



Unaudited interim
consolidated financial
statements
(free translation)
Three months ending March 31, 2020

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Basis of preparation

These IFRS condensed interim financial statements of the Coface Group as at March 31, 2020 include:

- the balance sheet;
- the income statement;
- the consolidated statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows.

They are presented with comparative financial information at December 31, 2019 for balance sheet items and for the 3 months ended March 31, 2019 for income statement items.

The accounting principles and policies used for the interim financial statements as at March 31, 2020 are the same as the ones used for the year ended December 31, 2019. They are prepared in accordance with the International Financial Reporting Standards (IFRS) as published by IASB and adopted by the European Union¹. They are detailed in the note “Applicable Accounting Standards” of consolidated financial statements for the year ended December 31, 2019. Given the context and in the absence of sufficient view on the long-term impacts of the health crisis, it was not treated as an indication of loss of value for the goodwills. Consequently, the impairment tests were not performed for the closing on March 31, 2020.

These condensed consolidated financial statements were reviewed by Coface Group’s Board of Directors on 23 April 2020. They were also previously reviewed by the Audit Committee on 22 April 2020.

¹ The standards adopted by the European Union can be consulted on the website of the European Commission at: http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_fr.htm

Significant events

AM Best assigns A (Excellent) rating to Compagnie française d'assurance pour le commerce extérieur and to Coface Re SA

Rating agency AM Best has assigned a Financial Strength Rating (FSR) of A (Excellent) to Compagnie française d'assurance pour le commerce extérieur (la Compagnie) and to Coface Re. Both ratings have a stable outlook.

The agency has also affirmed the FSR of Coface North America Insurance Company (CNAIC) to A (Excellent). The outlook remains stable.

Coface launches its new 2023 strategic plan, Build to Lead

During its investor day organised on 25 February in Paris, Coface presented its new 2023 strategic plan Build to Lead. This plan seeks to take further the business and cultural transformation undertaken under Fit to Win.

In particular the new plan will: a) continue to strengthen risk management and underwriting discipline; b) improve service, commercial and operational efficiency; c) invest in select growth initiatives in trade credit insurance as well as in specialty lines and d) maintain balance sheet strength.

With the implementation of the plan Build to Lead, Coface raises all its financial targets.

Shareholding evolution

On 25th of February, Natixis announced the sale of 29.5% of the share capital of Coface to Arch Capital Group Ltd and has stated its intention to resign from COFACE's Board of Directors after the closing of the transaction. Natixis also specified that its agreement with Arch states that