendment is under investigation by Coface to measure impacts on its accounting

IFRIC 23 Interpretation

European commission approved IFRIC 23 “Uncertainty over Income Tax Treatments” interpretation on October 23, 2018 applicable starting from January 1st, 2019. This interpretation clarifies the accounting for uncertainties in income tax and deferred tax. If there are some doubts about tax treatment validation by Tax authorities in accordance with tax legislation, tax treatment is classified as “uncertain”. In likely event that Tax authorities does not validate the tax treatment, IFRIC 23 indicates that uncertainty amount to reflect in financial statements should be estimated by the perspective’s method with the highest certainly about conclusion of the Uncertainty. To determine this amount, there are two approaches: the Most Probable Number procedure or the Expected Value procedure (weighted average of all possible perspectives). IFRIC 23 asks also to follow up evaluation method selected.
Tax uncertainties should be booked according to their sense and their kind of tax (Income tax or Deferred Tax) in “Deferred Tax Assets”, “Current Tax receivable”, “Deferred Tax Liabilities” and “Current Tax liabilities”.
IFRIC 23 interpretation First-Time application does not have any impacts on shareholders’ equity at opening, neither on presentation of financial statements of Coface. Collect, analysis and follow up procedure has been updated to allow a better documentation of compliance between accounting method applied by Coface and IFRIC 23 requirements.

IAS 28

IAS 28 « Investments in Associates and Joint-Ventures » amendment, adopted by European Commission on February 8th, 2019 is mandatory applicable since January, 1st 2019. Long-term interests corresponds to items such as payment is not foreseeable neither planned in a predictable future, that belong to net investment in associated firm or joint-venture. This amendment precise that IFRS 9 “Financial Instruments” (including dispositions related to depreciations) applies to financial instruments relative to long-term interest in associated form or joint-venture when this financial instruments are not valuated by Equity method.

This amendment has any impact on Coface's financial statements.

IAS 19

The amendment of the standard IAS 19 « Remeasurement at a plan amendment, curtailment or settlement », adopted by the European Commission on March 13, 2019, is applicable on a mandatory basis from the January 1, 2019. This amendment specifies that in case of an event modifies, reduces or liquidates a plan, the cost of the services provided and the amount of net interests subsequent to the these events, should be determined by using the actuarial assumptions selected at the date of the change. This amendment had no impact on Coface's accounts.

Annual improvements to IFRS 2015-2017 Cycle

The amendment « Annual improvements to IFRS 2015-2017 Cycle » adopted by European Commission on March 14, 2019. This amendment stems from the annual improvements process and the target is to simplify and clarify the international accounting standards. The following standards are amended : IFRS 3 « Business Combinations », IFRS 11 « Joint Arrangements », IAS 12 « 2 Income Taxes » and IAS 23 « Borrowing Costs ».

The amendment of the standard IAS 12 (§57A) specifies if the tax effects on distributions related to instruments and paid coupons recorded through Equity according to IAS 32, should be recorded through P&L, doivent être comptabilisés en résultat, among the Other Comprehensive Income or though, depending on the origin of amounts distribute. Thus, if the amounts are assimilated to dividends (according to IFRS 9), the tax effects should be recorded through P&L, on the accounting of the liability constitutive of the obligation to pay dividends. If they are not assimilated to dividends, the tax effects should be recorded through Equity. This amendment had no impact on Coface's accounts.

Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments to IFRS 9, IAS 39 and IFRS 7 « Interest Rate Benchmark Reform » published by IASB on September 26, 2019. These amendments aim to define exceptions to the application criteria of hedge accounting aux critères d'application de la comptabilité de couverture provided by IFRS 9 and IAS 39 and to specify the information to disclose related to the effects of the Interest Rate Benchmark Reform. The European Commission adopted these amendments on January 15, 2020. Their application date has been set for January 1, 2020 with possible early application. Coface has not applied these amendments in advance.

Coface has not applied the following texts in advance, adopted by the European Union on December 31, 2019, but not yet in effect on that date.

Amendments to IAS 1 and IAS 8

The amendment to IAS 1 and IAS 8 "Definition of the Meaningful Term" adopted by the European Commission on 29 November 2019 is mandatory from 1 January 2020. These amendments clarify the definition of the term "significant" in order to facilitate the exercise of the judgment of whether or not the information is significant and improve the relevance of the information presented in the notes the financial statements.

Amendments to the 'Conceptual Framework'

The amendment to the 'Conceptual Framework', adopted by the European Commission on 29 November 2019, is applicable from 1 January 2020. The purpose of this amendment is to replace, in several standards and interpretations, existing references to previous frameworks with references to the revised conceptual framework.

IFRS 17

IFRS 17 “Insurance contracts” published by the IASB on May 18, 2017 will replace IFRS 4 “Insurance contracts”, from January 1, 2020. A draft amendment "Exposure Draft ED/2019/4 Amendments to IFRS 17" was published on 26 June 2019.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and investment contracts with discretionary participation.
So far, insurance contrats are recorded at historical costs and will be recorded at current value after the application of the standard IFRS 17. Therefore, insurance contracts values will be based on future cash flows generated, including a risk margin in order to consider the uncertainty regarding these flows. IFRS 17 introduces the concept of contractual service margin. This margin represents the benefit not earned by the insurer and will be released over time, depending on the service provided by the insurer to the policyholder.
The standard requires a higher level of granularity regarding details of calculations than before as it requires estimatation by group of contracts.
These accounting changes will modify the profile of the insurance income statement.

Given the importance of the changes made and despite uncertainties of the standard, Coface has set up a project structure, which enables, within different themes, to analyze all the dimensions of the standard: modeling, adaptation of systems and organizations, production of accounts and scales strategy, financial communication and change management.

IFRS 9

The new IFRS 9 "Financial Instruments" was adopted by the European Commission on November 22, 2016 and has been applicable retrospectively since January 1, 2018.
IFRS 9 replaces IAS 39 and defines the new rules for the classification and measurement of financial assets and liabilities, the new methodology for credit risk impairment of financial assets, and the treatment of hedging transactions at the same time. It excepts macro-hedging transactions for which a separate draft standard is under study by the IASB.

Exemption

The amendment to IFRS 4 relating to the joint application of IFRS 9 "Financial Instruments" with IFRS 17 "Insurance Contracts" with specific measures for financial conglomerates was adopted on November 3, 2017 and is applicable since January 1, 2018. This European regulation allows European financial conglomerates to opt to postpone the application of IFRS 9 for their insurance sector until January 1, 2022 (date of application of the new IFRS 17 Insurance Contracts standard) under conditions:

- not to transfer financial instruments between the insurance sector and the other sectors of the conglomerate (with the exception of instruments at fair value through profit or loss);
- to indicate the insurance entities that apply the IAS 39 standard;
- to provide additional specific information in the attached notes.

Coface, meeting the eligibility criteria of a financial conglomerate, applies this provision for its insurance entities, which will therefore remain under IAS 39 until December 31, 2021. The entities concerned by this measure are all insurance entities and entities whose activity is directly related to insurance (service entities, consolidated funds).

Scope of application

Consequently, the entities concerned by the application of IFRS 9 are exclusively entities in the factoring business, an activity operated by Coface in Germany and in Poland.
Pursuant to the option opened by IFRS 9, Coface has chosen not to restate prior years published as comparative information for its financial statements.

Consolidation methods used

In accordance with IAS 1 "Presentation of Financial Statements", IFRS 10 and IFRS 3 on Business Combinations, certain interests that are not material in relation to the Coface Group's consolidated financial statements were excluded from the scope of consolidation. Materiality is determined based on specific threshold and on a qualitative assessment of the relevance of each entity's contribution to the consolidated financial statement of Coface. The main thresholds applicable are as follows:

Total balance sheet	€40 millions
Technical result	€5 millions
Net income	+/- €2 millions

The consolidation methods applied are as follows:

- companies over which the Coface Group exercises exclusive control are fully consolidated;
- companies over which the Coface Group exercises significant influence are accounted for by the equity method.

All the entities of the Coface Group scope are fully consolidated.

IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" in relation to consolidated financial statements as well as SIC-12 on special purpose entities. The control of an entity must now be analysed through three aggregate criteria: the power on the relevant activities of the entity, exposure to the variable returns of the entity and the investor's ability to affect the variable returns through its power over the entity. The analysis of Special Purpose Entities (SPE's) from Coface Group is presented in the note Scope of consolidation.

Intercompany transactions

Material intercompany transactions are eliminated on the balance sheet and on the income statement.

Non-current assets held for sale and discontinued operations

In accordance with IFRS 5, a non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and it must be highly probable that the sale will take place within 12 months.

A sale is deemed to be highly probable if:

- management is committed to a plan to sell the asset (or disposal group);
- a non-binding offer has been submitted by at least one potential buyer;
- it is unlikely that significant changes will be made to the plan or that it will be withdrawn.

Once assets meet these criteria, they are classified under "Non-current assets held for sale" in the balance sheet at the subsequent reporting date, and cease to be depreciated/amortised as from the date of this classification. An impairment loss is recognised if their carrying amount exceeds their fair value less costs to sell. Liabilities related to assets held for sale are presented in a separate line on the liabilities side of the balance sheet.

If the disposal does not take place within 12 months of an asset being classified as "Non-current assets held for sale", the asset ceases to be classified as held for sale, except in specific circumstances that are beyond Coface's control.

A discontinued operation is a clearly identifiable component of an entity that either has been disposed of, or is classified as held for sale, and:

- the component represents a separate major line of business or geographical area of operations;
- without representing a separate major line of business or geographical area of business, the component is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the component is a subsidiary acquired exclusively with a view to resale.

The income from these operations is presented on a separate line of the income statement for the period during which the criteria are met and for all comparative periods presented. The amount recorded in this income statement line includes the net income from discontinued operations until they are sold, and the post -tax net income recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

Year-end and accounting period

All consolidated companies have a December 31 year-end and an accounting period of 12 months.

Foreign currency translation

Translation of foreign currency transactions

In accordance with IAS 21, transactions carried out in foreign currencies (*i.e.,* currencies other than the functional currency) are translated into the functional currency of the entity concerned using the exchange rates prevailing at the dates of the transactions. The Group's entities generally use the closing rate for the month preceding the transaction date, which is considered as approximating the transaction-date exchange rate provided there are no significant fluctuations in rates.

Translation of the financial statements of subsidiaries and foreign branches

Coface's consolidated financial statements are presented in euros.

The balance sheets of foreign subsidiaries whose functional currency is not the euro are translated into euros at the year-end exchange rate, except for capital and reserves, which are translated at the historical exchange rate. All resulting foreign currency translation differences are recognised in the consolidated statement of comprehensive income.

Income statement items are translated using the average exchange rate for the year, which is considered as approximating the transaction-date exchange rate provided there are no significant fluctuations in rates (see IAS 21.40). All exchange differences arising on translation of these items are also recognised in other comprehensive income.

Hyperinflationary Economies

The application of IAS29 *Financial Reporting in Hyperinflationary Economies* is required, as of July 1, 2018, for entities whose functional currency is Argentine Peso.

The Group has activities in Argentina whose contribution to the total consolidated balance sheet and net income is not significant as of December 31, 2019 and as of December 31, 2018.

Thus, the impact of the application of this standard is also not significant at group level and was not taken into account in the financial statements as of December 31, 2019 and as of December 31, 2018.

General principles

The insurance business

An analysis of all of Coface's credit insurance policies shows that they fall within the scope of IFRS 4, which permits insurers to continue to use the recognition and measurement rules applicable under local GAAP when accounting for insurance contracts.

Coface has therefore used French GAAP for the recognition of its insurance contracts.

However, IFRS 4:

- prohibits the use of equalisation and natural disaster provisions
- and requires insurers to carry out liability adequacy tests.

The services business

Companies engaged in the sale of business information and debt collection services fall within the scope of IFRS 15 "Revenue from contracts with customers".

Revenue is recognised when: (i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; and (iii) the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably.

The factoring business

Companies engaged in the factoring business apply IFRS 9 "Financial Instruments". A financial instrument is a contract that gives rise to a financial asset of one entity (contractual right to receive cash or another financial asset from another entity) and a financial liability or equity instrument of another entity (contractual obligation to deliver cash or another financial asset to another entity).

Trade receivables are classified within the "Loans and receivables" category. After initial recognition at fair value, these receivables are measured at amortised cost using the effective interest method (EIM). The financing fee is recorded over the term of the factoring transactions, which is equivalent to it being included in the EIM in view of the short-term nature of the transactions concerned.

IFRS 15 "Revenue from contracts with customers" standard is also applied for factoring business according the same rules as the service business.

Classification of income and expenses for the Group's different businesses

Breakdown by function of insurance company expenses

The expenses of French and international insurance subsidiaries are initially accounted for by nature and are then analysed by function in income statement items using appropriate cost allocation keys. Investment management expenses are included under investment expenses. Claims handling expenses are included under claims expenses. Policy acquisition costs, administrative costs and other current operating expenses are shown separately in the income statement.

Factoring companies

Operating income and expenses of companies involved in the factoring business are reported as "Income from banking

activities" and "Expenses from banking activities" respectively.

Other companies outside the insurance business and factoring business

Operating income and expenses of companies not involved in the insurance or factoring businesses are reported under "Income from other activities" and "Expenses from other activities", respectively.

Revenue

Consolidated revenue includes:

- premiums, corresponding to the compensation of the group's commitment to cover the risks planned in their insurance policy: credit insurance (short term), single risk (medium term) and surety (medium term). The bond is not a credit insurance product because it represents a different risk nature (in terms of the underlying and the duration of the risk), but its remuneration takes the form of a premium; It responds to the definitions of insurance contracts given in IFRS 4;
- other revenues which include:
  - revenue from services related to credit insurance contracts ("fee and commission income"), corresponding to debtors' information services, credit limit monitoring, management and debt recovery. They are included in the calculation of the turnover of the credit insurance activity;
  - revenue from services which consist of providing customer access to credit and marketing information and debt collection services to clients without credit insurance contracts;
  - net income from banking activities are revenues from factoring entities. They consist mainly of factoring fees (collected for the management of factored receivables) and net financing fees (financing margin, corresponding to the amount of financial interest received from factoring customers, less interest paid on refinancing of the factoring debt). Premiums paid by factoring companies to insurance companies (in respect of debtor and ceding risk) are deducted from net banking income.

Consolidated revenue is analysed by country of invoicing (in the case of direct business, the country of invoicing is that in which the issuer of the invoice is located and for inward reinsurance, the country of invoicing is that in which the ceding insurer is located) and by business line (credit insurance, bonding, factoring, and information & other services).

Insurance operations

Earned premiums

Gross written premiums

Gross premiums correspond to written premiums, excluding tax and net of premium cancellations. They include an estimate of pipeline premiums and premiums to be cancelled after the reporting date.

The estimate of pipeline premiums includes premiums negotiated but not yet invoiced as well as premium adjustments corresponding to the difference between minimum and final premiums. It also includes a provision for future economic risks that may impact end-of-year premiums.

Premiums invoiced are primarily based on policyholders' revenue or trade receivables balances, which vary according to changes in revenue. Premium income therefore depends directly on the volume of sales made in the countries where the Group is present, especially French exports and German domestic and export sales.

Premium refunds

Premium refunds include policyholders' bonuses and rebates, gains and no claims bonus, mechanisms designed to

return a part of the premium to a policyholder according to contract profitability. They also include the penalties, taking the form of an additional premium invoiced to policyholders with the loss attributed to the policy.

The "premium refunds" item includes provisions established through an estimation of rebates to be paid.

Reserves for unearned premiums

Reserves for unearned premiums are calculated separately for each policy, on an accruals basis. The amount charged to the provision corresponds to the fraction of written premiums relating to the period between the year-end and the end of the coverage period of the premium.

Gross earned premiums

Gross earned premiums consist of gross premiums issued, net of premium refunds, and variation in reserves for unearned premiums.

Deferred acquisition costs

Policy acquisition costs, including commissions are deferred over the life of the contracts concerned according to the same rules as unearned premium provisions.

The amount deferred corresponds to policy acquisition costs related to the period between the year-end and the next premium payment date. Deferred acquisition costs are included in the balance sheet under "Other assets".

Changes in deferred acquisition costs are included under "Policy acquisition costs" in the income statement.

Contract service expenses

Paid claims

Paid claims correspond to insurance settlements net of recoveries, plus claims handling expenses.

Claims provisions

Claims provisions include provisions to cover the estimated total cost of reported claims not settled at the year-end. Claims provisions also include provisions for claims incurred but not yet reported, determined by reference to the final amount of paid claims.

The provisions also include a provision for collection costs and claims handling expenses.

Specific provisions are also recorded for major claims based on the probability of default and level of risk exposure, estimated on a case-by-case basis et validated by a committee (*special reserves committee*)

In the guarantee business, local methods are applied. Provisions are only recorded for claims of which the Company concerned has been notified by the year-end. However, an additional provision is recorded when the risk that the guarantee will be called on is higher due to the principal (guaranteed) becoming insolvent, even if no related bonds have been called on. This additional provision is calculated based on the probability of default and the level of risk exposure.

Subrogation and salvage

Subrogation and salvage represent estimated recoveries determined on the basis of the total amount expected to be recovered in respect of all open underwriting periods.

The subrogation and salvage includes a provision for debt collection costs.

In accordance with the applicable French Regulations, separate provisions are set aside for claims and recoveries.

Reinsurance operations

All of the Group's inward and ceded reinsurance operations involve transfers of risks.

Inward reinsurance

Inward reinsurance is accounted for on a contract-by-contract basis using data provided by the ceding insurers.

Technical provisions are determined based on amounts reported by ceding insurers, adjusted upwards by Coface where appropriate.

Commissions paid to ceding insurers are deferred and recognised in the income statement on the same basis as reserves for unearned premiums. Where these commissions vary depending on the level of losses accepted, they are estimated at each period-end.

Ceded reinsurance

Ceded reinsurance is accounted for in accordance with the terms and conditions of the related treaties.

Reinsurers' share of technical provisions is determined on the basis of technical provisions recorded under liabilities.

Funds received from reinsurers are reported under liabilities.

Commissions received from reinsurers are calculated by reference to written premiums. They are deferred and recognised in the income statement on the same basis as ceded reserves for unearned premiums (which are unearned premiums multiplied by reinsurance rate)

Other operating income and expenses

In accordance with Recommendation no. 2013-03 issued by the ANC (the French accounting standards setter), "Other operating income" and "Other operating expenses" should only be used to reflect a major event arising during the reporting period that could distort the understanding of the Company's performance. Accordingly, limited use is made of this caption for unusual, abnormal and infrequent income and expenses of a material amount which Coface has decided to present separately in the income statement so that readers can better understand its recurring operating performance and to make a meaningful comparison between accounting periods, in accordance with the relevance principle set out in the IFRS Conceptual Framework.

Other operating income and expenses are therefore limited, clearly identified, non-recurring items which are material to the performance of the Group as a whole.

Goodwill

In accordance with the revised version of IFRS 3, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred;
- to which we add the amount of any non-controlling interest in the acquiree;
- and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- less the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (generally measured at fair value).

In the case of a bargain purchase, the resulting gain is recognised in net income on the acquisition date.

If new information comes to light within the 12 months following the initial consolidation of a newly-acquired company and that new information affects the initial fair values attributed to the assets acquired and liabilities assumed at the acquisition date, the fair values are adjusted with a corresponding increase or decrease in the gross value of goodwill.

Goodwill is allocated, at the acquisition date, to the cash-generating unit (CGU) or group of CGUs that is expected to derive benefits from the acquisition. In accordance with paragraph 10 of IAS 36, goodwill is not amortised but is tested for impairment at least once a year or whenever events or circumstances indicate that impairment losses may occur. Impairment testing consists of comparing the carrying amount of the CGU or group of CGUs (including allocated goodwill) with its recoverable amount, which corresponds to the higher of value in use and fair value less costs to sell. Value in use is determined using the discounted cash flow method.

Impairment tests on goodwill and intangible assets

In accordance with IAS 36, for the purpose of impairment testing the strategic entities included in the Group's scope of consolidation are allocated to groups of CGUs.

A group of CGUs is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets (other CGUs). Paragraph 80 of IAS 36 stipulates that goodwill acquired in a business combination must, from the acquisition date, be allocated to each of the acquirer's groups of CGUs that is expected to benefit from the synergies of the combination.

Coface has identified groups of CGUs, based on its internal organisation as used by management for making operating decisions.

The seven groups of CGUs are as follows:

- Northern Europe;
- Western Europe;
- Central Europe;
- Mediterranean & Africa;
- North America;
- Latin America;
- Asia-Pacific.

Measuring groups of CGUs and performing goodwill impairment tests

Existing goodwill is allocated to a group of CGUs for the purpose of impairment testing. Goodwill is tested for impairment at least once a year or whenever there is an objective indication that it may be impaired.

Goodwill impairment tests are performed by testing the group of CGUs to which the goodwill has been allocated.

If the recoverable amount of the group of CGUs is less than its carrying amount, an impairment loss is recognised and allocated to reduce the carrying amount of the assets of the group of CGUs, in the following order:

- first, by reducing the carrying amount of any goodwill allocated to the group of CGUs (which may not be

subsequently reversed); and

- then, the other assets of the group of CGUs pro rata to the carrying amount of each asset in the Group.

The recoverable amount represents the higher of value in use (determined using the discounted cash flow method) and fair value less costs to sell (determined using multiples data from comparable listed companies as well as comparable recent transactions).

Method used for measuring the value of Coface entities

Value in use: Discounted cash flow method

Cash flow projections were derived from the three-year business plans drawn up by the Group's operating entities as part of the budget process and approved by Coface Group management.

These projections are based on the past performance of each entity and take into account assumptions relating to Coface's business line development. Coface draws up cash flow projections beyond the period covered in its business plans by extrapolating the cash flows over two additional years.

The assumptions used for growth rates, margins, cost ratios and claims ratios are based on the entity's maturity, business history, market prospects, and geographic region.

Under the discounted cash flow method, Coface applies a discount rate to insurance companies and a perpetuity growth rate to measure the value of its companies.

Fair value

Under this approach, Coface values its companies by applying multiples of (i) revenue (for services companies), revalued net assets (for insurance companies) or net banking income (for factoring companies), and (ii) net income. The benchmark multiples are based on stock market comparables or recent transactions in order to correctly reflect the market values of the assets concerned.

The multiples-based valuation of an entity is determined by calculating the average valuation obtained using net income multiples and that obtained using multiples of revenue (in the case of services companies), revalued net assets (insurance companies) or net banking income (factoring companies).

Intangible assets: IT development costs

Coface capitalises IT development costs and amortises them over their estimated useful lives when it can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the current and future availability of adequate resources to complete the development; and
- its ability to reliably measure the expenditure attributable to the intangible asset during its development.

Internally generated software is amortised over its useful life, which is capped at 15 years.

Property, plant and equipment: property assets

Property, plant and equipment are measured using the amortised cost model. Coface applies this model to measure its property, plant and equipment, including buildings used in the business. IFRS requires the breakdown of these buildings into components where the economic benefits provided by one or more components of a building reflect a pattern that differs from that of the building as a whole. These components are depreciated over their own useful life.

Coface has identified the following components of property assets:

Land	Not depreciated
Enclosed/covered structure	Depreciated over 30 years
Technical equipment	Depreciated over 15 years
Interior fixtures and fittings	Depreciated over 10 years

Properties acquired under finance leases are included in assets and an obligation in the same amount is recorded under liabilities.

A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership.

An impairment loss is recognised if the carrying amount of a building exceeds its market value.

Financial assets

The Group classifies its financial assets into the following five categories: available-for-sale financial assets, financial assets held for trading, held-to-maturity investments, financial assets at fair value through income, and loans and receivables.

The date used by Coface for initially recognising a financial asset in its balance sheet corresponds to the asset's trade date.

Available-for-sale financial assets (AFS)

Available-for-sale financial assets are carried at fair value plus transaction costs that are directly attributable to the acquisition (hereafter referred to as the purchase price). The difference between the fair value of the securities at year-end and their purchase price (less actuarial amortisation for debt instruments) is recorded under "Available-for-sale financial assets" with a corresponding adjustment to revaluation reserves (no impact on net income). Investments in non-consolidated companies are included in this category.

Financial assets held for trading

Financial assets held for trading are recorded at the fair value of the securities at year-end. Changes in fair value of securities held for trading during the accounting period are taken to the income statement.

Held-to-maturity investments (HTM)

Held-to-maturity investments are carried at amortised cost. Premiums and discounts are included in the calculation of amortised cost and are recognised over the useful life of the financial asset using the yield-to-maturity method.

Financial assets at fair value through profit or loss

Financial assets at fair value through income are accounted for in the same way as securities held for trading.

Loans and receivables

The "Loans and receivables" category includes cash deposits held by ceding insurers lodged as collateral for underwriting commitments. The amounts recognised in relation to these deposits corresponds to the cash amount actually deposited.

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market are also included in this caption. These assets are recognised at amortised cost using the effective interest method.

Loans and receivables also include short-term deposits whose maturity at the date of purchase or deposit is more than three months but less than 12 months.

Fair value

The fair value of listed securities is their market price at the measurement date. For unlisted securities fair value is determined using the discounted cash flow method.

Impairment test

Available-for-sale financial assets are tested for impairment at each period-end. When there is objective evidence that such an asset is impaired and a decline in the fair value of that asset has previously been recognised directly in equity, the cumulative loss is reclassified from equity to income through "Investment income, net of management expenses".

A multi-criteria analysis is used to assess whether there is any objective indication of impairment. An independent expert is used for these analyses, particularly in the case of debt instruments.

Impairment indicators include the following:

- for debt instruments: default on the payment of interest or principal, the existence of a mediation, alert or insolvency procedure, bankruptcy of a counterparty or any other indicator that reveals a significant decline in the counterparty's financial position (such as evidence of losses to completion based on stress tests or projections of recoverable amounts using the discounted cash flow method);

- for equity instruments (excluding investments in unlisted companies): indicators showing that the entity will be unable to recover all or part of its initial investment. In addition, an impairment test is systematically performed on securities that represent unrealised losses of over 30% or which have represented unrealised losses for a period of more than six consecutive months. This test consists of carrying out a qualitative analysis based on various factors such as an analysis of the equity instrument's market price over a given period, or information relating to the issuer's financial position. Where appropriate, an impairment loss is recognised based on the instrument's market price at the period-end. Independently of this analysis, an impairment loss is systematically recognised when an instrument represents an unrealised loss of over 50% at the period-end, or has represented an unrealised loss for more than 24 months;

- for investments in unlisted companies: an unrealised loss of over 20% over a period of more than 18 months, or the occurrence of significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer and indicate that the amount of the investment in the equity instrument will not be recovered.

If the fair value of an instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in income, the impairment loss is reversed, with the amount of the reversal recognised in:

- equity, for equity instruments;
- income, for debt instruments, in an amount corresponding to the previously-recognised impairment loss.

In accordance with IFRIC 10, impairment losses recognised on equity instruments in an interim reporting period are not reversed from income until the securities concerned are divested.

Derivatives and hedging transactions

A derivative is a financial instrument (IAS 39):

- whose value changes in response to the change in the interest rate or price of a product (known as the "underlying");
- that requires no or a very low initial net investment; and
- that is settled at a future date.

A derivative is a contract between two parties – a buyer and a seller – under which future cash flows between the parties are based on the changes in the value of the underlying asset.

In accordance with IAS 39, derivatives are measured at fair value through income, except in the case of effective hedges, for which gains and losses are recognised depending on the underlying hedging relationship.

Derivatives that qualify for hedge accounting are derivatives which, from their inception and throughout the hedging relationship, meet the criteria set out in IAS 39. These notably include a requirement for entities to formally document and designate the hedging relationship, including information demonstrating that the hedging relationship is effective, based on prospective and retrospective tests. A hedge is deemed to be effective when changes in the actual value of the hedge fall within a range of 80% and 125% of the change in value of the hedged item.

- For fair value hedges, gains or losses from remeasuring the hedging instrument at fair value are systematically recognised in income. These amounts are partially offset by symmetrical gains or losses on changes in the fair value of the hedged items, which are also recognised in income. The net impact on the income statement therefore solely corresponds to the ineffective portion of the hedge.
- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion of the gain or loss on the hedging instrument is recognised in income.

Coface's derivatives were used for hedging purposes, notably to hedge currency risks, interest rate risks and changes in fair value of equities in the portfolios of the "Colombes" funds. Coface does not carry out any hedging transactions within the meaning of IAS 39. The financial instruments that it does use are recognised at fair value through income.

Financing liabilities

This item mainly includes the subordinated debt.

Borrowings are initially recognised at fair value after taking account of directly-attributable transaction costs.

They are subsequently measured at amortised cost using the effective interest method. Amortised cost corresponds to:

- the measurement of the financial liability on initial recognition; minus
- repayments of principal; plus or minus
- cumulative amortisation (calculated using the effective interest rate) and any discounts or premiums between the initial amount and the maturity amount.

Premiums and discounts are not included in the initial cost of the financial liability. However, they are included in the calculation of amortised cost and are recognised over the life of the financial liability using the yield-to-maturity method. As and when they are amortised, premiums and discounts impact the amortised cost of the financial liability.

Accounting treatment of debt issuance costs

Transaction costs directly attributable to the issuance of financial liabilities are included in the initial fair value of the liability. Transaction costs are defined as incremental costs directly attributable to the issuance of the financial liability, *i.e.,* that would not have been incurred if the Group had not acquired, issued or disposed of the financial instrument.

Transaction costs include:

- fees and commissions paid to agents, advisers, brokers and other intermediaries;
- levies by regulatory agencies and securities exchanges;
- and transfer taxes and duties.

Transaction costs do not include:

- debt premiums or discounts;
- financing costs;
- internal administrative or holding costs.

Payables arising from banking sector activities

This item includes:

- amounts due to banking sector companies: corresponds to bank credit lines. They represent the refinancing of the credit extended to factoring clients;
- amounts due to customers of banking sector companies, corresponding to payables arising from factoring operations. They include:
    - amounts credited to factoring clients' current accounts that have not been paid out in advance by the factor, and
    - factoring contract guarantee deposits;
- debt securities. This item includes subordinated borrowings and non-subordinated bond issues. These borrowings are classified as "Payables arising from banking sector activities" as they are used for financing the factoring business line.

All borrowings are initially recognised at fair value less any directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

Receivables arising from factoring operations

Receivables arising from factoring operations represent total receivables not recovered at the reporting date. They are

stated at nominal value, corresponding to the amount of factored invoices, including tax.

Two categories of provisions are recorded and are shown in deduction of the receivables:

- Provisions booked by way of a charge to the income statement (under “Cost of risk”) when it appears probable that all or part of the amount receivable will not be collected.
- Provisions evaluated through expected loss or "ECL" calculation also recorded as an expense in the income statement (under “cost of risk”)

The ECL calculation, introduced by IFRS 9, relies on calculation models using the internal ratings of debtors ("DRA" *Debtor Risk Assessment*). The methodology for calculating depreciation ("ECL" *Expected Credit Loss*) is based on the three main parameters: the probability of default "PD", the loss given default "LGD" and the amount of exposure in case of default "EAD" (Exposure at default). The depreciation will be the product of the PD by the LGD and the EAD, over the lifetime of the receivables. Specific adjustments are made to take into account the current conditions and the prospective macroeconomic projections (forward looking)

The net carrying amount of receivables arising from factoring operations is included in the consolidated balance sheet under “Receivables arising from banking and other activities”.

Cash and cash equivalents

Cash includes all bank accounts and demand deposits. Cash equivalents include units in money-market funds (SICAV) with maturities of less than three months.

Provisions for liabilities and charges

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, a provision is recorded at the reporting date if a present obligation towards a third party resulting from a past event exists at that date and it is probable or certain, as of the date when the financial statements are drawn up, that an outflow of resources embodying economic benefits to that third party will be required to settle the obligation and that a reliable estimate can be made of the amount of the obligation.

Provisions are discounted when the effect of the time value of money is material.

The provisions for liabilities and charges include the provisions for tax risks (except income tax risk), for litigations with third-parties and on the vacant premises. These provisions are reviewed at each closing.

The provision for vacant premises is calculated taking into account the future rents that the company committed to pay until the end of the lease, from which are deducted the future income expected from potential subleases.

Employee benefits

In some countries in which Coface operates, employees are awarded short-term benefits (such as paid leave), long-term benefits (including “long-service awards”) and post-employment benefits, such as statutory retirement benefits.

Short-term benefits are recognised as a liability in the accounts of the Coface companies that grant such benefits.

Other benefits, including long-term and post-employment benefits are subject to different coverage and are classified as follows:

- defined contribution plans: consequently, the Company’s legal or constructive obligation is limited to the amount

that it agrees to pay to the fund, whichh will pay due amounts to the employees. These plans are generally state pension plans, which is the case in France;

- defined benefit plans, under which the employer has a legal or constructive obligation to provide agreed benefits to employees.

In accordance with IAS 19, Coface records a provision to cover its liability, regarding primarily:

- statutory retirement benefits and termination benefits;
- early retirement and supplementary pension payments;
- employer contributions to post-employment health insurance schemes;
- long-service awards.

Based on the regulations specific to the plan and country concerned, independent actuaries calculate:

- the actuarial value of future benefits, corresponding to the present value of all benefits to be paid. The measurement of this present value is essentially based on:
    - demographic assumptions,
    - future benefit levels (statutory retirement benefits, long service awards, etc.),
    - the probability that the specified event will occur,
    - an evaluation of each of the factors included in the calculation of the benefits, such as future salary increases,
    - the interest rate used to discount future benefits at the measurement date;
- the actuarial value of benefits related to service cost (including the impact of future salary increases), determined using the projected unit credit method which spreads the actuarial value of benefits evenly over the expected average remaining working lives of the employees participating in the plan.

Stock options

In accordance with IFRS 2 "Share-based Payment", which defines the recognition and measurement rules concerning stock options, the options are measured at the grant date. The Group uses the Black and Scholes option pricing model for measuring stock options. Changes in fair value subsequent to the grant date do not impact their initial measurement.

The fair value of options takes into account their expected life, which the Group considers as corresponding to their compulsory holding period for tax purposes. This value is recorded in personnel costs on a straight-line basis from the grant date and over the vesting period of the options, with a corresponding adjustment directly in equity.

In connection with its stock market listing, the Coface Group awarded to certain beneficiaries (employees of COFACE SA subsidiaries) bonus shares.

In accordance with the IFRS 2 rules, only stock options granted under plans set up after November 7th, 2002 and which had not vested at January 1st, 2005 have been measured at fair value and recognised in personnel costs.

IFRS 16

According to IFRS 16 "Leases", applied since January 1, 2019, the definition of leasing contracts implies, on one hand, the identification of an asset and, on the other hand, the control by lessee of the right to use this asset. The control is established when the lessee has the 2 following rights during all the time of the use :

- The right to have almost all economical benefits coming from the asset use
- The right to decide the use of the asset

For the lessee, the standard imposes the accounting on the balance sheet of all leases as a right of use, registered in the tangible and intangible assets and in the liabilities, the accounting of a financial debt for rents and other payments to

be made during the rental period. Coface uses the exemptions provided by the standard by not modifying the accounting treatment of short-term leases (less than 12 months) or relating to low-value underlying assets (less than 5 000 US $). The right of use is amortized linearly and the financial debt is amortized actuarially over the duration of the lease. The interest expenses on the financial debt and the amortization expenses of the right to use will be made distinctly to the income statement.

Income tax

Income tax expense includes both current taxes and deferred taxes.

The tax expense is calculated on the basis of the latest known tax rules in force in each country where the results are taxable.

On January 1st, 2015, COFACE SA opted for the tax integration regime by integrating French subsidiaries held directly or indirectly by more than 95% (Compagnie française d'assurance pour le commerce extérieure, Cofinpar, Cogeri and Fimipar).

Temporal differences between the values of assets and liabilities in the consolidated accounts, and those used to determine the taxable income, give rise to the recording of deferred taxes.

Deferred taxes are recorded by the liability method for temporary differences between the carrying amount of assets and liabilities at each period-end and their tax base.

Deferred tax assets and liabilities are calculated for all temporary differences, based on the tax rate that will be in force when the differences are expected to reverse, if this is known, or, failing that, at the tax rate in force at the period-end.

Deferred tax assets are recorded only when it is probable that sufficient taxable profits against which the asset can be utilised will be available within a reasonable time frame.

Receivables and payables denominated in foreign currencies

Receivables and payables denominated in foreign currencies are translated into euros at the year-end exchange rate.

Unrealised exchange gains and losses on receivables and payables denominated in foreign currencies are recorded in the consolidated income statement, except for those related to the technical provisions carried in the accounts of the subsidiaries of Compagnie française d'assurance pour le commerce extérieur (formerly COFACE SA) and those concerning consolidated companies' long-term receivables and payables whose settlement is neither planned nor likely to occur in the foreseeable future.

Exchange differences concerning receivables and payables denominated in a foreign currency and relating to a consolidated company are treated as part of Coface's net investment in that company. In accordance with IAS 21, these exchange differences are recorded in other comprehensive income until the disposal of the net investment.

Segment information

Coface applies IFRS 8 for segment information reporting, which requires an entity's operating segments to be based on its internal organisation as used by management for the allocation of resources and the measurement of performance.

The segment information used by management corresponds to the following geographic regions:

- Northern Europe;
- Western Europe;

- Central Europe;
- Mediterranean & Africa;
- North America;
- Latin America;
- Asia-Pacific.

No operating segments have been aggregated for the purposes of published segment information.
The Group's geographic industry sector segmentation is based on the country of invoicing.

Related parties

A related party is a person or entity that is related to the entity preparing its financial statements (referred to in IAS 24 as "the reporting entity").

Estimates

The main balance sheet items for which management is required to make estimates are presented in the table below:

Estimates	Notes	Type of information required
Goodwill impairment	1	Impairment is recognised when the recoverable amount of goodwill, defined as the higher of value in use and fair value, is below its carrying amount. The value in use of cash-generating units is calculated based on cost of capital, long-term growth rate and loss *ratio assumptions*.
Provision on receivables on banking activity	4	Depreciation of receivables on banking activity includes provision evaluated through expected credit loss (ECL) (introduced by IFRS 9)
Provision for earned premiums not yet written	17	This provision is calculated based on the estimated amount of premiums expected in the period less premiums recognised.
Provision for premium refunds	17 ; 22	This provision is calculated based on the estimated amount of rebates and bonuses payable to policyholders in accordance with the terms and conditions of the policies written.
Provision for subrogation and salvage	17 ; 23	This provision is calculated based on the estimated amount potentially recovered on settled claims.
Claims reserves	17 ; 23 ; 42	It includes an estimate of the total cost of claims reported but not settled at year end.
IBNR provision	17 ; 23 ; 42	The IBNR provision is calculated on a statistical basis using an estimate of the final amount of claims that will be settled after the risk has been extinguished and after any action taken to recover amounts paid out.
Pension benefit obligations	14	Pension benefit obligations are measured in accordance with IAS 19 and annually reviewed by actuaries according to the Group's actuarial assumptions.

The policies managed by the Coface Group's insurance subsidiaries meet the definition of insurance contracts set out in IFRS 4. In accordance with this standard, these contracts give rise to the recognition of technical provisions on the liabilities side of the balance sheet, which are measured based on Group principles pending the publication of an IFRS that deals with insurance liabilities.

The recognition of technical provisions requires the Group to carry out estimates, which are primarily based on assumptions concerning changes in events and circumstances related to the insured and their debtors as well as to their economic, financial, social, regulatory and political environment. These assumptions may differ from actual events and circumstances, particularly if they simultaneously affect the Group's main portfolios. The use of assumptions requires a high degree of judgement on the part of the Group, which may affect the level of provisions recognised and therefore have a material adverse effect on the Group's financial position, results, and solvency margin.

For certain financial assets held by the Group there is no active market, there are no observable inputs, or the observable inputs available are not representative. In such cases the assets' fair value is measured using valuation techniques which include methods or models that are based on assumptions or assessments requiring a high degree of judgement. The Group cannot guarantee that the fair value estimates obtained using these valuation techniques represent the price at which a security will ultimately be sold, or at which it could be sold at a given moment. The valuations and estimates are revised when circumstances change or when new information becomes available. Using this information, and respecting the objective principles and methods described in the consolidated and combined financial statements, the Group's management bodies regularly analyse, assess and discuss the reasons for any decline in the estimated fair value of securities, the likelihood of their value recovering in the short term, and the amount of any ensuing impairment losses that should be recognised. It cannot be guaranteed that any impairment losses or additional provisions recognised will not have a material adverse effect on the Group's results, financial position and solvency margin.

All amounts are stated (in thousands of euros) in the following notes, unless specified otherwise.

Note 1. Goodwill

In accordance with IAS 36, goodwill is not amortised but is systematically tested for impairment at the year-end or whenever there is an impairment indicator.

Breakdown of goodwill by region :

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Northern Europe	112,603	112,603
Western Europe	5,068	5,068
Central Europe	8,394	8,396
Mediterranean & Africa	22,672	21,993
North America	6,201	6,087
Latin America	895	911
TOTAL	**155,833**	**155,058**

The change in goodwill amounted to € 775 thousand due to the fluctuation of the currency translation variation.

Impairment testing methods

Goodwill and other non-financial assets were tested for impairment losses at December 31, 2019. Coface performed the tests by comparing the value in use of the groups of CGUs to which goodwill was allocated with their carrying amounts.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or a CGU. This value is determined using the discounted cash flow method, based on the three-year business plan drawn up by the subsidiaries and validated by Management. The cash flows are extrapolated for an additional two years using normalised loss ratios and target cost ratios. Beyond this five-year period, the terminal value is calculated by projecting to infinity the cash flows for the last year.

The main assumptions used to determine the value in use of the groups of CGUs were a long-term growth rate of 1.5% for all entities and the weighted average cost of capital.

The assumptions used for goodwill impairment testing were as follows by group of CGUs at December 31, 2019:

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Cost of capital	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Perpetual growth rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Contribution to consolidated net assets	528.8	472.1	199.5	262.6	59.6	57.2

The assumptions used in 2018 were as follows:

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Cost of capital	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
Perpetual growth rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Contribution to consolidated net assets	615.3	406.5	182.1	218.1	58.5	54.0

Sensitivity of impairment tests

Sensitivity analyses were performed for the impairment tests, based on the following sensitivity factors:

- long-term growth rate sensitivity: the impairment tests were tested for sensitivity based on a 0.5-point decrease in the perpetual growth rate applied. The analysis showed that such a 0.5-point decrease would not have an impact on the outcome of the impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31, 2019;
- cost of capital sensitivity: the impairment tests were tested for sensitivity based on a 0.5-point increase in the cost of capital applied. The analysis showed that such a 0.5-point increase would not have an impact on the outcome of the impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31, 2019;
- loss ratio and the cost ratio sensitivity for the last two years of the business plan (2022 and 2023): additional impairment tests were performed based on a 2-point increase in the loss ratio and a 1-point increase in the cost ratio. The sensitivity analysis showed that such increases in the assumptions used would not have an impact on the outcome of the original impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31, 2019.

For the Group's main goodwill items, the sensitivity of enterprise values to the assumptions used is shown in the following table :

Outcome of impairment tests

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Contribution to consolidated net assets (1)	528.8	472.1	199.5	262.6	59.6	57.2
Value in use of CGU	859.4	525.6	439.1	708.9	97.1	58.5
Sensitivity: Long-term growth rate -0.5 point (2)	830.8	503.3	424.6	681.6	89.3	55.6
Sensitivity: WACC +0.5 point	821.4	495.0	419.9	672.6	87.9	53.4
Sensitivity: Loss Ratio 2024 +1 point (2)	849.9	312.6	433.7	694.1	88.3	54.0
Sensitivity: Loss Ratio 2024 +2 points (2)	840.4	244.0	428.2	679.2	83.0	49.5
Sensitivity: Cost Ratio 2024 +1 point (2)	844.8	309.6	429.3	686.2	84.6	53.8
Sensibilité Cost Ratio 2024 +2 points (2)	830.1	237.8	419.5	663.6	75.5	49.2

(1) The contribution to the consolidated Group's net assets corresponds to the difference between the value-in-use of the cash generating units (CGU) and their book value

(2) The sensitivity analyses were carried out to the Group's net assets

Note 2. Other intangible assets

(in thousands of euros)	Dec. 31, 2019 Net value	Dec. 31, 2018 Net value
Development costs and software	62,359	62,955
Purchased goodwill	2,212	2,194
Other intangible assets	440	468
TOTAL	**65,011**	**65,617**

	Dec. 31, 2019		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Development costs and software	210,814	(148,455)	62,359
Purchased goodwill	3,873	(1,661)	2,212
Other intangible assets	2,928	(2,488)	440
TOTAL	**217,615**	**(152,604)**	**65,011**

	Dec. 31, 2018		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Development costs and software	197,670	(134,716)	62,954
Purchased goodwill	6,748	(4,553)	2,195
Other	2,820	(2,352)	468
TOTAL	**207,238**	**(141,621)**	**65,617**

Group mainly makes investments in hardware and IT licenses.
These investments amounted to €12.1 million in 2019 financial year compared to €15.7 million in 2018 financial year.

Change in the gross amount of intangible assets

(in thousands of euros)	Dec. 31, 2018	Scope entry	Increases	Decreases	Curency translation variation	Dec. 31, 2019
Development costs and software	197,670	1,099	12,027	(2,159)	2,177	210,814
Purchased goodwill	6,747	0	0	(3,089)	215	3,873
Other intangible assets	2,821	0	70	(14	51	2,928
TOTAL	**207,238**	**1,099**	**12,097**	**(5,262)**	**2,443**	**217,615**

In 2019, PKZ intergrated the scope of consolidation.

(in thousands of euros)	Dec. 31, 2017	Increases	Decreases	Curency translation variation	Dec. 31, 2018
Development costs and software	187,178	15,369	(4,292)	(585)	197,670
Purchased goodwill	7,831	0	(1,266)	182	6,747
Other intangible assets	2,722	300	(152)	(49)	2,821
TOTAL	**197,731**	**15,669**	**(5,710)**	**(452)**	**207,238**

Change in accumulated amortisation and impairment of intangible assets

(in thousands of euros)	Dec. 31, 2018	Scope entry	Additions	Reversals	Curency translation variation and other	Dec. 31, 2019
Accumulated amortisation - development costs and software	(132,455)	(803)	(13,187)	2,135	(2,308)	(146,618)
Accumulated impairment - development costs and software	(2,260)	(0)	(0)	(0)	423	(1,837)
Total amortisation and impairment - development costs and software	**(134,715)**	**(803)**	**(13,187)**	**2,135**	**(1,885)**	**(148,455)**
Accumulated amortisation - purchased goodwill	(4,554)	-	(104)	3,089	(92)	(1,661)
Accumulated impairment - purchased goodwill	(0)	-	(0)	(0)	(0)	(0)
Total amortisation and impairment - purchased goodwill	**(4,554)**	**(0)**	**(104)**	**3,089**	**(92)**	**(1,661)**
Accumulated amortisation - other intangible assets	(2,352)	-	(128)	14	(22)	(2,488)
Accumulated impairment - other intangible assets	(0)	-	(0)	(0)	(0)	(0)
Total amortisation and impairment - other intangible assets	**(2,352)**	**(0)**	**(128)**	**14**	**(22)**	**(2,488)**
TOTAL	**(141,621)**	**(803)**	**(13,419)**	**5,238**	**(1,999)**	**(152,604)**

Note 3. Insurance business investments

3.1 – Analysis by category

At December 31, 2019, the carrying amount of available-for-sale (AFS) securities amounted to €2,911,034 thousand, securities held for trading ("trading securities") came to €43,00 thousand and held-to-maturity (HTM) securities was €1,842 thousand.

As an insurance group, Coface's investment allocation is heavily weighted towards fixed-income instruments. The distribution of the bonds portfolio by rating at December 31, 2019 was as follows:

- Bonds rated "AAA": 11.6%
- Bonds rated "AA" and "A": 43.8%
- Bonds rated "BBB": 36.6%
- Bonds rated "BB" and lower: 8.0%.

	Dec 31, 2019					Dec. 31, 2018				
(in thousands of euros)	Amortized cost	Revaluation	Net value	Fair value	Unrealized gains and losses	Amortized cost	Revaluation	Net value	Fair value	Unrealized gains and losses
AFS securities	**2,706,300**	**204,734**	**2,911,034**	**2,911,034**		**2,635,835**	**106,698**	**2,742,533**	**2,742,533**	
Equities and other variable-income securities	171,089	145,867	316,956	316,956		207,560	99,425	306,985	306,985	
Bonds and government securities	2,314,927	43,680	2,358,607	2,358,607		2,211,474	(2,144)	2,209,330	2,209,330	
o/w direct investments in securities	*2,075,248*	*42,097*	*2,117,346*	*2,117,346*		*1,774,405*	*(1,061)*	*1,773,344*	*1,773,344*	
o/w investments in UCITS	*239,679*	*1,582*	*241,261*	*241,261*		*437,069*	*(1,083)*	*435,986*	*435,986*	
Shares in non-trading property companies	220,284	15,190	235,473	235,473		216,801	9,417	226,218	226,218	
HTM securities										
Bonds	1,842		**1,842**	1,842		1,848		**1,848**	1,848	
Fair value through income – trading securities										
Money market funds (UCITS)	43		**43**	43		9,527		**9,527**	9,527	
Derivatives (positive fair value)		**1,809**	**1,809**	**1,809**			**2,354**	**2,354**	**2,354**	
(derivatives negative fair value for information)		*(889)*	*(889)*	*(889)*			*(1,666)*	*(1,666)*	*(1,666)*	
Loans and receivables	**75,670**		**75,670**	**75,670**		**77,063**		**77,063**	**77,063**	
Investment property	**695**	**(407)**	**288**	**288**		**695**	**(407)**	**288**	**288**	
TOTAL	**2,784,550**	**206,137**	**2,990,687**	**2,990,687**	**(0)**	**2,724,968**	**108,645**	**2,833,613**	**2,833,613**	**(0)**

(in thousands of euros)	Gross Dec 31, 2019	Impairment	Net Dec 31, 2019	Net Dec. 31, 2018
AFS securities	**2,948,645**	**(37,609)**	**2,911,034**	**2,742,533**
Equities and other variable-income securities	354,557	(37,601)	316,956	306,985
Bonds and government securities	2,358,607		2,358,607	2,209,330
o/w direct investments in securities	*2,117,346*		*2,117,346*	*1,773,344*
o/w investments in UCITS	*241,261*		*241,261*	*435,986*
Shares in non-trading property companies	235,482	(8)	235,473	226,218
HTM securities				
Bond	**1,842**		**1,842**	**1,848**
Fair value through income – trading securities				
Money market funds (UCITS)	**43**		**43**	**9,527**
Derivatives (positive fair value)	**1,809**		**1,809**	**2,354**
(for information, derivatives with a negative fair value)	*(889)*		*(889)*	*(1,666)*
Loans and receivables	**75,765**	(95)	**75,670**	**77,063**
Investment property	**288**		**288**	**288**
TOTAL	**3,028,392**	**(37,704)**	**2,990,687**	**2,833,613**

Impairments

(in thousands of euros)	Dec. 31, 2018	Additions	Reversals	Exchange rate effects and other	Dec 31, 2019
AFS securities	**33,493**	**8,702**	**(4,603)**	**17**	**37,609**
Equities and other variable-income securities	31,492	8,702	(2,610)	17	37,601
Bonds and government securities	1,993	(0)	(1,993)		(0)
Shares in non-trading property companies	8				8
Loans and receivables	**94**	**1**			**95**
TOTAL	**33,587**	**8,703**	**(4,603)**	**17**	**37,704**

Reversals are related to the disposal of AFS securities.

Change in investments by category

	Dec. 31, 2018						Dec 31, 2019
(in thousands of euros)	Carrying amount	Increases	Decreases	Revaluation	Impairment	Other movements	Carrying amount
AFS securities	**2,742,533**	**746,089**	**(705,791)**	**97,823**	**(4,097)**	**34,477**	**2,911,034**
Equities and other variable-income securities	306,985	19,617	(52,214)	45,634	(6,090)	3,025	316,956
Bonds and government securities	2,209,330	720,232	(651,385)	46,417	1,993	32,019	2,358,607
Shares in non-trading property companies	226,218	6,241	(2,192)	5,772		(567)	235,473
HTM securities							
Bonds	1,848	(5)	(1)				1,842
Fair value through income – trading securities	9,527		(9,481)			(3)	43
Loans, receivables and other financial investments	**79,705**	**27,248**	**(20,452)**	**(1,339)**	**1**	**(7,394)**	**77,767**
TOTAL	**2,833,613**	**773,331**	**(735,725)**	**96,484**	**(4,097)**	**27,081**	**2,990,687**

Derivatives

The structural use of derivatives is strictly limited to hedging. The notional amounts of the hedges therefore do not exceed the amounts of the underlying assets in the portfolio.

During 2019, the majority of the derivative transactions carried out by the Group concerned the systematic hedging of currency risks *via* swaps or currency futures for primarily USD-denominated bonds held in the investment portfolio.

Investments in equities were subject to systematic partial hedging through purchases of put options. The hedging strategy applied by the Group is aimed at protecting the portfolio against a sharp drop in the equities market in the eurozone.

Regarding the bond portfolio, some of our exposure to European sovereign debt, which was hedged through future rates, has been released during the first 2019 semester. Coface retain the opportunity to put it back in place.
Some one-off interest rate hedging transactions were also set up on negotiable debt securities.

None of these transactions qualified for hedge accounting under IFRS as they were mainly currency transactions and partial market hedges.

3.2 – Financial instruments recognised at fair value

The fair values of financial instruments recorded in the balance sheet are measured according to a hierarchy that categorises into three levels the inputs used to measure fair value. These levels are as follows:

Level 1: Quoted prices in active markets for an identical financial instrument.

Securities classified as level 1 represent 84% of the Group's portfolio. They correspond to:

- equities, bonds and government securities listed on organized markets, as well as units in dedicated mutual funds whose net asset value is calculated and published on a very regular basis and is readily available (AFS securities);
- government bonds and bonds indexed to variable interest rates (HTM securities);
- French units in money-market funds, SICAV (trading securities).

Level 2: Use of inputs, other than quoted prices for an identical instrument that are directly or indirectly observable in the market (inputs corroborated by the market such as yield curves, swap rates, multiples method, etc.).

Securities classified as level 2 represent 3% of the Group's portfolio. This level is used for the following instruments:

- unlisted equities;
- loans and receivables due from banks or clients and whose fair value is determined using the historical cost method.

Level 3: Valuation techniques based on unobservable inputs such as projections or internal data.

Securities classified as level 3 represent 13% of the Group's portfolio. This level corresponds to unlisted equities, investment securities and units in dedicated mutual funds, as well as investment property.

Value in use is the present value of future cash flows that may result from an asset or cash-generating unit. The valuation, using the discounted cash flow method, is based on the three-year projected budget prepared by the subsidiaries and validated by management with two further years based on standardized management ratios (loss ratios and target cost ratios). Beyond the fifth year, the terminal value is evaluated on a basis of infinite capitalization of the last year's cash flow.

Breakdown of financial instrument fair value measurements as at December 31, 2019 by level in the fair value hierarchy

(in thousands of euros)	Carrying amount	Fair value	Level 1 Fair value determined based on quoted prices in active markets	Level 2 Fair value determined based on valuation techniques that use observable inputs	Level 3 Fair value determined based on valuation techniques that use unobservable inputs
AFS securities	**2,911,034**	**2,911,034**	**2,520,706**	**23**	**390,308**
Equities and other variable-income securities	316,956	316,956	162,097	23	154,835
Bonds and government securities	2,358,607	2,358,607	2,358,607		
Shares in non-trading property companies	235,473	235,473			235,473
HTM securities					
Bonds	1,842	1,842	1,842		
Fair value through income – trading securities					
Money market funds (UCITS)	43	43	43		
Derivatives	**1,809**	**1,809**	**682**	**1,018**	**109**
Loans and receivables	**75,670**	**75,670**		**75,670**	
Investment property	**288**	**288**			**288**
TOTAL	**2,990,687**	**2,990,687**	**2,523,272**	**76,711**	**390,705**

Movements in Level 3 securities as at December 31, 2019

(in thousands of euros)	At Dec. 31, 2018	Gains and losses recognized in the period		Transactions for the period		Exchange rate effects	At Dec. 31, 2019
		In income	Directly in equity	Purchases/ Issues	Sales/ Redemptions		
AFS securities	**367,453**	**(8,701)**	**20,393**	**13,000**	**(2,192)**	**354**	**390,308**
Equities and other variable-income securities	141,234	(8,701)	14,620	6,760		921	154,835
Shares in non-trading property companies	226,219		5,772	6,241	(2,192)	(568)	235,473
Derivatives	**109**					**(0)**	**109**
Investment property	**288**						**288**
TOTAL	**367,850**	**(8,701)**	**20,393**	**13,000**	**(2,192)**	**354**	**390,705**

Breakdown of financial instrument fair value measurements as at December 31, 2018 by level in the fair value hierarchy

(in thousands of euros)	Carrying amount	Fair value	Level 1 Fair value determined based on quoted prices in active markets	Level 2 Fair value determined based on valuation techniques that use observable inputs	Level 3 Fair value determined based on valuation techniques that use unobservable inputs
AFS securities	**2,742,533**	**2,742,533**	**2,375,057**	**23**	**367,453**
Equities and other variable-income securities	306,985	306,985	165,728	23	141,234
Bonds and government securities	2,209,330	2,209,330	2,209,330		
Shares in non-trading property companies	226,218	226,218			226,219
HTM securities					
Bonds	1,848	1,848	1,848		
Fair value through income – trading securities					
Money market funds (UCITS)	9,527	9,527	9,527		
Derivatives	**2,354**	**2,354**	**858**	**1,387**	**109**
Loans and receivables	**77,063**	**77,063**		**77,063**	
Investment property	**288**	**288**			**288**
TOTAL	**2,833,613**	**2,833,613**	**2,387,291**	**78,473**	**367,850**

Movements in Level 3 securities as at December 31, 2018

(in thousands of euros)	At Dec. 31, 2017	Gains and losses recognized in the period		Transactions for the period		Exchange rate effects	At Dec. 31, 2018
		In income	Directly in equity	Purchases/ Issues	Sales/ Redemptions		
AFS securities	**347,367**	**(1,314)**	**16,012**	**9,073**	**(8,097)**	**4,411**	**367,453**
Equities and other variable-income securities	128,521	(1,314)	12,357	680	(35)	1,025	141,234
Shares in non-trading property companies	218,846		3,655	8,393	(8,062)	3,387	226,219
Derivatives	**609**			**2,751**		**(3,251)**	**109**
Investment property	**288**						**288**
TOTAL	**348,264**	**(1,314)**	**16,012**	**11,824**	**(8,097)**	**1,160**	**367,850**

SPPI Financial assets at December 31, 2019 (IFRS 9)

(in thousands of euros)	Fair value	Fair value variation
Direct investments in securities - SPPI financial assets	2 094 788	41 791
Direct investments in securities - No SPPI financial assets	22 558	472
Direct investments in securities	**2 117 346**	**42 263**
Loans and receivables - SPPI financial assets	75 670	0
Loans and receivables	**75 670**	**0**
Cash and cash equivalents - SPPI financial assets	287 136	0
Cash and cash equivalents	**287 136**	**0**
SPPI financial assets	**2 457 593**	**41 791**
No SPPI financial assets	**22 558**	**472**
TOTAL	**2 480 151**	**42 263**

(in thousands of euros)	Gross value	Fair value
SPPI financial assets without a low credit risk	**149,358**	**153,251**

Note 4. Receivables arising from banking activities

Breakdown by nature

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Receivables arising from banking sector	2,346,710	2,509,047
Non-performing receivables arising from banking sector	55,777	61,354
Allowances for receivables arising from banking sector	(55,777)	(61,354)
TOTAL	**2,346,710**	**2,509,047**

Breakdown by age

Receivables arising from banking and other activities represent receivables acquired within the scope of factoring agreements.

They are recognised at cost within assets in the balance sheet and they are classified as level 2. Factoring receivables include both receivables whose future recovery is guaranteed by Coface and receivables for which the risk of future recovery is borne by the customer.

When applicable, the Group recognises a valuation allowance against receivables to take account of any potential difficulties in their future recovery, being specified that the receivables are also covered by a credit insurance agreement. Accordingly, the related risks are covered by claims provisions.

(in thousands of euros)	Dec. 31, 2019					
		Due				
	Not Due	- 3 months	3 months to 1 Year	1 to 5 years	+ 5 years	Total
Receivables arising from banking and other activities	1,655,909	690,801				2,346,710
Non-performing receivables arising from banking and other activities			1,402	30,459	23,915	55,777
Allowances for receivables arising from banking and other activities	(0)	(0)	(1,402)	(30,459)	(23,915)	(55,777)
Total receivables arising from banking and other activities	**1,655,909**	**690,801**	**0**	**0**	**0**	**2,346,710**
Claims reserve as hedge for factoring receivables						
Total receivables arising from banking and other activities after claims reserves	**1,655,909**	**690,801**	**0**	**0**	**0**	**2,346,710**

(in thousands of euros)	Dec. 31, 2018					
		Due				
	Not Due	- 3 months	3 months to 1 Year	1 to 5 years	+ 5 years	Total
Receivables arising from banking and other activities	1,856,362	652,686	(0)	(0)	(0)	2,509,047
Non-performing receivables arising from banking and other activities	(0)	(0)	6,008	30,753	24,593	61,354
Allowances for receivables arising from banking and other activities	99	(99)	(6,008)	(30,753)	(24,593)	(61,354)
Total receivables arising from banking and other activities	**1,856,461**	**652,586**	**0**	**0**	**0**	**2,509,047**
Claims reserve as hedge for factoring receivables	(0)	(0)	(0)	(0)	(0)	(0)
Total receivables arising from banking and other activities after claims reserves	**1,856,461**	**652,586**	**0**	**0**	**0**	**2,509,047**

Note 5. Investments in associates

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Investments in associates at January 1	0	15 780
Share in net income of associates	0	592
Dividends paid	0	0
Change in perimeter	0	(16 372)
TOTAL INVESTMENTS IN ASSOCIATES	**0**	**0**

Investments in associates were related to investment in Cofacrédit ; it was ceded at the end of June 2018.

Note 6. Tangible assets

	Dec. 31, 2019	Dec. 31, 2018
(in thousands of euros)	Net value	Net value
Buildings used for operational purposes	22,363	33,114
Other property, plant and equipment	15,800	15,858
Right-of-use assets for lessees	85,613	-
TOTAL	**123,776**	**48,972**

(in thousands of euros)	Dec. 31, 2019		
	Gross amount	Amortisation and impairment	Net value
Buildings used for operational purposes	85,281	(62,919)	22,362
Other property, plant and equipment	56,195	(40,395)	15,800
Right-of-use assets for lessees	103,919	(18,305)	85,614
TOTAL	**245,395**	**(121,619)**	**123,776**

(in thousands of euros)	Dec. 31, 2018		
	Gross amount	Amortisation and impairment	Net value
Buildings used for operational purposes	107,794	(74,680)	33,114
Other property, plant and equipment	54,599	(38,741)	15,858
TOTAL	**162,393**	**(113,421)**	**48,972**

Change in the gross amount of property, plant and equipment

(in thousands of euros)	Dec. 31, 2018	Impact FTA IFRS 16	01/01/19	Scope entry	Increases	Decreases	Currency translation variation	Dec. 31, 2019
Land used for operational purposes	14,010	0	14,010	0	0	(6,870)	0	7,140
Buildings used for operational purposes	93,784	0	93,784	2,296	0	(17,939)	0	78,141
Right-of-use assets for lessees - Buildings leasing	0	73,632	73,632	0	14,270	0	107	88,009
Total buildings used for operational purposes	**107,794**	**73,632**	**181,426**	**2,296**	**14,270**	**(24,809)**	**107**	**173,290**
Operating guarantees and deposits	3,412	0	3,412	0	305	(25)	(152)	3,540
Other property, plant and equipment	51,187	0	51,187	1,364	1,897	(1,493)	(299)	52,656
Right-of-use assets for lessees - Equipment leasing	0	11,763	11,763	0	4,122	0	24	15,909
Total other property, plant and equipment	**54,599**	**11,763**	**66,362**	**1,364**	**6,324**	**(1,518)**	**(427)**	**72,105**
TOTAL	**162,393**	**85,395**	**247,788**	**3,660**	**20,594**	**(26,327)**	**(320)**	**245,395**

IFRS 16 application generates accounting of all lease contracts in balance sheet as right of use. Therefore, the property, plant and equipment increased by € 85.4 million.

Decrease of land value and operating buildings is linked with the disposal of a building which belonged to Coface Italy.

The increase of the right of use in the year comes from the accounting a new building lease contrat by Coface Italy. Other rises are investments in tangible assets related to office arrangement.

(in thousands of euros)	Dec. 31, 2018	Scope entry	Additions	Reversals	Currency translation variation and other	Dec. 31, 2019
Accumulated depreciation – Building used for operational purposes	(74,680)	0	(1,643)	13,404	0	(62,919)
Accumulated impairment – Buildings used for operational purposes	0	0	0	0	0	0
Accumulated depreciation - Right-of-use assets for lessees - Buildings leasing	0	0	(12,653)	(213)	214	(12,652)
Accumulated impairmen - Right-of-use assets for lessees - Buildings leasing	0	0	0	0	0	0
Buildings used for operational purposes	**(74,680)**	**0**	**(14,296)**	**13,191**	**214**	**(75,571)**
Accumulated depreciation other property, plant & equipment	(36,194)	(961)	(3,596)	2,610	(239)	(38,380)
Accumulated impairment other property, plant & equipment	(2,547)	0	(14)	0	546	(2,015)
Accumulated depreciation - Right-of-use assets for lessees - Equipment leasing	0	0	(5,643)	0	(10)	(5,653)
Accumulated impairment - Right-of-use assets for lessees - Equipment leasing	0	0	0	0	0	0
Other property, plant and equipment	**(38,741)**	**(961)**	**(9,253)**	**2,610**	**297**	**(46,048)**
TOTAL	**(113,421)**	**(961)**	**(23,549)**	**15,801**	**511**	**(121,619)**

(in thousands of euros)	Dec. 31, 2017	Increases	Decreases	Currency translation variation	Dec. 31, 2018
Land used for operational purposes	14,010	0	0	0	14,010
Buildings used for operational purposes	93,785	1	0	(1)	93,785
Total buildings used for operational purposes	**107,795**	**1**	**0**	**(1)**	**107,795**
Operating guarantees and deposits	5,257	1,846	(3,859)	169	3,413
Other property, plant and equipment	50,575	3,027	(2,022)	(395)	51,185
Total other property, plant and equipment	**55,832**	**4,873**	**(5,881)**	**(226)**	**54,598**
TOTAL	**163,627**	**4,874**	**(5,881)**	**(227)**	**162,393**

Change in accumulated depreciation and impairment of property, plant and equipment

(in thousands of euros)	Dec. 31, 2017	Additions	Reversals	Currency translation variation and other	Dec. 31, 2018
Accumulated depreciation – Building used for operational purposes	(72,451)	(2,228)	0	(1)	(74,680)
Accumulated impairment – Buildings used for operational purposes	0	0	0	0	0
Buildings used for operational purposes	**(72,451)**	**(2,228)**	**0**	**(1)**	**(74,680)**
Accumulated depreciation other property, plant & equipment	(34,397)	(3,762)	1,717	248	(36,194)
Accumulated impairment other property, plant & equipment	(2,099)	(471)	0	23	(2,547)
Other property, plant and equipment	**(36,496)**	**(4,233)**	**1,717**	**271**	**(38,741)**
TOTAL	**(108,947)**	**(6,461)**	**1,717**	**270**	**(113,421)**

Market value of buildings used in the business

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Carrying amount	22,363	33,114
Market value	43,995	61,933
Unrealised gains	**21,632**	**28,819**

Buildings held by Coface Group do not represent any unrealised losses; no impairment is therefore recorded at December 31, 2019.

Note 7. Receivables arising from insurance and reinsurance operations

Breakdown by nature

	Dec. 31, 2019			Dec. 31, 2018		
(in thousands of euros)	Gross	Provision	Net	Gross	Provision	Net
Receivables from policyholders and agents	302,755	(36,864)	265,891	304,247	(35,149)	269,098
Earned premiums not written	123,755	0	123,755	115,355	0	115,355
Receivables arising from reinsurance operations, net	142,937	(221)	142,716	114,655	(282)	114,373
TOTAL	**569,447**	**(37,085)**	**532,362**	**534,257**	**(35,431)**	**498,826**

Breakdown by age

(in thousands of euros)	Dec. 31, 2019					
	Not due	Due				Total
		-3 months	3 months to 1 year	1 to 5 years	+ 5 years	
TOTAL Receivables arising from insurance and reinsurance operations	**393,216**	**83,053**	**42,816**	**12,257**	**1,020**	**532,362**

(in thousands of euros)	Dec. 31, 2018					
	Not due	Due				Total
		-3 months	3 months to 1 year	1 to 5 years	+5 years	
TOTAL Receivables arising from insurance and reinsurance operations	**358,857**	**93,211**	**34,444**	**7,829**	**4,485**	**498,826**

The risk of liquidity linked to insurance receivables is considered to be marginal as:

- the insurance business operates on a reverse production cycle: premiums are earned before claims are paid out
- Furthermore, Coface primarily bills its clients on a monthly or quarterly basis, which allows it to recognise its receivables with a short-term maturity of less than or equal to three months.

Note 8. Other assets

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Deferred acquisition costs	40,384	42,176
Trade receivables arising from other activities	62,112	48,553
Current tax receivables	49,675	57,267
Other receivables	181,187	179,285
TOTAL	**333,358**	**327,281**

The line “Other receivables” mainly includes:

- Receivables in factoring entities towards credit-insurance entities for €52 million;
- Loans granted to non-consolidated Coface entities for €33 million.

Note 9. Cash and cash equivalents

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Cash at bank and available	296,121	275,567
Cash equivalents	24,656	26,852
TOTAL	**320,777**	**302,419**

As of December 31, 2019, operating cash rose by € 18.4 million mainly due to the expectation of payment on Coface Re and the French entity. Operating cash without these two pending transactions decreased slightly during 2019 compared to December 31, 2018.
Cash and cash equivalents are all available; no amount is placed on escrow type accounts.

Note 10. Share capital

Ordinary shares	Number of shares	Per value	Share capital (in €)
At December 31, 2018	153,899,261	2	307,798,522
Cancellation of shares	(1,867,312)	2	(3,734,624)
At December 31, 2019	**152,031,949**	**2**	**304,063,898**
Treasury shares deducted	(1,000,752)	2	(2,001,504)
At December 31, 2019 (excluding treasury shares)	**151,031,197**	**2**	**302,062,394**

	Dec. 31, 2019		Dec. 31, 2018	
Shareholders	Number of shares	%	Number of shares	%
Natixis	64,153,881	42.48%	64,853,881	42.86%
Public	86,877,316	57.52%	86,445,140	57.14%
Total excluding treasury shares	**151,031,197**	**100%**	**151,299,021**	**100%**

The parent company of COFACE Group is Natixis, which in turn is owned by BPCE, the central body of Banques Populaires and Caisses d’Épargne.

Natixis holds, at the end of December 2019, 42.48% of the COFACE Group's shares excluding treasury shares, and 42.20% including treasury shares.

Note 11. Share-based payments

Ongoing free share plans

Coface Group awarded, since its stock market listing, free shares to certain beneficiaries (corporate officers and employees of COFACE SA subsidiaries).

Plan	Allocation date	Number of shares granted	Acquisition period	Acquisition date	Availability date	Fair value of the share at the allocation date	Net expense for the year (in thousands of euros)
Long-term Incentive Plan 2016	Nov. 03, 2016	268,602	3 years	Nov. 04, 2019	Nov. 04, 2019	5.5	**214**
Long-term Incentive Plan 2017	Feb. 08, 2017	333,197	3 years	Feb. 09, 2020	Feb. 09, 2020	6.2	**350**
Long-term Incentive Plan 2018	Feb. 12, 2018	289,132	3 years	Feb. 15, 2021	Feb. 15, 2021	8.5	**614**
Long-term Incentive Plan 2019	Feb. 11, 2019	368,548	3 years	Feb. 14, 2022	Feb. 14, 2022	7,9	**701**

Change in the number of free shares

Plan	Number of free shares at Dec. 31, 2018	Number of new free share grants in 2019	Number of free shares cancelled in 2019	Number of free shares acquired in 2019	Number of shares to be acquired at Dec. 31, 2019
Long-term Incentive Plan 2016	298,997		(30,395)	(268,602)	**0**
Long-term Incentive Plan 2017	366,146		(32,949)		**333,197**
Long-term Incentive Plan 2018	298,132		(9,000)		**289,132**
Long-term Incentive Plan 2019		372,268	(3,720)		**368,548**

The total number of shares allocated to the *Long-term Incentive Plan 2019* amounts to 434,055 shares; only 400,788 shares were affected nominatively to beneficiaries including 372,268 shares and 28,520 performance units.

Performance units are awarded instead of free shares as soon as the free shares implementation appears complex or irrelevant in terms of the number of beneficiaries. These units are indexed on the share price and subject to the same conditions of presence and performance that shares free but are valued and paid in cash at the end of the vesting period.

Free shares under the *Long-term Incentive Plan* are definitely granted based upon presence in the group and performance achievement.

Measurement of free shares

In accordance with IFRS 2 relating to "Share-based payments", the award of free shares to employees results in the recognition of an expense corresponding to the fair value of shares granted on the award date adjusted for unpaid dividends during the rights vesting period and transfer restrictions during the holding period, as well as the probability of the materialisation of the performance conditions.

The plans were measured on the assumptions below:

- discount rate corresponding to a risk-free rate on the plans' duration;
- income distribution rate set at 60%;
- the lock-in value, which is calculated in consideration of a risk-free interest rate and a two-year borrowing rate.

Based on these assumptions, a total of €1,879 thousand was expensed under the implemented plans at December 31, 2019.

Note 12. Revaluation reserves

(in thousands of euros)	Investment instruments	Reserves - gains and losses not reclassifiable to income statement	Income tax	Revaluation reserves attributable to owners of the parent	Non-controlling interests	Revaluation reserves
At January 1, 2019	**116,607**	**(30,314)**	**(1,836)**	**84,457**	**(122)**	**84,335**
Fair value adjustments on available-for-sale financial assets reclassified to income	(8,926)		1,606	(7,320)	(1)	(7,321)
Fair value adjustments on available-for-sale financial assets recognised in equity	107,131		(21,793)	85,338	6	85,344
Change in reserves - gains and losses not reclassificable to income statement (IAS 19R)	0	(4,386)	1,157	(3,229)		(3,229)
Transactions with shareholders	0		0	0	0	0
At December 31, 2019	**214,812**	**(34,700)**	**(20,866)**	**159,246**	**(117)**	**159,129**

(in thousands of euros)	Investment instruments	Reserves - gains and losses not reclassifiable to income statement	Income tax	Revaluation reserves attributable to owners of the parent	Non-controlling interests	Revaluation reserves
At January 1, 2018	**153,988**	**(32,137)**	**(20,808)**	**101,043**	**(121)**	**100,922**
Fair value adjustments on available-for-sale financial assets reclassified to income	1,913		(1,227)	686	0	686
Fair value adjustments on available-for-sale financial assets recognised in equity	(39,294)		20,627	(18,667)	(1)	(18,668)
Change in reserves - gains and losses not reclassificable to income statement (IAS 19R)		1,823	(,428)	1,395		1,395
Transactions with shareholders	(0)		(0)	0	0	0
At December 31, 2018	**116,607**	**(30,314)**	**(1,836)**	**84,457**	**(122)**	**84,335**

Note 13. Provisions for liabilities and charges

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Provisions for disputes	2,769	3,441
Provisions for pension and other post-employment benefit obligations	66,447	62,564
Other provisions for liabilities and charges	31,716	28,339
Total	**100,932**	**94,344**

(in thousands of euros)	Dec. 31, 2018	Scope entry	Additions	Reversals (utilised)	Reversals (surplus)	Reclassi-fications	Changes in OCI	Currency translation variation	Dec. 31, 2019
Provisions for employee	2,893		872	(850)	(360)			(2)	2,553
Provisions for other disputes	548		185		(492)	(19)		(6)	216
Provisions for disputes	**3,441**	**0**	**1,057**	**(850)**	**(852)**	**(19)**	**0**	**(8)**	**2,769**
Provisions for pension	**62,564**	**127**	**5,201**	**(4,995)**	**(973)**	**0**	**4,386**	**137**	**66,447**
Provisions for liabilities	15,138		3,166	(1,038)				678	17,946
Provisions for restructuring	11,426		7,014	(7,652)	(259)				10,529
Provisions for taxes (excl. income taxes)	695					19		(9)	577
Other provisions for liabilities	1,080		919	(48)					2,664
Other provisions for liabilities and charges	**28,338**	**0**	**11,099**	**(8,738)**	**(385)**	**732**	**0**	**669**	**31,715**
Total	**94,344**	**127**	**17,357**	**(14,583)**	**(2,210)**	**713**	**4,386**	**798**	**100,932**

(in thousands of euros)	Dec. 31, 2017	Additions	Reversals (utilised)	Reversals (surplus)	Reclassi-fications	Changes in OCI	Currency translation variation	Dec 31, 2018
Provisions for employee	3,094	350	(308)	(232)			(11)	2,893
Provisions for other disputes	2,558	707		(2,513)	(12)		(192)	548
Provisions for disputes	**5,652**	**1,057**	**(308)**	**(2,745)**	**(12)**		**(203)**	**3,441**
Provisions for pension	**66,141**	**3,294**	**(4,907)**	**(239)**	**0**	**(1,823)**	**98**	**62,564**
Provisions for liabilities	14,151	1,310					(188)	15,138
Provisions for restructuring	30,838	2,095	(10,466)	(11,041)				11,426
Provisions for taxes (excl. income taxes)	2,045		(1,334)		12		(28)	695
Other provisions for liabilities	2,889	527	(271)	(2,065)				1,080
Other provisions for liabilities and charges	**49,923**	**3,932**	**(12,206)**	**(13,106)**	**12**		**(216)**	**28,339**
Total	**121,716**	**8,283**	**(17,421)**	**(16,090)**	**0**	**(1,823)**	**(321)**	**94,344**

Provisions for liabilities and charges mainly include provisions for pensions and other post-employment benefit obligations and provisions for restructuring.

Provisions for liabilities on non-consolidated entities indicates a net increase of €2.1 million. It's mainly related to Coface Emirates Services (€2 million) and Coface West Africa (€0.5 million).

The provisions linked to the strategic plan *Fit to Win* (classified in provision for restructuring) amount to € 3.8 million at December 31, 2019. A significative part booked in the past years has been removed this year by German entities (€2 million), French entities (€ 3.8 million) and Italian entities (€1.4 million).

Note 14. Employee benefits

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Present value of benefit obligation at January 1st	**64,585**	**68,203**
Current service cost	1,455	2,241
Interest cost	2,803	619
Actuarial (gains) / losses	4,506	(1,672)
Benefits paid	(4,934)	(4,688)
Acquisitions/mergers/deconsolidations	127	(0)
Other	142	(118)
Present value of benefit obligation at December 31st	**68,684**	**64,585**
Change in plan assets		
Fair value of plan assets at January 1st	**2,021**	**2,062**
Revaluation adjustments – Return on plan assets	156	52
Employee contributions	(0)	(0)
Employer contributions	83	64
Benefits paid	(23)	(158)
Other	(0)	1
Fair value of plan assets at December 31st	**2,237**	**2,021**
Reconciliation		
Present value of benefit obligation at December 31st	**68,684**	**64,585**
Fair value of plan assets	2,237	2,021
(Liability) / Asset recognised in the balance sheet at December	**(66,447)**	**(62,564)**
Income statement		
Current service cost	1,474	2,279
Past service cost	(19)	(0)
Benefits paid including amounts paid in respect of settlements	(0)	(4,789)
Interest cost	965	978
Interest income	(0)	(0)
Revaluation adjustments on other long-term benefits	1,804	(0)
Other	141	(320)
(Income) / Expenses recorded in the income statement	**4,365**	**(1,852)**
Changes recognised directly in equity not reclassifiable to income		
Revaluation adjustments arising in the year	4,386	(1,823)
Revaluation adjustments recognised in equity not reclassifiable to income	**4,386**	**(1,823)**

(in thousands of euros)	Dec. 31, 2019					
	France	**Germany**	**Austria**	**Italy**	**Other**	**TOTAL**
Present value of benefit obligation at January 1st	**16,267**	**24,666**	**16,578**	**3,312**	**3,762**	**64,585**
Acquisitions/mergers/deconsolidations	(0)	(0)	(0)	(0)	127	127
Current service cost	678	403	201	296	(123)	1,455
Interest cost	103	2,255	317	128	(0)	2,803
Actuarial (gains) / losses	(1,383)	2,470	3,206	213	(0)	4,506
Benefits paid	(1,241)	(2,567)	(1,067)	(59)	(0)	(4,934)
Other	(0)	(0)	(0)	(0)	142	142
Present value of benefit obligation at December 31st	**14,424**	**27,227**	**19,235**	**3,890**	**3,908**	**68,684**
Change in plan assets						
Fair value of plan assets at January 1st	**(0)**	**1,248**	**773**	**(0)**	**(0)**	**2,021**
Revaluation adjustments – Return on plan assets	(0)	63	93	(0)	(0)	156
Employer contributions	(0)	8	75	(0)	(0)	83
Benefits paid	(0)	(6)	(17)	(0)	(0)	(23)
Other	(0)	(0)	(0)	(0)	(0)	(0)
Fair value of plan assets at December 31st	**(0)**	**1,313**	**924**	**(0)**	**(0)**	**2,237**
Reconciliation						
Present value of benefit obligation at December 31st	**14,424**	**27,227**	**19,235**	**3,890**	**3,908**	**68,684**
Fair value of plan assets	(0)	1,313	924	(0)	(0)	2,237
(Liability) / Asset recognised in the balance sheet at December	**(14,424)**	**(25,914)**	**(18,311)**	**(3,890)**	**(3,908)**	**(66,447)**
Income statement						
Current service cost	678	403	201	315	(123)	1,474
Past service cost	(0)	(0)	(0)	(19)	(0)	(19)
Benefits paid including amounts paid in respect of settlements	(0)	(0)	(0)	(0)	(0)	(0)
Interest cost	234	407	283	41	(0)	965
Interest income	(0)	(0)	(0)	(0)	(0)	(0)
Revaluation adjustments on other long-term benefits	(131)	1,827	20	88	(0)	1,804
Other	(0)	(0)	(0)	(0)	141	141
(Income) / Expenses recorded in the income statement	**781**	**2,637**	**504**	**425**	**18**	**4,365**
Changes recognised directly in equity not reclassifiable to income						
Revaluation adjustments arising in the year	(1,383)	2,429	3,127	213	(0)	4,386
Revaluation adjustments recognised in equity not reclassifiable to income	**(1,383)**	**2,429**	**3,127**	**213**	**(0)**	**4,386**

(in thousands of euros)	Dec. 31, 2018					
	France	Germany	Austria	Italy	Other	TOTAL
Present value of benefit obligation at January 1st	**17,070**	**26,330**	**18,159**	**3,213**	**3,431**	**68,203**
Current service cost	696	839	202	116	388	2,241
Interest cost	194	98	290	37	(0)	619
Actuarial (gains) / losses	(569)	173	(1,273)	(3)	(0)	(1,672)
Benefits paid	(1,123)	(2,764)	(748)	(53)	(0)	(4,688)
Other	(1)	(10)	(52)	2	(57)	(118)
Present value of benefit obligation at December 31st	**16,267**	**24,666**	**16,578**	**3,312**	**3,762**	**64,585**
Change in plan assets						
Fair value of plan assets at January 1	**(0)**	**1,221**	**841**	**(0)**	**(0)**	**2,062**
Revaluation adjustments – Return on plan assets	(0)	52	(0)	(0)	(0)	52
Employer contributions	(0)	10	54	(0)	(0)	64
Benefits paid	(0)	(37)	(121)	(0)	(0)	(158)
Other	(0)	1	(0)	(0)	(0)	1
Fair value of plan assets at December 31st	**(0)**	**1,247**	**774**	**(0)**	**(0)**	**2,021**
Reconciliation						
Present value of benefit obligation at December 31st	**16,267**	**24,666**	**16,578**	**3,312**	**3,762**	**64,585**
Fair value of plan assets	(0)	1,247	774	(0)	(0)	2,021
(Liability) / Asset recognised in the balance sheet at December	**(16,267)**	**(23,419)**	**(15,804)**	**(3,312)**	**(3,762)**	**(62,564)**
Income statement						
Current service cost	696	810	269	116	388	2,279
Past service cost	(0)	(0)	(0)	(0)	(0)	(0)
Benefits paid including amounts paid in respect of settlements	(1,123)	(2,811)	(802)	(53)	(0)	(4,789)
Interest cost	205	431	305	37	(0)	978
Interest income	(0)	(0)	(0)	(0)	(0)	(0)
Revaluation adjustments on other long-term benefits	(0)	(0)	(0)	(0)	(0)	(0)
Other	(13)	(292)	(15)	(0)	(0)	(320)
(Income) / Expenses recorded in the income statement	**(235)**	**(1,862)**	**(243)**	**100**	**388**	**(1,852)**
Changes recognised directly in equity not reclassifiable to income						
Revaluation adjustments arising in the year	(569)	173	(1,273)	(3)	(150)	(1,823)
Revaluation adjustments recognised in equity not reclassifiable to income	**(569)**	**173**	**(1,273)**	**(3)**	**(150)**	**(1,823)**

Actuarial assumptions

The discount rate applied to the Group's employee benefit obligations is based on the Bloomberg Corporate AA curve for French entities and on a basket of international AA-rated corporate bonds for foreign entities.

	Dec. 31, 2019			
	France	Germany	Austria	Italy
Inflation rate	1.70%	1.70%	1.70%	1.70%
Discount rate				
Supplementary retirement and other plans	0.00%	0.80%	0.80%	N/A
Statutory retirement benefits	0.40%	N/A	0.80%	0.80%
Long-service awards	0.00%	0.80%	0.80%	0.80%
Other benefits	0.50%	0.80%	N/A	0.80%
Rate of salary increases (including inflation)	2.00%	2.20%	3.00%	1.70%
Rate of increase in medical costs (including inflation)	2.50%	N/A	N/A	4.20%
Average remaining working life until retirement				
Supplementary retirement and other plans	0.00	1.26	4.39	8.40
Statutory retirement benefits	16.83	N/A	10.04	12.10
Long-service awards	16.83	14.88	19.38	8.50
Other benefits	0.00	3.78	N/A	0.00
Term (years)				
Supplementary retirement and other plans	3.76	13.55	18.24	22.10
Statutory retirement benefits	14.57	0.00	10.04	9.63
Long-service awards	8.93	10.57	9.31	10.80
Other benefits	14.18	1.66	N/A	N/A

	Dec. 31, 2018			
	France	Germany	Austria	Italy
Inflation rate	1.70%	1.70%	1.70%	1.70%
Discount rate				
Supplementary retirement and other plans	0.30%	1.85%	1.85%	N/A
Statutory retirement benefits	1.40%	N/A	1.85%	1.85%
Long-service awards	1.00%	1.85%	1.85%	1,85%
Other benefits	1.70%	1.85%	N/A	1.85%
Rate of salary increases (including inflation)	2.00%	2.20%	3.00%	1.70%
Rate of increase in medical costs (including inflation)	4.20%	N/A	N/A	4.20%
Average remaining working life until retirement				
Supplementary retirement and other plans	0.00	1.28	3.82	7.30
Statutory retirement benefits	14.92	N/A	10.51	12.20
Long-service awards	14.92	14.92	19.26	8.80
Other benefits	0.00	1.46	N/A	0.00
Term (years)				
Supplementary retirement and other plans	4.09	12.26	16.75	17.50
Statutory retirement benefits	11.46	0,00	9.31	10.03
Long-service awards	7.90	10.31	10.06	10.69
Other benefits	14.46	1.14	N/A	N/A

Sensitivity tests on the defined benefit obligation

	Dec. 31, 2019			
	Post-employment defined benefit obligations		Other long-term benefits	
	Supplementary retirement and other plans	Statutory retirement benefits	Long-service awards	Other benefits
1% increase in the discount rate	-12.83%	-11.26%	-8.11%	-1.64%
-1% increase in the discount rate	16.27%	13.54%	9.70%	1.70%
1% increase in the inflation rate	8.12%	9.70%	0.96%	1.66%
-1% increase in the inflation rate	-6.73%	-8.26%	-1.20%	-1.64%
1% increase in rate of increase in medical costs	15.90%	0.00%	0.00%	0.00%
-1% increase in rate of increase in medical costs	-12.97%	0.00%	0.00%	0.00%
1% decrease in rate of salary increase (including inflation)	11.85%	11.85%	2.04%	1.66%
-1% decrease in rate of salary increase (including inflation)	-9.83%	-10.15%	-2.15%	-1.64%

	Dec. 31, 2018			
	Post-employment defined benefit obligations		Other long-term benefits	
	Supplementary retirement and other plans	Statutory retirement benefits	Long-service awards	Other benefits
1% increase in the discount rate	-11.95%	-9.97%	-8.92%	-1.06%
-1% increase in the discount rate	14.91%	11.82%	10.40%	1.09%
1% increase in the inflation rate	7.84%	10.12%	0.95%	1.08%
-1% increase in the inflation rate	-6.58%	-8.62%	-1.13%	-1.07%
1% increase in rate of increase in medical costs	15.28%	0.00%	0.00%	0.00%
-1% increase in rate of increase in medical costs	-12.78%	0.00%	0.00%	0.00%
1% decrease in rate of salary increase (including inflation)	10.61%	11.93%	1.97%	1.08%
-1% decrease in rate of salary increase (including inflation)	-8.87%	-10.20%	-2.05%	-1.07%

Note 15. Financing liabilities

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Due within one year		
- Interest	11,756	11,756
- Amortization of expenses	(547)	(524)
Total	**11,209**	**11,232**
Due between one and five years		
- Amortization of expenses	(1,948)	(2,343)
- Nominal	380,000	
Total	**378,052**	**(2,343)**
Due beyond five years		
- Amortization of expenses	0	(160)
- Nominal	0	380,000
Total	**0**	**379,840**
TOTAL	**389,261**	**388,729**

On March 27, 2014, COFACE SA issued a subordinated debt in the form of bonds for a nominal amount of €380 million (corresponding to 3,800 bonds with a nominal unit value of €100,000), maturing on March 27, 2024 (10 years), with an annual interest rate of 4.125%.
The per-unit bond issue price was €99,493.80, and the net amount received by COFACE SA was €376.7 million, net of placement fees and directly-attributable transaction costs.

These securities are irrevocably and unconditionally guaranteed on a subordinated basis by Compagnie française d'assurance pour le commerce extérieur, the Coface Group's main operating entity.

On March 25, 2014, a joint guarantee was issued by Compagnie française d'assurance pour le commerce extérieur for €380 million, in favour of the investors in COFACE SA's subordinated bonds, applicable until the extinction of all liabilities in respect of said investors.

As at December 31, 2019, the debt presented on the line "Subordinated borrowings" of the balance sheet, amounted to €389,261 thousand, is composed of:

- nominal amount of bonds: €380,000 thousand;
- reduced by the debt issuance costs and the issue premium for €2,495 thousand;
- increased by accrued interest of €11,756 thousand.

The impact on consolidated income statement income as at December 31, 2019 mainly includes the interest related to the period for €16,208 thousand.

Note 16. Lease liabilities

Lease liabilities ageing

	Dec. 31, 2019							
(in thousands of euros)	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Lease liabilities not discounted (before interest deduction)	93	4,122	5,061	10,173	13,702	28,583	44,092	**105,827**

Lease lesses – Reconciliation table between minimum future payments at Decdember 31st, 2018 and lease liabilities in accounting at January, 1st 2019.

(in thousand of euros)	
Future minimum lease payments on operating leases as of December 31, 2018	**109,306**
Commitments on leases that have not yet started	(6,937)
Exemption for short term or low-value contracts	(607)
Gross value of lease liabilities as at 1 January 2019	**101,763**
Discounting effect	(16,368)
Lease liabilities recognised in the balance sheet as at 1 January 2019	**85,395**

Weighted average marginal rate applied to lease liabilities for First-Time Application is 3.02 %.

Note 17. Liabilities relating to insurance contracts

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Provisions for unearned premiums	281,465	280,584
Claims reserves	1,361,352	1,290,857
Provisions for premium refunds	184,402	174,938
Liabilities relating to insurance contracts	**1,827,219**	**1,746,379**
Provisions for unearned premiums	(59,130)	(60,752)
Claims reserves	(341,936)	(321,289)
Provisions for premium refunds	(49,301)	(43,357)
Reinsurers' share insurance liabilities	**(450,367)**	**(425,398)**
Net technical provisions	**1,376,852**	**1,320,981**

Provisions for claims include provisions to cover claims incurred but not reported and shortfalls in estimated provisions for claims reported. These amounted to €737 million at December 31, 2019.

Note 18. Payables arising from banking activities

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Amounts due to banking sector companies	523,020	660,204
Amounts due to customers of banking sector companies	301,058	346,932
Debt securities	1,538,727	1,537,580
TOTAL	**2,362,805**	**2,544,716**

The lines "Amounts due to banking sector companies" and "Debt securities" correspond to sources of refinancing for the Group's factoring entities – Coface Finanz (Germany) and Coface Factoring Poland.

Note 19. Deferred tax

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Deferred tax assets	(64,042)	(52,809)
Deferred tax liabilities	107,357	95,962
Net deferred tax - liabilities	**43,315**	**43,153**
Timing differences	(16,705)	(19,128)
Provisions for pensions and other employment benefit obligations	(9,951)	(9,397)
Tax loss carry forwards	(7,290)	(6,619)
Cancellation of the claims equalization provision	77,261	78,298
Net deferred tax - liabilities	**43,315**	**43,153**

Deferred tax assets and liabilities are assessed at the rate applicable on the date on which the asset will be realized or the liabilities will be settled.

The French tax law for 2020 planned a decline in the current common law rate from 33.33% to 25% gradually until 2022 for companies with more than € 250 million of turnover. This future rate change has been taken into account in the valuation of deferred taxes of the French entities of Coface Group.

Each entity is compensating deferred tax assets and liabilities whenever it is legaly authorized to compensate due tax assets and liabilities.

Changes in deferred tax balances by region

Deferred tax with positive signs are deferred tax liabilities. On the other hand, those with negative signs are deferred tax assets.

(in thousands of euros)	Dec. 31, 2018	Jan. 1, 2019 (*)	Change through income	Revaluation adjustment on AFS investments	Currency translation variation	Other movements	Dec. 31, 2019
Northern Europe	58,943	58,943	(9,113)	58	0	(761)	49,127
Western Europe	15,618	15,714	(7,353)	19,834	(15)	909	29,089
Central Europe	(1,069)	(1,069)	(796)	38	109	(409)	(2,127)
Mediterranean & Africa	(17,233)	(17,233)	(7,244)	0	97	0	(24,380)
North America	1,404	1,404	427	537	34	0	2,402
Latin America	(2,902)	(2,902)	(3,449)	(487)	812	0	(6,026)
Asia Pacific	(11,608)	(11,608)	6,786	209	(157)	0	(4,770)
Total	**43,153**	**43,249**	**(20,742)**	**20,189**	**,880**	**(261)**	**43,315**

(*) Effects related to the first application of IFRS 16

The “Other movements” column mainly includes deferred taxes on changes in retirement benefits recognised as equity not reclassifiable to income.

Bridge table explaining effect of the first application of IFRS 16 “Lease”

(in thousands of euros)	Dec. 31, 2018	Effect of the first application of IFRS 16	**Jan. 1, 2019**
Northern Europe	58,943	0	58,943
Western Europe	15,618	96	15,714
Central Europe	(1,069)	0	(1,069)
Mediterranean & Africa	(17,233)	0	(17,233)
North America	1,404	0	1,404
Latin America	(2,902)	0	(2,902)
Asia Pacific	(11,608)	0	(11,608)
Total	**43,153**	**96**	**43,249**

(in thousands of euros)	Dec. 31, 2017	Jan. 1, 2018 (*)	Change through income statement	Revaluation adjustment on AFS investments	Currency translation variation	Other movements	**Dec. 31, 2018**
Northern Europe	55,548	55,498	3,420	79	0	(54)	58,943
Western Europe	10,562	10,562	20,242	(15,671)	67	418	15,618
Central Europe	(386)	(406)	(823)	(51)	(107)	318	(1,069)
Mediterranean & Africa	(14,930)	(14,930)	(2,073)	0	(231)	1	(17,233)
North America	(221)	(221)	1,639	(206)	192	0	1,404
Latin America	(3,241)	(3,241)	2,020	(3,486)	1,760	45	(2,902)
Asia Pacific	(13,253)	(13,253)	2,141	(65)	(431)	0	(11,608)
TOTAL	**34,079**	**34,009**	**26,566**	**(19,400)**	**1,250**	**728**	**43,153**

(*) Effects related to the first application of IFRS 9

The “Other movements” column mainly includes deferred taxes on changes in retirement benefits recognised as equity not reclassifiable to income.

Bridge table explaining effect of the first application of IFRS 9 “Financial Instruments”

(in thousands of euros)	Dec. 31, 2017	Effect of the first application of IFRS 9	**Jan. 1, 2018**
Northern Europe	55,548	(50)	55,498
Western Europe	10,562		10,562
Central Europe	(386)	(20)	(406)
Mediterranean & Africa	(14,930)		(14,930)
North America	(,221)		(221)
Latin America	(3,241)		(3,241)
Asia Pacific	(13,253)		(13,253)
TOTAL	**34,079**	**(70)**	**34,009**

Deferred taxes related to tax losses

The breakdown by region of deferred taxes assets linked to tax deficits is as follows :

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Northern Europe	986	0
Western Europe	1,422	136
Central Europe	609	542
Mediterranean & Africa	717	271
North America	0	854
Latin America	1,083	1,097
Asia-Pacific	2,472	3,719
Net deferred tax - liabilities	**7,290**	**6,619**

The recognition of deferred tax assets on tax losses is subject to a case-by-case recoverability analysis, taking into account the forecasts of the results of each entity. Deferred tax assets on losses are recognized at the level of entity's income tax results estimated for the period from 2020 to 2024, ie a recoverability horizon of five years. This recognition results from a Business Tax Plan prepared by each entity on the basis of the Business Plan approved by the Management.

Note 20. Payables arising from insurance and reinsurance operations

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Guarantee deposits received from policyholders	2,630	2,472
Amounts due to policyholders and agents	78,446	67,981
Payables arising from insurance and inward reinsurance operations	**81,076**	**70,453**
Amounts due to reinsurers	135,454	121,321
Deposits received from reinsurers	3,333	3,879
Payable arising from ceded reinsurance operations	**138,787**	**125,200**
Total	**219,863**	**195,653**

Note 21. Other liabilities

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Current tax payables	**66,295**	**41,580**
Derivatives and related liabilities	**888**	**1,666**
Accrued personnel costs	56,621	54,873
Sundry payables	206,781	215,872
Deferred income	9,340	8,224
Other accruals	17,828	24,645
Other payables	**290,570**	**303,614**
Total	**357,754**	**346,860**

Note 22. Revenue

Breakdown of consolidated revenue

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Premiums – direct business	*1,224,651*	*1,169,260*
Premiums – inward reinsurance	*102,984*	*94,102*
Gross written premiums	**1,327,635**	**1,263,364**
Premium refunds	**(95,079)**	**(106,516)**
Change of provisions for unearned premiums	**3,041**	**(14,240)**
Earned premiums	**1,235,597**	**1,142,608**
Fees and commission income	**140,114**	**132,418**
Net income from banking activities	**64,106**	**66,713**
Other insurance-related services	*94*	*3,637*
Business information and other services	*31,108*	*28,550*
Receivables management	*10,069*	*10,809*
Income from other activities	**41,271**	**42,995**
Revenue or income from other activities	**245,491**	**242,127**
CONSOLIDATED REVENUE	**1,481,088**	**1,384,735**

Consolidated revenue by country of invoicing

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Northern Europe	307,464	303,081
Western Europe	294,650	283,965
Central Europe	148,078	133,843
Mediterranean & Africa	394,175	370,370
North America	138,475	126,502
Latin America	80,653	71,528
Asia-Pacific	117,593	95,447
CONSOLIDATED REVENUE	**1,481,088**	**1,384,735**

Consolidated revenue by activity

(in thousands of euros)	**Dec. 31, 2019**	**Dec. 31, 2018**
Earned premiums - Credit	*1,164,752*	*1,068,404*
Earned premiums - Single risk	*21,193*	*26,779*
Earned premiums - Credit insurance	**1,185,945**	**1,095,183**
Fees and commission income	**140,114**	**132,418**
Other insurance-related services	**94**	**3,637**
Revenue of credit insurance activity	**1,326,153**	**1,231,238**
Earned premiums - Guarantees	**49,652**	**47,425**
Financing fees	35,226	35,295
Factoring fees	30,304	32,416
Other	(1,424)	(998)
Net income from banking activities (factoring)	**64,106**	**66,713**
Business information and other services	31,108	28,550
Receivables management	10,069	10,809
Revenue of business information and other services activity	**41,177**	**39,359**
CONSOLIDATED REVENUE	**1,481,088**	**1,384,735**

Note 23. Claim expenses

(in thousands of euros)	**Dec. 31, 2019**	**Dec. 31, 2018**
Paid claims, net of recoveries	(456,416)	(444,072)
Claims handling expenses	(31,212)	(28,020)
Change in claims reserves	(48,619)	(32,417)
Total	**(536,247)**	**(504,509)**

Claims expenses by period of occurence

(in thousands of euros)	**Dec. 31, 2019**			**Dec. 31, 2018**		
	Gross	Outward reinsurance and retrocessions	Net	Gross	Outward reinsurance and retrocessions	Net
Claims expenses – current year	(866,463)	219,596	(646,867)	(828,774)	208,960	(619,814)
Claims expenses – prior years	330,216	(80,145)	250,071	324,265	(72,213)	252,052
Total	**(536,247)**	**(139,451)**	**(396,796)**	**(504,509)**	**136,747**	**(367,762)**

Note 24. Overheads by function

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Policy acquisition costs	(242,675)	(243,236)
Administrative costs	(274,784)	(241,136)
Other insurance activity expenses	(70,739)	(82,556)
Expenses from banking activities, excluding cost of risk	(13,742)	(13,552)
Expenses from services activities	(75,198)	(77,739)
Operating expenses	**(677,138)**	**(658,219)**
Investment management expenses	**(4,037)**	**(4,006)**
Claims handling expenses	**(31,212)**	**(28,020)**
TOTAL	**(712,387)**	**(690,245)**
of which employee profit-sharing	*(7,038)*	*(6,219)*

Total overheads include general insurance expenses (by function), expenses from services activities and expenses from banking activities. It came out at €712,387 thousand as at December 31, 2019 versus €690,245 thousand as at December 31, 2018.
In the income statement, claims handling expenses are included in "Claims expenses" and investment management expenses are shown in "Investment income, net of management expenses (excluding finance costs)".

Note 25. Expenses from banking activities

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Charges to allowances for receivables	(138)	(5,858)
Reversal of allowances for receivables	6,559	6,763
Losses on receivables	(8,225)	(3,027)
Cost of risk	**(1,804)**	**(2,122)**
Operating expenses	**(13,742)**	**(13,552)**
TOTAL	**(15,546)**	**(15,674)**

"Cost of risk" corresponds to the risk-related expense on credit insurance operations conducted by factoring companies, which includes net additions to provisions, receivables written off during the year, and recoveries of amortised receivables.

Note 26. Income and expenses from ceded reinsurance

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Ceded claims	126,829	124,536
Change in claims provisions net of recoveries	12,622	12,211
Commissions paid by reinsurers	136,171	128,666
Income from ceded reinsurance	**275,622**	**265,413**
Ceded premiums	(350,573)	(326,730)
Change in unearned premiums provisions	(3,012)	(811)
Expenses from ceded reinsurance	**(353,585)**	**(327,541)**
Total	**(77,963)**	**(62,128)**

Note 27. Investment income, net of management expenses (excluding finance costs)

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Investment income	50,635	46,272
Change in financial instruments at fair value through income	1,287	(1,976)
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds	*0*	*0*
Net gains on disposals	(299)	6,621
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds	*(15)*	*22*
Additions to/(reversals from) impairment	(6,148)	(4,581)
Net foreign exchange gains/losses	(695)	9,976
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds[1]	*(4,291)*	*(4,043)*
Investment management expenses	(7,840)	(5,188)
TOTAL	**36,940**	**51,124**

(1) The Colombes and Lausanne funds foreign exchange result covered by derivatives amounts to €(4,291) thousand. This amount is broken down into €(7,724) thousand in realized profit and €3,433 thousand in unrealized losses.

Investment income by class

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Equities	6,591	5,473
Fixed income	39,771	30,914
Investment properties	8,411	8,985
Sub-total	**54,773**	**45,372**
Associated and non consolidated companies	(4,734)	3,133
Exchange rate - change profit / loss (*)	(5,259)	7,807
Financial and investment charges	(7,840)	(5,188)
TOTAL	**36,940**	**51,124**

Note 28. Other operating income and expenses

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Fit to Win restructuring charges	(1,308)	(10,607)
Restructuring provisions	(5,300)	
Loss on Cofacredit disposal		(2,170)
Other operating expenses	(2,829)	(719)
Total other operating expenses	**(9,437)**	**(13,496)**
Gain on sale of italian operationnal building	2,312	
Renegociation of Bois-Colombes lease contract		5,179
Other operating income	1,125	3,343
Total other operating income	**3,437**	**8,522**
TOTAL	**(6,000)**	**(4,974)**

Other operating income and expenses amounted to €(6.0) million as of December 31, 2019.

Other operating income includes the gain on disposal of the operating building in Milano (Italy) for € 2.3 million.

Other operating expenses are mainly mainly include:
- €1.3 million of expenses net of reversal of provision related to strategic plan *Fit to Win*
- €5.3 million of restructuring provision

Note 29. Income tax expense

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Income tax	(76,177)	(37,566)
Deferred tax	20,743	(26,566)
TOTAL	**(55,434)**	**(64,132)**

Tax proof

(in thousands of euros)	Dec. 31, 2019		Dec. 31, 2018	
Net income	**146,729**		**122,333**	
Non-controlling interests	10		(353)	
Income tax expense	(55,434)		(64,132)	
Badwill	4,662			
Share in net income of associates			592	
Pre-tax income before share in net income of associates and badwill	**197,490**		**186,226**	
Tax rate		34.43%		34.43%
Theoretical tax	(67,996)		(64,118)	
Tax expense presented in the consolidation income statement	(55,434)	28.07%	(64,132)	34.44%
Difference	**(12,562)**	**(6.36)%**	**14**	0.01%
Impact of differences between Group tax rates and local tax rates	24,547	12.43%	16,423	8.82%
Specific local taxes	(3,118)	(1.58)%	(750)	(0.40)%
o/w French Corporate value added tax (CVAE)	*(1,375)*	*(0.70)%*	*(1,023)*	*(0.55)%*
Tax losses for which no deferred tax assets have been recognised	(4,934)	(2.50)%	(14,769)	(7.93)%
Utilisation of previously unrecognised tax loss carryforwards	1,266	0.64%	1,183	0.64%
Dividends paid in France non deductible for tax purposes (1%)	-	0.00%	(580)	(0.31)%
Liability method impact	(6,175)	(3.13)%	1,388	0.75%
Other differences	976	0.49%	(2,909)	(1.56)%

The effective income tax rate decreased of 6 points from 34.44% at December 31, 2018 to 28.07% at December 31, 2019.

The difference between theoretical tax and tax expense presented in the consolidated income statement comes from a positive impact of differences between Group tax rates and local tax rates. It is offset by the negative impact of tax losses for which no deferred tax assets have been recognized and the liability method impact (mainly in France).

Note 30. Breakdown of net income by segment

Premiums, claims and commissions are monitored by country of invoicing. In the case of direct business, the country of invoicing is the one in which the issuer of the invoice is located and for inward reinsurance, the country of invoicing is the one in which the ceding insurer is located.
Geographic segmentation by billing location does not necessarily correspond to the debtor’s location.
Reinsurance income, which is calculated and recognised for the whole Group at the level of Compagnie française d’assurance pour le commerce extérieur and Coface Re, has been reallocated at the level of each region.
Income taxes by segment have been calculated based on this monitoring framework.

Analysis of December 31, 2019 net income by segment

(in thousands of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean & Africa	North America	Latin America	Asia - Pacific	Group reinsurance	Cogeri	Holding company costs	Inter-zone	Group total
REVENUE	**309,295**	**290,567**	**149,538**	**396,060**	**138,474**	**80,653**	**117,593**	**978,189**	**26,567**		**(1,005,848)**	**1,481,088**
o/w Earned Premium	*208,165*	*255,701*	*120,842*	*334,348*	*124,784*	*77,881*	*113,875*	*978,189*			*(978,188)*	*1,235,597*
o/w Factoring	*53,931*	*(705)*	*10,880*	*(0)*	*(0)*	*(0)*	*(0)*	*(0)*			*(0)*	*64,106*
o/w Other insurance-related services	*47,199*	*35,571*	*17,816*	*61,712*	*13,690*	*2,772*	*3,718*	*(0)*	*26,567*		*(27,660)*	*181,385*
Claims-related expenses (including claims handling costs)	(85,109)	(88,467)	(51,340)	(154,749)	(57,103)	(46,796)	(40,893)	(408,105)		(5,698)	402,013	(536,247)
Cost of risk	(2,353)		549									(1,804)
Commissions	(20,997)	(39,093)	(9,549)	(42,259)	(20,412)	(10,412)	(22,629)	(373,998)			374,001	(165,348)
Other internal general expenses	(114,141)	(98,847)	(54,412)	(113,335)	(42,940)	(28,618)	(38,555)	(0)	(26,535)	(29,174)	34,767	(511,790)
UNDERWRITING INCOME BEFORE REINSURANCE*	**86,695**	**64,160**	**34,786**	**85,717**	**18,019**	**(5,173)**	**15,516**	**196,086**	**32**	**(34,872)**	**(195,067)**	**265,899**
Income/(loss) on ceded reinsurance	(9,115)	(37,432)	(9,596)	(15,235)	(2,869)	(2,873)	4,037	(200,966)			196,086	(77,963)
Other operating income and expenses	(5,231)	(1,618)	(27)	1,626	(994)	244						(6,000)
Net financial income excluding finance costs	2,239	8,998	5,855	7,737	3,669	10,394	2,850		237	(1,057)	(3,982)	36,940
Finance costs	(258)	(2,851)	(612)	(862)	(1,498)	(312)	(996)		(94)	(16,207)	2,305	(21,385)
OPERATING INCOME including finance costs	**74,330**	**31,257**	**30,406**	**78,983**	**16,327**	**2,280**	**21,407**	**(4,880)**	**175**	**(52,136)**	**(658)**	**197,491**
Badwill			4,662									4,662
NET INCOME BEFORE TAX	**74,330**	**31,257**	**35,068**	**78,983**	**16,327**	**2,280**	**21,407**	**(4,880)**	**175**	**(52,136)**	**(658)**	**202,153**
Income tax expense	(20,383)	(8,571)	(9,616)	(21,659)	(4,477)	(625)	(5,870)	1,338	(48)	14,297	180	(55,434)
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS	**53,947**	**22,686**	**25,452**	**57,324**	**11,850**	**1,655**	**15,537**	**(3,542)**	**127**	**(37,839)**	**(478)**	**146,719**
Non-controlling interests	(2)		(2)	15								10
NET INCOME FOR THE PERIOD	**53,945**	**22,685**	**25,450**	**57,339**	**11,850**	**1,655**	**15,537**	**(3,542)**	**127**	**(37,839)**	**(478)**	**146,729**

* Underwriting income before reinsurance is a key financial indicator used by the Coface Group to analyse the performance of its businesses. Underwriting income before reinsurance corresponds to the sum of revenue, claims expenses, expenses from banking activities, cost of risk, policy acquisition costs, administrative costs, and other current operating expenses, and expenses from other activities.

Analysis of December 31, 2018 net income by segment

(in thousands of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean & Africa	North America	Latin America	Asia - Pacific	Group reinsurance	Cogeri	Holding company costs	Inter-zone	Group total
REVENUE	**299,979**	**274,376**	**136,856**	**371,880**	**129,665**	**71,584**	**96,850**	**962,581**	**26,890**		**(985,926)**	**1,384,735**
o/w Earned Premium	*201,397*	*241,693*	*106,463*	*313,738*	*117,252*	*68,757*	*93,308*	*962,581*			*(962,581)*	*1,142,608*
o/w Factoring	*57,083*	*(894)*	*10,524*								*(0)*	*66,714*
o/w Other insurance-related services	*41,498*	*33,577*	*19,869*	*58,142*	*12,412*	*2,826*	*3,543*		*26,890*		*(23,345)*	*175,413*
Claims-related expenses (including claims handling costs)	(98,411)	(83,673)	(52,951)	(153,197)	(45,856)	(39,783)	(22,038)	(411,501)		(4,914)	407,814	(504,509)
Cost of risk	(2,233)		111									(2,122)
Commissions	(22,666)	(40,212)	(9,232)	(37,626)	(24,175)	(7,694)	(18,267)	(361,531)			358,202	(163,203)
Other internal general expenses	(117,417)	(106,223)	(47,457)	(112,634)	(35,058)	(25,625)	(35,482)		(26,220)	(20,817)	31,919	(495,015)
UNDERWRITING INCOME BEFORE REINSURANCE*	**59,253**	**44,267**	**27,327**	**68,422**	**24,575**	**(1,519)**	**21,063**	**189,549**	**671**	**(25,731)**	**(187,992)**	**219,886**
Income/(loss) on ceded reinsurance	(10,310)	(25,716)	(2,937)	(6,133)	(6,610)	(5,170)	2,572	(197,374)			189,549	(62,128)
Other operating income and expenses	0	(370)	67	(1,613)	(5,441)	2,382						(4,974)
Net financial income excluding finance costs	4,220	16,052	5,239	10,965	1,826	14,196	3,700	0	(49)	(1,057)	(3,968)	51,124
Finance costs	(177)	692	(968)	(383)	(1,382)	(204)	(1,264)		(238)	(16,169)	2,411	(17,681)
OPERATING INCOME including finance costs	**52,986**	**34,925**	**28,729**	**71,259**	**12,969**	**9,685**	**26,071**	**(7,825)**	**383**	**(42,957)**	**0**	**186,225**
Share in net income of associates		592										592
NET INCOME BEFORE TAX	**52,986**	**35,517**	**28,729**	**71,259**	**12,969**	**9,685**	**26,071**	**(7,825)**	**383**	**(42,957)**	**0**	**186,818**
Income tax expense	(17,262)	(18,772)	(6,317)	(17,000)	(2,422)	(5,717)	(9,351)	2,694	(132)	14,790	(4,644)	(64,132)
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS	**35,724**	**16,745**	**22,412**	**54,259**	**10,547**	**3,969**	**16,720**	**(5,131)**	**251**	**(28,167)**	**(4,644)**	**122,685**
Non-controlling interests	(1)	(2)	(1)	(2)	(0)	(347)	2		(0)			(353)
NET INCOME FOR THE PERIOD	**35,723**	**16,743**	**22,411**	**54,257**	**10,547**	**3,621**	**16,721**	**(5,131)**	**251**	**(28,167)**	**(4,644)**	**122,333**

* Underwriting income before reinsurance is a key financial indicator used by the Coface Group to analyse the performance of its businesses. Underwriting income before reinsurance corresponds to the sum of revenue, claims expenses, expenses from banking activities, cost of risk, policy acquisition costs, administrative costs, and other current operating expenses, and expenses from other activities.

Note 31. Earnings per share

	Dec. 31, 2019		
	Average number of shares	Net income for the period *(in €k)*	Earnings per share *(in €)*
Basic earnings per share	151,165,109	146,729	0.97
Dilutive instruments	-		
DILUTED EARNINGS PER SHARE	**151,165,109**	**146,729**	**0.97**

	Dec. 31, 2018		
	Average number of shares	Net income for the period *(in €k)*	Earnings per share *(in €)*
Basic earnings per share	154,018,359	122,332	0.79
Dilutive instruments	0		
DILUTED EARNINGS PER SHARE	**154,018,359**	**122,332**	**0.79**

Note 32. Group's headcount

(in full time equivalent)	Dec. 31, 2019	Dec. 31, 2018
Northern Europe	598	625
Western Europe	906	884
Central Europe	622	529
Mediterranean & Africa	596	597
North America	192	162
Latin America	201	225
Asia Pacific	132	134
Total	**3,248**	**3,156**

At December 31, 2019, the number of employees of fully consolidated companies was 3,248 full-time equivalents FTE *versus* 3,156 at December 31, 2018, up for 92 FTEs.

Note 33. Related parties

At the end of December 2019, Natixis holds 42.48% of the Coface Group's shares excluding treasury shares, and 42.20% including treasury shares.

	Nombre d'actions	%
Natixis	64 153 881	42,48%
Public	86 877 316	57,52%
Total	**151 031 197**	**100,00%**

Relations between the Group’s consolidated entities and related parties

The Coface Group’s main transactions with related parties concern Natixis and its subsidiaries.

The main related-party transactions are as follows:

- financing of a portion of the factoring activity by Natixis SA;
- financial investments with the BPCE and Natixis groups;
- Coface's credit insurance coverage made available to entities related to Coface;
- recovery of insurance receivables carried out by entities related to Coface on behalf of Coface;
- rebilling of general and administrative expenses, including overheads, personnel expenses, etc.

These transactions are broken down below:

Income statement	Dec. 31, 2019		
(in thousands of euros)	Natixis SA	Natixis Factor	Ellisphere
Net income from banking activities	(2,297)	-	-
Claims expenses	-	4	-
Expenses from services activities	-	-	-
Policy acquisition costs	-	7	-
Administrative costs	-	15	-
Other insurance activity expenses	-	9	-
Operating income	**(2,297)**	**35**	**0**

Related-party receivables and payables	Dec. 31, 2019			
(in thousands of euros)	BPCE group	Natixis SA	Natixis Factor	Ellisphere
Financial investments	53,109	-	-	-
Other assets	-	-	-	-
Cash and cash equivalents	-	6,613	-	-
Liabilities relating to insurance contracts	-	-	-	-
Amounts due to banking sector companies	-	97,226	-	-
Other liabilities	-	-	-	15

The €97,226 thousand in financing liabilities due to banking sector companies, at the end of December 2019, correspond to borrowings taken out with Natixis to finance the factoring activity.

Income statement	Dec. 31, 2018		
(in thousands of euros)	Natixis SA	Natixis Factor	Ellisphere
Net income from banking activities	(3,573)	-	-
Claims expenses	-	-	-
Expenses from services activities	-	-	(34)
Policy acquisition costs	-	1	-
Administrative costs	(46)	1	-
Other insurance activity expenses	-	1	-
Operating income/(loss)	**(3,619)**	**3**	**(34)**

Related-party receivables and payables	Dec. 31, 2018			
(in thousands of euros)	BPCE group	Natixis SA	Natixis Factor	Ellisphere
Financial investments	34,554	9		
Other assets		1,631		
Cash and cash equivalents		1,849		
Liabilities relating to insurance contracts				
Amounts due to banking sector companies		135,235		
Other liabilities				11

Note 34. Key management compensation

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Short-term benefits (gross salaries and wages, incentives, benefits in kind and annual bonus)	4,185	3,618
Other long-term benefits	1,017	1,164
Statutory termination benefits	-	88
Share-based payment	642	-
TOTAL	**5,844**	**4,870**

The Group Management Committee is composed of eight members on December 31, 2019 and of Coface CEO.
The line "Other long-term benefits" corresponds to the free performance shares allocation (fair value).
The line "Share-based payment" corresponds to the free performance shares' delivered in 2019 and allocated in the frame of the LTIP 2016 (fair value).
A total of €348 thousand was paid out in directors' fees to the members of the Board of Directors, the Audit, the Risk and the Compensation Committees in 2019.

Note 35. Breakdown of audit fees

	KPMG				Deloitte				Total			
(in thousands of euros)	2019	%	2018	%	2019	%	2018	%	2019	%	2018	%
Statutory and IFRS Audit												
COFACE SA	(337)	24%	(451)	28%	(310)	15%	(447)	20%	(647)	18%	(898)	23%
Subsidiaries	(973)	69%	(941)	59%	(1,792)	85%	(1,735)	78%	(2,765)	79%	(2,676)	70%
Sub-total	(1,310)	93%	(1,392)	87%	(2,102)	100%	(2,182)	98%	(3,412)	97%	(3,574)	93%
Other fees than Statutory and IFRS Audit												
COFACE SA	(56)	4%	(59)	4%	30	-1%	(30)	1%	(26)	1%	(89)	2%
Subsidiaries	(37)	3%	(153)	10%	(28)	1%	(21)	1%	(65)	2%	(174)	5%
Sub-total	(93)	7%	(212)	13%	2	0%	(51)	2%	(91)	3%	(263)	7%
TOTAL	**(1,403)**	**100%**	**(1,604)**	**100%**	**(2,100)**	**100%**	**(2,233)**	**100%**	**(3,503)**	**100%**	**(3,837)**	**100%**

Note 36. Off-balance sheet commitments

(in thousands of euros)	Dec. 31, 2019		
	TOTAL	Related to financing	Related to activity
Commitments given	**1,055,215**	**1,037,195**	**18,021**
Endorsements and letters of credit	1,037,195	1,037,195	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	10,521		10,521
Commitments received	**1,503,862**	**1,018,308**	**485,554**
Endorsements and letters of credit	140,575		140,575
Guarantees	342,478		342,478
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	318,308	318,308	
Financial commitments in respect of equity interests	2,500		2,500
Guarantees received	**382,200**		**382,200**
Securities lodged as collateral by reinsurers	382,200		382,200
Financial market transactions	**281,096**		**281,096**

The endorsements and letters of credit correspond mainly to :

- a joint guarantee of €380,000 thousand in favor of COFACE SA subordinated notes' investors (10 year maturity);
- a guarantee from Cofinpar of €7,000 thousand
- a joint guarantee of €650,195 thousand euros given to banks financing the factoring business.

The securities lodged as collateral by reinsurers are concerning Coface Ré for €346,600 thousand and Compagnie française pour le commerce extérieur for €35,600 thousand.

(in thousands of euros)	Dec. 31, 2018		
	TOTAL	Related to financing	Related to activity
Commitments given	**1,098,565**	**1,075,637**	**22,928**
Endorsements and letters of credit	1,075,637	1,075,637	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	15,428		15,428
Commitments received	**1,443,393**	**1,026,777**	**416,616**
Endorsements and letters of credit	140,063		140,063
Guarantees	174,052		174,052
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	326,777	326,777	
Contingent capital	100,000		100,000
Financial commitments in respect of equity interests	2,500		2,500
Guarantees received	**356,927**		**356,927**
Securities lodged as collateral by reinsurers	356,927		356,927
Financial market transactions	**250,081**		**250,081**

Note 37. Operating leases

The following table indicates operating leases that entities are engaged for future years. This off-balance sheet amounts have sharply decreased due to the application of IFRS 16 on January 1st, 2019.

(in thousands of euros)	Dec. 31, 2019	Dec. 31, 2018
Less than 1 year	2,413	12,341
Between 1 and 5 years	311	49,084
More than 5 years	-	47,882
Total	**2,724**	**109,306**

Note 38. Relationship between parent company and subsidiaries

The main operational subsidiary of the Coface Group is the Compagnie française d'assurance pour le commerce extérieur (la Compagnie). This subsidiary, which is wholly owned by the Company, is a public limited company (société anonyme) under French law, with share capital of €137,052,417.05, registered in the Nanterre Trade and Companies Registry under number 552 069 791.

The main flows between Coface SA, the listed parent company, and la Compagnie are as follows:

- Financing:
  - Coface SA and la Compagnie have granted each other one ten-year loan;
  - In net terms, Coface SA finances la Compagnie;
  - la Compagnie stands as surety for the bond issue floated by Coface SA;
  - A two-way cash flow agreement exists between COFACE SA and la Compagnie;
  - COFACE SA delegates to la Compagnie management of its commercial paper programme and of its cash management.
- Dividends:
  - la Compagnie pays dividends to Coface SA.
- Tax consolidation:
  - la Compagnie forms part of the tax consolidation group headed by Coface SA.

The table below summarises the interim balance of la Compagnie française d'assurance pour le commerce exterieur and its principal financial flows :

(in thousands of euros)	Listed company	Compagnie française pour le commerce extérieur (including branches)	Other entities	Eliminations	Total
Revenue	2,966	1,471,977	1,026,051	(1,019,906)	1,481,088
Current operating income	12,119	145,961	103,555	(36,759)	224,876
Net income	(6,905)	67,829	85,805		146,729
Fixed assets	1,828,575	5,246,791	1,299,083	(5,039,143)	3,335,306
Indebtedness outside the group	389,261				389,261
Cash and cash equivalent	6,330	165,236	149,211		320,777
Net cash generated from operating activities	4,361	132,880	110,463		247,704
Dividends paid to the quoted company		125,135	15,721		140,856

Note 39. First time consolidation of Coface PKZ

Coface PKZ is part of Coface Group consolidation scope since April 1, 2019.

In accordance with IFRS 3 Business Combinaisons, initial recognition of assets, liabilities and minority interest shall be adjusted, up to 12 months after the acquisition date, to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The review ended and the initial recognition of assets and liabilities is finalized in the consolidation financial statement as of December 31, 2019.

The main balance sheet aggregates at April 1, 2019 are summarized in the chart below:

(in thousands of euros)	Opening balance
Asset aggregates	
Insurance business investment	21,016
Reinsurers' share of insurance liabilities	11,051
Building used in the business and other property, plant and equipment	2,700
Receivables arising from insurance and reinsurance operations	2,471
Trade receivables	215
Cash	8,934
Liability aggregates	
Liabilities relating to insurance contracts	20,343
Payables arising from insurance and reinsurance operations	1,182
Other payables	1,345

Contribution of Coface PKZ in the 2019 net income of Coface Group is summarize in the chart below:

(in thousands of euros)	Income statement
Revenue	11,606
Net income before badwill	170
Badwill	4,662

Note 40. Brexit

The UK's exit from Eurepean Union under Brexit will lead to a loss of the European passport (Free or LPS).
The Coface Group has started discussions with its customers in order to adapt the insurance policies affected by this matter.

Note 41. Events after the reporting period

On 5 February 2020, Coface signed a binding agreement with the Norwegian ministry of Trade, Industry and Fisheries, to acquire 100% of GIEK Kredittforsikring.

Created in 2001, GIEK Kredittforsikring writes and manages the short-term export credit insurance portfolio previously underwritten by the Norwegian ECA, GIEK. In 2018, the company recorded a total of around €9m (NOK92m) of gross written premiums on a portfolio that is mostly made of export policies. The company is well-known in the market for the quality of its services to its clients and for the relevance of its pricing model. It also benefits from a solid market presence with the Norwegian exporters.

The acquisition of GIEK Kredittforsikring by Coface is subject to usual regulatory approvals.

Note 42. Risk management

1. RISK MANAGEMENT AND INTERNAL CONTROL

1.1. Structure of the mechanism

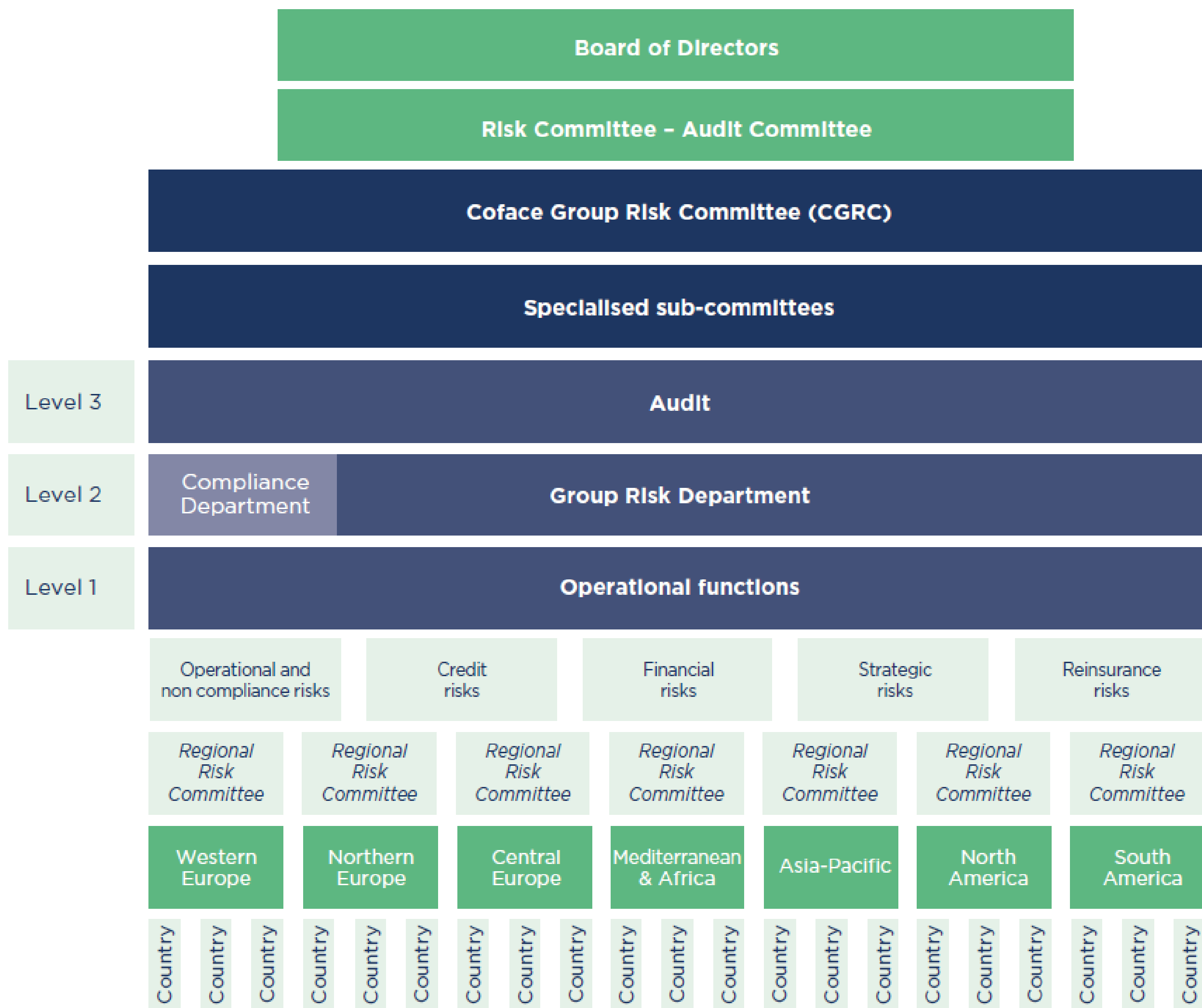
The internal control and risk management mechanism consists of:

- a governance structure, designed to allow supervision and appropriate management of the Group's activities; and
- management structures and control mechanisms, designed to enable the Group's managers to separately apprehend the main risks to which the Group is exposed, and to have the necessary tools for their analysis and prevention.

Governance structure

The Group has implemented a risk management and control system that revolves around clear governance supported by a dedicated organisation based on key functions. Since 2018, it has introduced a change in its governance by creating a Risk Committee reporting to the Board of Directors and whose duties are described in paragraph 2.1.8. The risk management and control system is now based on the Board of Directors, a Risk Committee, an Audit Committee, an Appointments and Compensation Committee, the Coface Group Risk Committee (CGRC) and specialist committees that define the Group's strategy, review and approve risk policies, and identify, measure and manage the risks identified according to the limits and indicators for risk appetite.

Governance also revolves around level one operational committees and level two control committees. The Coface Group Risk Committee (CGRC) is the level two lead committee which relies on specialised sub-committees covering different risk scopes or categories as described in the diagram below.



Like the CGRC, regional Risk Committees meet quarterly and involve the Group Risk Department and the Group Compliance Department.

Management structures and control mechanisms

The management structures and control mechanisms are based on the CGRC. The committee is chaired by the Chief Executive Officer and meets at least every quarter with the members of the Group Management Committee, the Group's strategic and operational management body, the Director of Group Risks, the Group Compliance Director, the Group Director of Audit and the Director of the Actuarial Department and, if necessary, the representatives of the operational or functional departments concerned, who are likewise represented according to the matters at hand.

The CGRC is tasked with:

- reviewing the main risk management policies and procedures;
- proposing and monitoring risk appetite limits which are submitted to the Board of Directors for approval;
- monitoring the Group's risk exposure, in all its forms (credit, finance, operational and compliance, reinsurance, strategic policies);
- reviewing the main conclusions drawn from sub-committee meetings;
- reviewing the work performed by the compliance function;
- finding out about audits performed within the Group;
- with regard to the partial internal model, the Committee must validate the certification request file, be informed of any minor changes and validate the major changes. It regularly validates the results of the model and its

performance, is informed of observations from the validation and monitors the action plans implemented. Lastly, it ensures that the model is actually used;
- organising reporting to the Audit Committee, the Risk Committee or other bodies as appropriate;
- reviewing ORSA assumptions and results for the purpose of their approval by the Board of Directors;
- ensuring that the internal control mechanism is effective;
- communicating its decisions to the staff involved.

CGRC sub-committees have a clearly defined scope of responsibility as regards one or more types of risk, and have decision-making authority over elements of risk, in line with their charters.

1.2. Organisation

The Group risk management system seeks to ensure the proper functioning of all the Group's activities and processes, by controlling and monitoring identified risks. This system is based on the CGRC.

In order to manage and prevent risks, and in accordance with the Solvency II Regulation, the Group has introduced a system of governance to ensure sound and prudent management of the business. This system of governance is built on a clear separation of responsibilities and is proportional to the nature, magnitude and complexity of the Group's operations.

The four key functions

The Solvency II Regulation grants the Chief Executive Officer and, if necessary, the Deputy Chief Executive Officer, the status of effective directors of a Group. It authorises the appointment by the Board of Directors of one or more other effective directors.

Each key function is controlled by the Chief Executive Officer or the effective director and operates under the ultimate responsibility of the Board of Directors. It has direct access to the Board for reporting any major problem in its area of responsibility. This right is enshrined in the Board of Directors' Charter.

The professional qualifications, knowledge and experience of the heads of key functions should be adequate to enable sound and prudent management, and they must be of good repute and integrity.

Key functions are free of influences that may compromise their capacity to carry out the tasks assigned to them in an objective, loyal and independent manner.

Since 2017, regional audit, risk and compliance functions report to managers in charge of these functions at Group level. Similarly, subject to compliance with local regulations, the same reporting line by function has been established between country and regional managers.

Risk management function

Under the responsibility of the Director of Risks, the risk management function, including the internal control function, is designed to cover all the Group's risks and reports to the CGRC.

It is tasked with assessing the relevance and effectiveness of the internal control system. Regarding Solvency II, it works closely with the actuarial function and is responsible for drafting reports and for prudential oversight. To perform its duties, the risk management function has direct access to Board meetings.

It ensures that risk policies are defined in accordance with regulatory requirements and monitors their application; these are reviewed annually by general management, then approved by the Board of Directors. These policies are then communicated to all the Group's entities, thereby helping to forge a common risk culture.

The risk management function, including the internal control function:
- implements and monitors the risk management system;
- monitors the Group's overall risk profile and identifies and assesses emerging risks;

- reports on risk exposure and advises the Board of Directors on risk management matters;
- defines and monitors the Group's appetite[1] for such risks: risk appetite takes five dimensions into account through 14 indicators;
- validates the partial internal model and other operational models;
- updates the mapping of risks to which Coface is exposed, working closely with the operational functions;
- contributes to improving and formalising level one control activities implemented by operational staff;
- performs level two checks on operational risks, with the exception of non-compliance risks;
- ensures that continuity plans are regularly tested in all entities;
- collates incidents and losses from the various entities.

The Group's Risk Management Department leads a network of seven regional risk managers for each region. The latter also lead a network of correspondents in the countries within their geographic scope. Specifically, these correspondents are responsible for performing the centrally established level two controls at local level, verifying compliance with Group rules and monitoring the progress of the action plans decided upon.

Compliance function

The compliance function consists of verifying operational compliance with the rules and of ensuring the control of operational activities. The function is performed by the Group Compliance Department, which reports to the General Secretariat.

The compliance function is in charge of implementing procedures to ensure that the Company complies at all times with the legislation applicable to it and to check that this legislation is applied effectively. In this respect, it ensures that the level one controls relating to compliance are properly implemented by the businesses, defines and performs level two controls, and issues recommendations intended to correct any shortcomings highlighted during such controls.

It provides advice on all issues relating to compliance with legislative, regulatory and administrative provisions associated with access to insurance activities and the practice thereof.

Internal audit function

The Group's Internal Audit Department is placed under the responsibility of the Group Director of Audit, who is also in charge of the key internal audit function. He attends the Group General Executive Committee meetings in an advisory capacity. He has a hierarchical reporting line to the Group Chief Executive Officer (CEO) and a functional reporting line to the Natixis General Inspection Department, as the internal audit function forms part of the periodic control mechanism of the reference shareholder, Natixis, and that of BPCE Group.

The structure of the internal audit function is based on a reporting line to the Group Director of Audit.

An internal audit policy defines the purview of the function. The key objectives of this function include evaluating all or a selection of the points below, according to the scope of each mission, and reporting on them:

- the quality of the financial position;
- the level of risks effectively incurred;
- the quality of organisation and management;
- the coherence, relevance and smooth operation of risk assessment and control mechanisms, and their compliance with regulatory requirements;
- the reliability and integrity of accounting information and management information, including information linked to Solvency II issues;
- compliance with laws, regulations and the Group's rules (compliance). Auditing checks the quality and relevance of the procedures implemented to ensure compliance with laws, regulations and professional standards applicable to the audited activities in France and abroad, and the Group's policies, decisions by its corporate bodies, and its internal rules;
- the quality, effectiveness and smooth operation of the permanent control mechanism in place and other components of the governance system;
- the quality and level of security offered by the information systems; and

- the effective implementation of the recommendations of prior audit missions, whether they derive from the proceedings of the Group's audit segment, BPCE and Natixis General Inspections, in addition to the external controls of supervisory authorities.

The missions are defined in an audit plan approved by the Board of Directors and cover the entire Group scope over a limited number of financial years. An audit mission ends with a written report and recommendations which are implemented under the supervision of the audit function.

The independence of the audit function is inherent in its mission. There should be no interference in the definition of its field of action, in the fulfilment of its proceedings or in the disclosure of the results of those proceedings.

The Group Director of Audit has total leeway to approach the Chairman of the Audit Committee and has free access to the Audit Committee. If necessary, and after consulting the Chief Executive Officer and/or the Chairman of the Audit Committee, the Group Director of Audit may inform the ACPR (French Prudential Supervision and Resolution Authority) of any breach that he might notice.

The Group Audit Department has no operational activity. It neither defines nor manages the mechanisms that it controls.

The internal auditors have no other responsibility under any other function. Lastly, the Group Audit Department has access to all the information required to carry out its missions.

The actuarial function

The actuarial function is performed by the Director of the Actuarial Department, who reports to the Chief Financial Officer since July 1, 2016. It is tasked with advising general management and supporting its efforts to guarantee the Group's long-term solvency and profitability and with overseeing compliance with Solvency II requirements, such as reserving. To perform its missions, the actuarial function has direct access to Board meetings.

The actuarial function is the contact for numerous Group departments (Finance, Information, Commercial and Debt Collection), for all Group entities on actuarial subjects, and informs, in particular, the Board of Directors on the appropriateness of the calculation of technical provisions.

In accordance with the requirements of the European Solvency II Directive, the actuarial function is in charge of the following tasks:

- coordinating the calculation of technical provisions;
- guaranteeing the appropriateness of methodologies, underlying models and assumptions used for the calculation of technical provisions;
- assessing the adequacy and quality of data used in the calculation of technical provisions;
- comparing the best estimates with empirical observations;
- informing the administrative, management or control bodies of the reliability and suitability of the calculation of technical provisions;
- supervising the calculation of technical provisions in the cases specified in Article 82 (approximations related to data quality issues in the estimation of technical provisions);
- issuing an opinion on the global commercial underwriting policy;
- issuing an opinion on the appropriateness of measures taken in terms of reinsurance;
- contributing to the effective implementation of the risk management system under Article 44. In particular, it ensures compliance with reserving and commercial underwriting policies and the correct implementation of reinsurance.

Internal control system

The internal control system relies on the same functions as the risk management system and is used to verify the application of the rules and principles defined under the risk management system.

As an insurance company with a banking Group as its reference shareholder, the Company operates an internal control system compliant with the provisions of the Solvency II Directive and the decree of November 3, 2014 on the internal control of banking sector companies, payment services and investment services subject to the oversight of the ACPR.

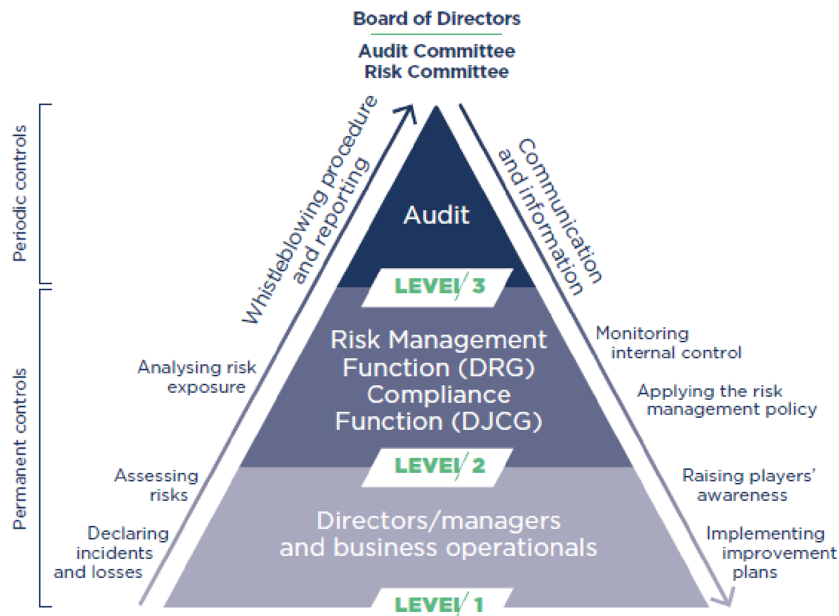
The risk management and internal control mechanism consists of three lines of defence with well-identified players for each level. The first line of defence is represented by the businesses, which are responsible for the processes, systems and products they each use, as well as for the resulting risks.

The second line of defence is represented by dedicated risk and compliance functions, which are responsible for supporting the first line of defence and for defining tools and methods to assess, manage, control and report risks.

The third line of defence is represented by the internal audit function, which provides independent assessment of the efficacy of the risk management mechanism and more broadly, of all the Group's activities and processes, according to a multi-year audit plan.

Each line of defence applies the controls adopted within the Group:

1. Level 1 operational controls managed by the businesses;
2. permanent Level 2 controls managed by the Group Risk Department and Group Compliance Department; and
3. periodic Level 3 controls managed by the Group Audit Department.



The risk management mechanism consists of three lines of defence with well-identified players for each level.

These controls are applicable to all of the Group's entities, in particular with respect to:

- integration into the organisation: internal control procedures are integrated into the organisation, either as a result of the distribution of the functions itself, or through the control actions specified in the different processes; and
- universality: no field is excluded. All processes, activities and structures are involved.

Coface has implemented a new centralised management system to manage level one and two controls. This system provides an instant overview of control completion rates, results and corresponding remediation plans across the whole scope.

It was rolled out across all Group entities and is used both by the businesses and by the Risk Management and Compliance Management departments.

Accounting control system

The accounting control system assigns a portion of the responsibility for controls to the Chief Financial Officer (CFO) of each region.

Local CFOs are responsible, for their scope: i) for the local accounting system (compliance with local regulations and with the Group's rules); ii) for the IFRS accounts as reported in the Group's consolidation tool (compliance with IFRS and Group rules); iii) for financial risks, specifically compliance with the principle of matching between assets and liabilities in order to limit the financial risks on their balance sheet.

The Group CFO is responsible, at Group level, for i) the quality of financial reporting; ii) the definition and monitoring of the investment policy; iii) management of financial risks and the implementation of control rules for other risks, with the

support of the Risk Department; and iv) the management of solvency, with regard to Solvency II in particular.

The Group's Accounting and Tax Department provides regions with a control and reporting tool that enables proper oversight of reconciliations between management applications and the accounting tool.
Since the closing of Q1 2018, quarterly level 1 controls have been formalised within the Enablon tool:

- list of controls to be carried out each quarter as well as instructions on the details and supporting documents requested;
- results of controls carried out by the entities;
- proof of control.

This tool helps to improve the tracking and formalisation of level 1 controls carried out in each country on accounting processes. An assessment of the controls is carried out every quarter.
This process allows a complete audit trail to be obtained, and produces data quality that is standardised and reliable within the Group and the Company.

Processing of accounting and financial information

The Group's Accounting and Tax Department, reporting to the financial department, guarantees the quality of the financial information and is responsible for the control of the Group's accounting and tax information. It is also responsible for the production of the consolidated financial statements and production of the company financial statements and tax declarations of French entities (Coface SA, parent company, Compagnie française d'assurance pour le commerce extérieur, Cofinpar, Fimipar and Cogéri).
Its detailed tasks are broken down into:

- maintaining the general and ancillary accounts of entities located in France;
- recognition of operations, control and justification of operations;
- closing the quarterly accounts;
- producing consolidated financial statements;
- producing reports and presentation of accounts: producing financial statements, internal reports and tax declarations;
- relations with the Statutory Auditors;
- preparing Group standards, regulatory oversight and strategic projects;
- definition of rules and writing of Group accounting rules;
- writing and follow-up of accounting procedures in conjunction with Natixis' Finance Department in the case of IFRS;
- overseeing the development of the accounting and tax regulations;
- assisting, training and providing technical support to subsidiaries and branches;
- analyses and impact studies on modifications in scope for the consolidated financial statements;
- the accounting control system: tracking the proper application of the standards and procedures in the Group;
- Group taxation.

The structure with the various entities of the Group relies on the Group's functional matrix principles, delegating certain responsibilities to entities in the various countries with regard to their scope. Accordingly, the consolidated entities are responsible for producing, according to their local standards and IFRS: i) accounting information; ii) tax information; iii) regulatory information; and iv) corporate information.

They also monitor the production of consolidation bundles according to the Group's standards and procedures.

Common tool for general accounting, consolidation and management control

The monthly reporting of management control and quarterly bundles under French standards and IFRS are entered in the same tool. The quality of the information received is improved through automatic reconciliation statements.

Furthermore, since June 2018, the procedure for preparing company financial statements under French standards has been simplified with elimination of the double entry of bundles under French standards and IFRS by all branches. The

company financial statements are now prepared from IFRS bundles.

Additional controls are carried out during quarterly inventory operations especially from the analysis of accounts and comparisons with the management data. Consistency checks are carried out with the data received from management control reporting.

In the context of consolidation operations, overall controls are carried out: analytical review of the balance sheet and income statement, closure of the Company's equity, consistency check on the most significant items and entities, closure of the net position across all branches, checking of intra-Group transactions and their correct reconciliation, specific verification of earnings from reinsurance and specific checking on the breakdown of expenses by destination, with the analytical review allowing for an overall consistency check.

Disclosure requirements for financial and accounting information

The Financial Communications Department, which reports to the Group Financial Department, produces, with the support of other departments, the financial information released to the financial markets, analysts and investors. The departments concerned provide the Financial Communications Department with contributions and reviews that help it control the risks of material error or release of erroneous information, delays to release and breach of confidentiality or equality between shareholders. This department is the special correspondent of the French Financial Markets Authority (AMF).

Outlook for change

Work to improve the risk management system will continue in 2020, using the same centralised system as was used in 2019, including in particular the deployment of a new risk mapping. The mechanism for identifying operational and compliance incidents and losses was also incorporated into the Enablon tracking tool, as was the overhaul of business continuity plans.

1.3. Definition and measurement of risks

Strategic risks

Definition

Strategic risk stems from the Group's businesses and business lines worldwide. It can be defined as the risk affecting our results and our solvency due to changes in market conditions, poor strategic decisions or poor application of these decisions aimed at responding to the changes in market conditions. Changes in market conditions may, for example, be linked to regulatory or prudential developments or to the brokerage model adopted within the Group.

Apart from changes in the economic environment that may be reflected by an increase in credit risk, Coface considers that strategic risks in its business are low.

Measures

The Group's Strategy and Development Department, created in 2016, manages the strategic planning process by working with the General Management Committee. They meet on a regular basis in order to assess the effectiveness of the plan and determine any modifications that might be necessary. The Board of Directors is ultimately responsible for the oversight of strategic risk.

Credit risks

Definition

Credit risk is defined as the risk of loss, owing to non-payment by a debtor, of a receivable owed to a policyholder insured by the Group.

The credit risk may be aggravated owing to the concentration of our exposures (countries, sectors, debtors, etc.). Traditionally, there is a distinction between frequency risk and peak risk:

- frequency risk represents the risk of a sudden and significant increase in unpaid receivables for a multitude of debtors;
- peak risk represents the risk of abnormally high losses being recorded for a single debtor or group of debtors, or of an accumulation of losses for a given country.

The Group manages credit risk through numerous procedures described below, which cover the validation of the terms of the policy relating to the products, pricing, follow-up on credit risk coverage and portfolio diversification.

Control and follow-up of products

- Approval of new products: the Group relies on a Group Product Committee to ensure that the product offering is consistent with the business strategy. It validates the introduction of new products into the portfolio and oversees the product offering in each region. It combines the marketing, sales, organisation, compliance, actuarial and risk functions, and any other function on a project-by-project basis.
- Validation of product developments: any product development, whether in terms of the policy, pricing method, retail method, target (policyholder, country), must be conveyed to the Group's Marketing Department and to the Legal Department.
- Sales delegations: in order to ensure the profitability of the policies, the contractual parameters thereof that have a strong influence on the policy's performance or on risk management are covered by a delegation system with seven levels of responsibility.
- Pricing: the Group uses a common pricing tool (PEPS), allowing its users to create pricing projects with the help of simulation tools and to formulate pricing proposals that are consistent with the Group's profitability objectives.

Centralised credit risk management

Frequency and peak risks are tracked locally and regionally, and are likewise centralised and analysed by the head office.

This frequency risk is measured for each region and country by tracking the instantaneous loss ratio(1). With respect to the monitoring of exposures and portfolios, the Group has developed a more refined system of management of its risks through 38 sectors and five country risk levels (190 risk levels in total). Therefore, unpaid receivables are analysed weekly by the Group Management Committee, and monthly by the Group Risk Underwriting Committee. The loss ratios of the various commercial underwriting regions are likewise tracked at consolidated Group level.

(1) The instantaneous loss ratio is a weekly indicator which allows the change in the loss ratio to be reconstituted. It is monitored for each region and each country and is the subject of a weekly report within the Group.

Peak risk is covered via the Group's reinsurance company, Coface Re. In addition to the weekly and monthly monitoring by individual region and country, a mechanism is established at the Group level, which relies on:

- centralisation of the provisions for claims exceeding a certain amount per debtor (currently, €0.5 million for all Group risk underwriting centres) which is then included in a post mortem analysis which enables the performance of the information, risk underwriting and recovery activity to be improved;
- at the risk underwriting level, monitoring beyond an amount outstanding according to the debtor risk assessment (DRA) causes a budget to be set and validated by the Group Underwriting Department; and
- a system to assess risks by the DRA, which covers all debtors.

Diversification of the credit risk portfolio

The Group maintains a diversified credit risk portfolio, to minimise the risks of debtor default, the slowdown of a specific business sector, or an unfavourable event in a given country, such that the impact is not disproportionate for the Group's total loss experience. The insurance policies furthermore include clauses of contractual limits on outstanding amounts.

Common interests with policyholders

The purpose of credit insurance is to prevent losses as far as possible, in the common interests of policyholders and the insurer. The service offered to the policyholder, before any indemnification of the losses suffered, is claims prevention and assistance in developing a client base. These common interests contribute to maintaining prudent management of credit risks, and are found in various aspects of the Group's management policy, as described below.

Decision-making

The principle for the insurer is to approve, for each new debtor that is presented by the policyholder, the maximum amount of risks that the insurer is ready to accept for that debtor. The insurer likewise determines the maximum amount that it is ready to accept for a given debtor, for all of its policyholders.

Credit risks are primarily underwritten based on global policies under which the policyholders entrust all of their revenue to the insurer in order to avoid the risks of adverse selection. The credit insurer may reduce or cancel its credit insurance coverage for new sales to the debtor concerned at any time. As an exception to this rule, and according to the policyholder's expertise, the Group may grant certain policyholders a degree of autonomy in setting the credit limits for receivables not exceeding an amount as established in the contract.

Consideration of risk quality for establishing the premium

The amount of premiums is set according to, on the one hand, the loss experience that is statistically noted for a population of policyholders with similar characteristics and, on the other hand, the actual loss experience of the policyholder in question. The amount of the premium is revised when the policy is renewed, generally annually. It is calculated according to its effective loss experience and the quality of the risk associated with this policy at the time of renewal. Furthermore, certain policies provide for mechanisms to share benefits, in order to encourage insured companies to monitor the quality of their clients.

Sharing of risk between the Group and the policyholder

In general, 10% to 15% of the risk is the responsibility of the policyholder. Policies can provide for deductibles per claim, and sometimes for an overall annual deductible. An overall principle is likewise applied: most often the total revenue for a given business line is covered, and it is not possible for the policyholder to choose the individual risks to be covered.

Recovery management by the Group

The Group also asks the majority of its policyholders to put it in charge of recovering unpaid receivables. As soon as the policyholder declares an unpaid receivable, the Group starts recovery action in an effort to limit the loss and allow the policyholder, to the extent possible, to maintain its commercial relationship with the debtor. Negotiations and, if necessary, litigation, are conducted by the world recovery network, which relies on the Group's internal resources and those of its partners in the Coface Partners network, along with collection agencies and a network of lawyers.

A fine-tuned risk underwriting system: ATLAS

Commercial underwriting decisions are made by groups of risk underwriters in various underwriting centres, who work in real time and as a network thanks to ATLAS. These commercial underwriting decisions meet the underwriting rules that are defined for the Group as a whole.

The Group Risk Underwriting Department is responsible for establishing a global risk underwriting policy. Moreover, the Group Risk Underwriting Committee has the goal of defining the risk policy by country, setting budgets and following up on global risk underwriting activity within the context of the objectives set.

Inward reinsurance (in other words the reinsurance of policies sold by the Coface Partners network which have been accepted for reinsurance) is underwritten according to the same procedures as those used for direct insurance. The Group provides reinsurance which is contingent upon prior approval in ATLAS for each type of risk ceded.

Measures

Evaluation of provisions

The Group establishes claims provisions which are designed to cover probable losses for its credit insurance operations. The claims that have arisen but not yet been declared/settled at year-end are included in specific provisions.

The claims provisions recorded at a given moment consist of:

- provisions for claims declared, which rely on a file-by-file analysis that is performed according to the characteristics of the policy and claim considered. These provisions are assessed on the amount of unpaid receivables declared which are covered by a claim;
- IBNR (incurred but not reported) provisions, which simultaneously cover the uncertainties in estimating provisions for declared and undeclared claims (in other words, claims that have occurred but which have not been declared at year-end); and
- forecasts of recoveries to take place on claims paid out.

The technical provisions for credit insurance are not updated.

The estimated IBNR provisions are based on an estimate of final loss experience through periodic actuarial analyses which are performed by the entities and controlled by the Group Actuarial Department.

The Group Actuarial Department also has the role of ensuring that the overall level of Group provisions is sufficient to cover future claims, and of ensuring and verifying the correct implementation of actuarial principles, which the calculations of estimated reserves must respect.

To date, the actuarial methods used by the Group and its entities are methods based on claims triangles (Chain Ladder and Bornhuetter-Ferguson actuarial methods). These methods are supplemented by an estimation of the variability of the technical provisions at one year by the Merz and Wüthrich method, which aims to determine a reasonable estimate range in which the Group Actuarial Department issues an opinion regarding an adequate ultimate loss ratio.

On the basis of the opinions issued by the Group Actuarial Department and other analyses, during the Loss Reserving Committee meeting management determines the level of final reserves to be established for each quarterly closing. This Committee is formed for each region and at the Group level. It meets at least quarterly, but may be convened in case of a major event which requires a significant revision of the level of reserves (in particular in the event of a significant claim). The estimates are likewise refined based on economic information, risk underwriting information, and information on the recovery of receivables, evaluated at a quarterly committee meeting on “economic expectations”.

Loss ratio

The Group measures the loss experience, notably according to the loss ratio (total of claims expenses compared to the total gross earned premiums). This ratio, which was determined using figures from the consolidated financial statements, was 43.4% in 2019.

The table below shows the progression of the average loss ratio for a given year between 2017 and 2019:

Year	2019	2018	2017
Loss ratio	43.4%	44.2%	51.4%

The Group manages its risk management policy thanks to its capacity to reduce or cancel its credit insurance coverage, a corrective measure aimed at reducing its exposure in certain countries in response to a deterioration in the economic situation.

A variation of +/- one percentage point(1) in the gross accounting loss ratio at December 31, 2019 would have had an impact of €12 million on claims expenses, of +/-€9 million on claims expenses net of reinsurance, of +/-€6 million on net income, and of +/-€6 million on equity.

The Group believes that a variation of one percentage point in the gross accounting loss ratio is reasonable in light of the loss ratio recorded in previous years. This sensitivity analysis is calculated on a straight line basis.

(1) In other words, a variation of n% to (n+1)%.

Claims expenses recorded at the Group level

In the table below, gross operations represent the claims expenses recorded in the Group's financial statements for direct business and inward reinsurance. Outward reinsurance and retrocessions represent the portion ceded for external reinsurance.

(in millions of euros)	12/31/2019			12/31/2018			12/31/2017		
	Gross	Outward reinsurance and retrocessions	Net	Gross	Outward reinsurance and retrocessions	Net	Gross	Outward reinsurance and retrocessions	Net
Claims expenses – current year	-866	219	-647	-829	209	-620	-798	197	-601
Claims expenses – prior years	330	-80	250	324	-72	252	227	-41	186
TOTAL	**-536**	**139**	**-397**	**-505**	**137**	**-368**	**-571**	**156**	**-415**

Status of technical provisions established at the Group level

In the table below, the unearned premiums reserves correspond to the portion of written premiums relating to the period between the year-end and the next premium payment date. They are calculated pro rata temporis for each insurance contract. The provisions for profit-sharing correspond to an estimate of the cost of the profit-sharing not paid at the closing date. Profit-sharing is a contractual stipulation which consists of paying a portion of the benefit that might be generated on the contract based on its loss experience to the policyholder at the end of a defined period.

(in thousands of euros)	12/31/2019	12/31/2018	12/31/2017
Provisions for unwritten earned premiums	282	280	271
Claims reserves	1,361	1,291	1,266
Provisions for premium refunds	184	175	145
Liabilities relating to insurance contracts	**1,827**	**1,746**	**1,682**
Provisions for unwritten earned premiums	-59	-61	-62
Claims reserves	-342	-321	-309
Provisions for premium refunds	-49	-43	-34
Reinsurers' share of liabilities relating to insurance contracts	**-450**	**-425**	**-405**
Net technical provisions	**1,377**	**1,321**	**1,277**

Development of claims provisions

The development of claims provisions shows how claims provisions have progressed over the last decade.

The following triangle shows the development of the ultimate loss ratios and sets out, for a given line N, the outlook for each of the subsequent year-ends (N+1, N+2, etc.). The estimated final loss ratio varies according to the increasing reliability of information relating to claims still pending. The discrepancy between the initial loss ratio and the final loss ratio measures the excess or insufficiency of the provisions originally recorded.

Triangle of development of ultimate loss ratios (before reinsurance and excluding claims handling expenses)

Year of occurrence (N) / year of development (as a %)	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8	N+9
2010	58.2	44.3	37.9	35.5	34.9	34.9	34.7	34.3	34.2	33.8
2011	73.6	61.1	55.0	54.4	53.2	52.3	51.2	50.6	50.0	
2012	77.1	67.4	60.8	58.5	59.7	59.8	58.9	58.0		
2013	72.7	56.9	51.1	49.2	49.4	48.4	47.5			
2014	72.6	61.8	62.9	59.7	57.2	55.9				
2015	70.2	65.5	55.6	51.7	50.4					
2016	70.0	63.1	52.8	51.2						
2017	74.1	61.4	50.6							
2018	75.7	61.8								
2019	73.1									

The claims provisions estimate model used by the Group relies on conventional approaches to reserving based on claims triangles. The Group's reserving guidelines transmitted to entities ensure uniform reserving practices throughout the Group and aim to maintain the level of prudence historically used in claims provisions. In particular, the loss ratios used are higher than those recorded historically. Consequently, given the Group's good control of its loss experience, liquidation profits from claims provisions have been recognised since 2009 (excess of claims provisions compared to the loss ratio actually recorded).

The table below illustrates the change in these profits over the period 2017–2019:

Period	Ultimate loss ratio before reinsurance and excluding claims handling expenses for each year following the first year of development (as a %)	Accounting loss ratio before reinsurance and excluding claims handling expenses (as a %)	Profits (as a %)
Year 2017	74.1	49.0	-25.1
Year 2018	75.7	41.7	-34.0
Year 2019	73.1	40.9	-32.2

The second table, entitled "Triangle of development of cumulative claims paid, net of recourse (before reinsurance)", sets out, for each year of occurrence, the cumulative amount of payments relating to years of occurrence N and previously which have been made since December 31 N. The process of declaring claims, indemnifying them and any recourse extends over several years. This requires the claims per insurance period to be tracked.

Triangle of development of cumulative claims paid, net of recourse (before reinsurance)

Year of occurrence (N) / year of development (in millions of euros)	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8	N+9
2010	60	274	345	358	365	369	379	389	386	382
2011	67	458	566	597	626	608	596	594	592	
2012	117	446	562	575	580	593	596	601		
2013	83	400	491	523	527	523	516			
2014	74	417	572	613	616	611				
2015	62	370	474	488	480					
2016	55	327	442	474						
2017	58	310	411							
2018	68	346								
2019	73									

Debtor risk exposure

The Group insures the unpaid receivables risk for over 2 million debtors worldwide. As at December 31, 2019, the average debtor risk was below €250 thousand. More than 81% of the debtors covered by credit insurance policies are located in OECD countries, primarily in Europe, notably in Germany, France, Italy and Spain, and in the United States.

The great majority of debtors, considered individually, constitute an insignificant risk with regard to the Group's total portfolio, since no debtor represents more than 1% of the Group's outstandings. The total outstanding covered by the Group was €569 billion, up by more than €28 billion against a background of continuing high sensitivity of emerging countries and of specific sectors such as construction, metals and the oil sector. The risk selectivity level was strengthened for increased granularity.

The charts below show the breakdown of debtors[2] as at December 31, 2017, 2018 and 2019 according to the outstanding amounts of cumulative credit risk carried by the Group for them. Analysis of the number of debtors by outstandings brackets reveals a weak risk concentration profile.

2 The debtors referred to above are clients of the Group's policyholders

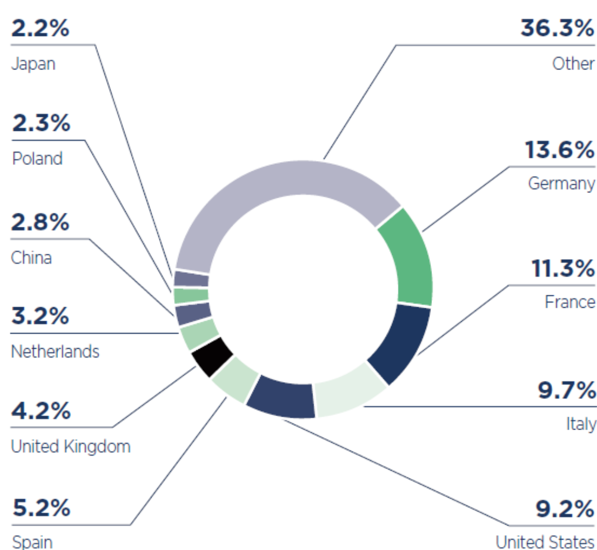
Debtor total outstandings brackets	Outstandings* (in millions of euros)		
	2019	**2018**	**2017**
€1–€100 thousand	41,230	38,996	39,263
€101 thousand–€200 thousand	26,920	26,237	25,989
€201 thousand–€400 thousand	36,529	36,450	35,955
€401 thousand–€800 thousand	46,028	45,912	44,949
€801 thousand–€1,500 thousand	48,675	47,677	46,755
€1,500 thousand–€5 million	105,608	102,380	98,157
€5 million–€50 million	185,421	168,544	155,751
€50 million–€200 million	47,615	47,316	42,168
€200 million and more	31,124	26,980	23,585
TOTAL	**569,151**	**540,492**	**512,572**

* *The outstandings shown are gross of reinsurance (direct business and inward reinsurance) and correspond to the maximum amount of cover granted by the Group to its policyholders. They do not correspond to the effective use thereof by the policyholders.*

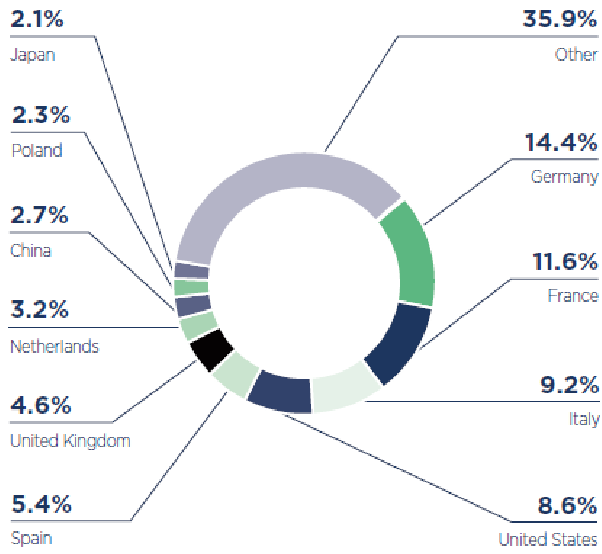
Geographical distribution of risks

The debtors covered by the Group's credit insurance policies are mainly located in Western Europe. In the medium term, the Group considers that the consequences of Brexit, in particular the negotiation of the trade agreement between the United Kingdom and the European Union, will determine the future evolution of risks; Coface is adjusting its monitoring of risks accordingly. As at December 31, 2017, 2018 and 2019, the top ten countries represented 64.8%, 64.0% and 63.7% respectively of the Group's total exposure (€569,151 million) arising from its credit insurance activities.

As at December 31, 2019



As at December 31, 2018



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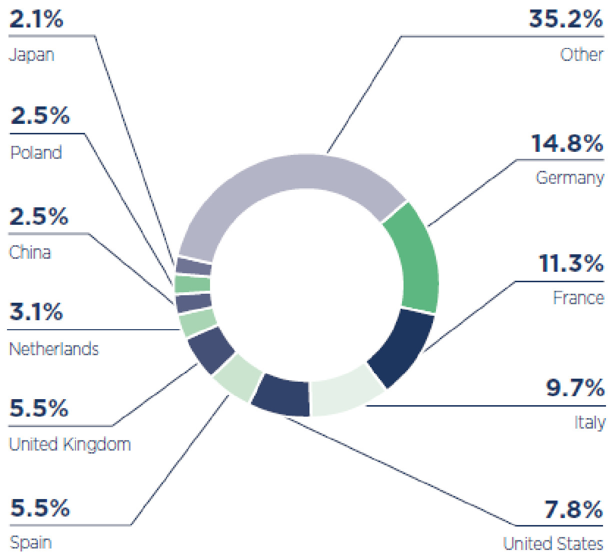


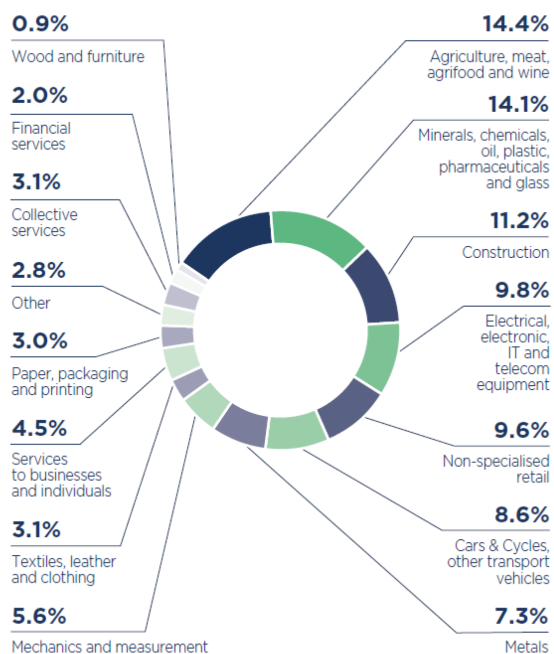
The following table shows the breakdown as at December 31, 2017, 2018 and 2019 of the Group's debtor receivables grouped by geographic region:

Group Regions	Outstandings* (in millions of euros)		
	2019	**2018**	**2017**
Western Europe	116,862	115,090	111,110
Northern Europe	112,069	109,821	106,698
Asia-Pacific	75,857	72,561	65,968
Mediterranean & Africa	118,690	108,444	106,189
North America	60,736	54,027	46,861
Latin America	32,293	32,642	29,909
Central Europe	52,645	47,908	45,837
TOTAL	**569,151**	**540,492**	**512,572**

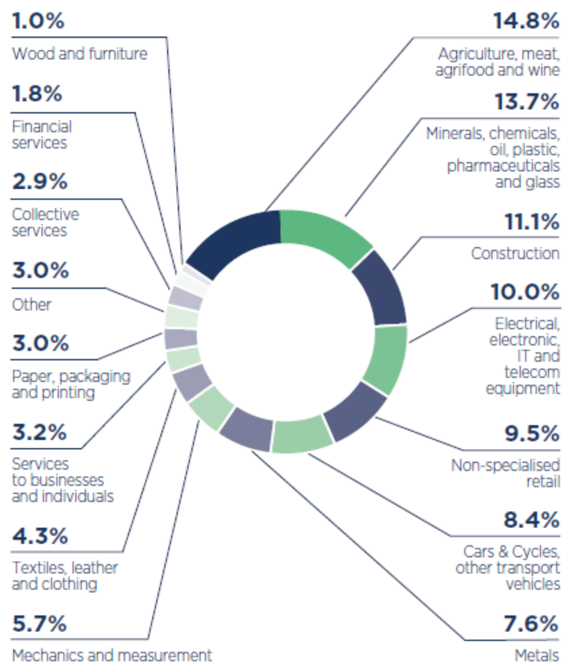
* *The outstandings shown are gross of reinsurance (direct business and inward reinsurance) and correspond to the maximum amount of cover granted by the Group to its policyholders. They do not correspond to the effective use thereof by the policyholders.*

Exposure by debtor activity sectors

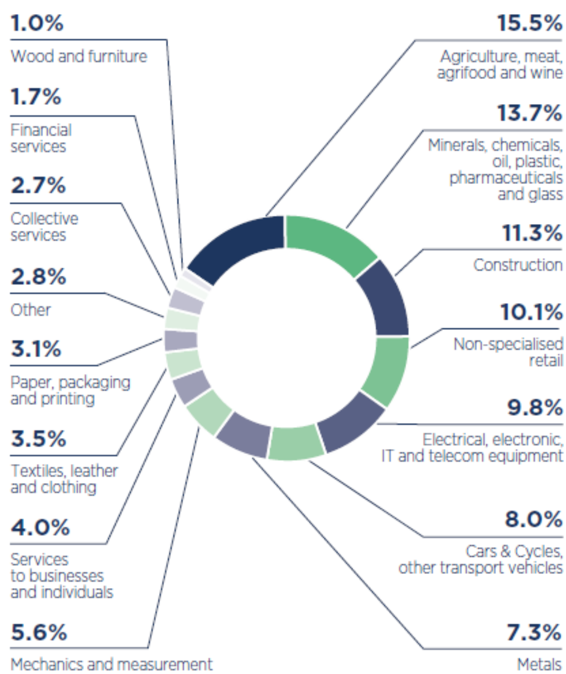
As at December 31, 2019



As at December 31, 2018



As at December 31, 2017



Term of risks

More than 95% of the Group's outstandings consist of short-term risks. The maximum credit term mentioned in its policies rarely exceeds 180 days.

Level two controls ensure that the Group's rules on credit risk are properly observed.

Measuring risks linked to the factoring business

Factoring transactions is a means of financing by which a company assigns the receivables due from its clients to a financial organisation, called a factor, under the terms of a contract entered into between the two parties. The Company assigns its rights (subrogation) to the factor in return for rapid financing of its receivables, for a fee (commission on the services and interest on the financing).

The factor thus finances the Company in advance, which enables the Company to optimise its cash flow, and is in turn reimbursed through settlement by the debtors, either by direct collection (recourse factoring) or via a credit insurance policy taken out by the Company (non-recourse factoring), in the event of debtor non-payment or insolvency.

When the contract is negotiated, the type of product, the analysis of the client's creditworthiness, the quality of the receivable and the portfolio of debtors, as well as the terms and pricing applied, influence the risk associated with financing the receivables.

The risks are covered by guarantee funds or reserves (a holdback is applied on the financing portion) on each contract, to which can be added a specific reserve fund based on a prior assessment of:

- the technical risk: failure to pay in full the invoices financed by the factor, for reasons other than debtor insolvency (dilution risk);
- the ceding company risk: potential irrecoverable losses in the event of client insolvency or default (Loss Given Default).

The ceding company risk is assessed by:

- an analysis of clients' financial position using internal rating tools;
- an on-site audit to check the reliability of internal procedures (tools, receivables, deliveries, payments, recovery, etc.) for any new or existing client;
- daily checks of invoices and financing.

Debtor risk is managed in two ways, by a recourse or a non-recourse contract:

- Non-recourse: a Group credit insurance policy is taken out by the client to protect it against the risk of unpaid accounts receivable;
- Recourse: the factor alone does not assume the purchaser insolvency risk and has recourse against their Client for the unpaid invoices.

The factoring business is governed by specific Group rules, authorising two Group companies, Coface Finanz (Germany) and Coface Factoring Poland (Poland), to market factoring products.

A single tool (Magellan) provides the framework for the factoring business and brings together all the data relating to the life of the contracts: client data, buyers, invoices, contracts.

The factoring outstandings are recorded in the Group tool (ATLAS) enabling consolidated management of its exposure to a buyer or a group of buyers.

The subsidiaries have adopted a specific organisational structure and internal control procedures for daily monitoring of transactions (financing flows, late payment by debtors).

A new Group-level structure has been in place since April 2017 with the creation of the Group Commercial Underwriting Department and a dedicated team that oversees the factoring business.

In addition to a level two control to ensure compliance with Group rules on the factoring business, delegations are granted to entities that require, in addition, an agreement between the Group Risk Underwriting Department and the Group Subscription Department.

Factoring activities are covered by the Group's reinsurance treaty (buyer risks by the credit insurance section and ceding company risks by a dedicated factoring section).

Operational and non-compliance risks

Definitions

Operational risk

Operational risk is defined as the risk of direct or indirect losses, due to an inadequacy or failure attributable to procedures and persons in all business areas, to internal systems or to external events, including the risk of internal and external fraud.

Operational risk also includes the notion of legal risk, including the risk of dependency. The Group does not consider that its business or profitability is dependent on any trademarks, patents or licences. Indeed, as part of its business selling credit insurance solutions and additional services, the Group does not hold any patent. The name Coface is protected by trademark registration, including in France. Lastly, the Group has registered a number of trademarks, logos and domain names used in its businesses worldwide.

Non-compliance risk

The non-compliance risk is defined as the risk of non-compliance with the laws, regulations or internal policies and rules of the Group that may lead to sanctions, financial losses and damage the Group's reputation (image risk).
This risk constitutes the risk of judicial, administrative or disciplinary sanctions, significant financial loss or damage to reputation, which arises from non-compliance with provisions specific to banking and financial activities, whether legislative or regulatory in nature, whether under national or directly applicable European provisions, or whether it involves professional and ethical standards, or instructions from effective managers taken in particular in accordance with the guidelines of the supervisory body.

Measures

Operational risk mapping

In order to improve the understanding of its operational risks, the Group is carrying out a mapping in accordance with so-called “qualitative” methodology.

For each business or support process, a list is drawn up of the significant risk situations which may affect this business or support.

The risk assessment performed by each entity is based on an assessment of its frequency and intensity of impact, as well as the effectiveness of level one controls. A four-level assessment scale is applied (low, medium, significant, high).

Each risk situation is the subject of a detailed description incorporating an assessment of the inherent risk (i.e. before level one controls), a description and evaluation of the level one controls, and an evaluation of the residual risk and potential action plans.

Reporting incidents and losses

An incident is the occurrence of an operational risk that could result in, or could have resulted in, a financial loss, an unjustified profit, or in other non-financial consequences.

An inventory is made of operational incidents and losses. A summary is produced each month and distributed during the Coface Group Risk Committee (CGRC) meeting.

The incidents reported are corrected and are taken into account when updating the operational risk map.

Action plans and reporting

The purpose of implementing the measures described above is to fully identify the operational risks. When necessary, preventive or corrective action plans for the reduction or control of operational risks are defined and rolled out.

The Group Risk Department is responsible for reporting to the CGRC and the Group's management bodies.

Business continuity

Each Group entity has a business continuity plan (BCP) to deal with any temporary or permanent unavailability of its premises, information systems or staff.

The BCP is prepared based on Group rules, supplemented by rules on mutual assistance between entities and remote working, for which three tests were conducted in 2019. These rules constitute the Group's business continuity policy. Each entity carries out its business continuity plan locally. User needs and resources are identified via a business impact analysis.

The overall approach is in line with the principal standards for business continuity. The main operational components of the BCP are the crisis management plan and the business line continuity plans. Back-up of the main data and IT applications used by the Group is ensured by two separate data processing centres located in the Paris region, remote from each other and operating in "active-active" mode.

Risks related to cybersecurity

Coface has developed security standards for its information systems which include a set of policies, rules, procedures and standards applicable at the various levels of the organisation.

Several measures have been introduced to minimise the risk of malicious acts, data theft, hacking of the information system, deletion of corporate websites, alteration of information, premature stoppage of services by saturation of networks or websites, specifically:

- general maintenance of infrastructure at the latest software version level;
- distribution of security patches according to a recurring procedure;
- search for weaknesses in our infrastructure with the implementation of an ongoing process of vulnerability management;
- evaluation of the robustness of our infrastructure with the implementation of simulated attacks carried out by specialist firms;
- evaluation of the resilience of our internal applications to attacks by specialist firms through the implementation of a

code audit;

- reduction of the human risk through awareness-raising campaigns on IT system security in the form of e-learning, communication by email, or the distribution of posters or brochures;
- implementation of a control programme designed to prevent risks.

Information systems security is managed by a dedicated committee.

Financial risks

Definition

Financial risk covers all risks related to the management of assets and liabilities. They include: interest rate risk, foreign exchange risk, liquidity risk, equity risk, real estate risk, spread risk, and counterparty risk:

- interest rate risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes in the yield curve or the volatility of interest rates;
- foreign exchange risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of exchange rates;
- liquidity risk represents the inability to meet contractual or contingent payment obligations;
- equity risk arises from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the value of equity markets;
- real estate risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the value of real estate markets;
- spread risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of credit spreads compared to the risk-free yield curve;
- counterparty risk represents the unexpected default, or deterioration in the credit quality, of the Company's counterparties and debtors.

The Group has introduced an investment policy that takes into account the management of financial risks through the definition of its strategic allocation, the regulations applicable to insurance companies, and the investment constraints resulting from the management of its liabilities. The investment strategy applied must enable the Group to honour its commitments to its policyholders, while optimising the investments and their performance within a defined risk framework.

The Group's investment policy is reviewed twice a year and covers, in particular, strategic asset allocations, the asset classes and products eligible for investment, the target maturity of the portfolio, the management of any hedges, and the policy for managing the Group's revenue. The allocations defined twice a year are based on an analysis of the liabilities, on simulations and stress tests of the returns or risks of the various asset classes in the portfolio and on compliance with the defined parameters related to the Group's business and its commitments: target sensitivity, capital consumption, maximum loss depending on the behaviour of financial markets, and on the quality and liquidity of the investment portfolio.

The control of financial risk is based on a rigorous system of standards and controls that are constantly being reviewed.

Measures

As an insurance company, the Group maintains an allocation that is mainly focused on fixed income products offering it more stable recurring revenue.

Investment portfolio (fair value)*	As at December 31					
	2019		2018		2017	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Equities	175	6.1%	178	6.6%	207	7.5%
Bonds	2,119	74.4%	1,775	65.6%	1,785	64.7%
Loans, deposits and other business investments	319	11.2%	525	19.3%	549	19.9%
Investment property	236	8.3%	227	8.4%	219	7.9%
TOTAL	**2,848**	**100.0%**	**2,705**	**100.0%**	**2,760**	**100.0%**

** Excluding unconsolidated subsidiaries.*

As at December 31, 2019, bonds accounted for 74.4% of the total investment portfolio.

The Group, as part of the strategic allocation, has reduced its exposure to the sovereign debt of developed markets and money market products, in favour of investment grade corporate bonds and debts of mainly investment grade emerging countries.

Breakdown by type of debt in the bond portfolio (fair value)	As at December 31					
	2019		2018		2017	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Sovereign and similar	1,013	47.8%	963	54.2%	882	49.4%
Non-sovereign	1,106	52.2%	812	45.8%	903	50.6%
TOTAL	**2,119**	**100.0%**	**1,775**	**100.0%**	**1,785**	**100.0%**

These investments are all made within a strictly defined risk framework; issuer credit quality, issue sensitivity, and the spread of risk across issuers and geographic regions are covered by clear rules defined in the various management mandates granted to the Group's dedicated asset managers.

Specific limits that apply to the entire investment portfolio are defined in terms of portfolio pricing, and by counterparty and country limits. Regular monitoring is also conducted on the liquidity of the portfolio, on the changes in spreads and on the Group's aggregate exposure to the main asset/liability risks. Lastly, hedges are made, when appropriate: they are systematic on foreign exchange risk and discretionary on interest rate and spread risk.

As at December 31, 2017, 2018 and 2019, the main features of the bond portfolio were as follows:

Distribution of the bond portfolio by geographical area (fair value)	As at December 31					
	2019		2018		2017	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Asia – Developed countries	294	14.0%	248	14.0%	230	12.9%
Emerging countries[(1)]	267	12.7%	165	9.3%	171	9.6%
Eurozone	925	43.9%	833	46.9%	779	43.6%
Europe outside the eurozone[(2)]	192	9.1%	132	7.4%	144	8.1%

North America	430	20.4%	397	22.4%	461	25.8%
Supranational	12	0.5%	0	0.0%	0	0.0%
TOTAL	**2,119**	**100.0%**	**1,775**	**100.0%**	**1,785**	**1**

(1) Countries where the Group is present, primarily Brazil and Mexico.

(2) Mainly the United Kingdom and Switzerland.

The investment portfolio is mainly exposed to developed countries in the eurozone and North America. Exposures to Greece's sovereign debt are still zero. In 2019, the Group continued to increase its international diversification, particularly via emerging countries, in order to take advantage of higher rates of return and to track the various increases in rates, or to reduce the cost of currency hedging.

The bond portfolio remains primarily invested in investment grade(1) companies and countries.

(1) According to Standard & Poor's rating classification, all bonds rated at least BBB- are considered investment grade, and bonds with a rating of BB+ or lower are considered to be high yield.

Breakdown by rating* of bonds in the bond portfolio (fair value)	**As at December 31**					
	2019		**2018**		**2017**	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
AAA	245	11.6%	284	16.0%	341	19.1%
AA – A	929	43.8%	755	42.5%	663	37.1%
BBB	776	36.6%	588	33.1%	587	32.9%
BB – B	168	7.9%	148	8.4%	193	10.8%
CCC and below	1	0.1%	0	0.0%	1	0.1%
TOTAL	**2,119**	**100.0%**	**1,775**	**100.0%**	**1,785**	**100.0%**

** Average rating between Fitch, Moody's and Standard & Poor's.*

Also, investments in corporate bonds account for 52.2% of the bond portfolio, with more than 90% in investment grade companies. These investments were made within the framework of a strictly defined risk policy, and particular care was taken with regard to issuer quality, issue sensitivity, and the spread of issuers' positions and geographic regions in the various management mandates granted to the Group's dedicated managers.

The Group's interest rate risk on its financial portfolio is limited, since the maximum authorised sensitivity for the bond asset class is deliberately capped at 4(2). The sensitivity of the bond portfolio was 3.9 at December 31, 2019.

(2) The sensitivity of a bond measures the loss of value of the bond in the event of a rise in interest rates. Thus, a bond with a sensitivity of 4 will see its market value fall by 4% if interest rates increase by 1%.

Finally, the Risk Committee's semi-annual meetings systematically review the portfolio's spread and liquidity risks.

Hedging policy

The Group's Investment Department, which is responsible for directing its investments and managing its investment portfolio, may authorise the use of hedges against the risk of interest rate hikes, through forward financial instruments (swaps, futures, options) on regulated markets or over the counter with counterparties rated A- or higher.

These transactions are carried out exclusively for hedging purposes and in strict compliance with the regulations applicable to insurance companies. The nominal amount of the hedge is then strictly limited to the amount of underlying assets held in the portfolio (equities or fixed income products) in order to hedge assets actually held in the portfolio.

As at December 31, 2019, the Company and Coface Re were partially hedged against the risk of a rate hike and the risk of a fall in the equity markets. The first hedge was based on exposure to German sovereign rates in the investment portfolio through futures; this hedging was stopped during the first quarter of 2019. The second aims to hedge the equity exposure of the investment portfolio, particularly using out-of-the-money long-term put options. The level and

management of these hedges are defined and reviewed depending on the market conditions and management of the levels of unrealised gains and losses at the monthly Investment Committee meetings between the Group's management and the manager of the Amundi investment platform.

Foreign exchange risk

As at December 31, 2019, 37.9% of the Group's consolidated revenue was earned outside the eurozone, and thus subject to exchange rate risk.

Subsidiaries or branches whose accounts are drawn up in euros and which underwrite in other currencies must comply with the same matching principles (matching of assets and liabilities denominated in a currency other than that used as a reference for issuing accounting statements). Exceptionally, open positions in other currencies may be hedged. The Group does not make foreign currency investments for speculative purposes.

The great majority of the Group's investment instruments are denominated in euros. Exposure of the investment portfolios to foreign exchange risk is limited: as at December 31, 2019, more than 72% of investments were denominated in euros.

Breakdown of the investment portfolio by currency	As at December 31					
	2019		2018		2017	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
EUR	2,058	72.3%	1,989	73.6%	1,942	70.4%
USD	341	12.0%	323	12.0%	423	15.3%
Other*	449	15.8%	392	14.5%	395	14.3%
TOTAL	**2,848**	**100.0%**	**2,705**	**100.0%**	**2,760**	**100.0%**

** Mainly Singapore dollar, pound sterling, Hong Kong dollar, and Canadian dollar.*

Moreover, for the greater part of the portfolio, which includes all of the Group's European entities, foreign exchange risk is systematically hedged for foreign currency investments that do not apply the matching principle. Therefore, as at December 31, 2019, investments in bonds denominated in US dollars, pound sterling, yen, Norwegian krone and Swedish krona in this portfolio were systematically hedged against the euro by the managers responsible for the portfolios concerned. Foreign currency transactions carried out by subsidiaries are monitored by the Group in order to decide, on a case-by-case basis, on the need to put in place the associated hedges.

Sensitivity to exchange rate risk of the net income of entities denominated in foreign currencies

	Average exchange rate (December 2018)	Net income (Group share) in €k as at Dec. 31, 2018	Net income (Group share) in thousands of foreign currency as at Dec. 31, 2018	Assumption – 10% variation in the exchange rate	Net income (Group share) in €k after exchange rate changes	Rate difference between actual rate and exchange rate fluctuating by 10%
Brazilian real	0.2266	926	4,088	0.2492	1,019	93
Canadian dollar	0.6732	3,036	4,510	0.7405	3,340	304
Swiss franc	0.8988	5,387	5,994	0.9887	5,926	539
Pound sterling	1.1401	13,322	11,685	1.2541	14,654	1,332
Hong Kong dollar	0.1140	8,923	78,268	0.1254	9,815	-892
Mexican peso	0.0464	-2,503	-53,941	0.0510	-2,753	-250
Polish zloty	0.2327	8,907	38,272	0.2560	9,797	891
Romanian leu	0.2107	2,544	12,074	0.2318	2,798	254
Russian rouble	0.0138	3,683	268,796	0.0152	4,051	1,368
Singapore dollar	0.6549	-3,263	-4,982	0.7204	-3,589	-326
US dollar	0.8932	1,309	1,466	0.9826	1,440	131
Other		-4,102			-4,513	-410
Euro		108,559			108,559	
TOTAL		**146,729**			**150,545**	**3,817**

Liquidity risk

The Group's bond portfolio has a short duration, in keeping with its liabilities. The breakdown of bond durations is presented below:

Breakdown of the bond portfolio by duration	**As at December 31**					
	2019		**2018**		**2017**	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
< 1 year	443	20.9%	316	17.8%	366	20.5%
1 year < > 3 years	569	26.8%	593	33.4%	562	31.5%
3 years < > 5 years	438	20.7%	418	23.5%	366	20.5%
5 years < > 10 years	572	27.0%	415	23.4%	451	25.3%
> 10 years	97	4.6%	33	1.9%	40	2.2%
TOTAL	**2,119**	**100.0%**	**1,775**	**100.0%**	**1,785**	**100.0%**

As at December 31, 2019, 47.7% of the securities in the bond portfolio have a duration of less than three years.

The liquidity position of an insurance company is valued by standards which measure the Company's ability to meet its financial obligations.

Equity risk

Equity markets are characterised by volatility which creates a significant risk for an insurer subject to specific rules in terms of reserves (provisions for long-term depreciation) and capital consumption (Solvency II Directive).

In this context, the Group once again reviewed its equity exposure in 2019 through work on the review of its strategic asset allocation. Its potential equity exposure is thus strictly limited to less than 10% of its portfolio and is concentrated in the eurozone, in line with its core business. The Group has no specific concentration of its equity risk on one or more economic sectors. Management is calibrated against the MSCI EMU benchmark(1). These investments are also

subject to a discretionary hedge put in place to mitigate any potential extreme shocks. The hedging strategy is dynamic: its level, its scope and its magnitude are defined by the Investment Department working with the manager responsible for the management platform.

(1) Published by Morgan Stanley Capital International, the MSCI EMU index is an index weighted by the free float-adjusted market capitalisation, designed to measure the performance of equity markets in the eurozone countries.

As at December 31, 2019, equities accounted for 6.1% of the investment portfolio, of which 5.6% were equities listed on a market in the eurozone. These investments were partially hedged to the Euro Stoxx 50 index. These hedges may be adjusted according to the investments and the amount of the unrealised losses or gains on the shares held.

Real estate risk

Under the Group's strategic allocation, real estate represents a limited portion of the Group's assets at less than 8%, due to the low liquidity of this asset class. The Group's current portfolio consists of property used within the context of its operating activities, as well as funds with underlying real estate.

The real estate risk is the risk of seeing a reduction in market value, thereby impacting the unrealised gains recorded for this real estate, or even of recording unrealised losses.

As at December 31, 2019, the Group had real estate exposure with a fair value of €279.8 million, consisting of €44.0 million in commercial property and €235.8 million in non-listed real estate.

Concentration risk/counterparty default risk

The Group has adopted an investment policy that defines a comprehensive counterparty risk management framework. The approach consists in defining limits for bond investments and consolidating all exposures across all financial instruments in order to circumscribe the potential total loss for the Group following default by or bankruptcy of the counterparty concerned.

A maximum limit for exposure to a single counterparty (excluding sovereign instruments) has been set as a percentage of the investment portfolio. This is set at 5% of assets under management, with possible exceptional and temporary derogations for exposures related to short-term investments.

As at December 31, 2019, the 10 main exposures in the bond portfolio to private issuers were €157.2 million, or 7.4% of the fair value of the bond portfolio.

More generally, the Group has implemented management rules within its investment portfolio and for all asset classes that require geographic and sectoral diversification of risks in order to protect against or mitigate a potential default.

The tables below, which enable the sensitivity of the portfolio to be measured using the so-called IFRS 7 benchmark method, show that the portfolio, excluding the impact of equity rate hedges, is, at December 31, 2019, slightly more sensitive to the combined effects of a 100 bps increase in bond rates and a 10% fall in the equity market than it was on December 31, 2018. This is due to the rise in our exposure to the corporate debt and emerging debt markets.

Sensitivity of the portfolio to changes in equity and bond markets as at December 31, 2019

(in millions of euros)	**Market value as at December 31, 2018**	**Impact of a 100 bps rise in interest rates (1) (2)**	**Impact of a 10% fall in equity markets (2)**	**Impact of a 20% fall in equity markets (2)**
Bonds	2,119	-82.6		

Equities	174		-17.5	-34.9
TOTAL	**2,293**	**-82.6**	**-17.5**	**-34.9**

(1) Average sensitivity of the bond portfolio at end 2019: 3.9.

(2) Excluding any hedging impact.

Sensitivity of the portfolio to changes in equity and bond markets as at December 31, 2018

(in millions of euros)	Market value as at December 31, 2018	Impact of a 100 bps rise in interest rates (1) (2)	Impact of a 10% fall in equity markets (2)	Impact of a 20% fall in equity markets (2)
Bonds	1,775	-62.5		
Equities	178		-17.8	-35.6
TOTAL	**1,953**	**-62.5**	**-17.8**	**-35.6**

(1) Average sensitivity of the bond portfolio at end 2018: 3.52.
(2) Excluding any hedging impact.

Sensitivity of the portfolio to changes in equity and bond markets as at December 31, 2017

(in millions of euros)	Market value as at December 31, 2017	Impact of a 100 bps rise in interest rates (1)	Impact of a 10% fall in equity markets (2)	Impact of a 20% fall in equity markets (2)
Bonds	1,785	-63.5		
Equities	207		-20.7	-41.4
TOTAL	**1,992**	**-63.5**	**-20.7**	**-41.4**

(1) Average sensitivity of the bond portfolio at end 2017: 3.6.
(2) Excluding any hedging impact.

To the extent that shares and bonds are accounted for in the available-for-sale category, sensitivity would have an impact on “other comprehensive income”, to which shareholders’ equity is sensitive. Unrealised gains and losses on these financial securities have no impact on net income, except for any impairment recorded. In the event of a sale, the resulting profit or loss would have an effect on the operating income in the income statement.

Reinsurance risks

Definition

Given its risk appetite, the Group reinsures itself against the extreme risks that it could suffer.

Reinsurance generates four types of risk:

- the residual insurance risk that may arise from differences between the requirement for reinsurance and the actual coverage provided for in the treaty;
- the counterparty risk that results from the potential inability or refusal of the reinsurer or a treaty party to meet its obligations to the ceding insurer;
- the liquidity risk arising from the possible delay between the payment of the benefit by the insurer to its policyholder and the receipt of the reinsurance benefit;
- the operational risk related to the execution of the treaty.

Measures

Intra-group risk sharing and reinsurance

In order to optimise its cover against an abnormal deviation of the loss experience, the Group centralises the purchasing of its reinsurance with the use of a sophisticated risk-sharing mechanism.

The lead company, which centralises this purchasing function, negotiates cover on behalf of the Group's insurance entities for frequency and peak risks that best meets their operational needs. The Company held this role until the end of 2014 and was replaced by Coface Re SA as of January 2015.

The objective of setting up Coface Re SA is to isolate the Group's reinsurance flows as part of a special entity, to continue streamlining the coverage plans of the Group's entities and partners, and to increase the range of services available to its international clients.

In 2019, the external reinsurance programme for the subscription year (excluding Stop Loss) was as follows:

- two quota-share treaties with a total rate of 26%, identical to the 2018 rate;
- two excess loss treaties, one per risk and the other per country (only on Single Risk), protecting the Group's retention after quota-share transfer such that no one single loss represents, after tax, more than 3% of the Group's equity; and
- a Stop Loss treaty protecting the Group's accounting year retention, after quota-share and excess loss, against a sharp increase in loss experience.

The Group's 2019 reinsurance treaties were signed with a pool of 24 reinsurance companies. All these reinsurance companies on the 2019 panel are rated between A- and AA by one of the major international rating agencies.

The Group continues to require systematic collateral from its reinsurers (cash, securities, letters of credit) on all proportional treaties including IBNR. This objective was fully achieved as at December 31, 2019 for all counterparties of its master treaty. The collateral requirements apply on a case-by-case basis to excess claims based on the Group's assessment and are updated annually. Under the 2019 reinsurance treaty, the Group's top three reinsurers represent a 39.5% share of the reinsured risks.

Since these treaties were established in 1990, the Group has never had to face a claim that surpassed an excess loss reinsurance treaty.

Coface Re SA has been a reinsurer for Group entities and members of the Coface Partners network since 2015, and transfers the externally purchased coverage through the programmes described below. It also ensures that the conditions offered to the entities concerned prompt them to control their loss experience as best as they possibly can.

2. RISK FACTORS

Prior to making a decision to invest in the shares of the Company, prospective investors should consider carefully all the information set out in this document, including the risks set out below. Such risks are, as at the date of this report, the risks that the Group believes, were they to occur, could have a material adverse effect on the Group, its business, its

financial position, its operating results or outlook, and which are material in making an investment decision. Further information relating to risk management is presented in Section 5.1 “Risk Management and Internal Control”. Prospective investors should nonetheless note that the risks described in this chapter may not be comprehensive, and that there may be additional risks that are not currently known or whose occurrence, as at the date of the Universal Registration Document, is not considered likely to have a material adverse effect on the Group, its business, its financial position, its operating results or outlook.

The Group operates in a rapidly evolving environment that leads to numerous external risks, in addition to the risks inherent in the conduct of its businesses. This chapter identifies the significant risk factors to which the Group believes it is exposed and their management.

On a low-medium-high scale, the broad risk categories set out below are as follows:

Risk categories	Risk factors	Assessment		
		High	Medium	Low
Strategic risks	Risks related to the Group’s international activities	x		
	Risks related to the regulatory environment (legal and accounting)	x		
	Risks related to the competitive environment	x		
	Risks related to intermediated distribution of the Group’s credit insurance policies		x	
	Risks related to the control of the Company and its relations with Natixis		x	
	Risks related to the Company’s holding structure			x
Credit risk	Risks related to the solvency of debtors and policyholders, its assessment and the reliability of information relating to this solvency	x		
	Risk on the level of loss	x		
	Risk on premiums collected		x	
	Risks related to the establishment of insurance technical provisions, depreciation and the assumptions used		x	
	Risks related to the geographic and sectoral distribution of debtors covered by the Group’s insurance policies and its policyholders		x	
	Risks related to overexposure to debtors or regarding major policyholders		x	
	Risks related to the Group’s factoring business		x	
Operational and non-compliance risks	Risks related to cybersecurity	x		
	Risks related to operational failures or inadequacies		x	
	Risks related to digital transformation		x	
	Risks related to information systems		x	
	Attracting and retaining talent (CSR)		x	
	Committed employees (CSR)		x	
	Risks related to potential judicial, administrative or arbitral proceedings		x	
	Risks related to the occurrence of exceptional events (acts of terrorism, natural disasters, pandemics, etc.)			x
Financial risks	Risks related to the investment portfolio		x	
	Financial risks related to the effects of climate change		x	
	Risks related to exchange rate fluctuations		x	
	Risks related to world financial market conditions		x	
	Risks related to the macroeconomic situation		x	
	Risks related to deferred tax assets			x
	Risks related to the valuation of goodwill and intangible assets			x
Reinsurance risks	Risks related to relations with reinsurers, the capacity of the reinsurance market and reinsurance costs			x

2.1. Strategic risks

Risks related to the Group’s international activities

The Group markets its services in 100 countries in Europe, North America, Latin America, Asia, and a number of African countries. The diversity of its geographical locations exposes it to various and sometimes unstable economic, financial, regulatory, commercial, social and political environments which could have an influence on the solvency of its policyholders’ debtors or, to a lesser extent, on the solvency of its policyholders themselves, its methods of operation and marketing, as well as the management and monitoring of risks related to its credit insurance products.

It could be obliged to face a number of external risk factors, such as: fluctuations in exchange rates and currency devaluations; capital transfer restrictions; restrictions related to embargoes; changes in legal and tax systems, including the regulations regarding transfer pricing and withholding tax on payments made by the entities of the Group; increase in interest rates; inflation, potential recessions and financial market volatility; or even political instability and the risk of terrorism and war.

In this context, the Group may face significant difficulties and its strategy may be affected by the environment in certain countries in which it operates, leading to a material adverse effect on its business, financial position, operating results or outlook. Furthermore, the Group is present in countries where the legal systems are very diverse, and where the legal and dispute resolution systems sometimes present characteristics or levels of maturity that are different from those of its most important markets in Europe. In this context, it could encounter difficulties with regard to taking legal action or enforcing rulings.

Risks related to the regulatory environment (legal and accounting)

Risks related to national and international policies and regulations applicable to the Group's activities

The Group operates in a strongly regulated environment, which differs according to the countries in which it does business. Its insurance business is subject to the control of local regulators, which may sometimes differ depending on the country in which it is established.

The Group is headquartered in France; its activity is to a large extent governed by European directives and by French domestic regulations on non-life insurance. The supervisory and regulatory authority for its activities in France and in the European Union is the ACPR (French Prudential Supervision and Resolution Authority).

Most countries in which the Group operates apply laws and regulations which govern solvency standards, the level of capital and reserves, the multiplicity and diversification of business investment portfolios, the conduct of business (particularly the granting of relevant licences and approvals), distribution practices, the anti-money laundering and anti-terrorism financing rules and the Know Your Customer protection rules.

These various regulations and supervisory measures have been strengthened in the wake of the 2008 financial crisis, both at the European level and outside the European Union. Some countries have adopted or are in the process of adopting measures that constitute significant changes to the current framework, notably to strengthen the solvency of insurance companies. In this context, the amendments to the regulations applicable to the Group's insurance activities since January 1, 2016 have led to new restrictions or conditions on the conduct of its business. They have, particularly by introducing stricter capital and liquidity requirements, increased its financing costs and operating expenses, which could restrict the scope of its activities or, more generally, hamper its development.

The Group also has factoring businesses in Germany, where it is subject to specific regulations, and in Poland. In both these countries, a change in the existing laws and regulations on factoring, particularly in terms of capital and liquidity requirements specific to non-banking factoring activities, could impact the operation of these businesses and the financial position of the Group.

A significant portion of the Group's business is subject to obtaining approvals and licences issued by the public authorities in charge of supervising and controlling credit insurance and factoring activities. As part of its strategy of sustained and profitable growth, the Group plans to continue establishing operations in new countries and will be required to obtain all the necessary approvals, licences and authorisations to conduct such business activities. Any major difficulty encountered in obtaining such authorisations could delay or jeopardise its establishment in these new countries. Similarly, the non-renewal, suspension or loss of these authorisations could have a material adverse effect on its business, operating results, financial position and outlook.

Lastly, due to the fast pace of change in the regulatory environment and the strict interpretation and application of the regulations by the regulatory authorities, the Group has become particularly vigilant about compliance. Despite implementing measures to comply with applicable regulations, it may become subject to regulatory investigations and possible sanctions which could affect its business, operating results, financial position, outlook and reputation.

More generally, the Group cannot guarantee that rapid and/or significant changes in current regulations will not, in the future, have a material adverse effect on its business, financial position, solvency margin, dividend policy, operating results or outlook.

Risks relating to tax regulations

As an international group operating in many countries, the Group is subject to multiple tax regulations and conducts its business globally in light of the various regulatory requirements and its sales, financial and tax objectives.

To the extent that the current tax regulations in the various countries where the Group operates do not always provide

clear or definitive guidelines, the structure of the Group, the conduct of its business and the tax system may be based, in certain circumstances, on its interpretation of the applicable tax regulations. The Group cannot guarantee that these interpretations will not be challenged by the relevant tax authorities, or that the applicable regulations in some of these countries will not be subject to changes, fluctuating interpretations and contradictory applications. More generally, any breach of the tax regulations of countries in which the Group or its companies are located or operate may result in adjustments, or the payment of late interest, fines and penalties. These factors could have a negative impact on the Group's effective tax rate, cash and operating results.

Risks relating to changes in accounting standards

The Group's consolidated financial statements are prepared in accordance with international standards, as adopted by the European Union. The international accounting standards include the IFRS (International Financial Reporting Standards), the IAS (International Accounting Standards) and their respective interpretations, as presented in the "Accounting principles and methods" of the Group's consolidated financial statements.

IFRS 17 "Insurance contracts" published by the IASB on May 18, 2017 will replace IFRS 4 "Insurance contracts" from January 1, 2022. A draft amendment "Exposure Draft ED/2019/4 Amendments to IFRS 17" was published on June 26, 2019.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and investment contracts with discretionary participation.

At present, insurance contracts are recorded at historical cost and will be recorded at current value after the application of IFRS 17. Therefore, insurance contract values will be based on future cash flows generated, including a risk margin to take into account the uncertainty regarding these flows. IFRS 17 introduces the concept of contractual service margin. This margin represents the benefit not earned by the insurer and will be released over time, depending on the service provided by the insurer to the policyholder. The standard requires a higher level of granularity in calculation detail than before as it requires estimation by group of contracts.

The amendment to IFRS 4 relating to the joint application of IFRS 9 "Financial Instruments" with IFRS 17 "Insurance Contracts", with specific provisions for financial conglomerates, was adopted on November 3, 2017 and was applicable as at January 1, 2018. This European Regulation allows European financial conglomerates to opt to postpone application of IFRS 9 for their insurance sector until January 1, 2022 (date of application of the new IFRS 17 "Insurance Contracts standard") on condition that:

- they do not transfer financial instruments between the insurance sector and any other sector of the conglomerate (other than financial instruments measured at fair value through the profit or loss account);
- they state which insurance entities are applying IAS 39; and
- they provide additional specific information in the attached notes.

Coface, meeting the eligibility criteria of a financial conglomerate, plans to apply this provision for its insurance entities, which will therefore remain under IAS 39 until December 31, 2021. The entities concerned by this measure are all insurance entities and entities whose activity is directly related to insurance (service entities, consolidated funds).

These two important draft standards could have a significant impact on the recognition of liabilities linked to insurance policies and the classification of financial assets.

Despite the uncertainties still having an impact on these changes to standards, particularly IFRS 17 (date of application, possible changes to the text, exposure draft published on June 26, 2019), Coface Group has developed project structures appropriate to the changes brought about by the standard and continues the preparatory work: consideration and documentation of normative choices, modelling, adaptation of systems and organisations, production of financial statements and changeover strategy, financial communication and change management.

Risks related to the competitive environment

The Group operates in a highly competitive credit insurance market with a large number of players of varying sizes and status, including export credit agencies (ECA) created by governments to drive exports. The global market is nevertheless dominated by three major players, including the Group, who are the only ones to have a global network and a significant footprint. In certain markets the Group competes with export credit agencies, leading players in their

market, who have very significant or even monopolistic market shares. Although it believes that the credit insurance market has strong entry barriers for new global players, the Group cannot disregard the possibility that new players, including those of significant size, will modify their strategy in order to enter certain markets

in which it is present, thereby heightening already intense competition. In some regions, it also faces competition from smaller regional players that have good local presence.

There are also a number of alternative products to credit insurance, such as irrevocable and confirmed documentary credits or stand-by letters of credit, or factoring, in certain markets, offering alternative coverage solutions to policyholders, who could decide to favour them over the services of the Group. Moreover, an important source of competition comes from the companies themselves, which may opt to self-insure their credit risks, and to manage their receivables internally. An increase in credit insurance costs and in the terms on which the Group offers its other services, and more generally unfavourable developments in business practices in the credit insurance sector, could strengthen this trend and worsen the competitive environment.

Factoring, a market where the Group is present in Germany and Poland, is a less concentrated market than credit insurance and is shared among banking players and non-banking players.

In recent years, the Group has experienced strong competitive pressure, particularly in terms of price in all its business segments and a broadening of the scope and nature of insurance coverage delivered mainly in Western Europe. The competitors in its various business sectors could, due to their size, have larger financial, commercial, technical and human resources, or a greater capacity for innovation, than the Group. These competitors could in the future continue to adopt aggressive pricing policies, diversify or expand service offerings or their supply chains, or develop strategic or contractual relationships in markets in which the Group is present or seeks to expand, and thus increase competitive pressure.

In this regard, the Group may need to adapt its services and tariffs or its risk underwriting policy, which could affect its profitability and/or lead to a loss of market share. Similarly, in the face of such competition the Group may struggle to implement its strategy for sustainable and profitable growth if it fails to offer prices, innovative products, services or a quality of service at least comparable to those of its competitors. The more intense competition could have a material adverse effect on its business, financial position, operating results or outlook.

Risks related to intermediated distribution of the Group's credit insurance policies

Although the Group has various distribution channels and its own sales teams, around two thirds of its sales activity for its credit insurance policies is brokered, and depends on the existence and quality of its relationships with various partners who distribute credit insurance policies on its behalf, especially in countries where it does not have a direct presence (fronting) or does not have its own licence. Its network of partners is composed of insurance brokers, financial institutions and non-specialised business facilitators, with whom it often maintains long-term relationships that are not exclusive.

Any significant difficulty encountered in the management or development of its partnerships could have a direct impact on its competitiveness and the implementation of its strategy for sustainable and profitable growth. The Group cannot, therefore, rule out a drop in its business related to the breach or a renewal under less favourable terms of partnership contracts with third parties such as brokers, banks and multiple-line insurers, or the bankruptcy of these partners. These difficulties, if they occur to a large extent, could have a material adverse effect on its financial position, operating results or outlook.

Risks related to the control of the Company and its relations with Natixis

The Company's main shareholder is Natixis, which holds 42.14% of its capital as at December 31, 2019. Consequently, Natixis could significantly influence the Group's strategic decisions, and/or have all resolutions that are submitted for the approval of the Company's shareholders at the Ordinary or Extraordinary Annual Shareholders' Meetings accepted or rejected, particularly with regard to the appointment of members of the Board of Directors, the approval of the annual financial statements and the distribution of dividends, as well as the authorisation to proceed with capital increases or

other issues of securities, merger or contribution operations, or any other decision requiring the approval of the Company's shareholders.

The Company has in the past benefited from Natixis' financial support. Even though the Company considers itself to be financially independent, it cannot be guaranteed that the Company will not need additional support in the future, or that Natixis will continue to provide such financial support, given that Natixis has publicly announced its intention to reduce its shareholding in the Company.

Furthermore, it cannot be excluded that Natixis could find itself in a situation where its own interests and those of the Group or of other shareholders are in conflict, particularly in the case of a liquidity contract.

Risks related to the Company's holding structure

The Company is a holding company which conducts its business indirectly through operating subsidiaries, the Compagnie française d'assurance pour le commerce extérieur and its subsidiaries, and has no credit insurance business or service of its own. As a holding company, its main sources of funds come from dividends paid by its subsidiaries, and the proceeds of debt or equity issues as well as sums borrowed under bank or other loan facilities. The Group's operating subsidiaries hold its assets, and are the source of almost all of its profits and cash flows. If the profits of these operating subsidiaries were to fall, its profits and cash flows would be affected, and the affected subsidiaries could be unable to honour their obligations, or pay, in part or in full, the dividends expected by the Company.

The capacity of the Group's operating subsidiaries to make these payments depends on economic, commercial and contractual considerations, as well as on legal and regulatory constraints, which are linked to the solvency margin, thereby restricting the use of capital and in particular the distribution of dividends. It could also be affected by the various risk factors described in this paragraph. Were the equity of the Company and/or one of its subsidiaries to fall below the regulatory requirements, the insurance business regulators have significant means available to them to take action. For example, they may restrict or prohibit the signing of new contracts, prohibit the distribution of dividends and/or, in the most serious cases, require reorganisation or insolvency proceedings, in particular the opening of involuntary reorganisation or winding-up proceedings for such a subsidiary in France.

Moreover, if its subsidiaries were not able to maintain an adequate level of equity with regard to the regulatory requirements and/or their competitive positions, the Company could be forced to support them financially, which could have a significant impact on the status of its liquidity position, consolidated net income and financial position. Any fall in profits or the impossibility or inability of its subsidiaries to make payments to other subsidiaries of the Group could have a material adverse effect on its ability to distribute dividends, repay debt and fulfil its other obligations, which could have a material adverse effect on its business, solvency margin, operating results, financial position and outlook.

2.2. Credit risks

Risks related to the solvency of debtors and policyholders, its assessment and the reliability of information relating to this solvency

The Group's core business is credit insurance. In addition, the Group offers factoring activities in Germany and Poland.

Assessing the credit risks related to these activities is an essential component of its business.

Credit risk includes:

- for credit insurance, the underwriting risk, inherent in the insurance business (namely, short-term credit insurance, special risks including Single Risk and surety bonds) under the Solvency II Directive, in other words, the risk of losses or of an unfavourable change in the value of insurance commitments, due to inadequate assumptions in terms of pricing and reserving; and
- for the factoring business as defined by the regulations issued on November 3, 2014, i.e. the risk incurred in the event of default by a counterparty or counterparties considered to be a single beneficiary.

High quality, reliable information on debtor solvency is essential for managing the pricing policy and the risk underwriters' decision process. The Group, as with other players in the market, cannot disregard the fact that in certain markets, it may face difficulties in obtaining reliable and accurate information or debtor solvency data from the service providers that it may use.

Any lack of information or use of unreliable information regarding a debtor or the environment in which it operates, or a delay in the provision of such information, is likely to distort the evaluations and assessments used by the Group, and therefore the estimate of the related potential claims risk. Such risks relating to solvency assessments could have a material adverse effect on its business, financial position, operating results, solvency margin and outlook.

Furthermore, if the credit insurance or factoring products that it develops and sells are designed to address needs of policyholders (or clients in the case of factoring activities) and changes in terms of coverage, the Group must likewise control the risks in terms of exposure, and thus of profitability. A poor assessment of debtor solvency (and, in cases of factoring and guarantee activities, of the Group's clients) at the time of underwriting, and for credit insurance during the lifetime of the product, or even at the time of its renewal, could result in poor compatibility between the premium, the commitments made and the Group's management, and thus entail a potentially significant risk of loss.

Risk on the level of loss

Difficult economic conditions, in particular in the eurozone where the majority of policyholders are based, may cause an increase in payment delays and bankruptcies and thus in the frequency of claims. They could also lead to peak risks, in other words, abnormally high losses relating to a single debtor or group of debtors, or even due to an accumulation of losses in a single country.

Although the Group's broad geographical spread and its diverse portfolio strengthen its resistance to regional or segment-specific economic shocks by diluting the effect across its entire business, the growing interconnection of economic sectors and financial mechanisms on a global scale exposes it, like all credit insurers, to the risk of having to cope with a global-scale economic crisis, which would limit the benefit of this dilution factor.

An unfavourable change in the economic and commercial environment could in the future have a material adverse effect on the Group's business, financial position, solvency margin, operating results or outlook.

Risk on premiums collected

The premium on a credit insurance policy is assessed on the revenue earned by the policyholder during the period covered by the policy, on an insured risk on client receivables or on a capped insured receivable, which are themselves a function of the turnover generated by the policyholder during the period covered by its credit insurance policy. The total volume of premiums collected by the Group thus depends on its policyholders' revenue, namely the volume of sales actually generated by them during the periods covered by their respective credit insurance policies, and covered by these policies.

The Group's credit insurance policies include a minimum lump sum premium, calculated on the basis of an estimate of the volume of sales that will be made by a policyholder over the period covered by these policies. This minimum is generally invoiced according to a quarterly schedule, the first payment being due on the date when the policy comes into effect. The volume of sales actually made by the policyholder, which allows the final premium to be determined, is only known at the end of the period covered by the policy. The amount of the final premium, assessed on the volume of sales made by the policyholder, is generally higher than the amount of the minimum fixed premium already invoiced. An

adjustment premium, representing the difference between the lump sum premium already invoiced and the final premium, is then invoiced to the policyholder. However, if the total premium calculated on the basis of the volume of sales made by the policyholder is lower than the amount of the fixed premium, this difference is retained by the Group.

Although a deterioration in the economic environment may lead to an increase in the level of premiums received by the Group, resulting from the signing of new policies (either by new policyholders seeking cover or by existing policyholders extending their cover) or from an increase in the insurance premium rates, an economic slowdown, in particular within the eurozone where a large proportion of the Group's policyholders are located, could also result in a reduction in the volume of insurance premiums, due to a slowdown in business experienced by policyholders.

Risks related to the establishment of insurance technical provisions, depreciation and the assumptions used

The insurance policies managed by the Group's insurance subsidiaries meet the definitions of insurance contracts provided by IFRS 4. These policies give rise to the recognition of technical provisions on the liabilities side of the balance sheet, which are measured based on French GAAP accounting standards. A liability adequacy test is performed to verify that the technical insurance liabilities, as they appear in the consolidated financial statements, are sufficient to cover the future cash flows estimated at that date.

The Group makes estimates when establishing technical provisions which are primarily based on statistics and assumptions about changes in events and circumstances related to the policyholders and their debtors, as well as their economic, financial, social, regulatory and also political environment. These estimates may turn out to be different or insufficient when compared to actual events and circumstances observed subsequently, especially if they simultaneously affect its main portfolios. The use of these assumptions requires a high degree of judgement by the Group's management bodies, which may affect the level of the reserves recognised and therefore may have a material adverse effect on the Group's financial position, operating results and solvency margin.

The Group holds business investments for which there is no active market or the observable values are either limited or unrepresentative. Their fair value is then measured using valuation techniques based on assumptions that require a high degree of judgement. The valuations and estimates are revised when new information becomes available. In light of this information and in accordance with its accounting principles and methods, as described in the Group's consolidated financial statements, its management bodies use their judgement to analyse the causes of any decrease in the estimated fair value of securities, its prospects of short-term recovery and the level of provisions that is considered adequate for the resulting impairments. The impairments or additional provisions could have a material adverse effect on the Group's operating results, financial position and solvency margin.

Risks related to the geographic and sectoral distribution of debtors covered by the Group's insurance policies and its policyholders

The Group insures payment default risk for more than 40,000 policyholders in around 100 countries worldwide. The debtor risks covered by the Group's credit insurance policies are mainly located in Western Europe, notably in Germany, France, Italy and Spain. As at December 31, 2019, these four countries accounted for 39% of the Group's overall exposure from its credit insurance activities, while the whole of Western Europe represents 49.5% of the Group's total exposure. On the same date, debtors from non-OECD countries represented less than 19% of the Group's overall exposure. The Group is therefore particularly exposed to the risks and economic situation of countries in the eurozone and in Western Europe in general.

The persistence of a difficult economic situation, or the occurrence of new difficulties in these countries, and more generally in Western Europe, could increase the difficulties and worsen the financial position of the Group's debtors and policyholders operating in such countries. These factors could in return result in a considerable change in the Group's risk profile, and thus have a material adverse effect on its business, financial position, operating results or outlook.

In 2019, the Group maintained a selective risk underwriting policy and close monitoring due to the persistently tense global economic situation observed in all the so-called emerging countries. The Group's debt insurance portfolio covers a broad range of business sectors. However, as at December 31, 2019, the construction, agri-food and chemicals sectors represented 39.7% of the Group's total exposure. A breakdown of the Group's guaranteed debtor receivables by business sector is set out in the paragraph.

Similarly, the risks for some more sensitive sectors were revised in 2019 in keeping with the work carried out in 2018, to anticipate the deterioration in the solvency of the most vulnerable players in these markets (metal industry, sectors linked to the oil industry, etc.). Despite the diversity of the business sectors of the Group's policyholders and debtors covered by its credit insurance policies, the Group cannot disregard the fact that a significant deterioration in the economic conditions in any given sector may impact its overall risk levels, as well as the volume of premiums received, with a resulting material adverse effect on its business, financial position, operating results or outlook. This monitoring takes place on an ongoing basis and allows for adjustment to closely match anticipations.

Risks related to overexposure to debtors or regarding major policyholders

As at December 31, 2019, no debtor represented more than 1% of the Group's exposure and no policyholder accounted for more than 1% of the total premiums collected. Although the Group considers that the level of risk exposure regarding a major debtor is fairly limited, given their number and the diversity of risks that they present and the reinsurance underwritten, the occurrence of any significant risks linked to certain important debtors could affect the amount of indemnifications that it may have to pay, and have a material adverse effect on its financial position and operating results.

Risks related to the Group's factoring business

As part of its factoring activity, the Group finances the trade receivables of companies by acquiring their trade receivables, either insuring or not insuring these receivables against the risk of debtor insolvency, and collecting them on its own account. In some cases, the Group has a right of recourse against the ceding company. For the financial year ended December 31, 2019, the factoring business represented €64.11 million in net banking income and €2.3 billion in purchased receivables. In this regard, the Group could be obliged to bear risks related to invoice quality (risk of invoice dilution) in the case of disputed or falsified invoices; client insolvency (i.e. ceding company risk) where the client is unable to repay the cash advance made on outstanding invoices; or the solvency of buyers of products and services (see also Notes 4 and 24 to the Group's consolidated financial statements).

If these risks occur in any significant manner, they could have an adverse effect on the financial position, solvency margin, operating results and thus the outlook of the Group.

2.3. Operational and non-compliance risks

Risks related to cybersecurity

The risks related to cybersecurity are a concern for the Group, and the management of such risks is essential for its businesses and clients. Techniques used to steal information and data, hack, disrupt, degrade quality or sabotage information systems are constantly evolving. The Group may be subject to targeted attacks on its IT networks. It could be forced to face interruptions to business, losses or damage to its databases, or misappropriations of confidential information for which it could be held liable, particularly involving litigation or in a way that could negatively affect its reputation and image. The Group is therefore implementing a monitored and controlled security policy to make the appropriate changes to its system enabling it to protect itself against such hacking techniques, pre-empt and manage any crises and swiftly set up an effective and appropriate system of response.

This risk is part of the non-financial risks mentioned in the context of CSR in Chapter 6 of the Universal Registration Document.

Risks related to operational failures or inadequacies

The Group’s business relies very heavily on a set of complex processes involving risks of operational malfunctions linked to many internal or external factors. These factors may be human, organisational, material, natural or environmental, including risks of inadequate procedures, errors, fraud or malicious acts by employees, policyholders or brokers, or non-compliance with internal and external regulations, intrusion or hacking. Although the Group pays close attention to the quality of its services, the rigour of its internal processes and systems, and compliance with strict ethical values in the conduct of its business, it cannot rule out the occurrence of such failures.

Potential claimants could try to hold the Group’s employees, officers or companies responsible for such occurrences. The Group could be forced to pay damages and interest, or be subject to significant fines and unfavourable media coverage. The occurrence of such events could affect the Group’s reputation for reliability and integrity and thus affect its ability to retain the confidence of its policyholders and to attract new policyholders, causing a material adverse effect on its business, financial position, operating results and outlook.

Risks related to digital transformation

The digitisation of the economy and of trade in particular presents Coface with certain challenges, particularly in terms of client expectations, distribution, security and modelling. Coface is constantly investing in these areas to make its services digital, easy and intuitive to use, integrated into clients’ environments and secure, and to ensure its operations are competitive and support the digitisation of its offering. These investments constituted a significant part of the investments for its Fit to Win strategic plan.

Risks related to information systems

The Group’s business relies very heavily on its information systems. The Group manages complex information systems (in particular for the collection and management of information on the creditworthiness of companies, sales management for products and services, the centralisation of its risks – pricing, invoicing, debt collection, management of claims disputes – and for its bookkeeping and reporting), which are essential for the conduct of its credit insurance business, and additional services related to business information, factoring and debt management.

IT tools and information systems are indeed essential components for all its business, in terms of the development and the quality of its commercial offerings (business information, management and collection of debts, credit insurance offers, in particular pricing and underwriting decisions of the Group risk underwriters), as well as for management, back office, reporting and internal control procedures. Despite a policy to strengthen the back-up of its information systems and infrastructure, particularly in the context of Solvency II, and the availability of back-up systems for all its databases and emergency plans for its activities including priority information systems, it cannot be guaranteed that the tools, systems and databases will not be destroyed or damaged as a result of an incident or failure of IT tools and information systems.

Any failure of IT tools or information systems, including as a result of hacking, could have a material adverse effect on the Group’s business, financial position, operating results or outlook.

In addition, in order to manage certain information systems that are essential to its business, the Group depends on a limited number of suppliers, particularly with regard to the databases related to its information systems. The contracts to supply these services are renewed or renegotiated periodically. An unfavourable change in the relationship with one of the suppliers, hardening of required conditions, a failure to comply with commitments specified in the contracts, non-renewal of these contracts, or a renewal under less favourable conditions than those previously applicable, a potential default by one of the suppliers or a potential increased concentration of providers, could result in delays or significant costs, and generally have a material adverse effect on the Group's business, financial position, operating results or outlook.

Attracting and retaining talent

The specific nature of the Group's activities and credit insurance businesses on the one hand, and its extensive geographical presence on the other hand, make it critical to manage its human resources and talents and to improve the well-being of employees. These activities are equally priorities for Coface in the context of its risk management policy.

This risk constitutes a non-financial risk, the description and impact of which are detailed in Chapter 6 of the Universal Registration Document.

Committed employees

Employee motivation is a societal responsibility of Coface and represents an important issue for the Group, both in terms of the retention of its talents and its attractiveness in the market. Coface is implementing a number of actions consistent with its strategic guidelines aimed at making the Company more agile and so more motivating and attractive. This risk is detailed in Chapter 6 of the Universal Registration Document.

Risks related to potential judicial, administrative or arbitral proceedings

In the normal course of business, the Group's entities could be involved in a number of judicial, administrative or arbitral proceedings, particularly following claims for compensation. Although, as of today, no proceedings of this type are likely to affect its business, financial position or operating results, there is no guarantee that new proceedings might not be brought against the Company or its subsidiaries in the future. If applicable, claims for a significant amount could be made against the Company or its subsidiaries, and the outcome of these procedures could result in a significant degree of liability for the Group. In such a case, although it maintains a prudent level of provisions to guard against the cost of litigation, these proceedings could have a material adverse effect on its business, reputation, financial position, operating results and outlook.

Risks related to the occurrence of exceptional events (acts of terrorism, natural disasters, pandemics, etc.)

Unforeseen events such as acts of terrorism, conflicts, the spread of pandemics ~~such as the Ebola virus~~, a serious natural disaster, the potential consequences of global warming, or any other emergency situation could adversely affect the Group's business and financial position due to the economic and financial consequences of indemnifying the resulting claims.

These events could also cause a temporary disruption to the Group's business operations and result in significant losses to the extent that they would not be covered or would be insufficiently covered, by any relevant insurance policy, and if the Group's business continuity plans did not alleviate the consequences. Such losses may relate to physical assets, financial assets, market positions or key employees. These events could likewise generate additional costs and an increase in expenses for the Group (in particular increased insurance and reinsurance premiums). Although it has not experienced such events in the past, it cannot be excluded that such events may occur in the future and have a material adverse effect on its business, financial position, market value, operating results or outlook.

2.4. Financial risks

Risks related to the investment portfolio

The Group holds an investment portfolio primarily consisting of financial instruments. The fair value of this investment portfolio as at December 31, 2019 was €2,848.3 million (excluding cash equivalents and investments in unconsolidated subsidiaries). The Group operates a diversification policy for its investment portfolio that aims to comply with the current legal and regulatory provisions, as well as to achieve an optimal balance between risk and return (see also the paragraph on “Financial risks” in Section 5.1.3). The occurrence of any of the risks described below could nevertheless have a material adverse effect on its current and future revenue, net income, cash and financial position.

Interest rate risk

A significant portion of the Group’s investment portfolio is invested in bonds. As at December 31, 2019, bonds accounted for 74.4% of the total fair value of its investment portfolio. The Group is thus subject to interest rate risk, including both interest rate and spread risk, which is particularly relevant to bonds. During a period when rates fall, there is a risk that the average portfolio interest rate will fall (reinvestment occurring at lower rates), or that the duration of the portfolio will increase (making the portfolio more sensitive to a future change in rates). Conversely, during a period when interest rates rise, there is a risk that the market value of the bond portfolio will fall, in which case the Group would have to record unrealised losses. Any significant variation in the value of its bond portfolio as a result of a change in interest rates could have a material adverse effect on its net income, cash, solvency margin and financial position. With this in mind, the Group has adopted an asset-liability management policy.

Counterparty risk

As at December 31, 2019, more than 92% of the bonds held by the Group had a median rating of BBB- or above, allocated by at least one internationally recognised rating agency. At the same date, the exposure of its investment portfolio was primarily geared towards countries in the eurozone, with the exception of Greece. Despite this risk selection policy, it cannot be excluded that its investment portfolio might experience significant changes in value due to persistent current and potential future tensions on the financial markets, in particular with regard to sovereign and corporate debt. These defaults or fears of defaults by public or private issuers or by any other third party, counterparties, financial institutions, clearing houses or stock markets could disrupt the market, cause increased volatility of financial instruments, result in a chain reaction of defaults, or even lead to general illiquidity, and could lead the Group to record losses or impairments on invested assets, or significant unrealised losses, or make it unable to meet future funding needs to honour its commitments. Such losses or impairments could harm the value of its investments and reduce its profitability, having a material adverse effect on its current and future revenue, net income, cash, solvency margin and financial position.

Equity risk

As December 31, 2019, 5.6% of the Group’s investment portfolio was invested in equity mutual funds and shares, exposing it to upward and downward fluctuations in the stock market which in turn depend on many exogenous factors. In the event of a drop in the securities to which its portfolio is exposed, it could be obliged to record unrealised losses, or even significant asset impairments, which could have a material adverse effect on its current and future revenue, net income, cash and financial position.

Risks related to the Group’s financing needs

The Group’s liquidity requirements correspond, on the one hand, to coverage of its operating expenses, the settlement of claims and financial expenses and, on the other hand, to the liquidity needs of the factoring business in Germany and Poland. The main sources of liquidity for the insurance business are the insurance premiums received and the net income from investments. Liquidity to cover the financing requirements of the factoring business totalled €2,061.7 million at December 31, 2019 and corresponded to drawdowns under bilateral credit lines and overdraft facilities of a maximum amount of €897.5 million, to issuances made under its commercial paper programme for a total maximum amount of

€650 million and a factoring receivables securitisation programme in Germany for a total maximum amount of €1,100 million. Any early termination of the securitisation programme or related financing in the event of default or a failure to comply with commitments could have a material adverse effect on its financial position.

As part of its financing policy, the Group accessed and is expected to continue to access the capital and loan markets. In this regard, it cannot guarantee that it will have sufficient financing or that capital or loan market conditions, particularly interest rates, and the perception on these markets of its financial position and outlook, will be favourable enough to access the funding (bank financing or fundraising on financial markets) required to develop its business, in particular to cover its operating expenses, claims settlement and financial expenses. The capital market has suffered, and could continue to suffer, from high volatility or from disruptions limiting the availability of market financing. Such insufficient liquidity and/or prolonged restrictions in accessing these forms of funding could have a material adverse effect on its business, financial position, operating results or outlook.

Risks related to hedging the Group's solvency (SCR ratio)

Solvency II, which has been applicable since January 1, 2016, is aimed in particular at a better understanding of insurers' risks. In this respect, these regulations include solvency capital requirements (SCR) that set capital adequacy requirements for insurers for the purpose of absorbing a major shock. These SCR may be calculated based on a standard formula set by the regulations or by a complete or partial internal model developed by the insurer and validated by the prudential regulator.

In preparation for Solvency II, the Group, like the majority of other European insurers, has nevertheless had to make a certain number of strategic choices. The Group used the standard formula as a regulatory calculation method for the financial years 2016 to 2018. Given the financial issues and development priorities associated with its "Fit To Win" strategic plan, Coface Group wished to have a partial internal model to calculate its capital requirements. This partial internal model, which covers the non-life underwriting risk of credit insurance activities, was approved by the French Prudential Supervision and Resolution Authority (ACPR) in the fourth quarter of 2019 for implementation as at December 31, 2019. The reasons justifying this choice are as follows:

- the standard formula does not allow an appropriate model to be used for Coface Group's underwriting risk;
- the underwriting risk is the most tangible for Coface SA. Given that Solvency II requires adopting a "Risks" vision within Company management, the need to incorporate the specific features of the Group's underwriting into its capital requirements represents the most critical point;
- Coface Group does not show major specific features on other risk modules of the standard formula that would require the development of an internal model approach (see more detailed justifications on market risk at the end of the section).

Risks related to rating revision

Ratings on the ability to settle claims and on financial soundness are important factors when assessing the competitive position of insurance companies. The rating agencies regularly review their ratings and methodologies, and consequently may, at any time, modify the ratings that they have assigned. In the current economic environment, some rating agencies have downgraded their outlook for the insurance sector, and have downgraded the ratings of a growing number of companies. At the date of this registration document, the Group has maintained its ratings of AA- from Fitch and A2 from Moody's, which were confirmed in July and October 2019 respectively, with stable outlooks.

However, a downward revision of the outlook and/or of these ratings could have negative effects for the Group and lead to: a deterioration in its competitive position; difficulties in distributing new credit insurance policies; the termination of certain existing credit insurance policies; an increase in reinsurance costs; significant financing difficulties or increasing financing costs, linked in particular to its securitisation programme and its related financing; the need to grant additional coverage for certain contracts; a negative effect on its relations with its creditors, commercial counterparties and distributor partners, in particular the fronters; and a significant negative effect on public trust and on its reputation.

A downgrading in the outlook and/or ratings could consequently have a negative impact on its business, liquidity level, financial position, net income, solvency margin, market value and outlook.

Financial risks related to the effects of climate change

The risks related to the effects of climate change may be physical risks or risks regarding the transition towards a low-carbon economy. The physical risks consist of damage caused by extreme weather events. Coface could be exposed through its clients and their counterparties. These physical risks would ultimately correspond to credit, market and liquidity risks. The risk of transition to a low-carbon economy could result directly in the reduction of the likelihood and scale of physical damage. Initially, the impact would primarily concern sectors linked to the exploitation of fossil fuels as well as the chemical and metal industries. The transport and construction sectors would also be affected. As for the physical risk, therefore, Coface would face credit, market and liquidity risks. Thanks to its diversified credit risk portfolio, Coface is not directly affected by such risks to any significant extent.

In connection with Article 173 of the Law of August 17, 2015 on Energy Transition for Green Growth applicable to Coface, in 2016 the Group defined its responsible investment policy and the goals to be achieved in keeping with its role as a credit insurer and protecting against reputational risk.

Thus, in partnership with Amundi, in 2016 Coface set up a mechanism to address the regulatory requirements and to measure the carbon footprint of its portfolios with a view to reducing it. Accordingly, calculating and disclosing information on Coface's carbon exposure is the foundation of its commitment in this area:

- ESG (Environmental, Social, Governance) factors: incorporate sensitivity to these factors while maintaining a primary goal of risk and reputation management. Amundi drafts a report that provides the average ESG rating of the Coface portfolio (with ratings from A to G);
- voting rights and commitment: take part in voting at the Shareholders' Meetings of companies held in the portfolio through the delegated managers and encourage dialogue with their management on best practices by building on the practices followed in these matters;
- measuring the carbon footprint: protecting the Group against carbon risk and participating in international environmental protection and energy and ecological transition endeavours.

The Group's initiatives to reduce its environmental footprint are described in detail in Chapter 6.

Risks related to exchange rate fluctuations

Due to the international nature of its activities, the Group distributes policies in around 100 countries and in approximately 50 currencies other than those of the accounts of the issuing entities (premiums collected and claims paid). Similarly, its credit insurance policies may cover invoices in various currencies. Consequently, its entities, which carry foreign exchange risks on their balance sheets when they issue policies with premiums collected in a currency different from their accounting currency, record liabilities that are indexed to a currency other than the one used in the rest of their balance sheet.

Furthermore, the Group, which releases its financial statements in euros, could be exposed to foreign exchange risks, mainly due to the activities of certain foreign subsidiaries that operate in foreign currencies. Its capital is therefore subject to fluctuations in these exchange rates when consolidating the net positions of the various entities in the Group.

Finally, financial assets in the Group's investment portfolio that are in a foreign currency may be affected by fluctuations in the exchange rates of the currencies in which they are denominated (see also the paragraph on "Financial risks" in Section 5.1.3). These fluctuations could significantly affect its financial income.

Although it can seek to reduce its exposure to foreign currency fluctuations through hedging activities via the matching principle, fluctuations in exchange rates and any related losses as part of its hedging activities could have a material adverse effect on its financial position, operating results and solvency margin.

Risks related to world financial market conditions

The Group's business operations are sensitive to changes in the financial markets in France, Europe and the rest of the world. Numerous factors, including uncertainties about the solvency of certain sovereign issuers, the stability and

solvency of financial institutions, the risk of future inflation or deflation in certain markets, as well as geopolitical tensions, have led to a liquidity shortage and increased the volatility of the financial markets. They could in the future continue to weigh on the markets and the overall economy, and thus on the business activities and prospects of the Group. Furthermore, a liquidity shortage and the volatility of financial markets could have a material effect on the Group's investment portfolio, and, more broadly, on its financial income, primarily due to the size of the investment portfolio, which mainly comprises financial instruments whose value depends on the performance of the financial markets (see also the paragraph on "Financial risks" in Section 5.1.3 and the paragraph on "Risks related to the investment portfolio" in Section 5.2.2).

Adverse changes in the financial markets could, in the future, have a material adverse effect on the business, the Group's financial position, solvency margin, share price trends, operating results, market value or outlook.

Risks related to the macroeconomic situation

The Group is present in 64 countries and markets its services in nearly 100 countries and in the many sectors of the economy in which its policyholders operate. Given the nature of its business, its activity is directly influenced by the economic environment and by business activity at both a local and a global level. Although the diversity of the sectors and regions in which the Group operates gives it some resistance to the various economic cycles, its activity is sensitive to changes in general macroeconomic conditions, global trade, the level of investment and consumption, as well as any changes in economic policies affecting its policyholders.

Risks related to deferred tax assets

The Group records deferred tax assets for future tax savings resulting from the differences between deficits carried forward and the timing differences between the values of asset items in the consolidated financial statements, and those allocated when the taxable income is established. Actual realisation of these assets in future years depends on the tax laws and regulations, the outcome of current or future controls and disputes, and the expected future operating results of the entities concerned (see Note 18 to the Group's consolidated financial statements).

Risks related to the valuation of goodwill and intangible assets

The occurrence of future events with an adverse impact on the Group may result in an impairment of certain intangible assets and/or goodwill. Any substantial impairment may have an adverse impact on the Group's financial position and operating results for the year in which such expenses are recognised (see Notes 1 and 2).

2.5. Reinsurance risks

Risks related to relations with reinsurers, the capacity of the reinsurance market and reinsurance costs

The theoretical level of exposure assessed by the Group is incompatible with the Group's available capital alone. This theoretical level of exposure is based primarily on the fact that a certain proportion of claims derived from this exposure

will be passed on to reinsurers under a quota-share treaty, bearing in mind that this transfer of risk to reinsurance companies does not exempt the Group from its commitments to pay its policyholders. The Group has also implemented a reinsurance strategy against any potential extreme risks it may incur through non-proportional “excess claim and excess loss” hedging. In terms of its relations with reinsurance companies, the Group is subject to the default risks of its reinsurers and the risk that it might be unable to obtain reinsurance treaties or obtain them on acceptable pricing terms.

Although, despite the financial crisis, no defaults have been seen among the Group’s reinsurers, one or more reinsurers of the Group might no longer be able to meet their financial obligations, which could lead to increased losses for the Group. Furthermore, the reinsurance capacities on the market and the prices of reinsurance treaties depend on the general economic situation and on many other factors, and could vary significantly. Therefore, even though such a situation has never occurred, the Group could have difficulties in obtaining reinsurance on commercially or financially acceptable terms, thereby increasing the risk of potential losses. In turn, this could lead the Group to change its pricing structures or its risk underwriting policy, which could negatively impact its profitability and competitiveness. The occurrence of any of these risks could have a material adverse effect on the Group’s financial position, operating results, solvency margin, business and outlook.

3. INSURANCE POLICY

Since January 2015, the Group has had its own insurance programme with leading insurance companies, offering levels of cover that it considers commensurate with the risks inherent in its business operations, to cover its general and specific risks (professional civil liability, civil operating liability, director civil liability, material damage to operating assets, business travel accidents, cyber risks, etc.). The Group supplements this insurance cover locally, according to its needs or the specific regulatory requirements of certain countries.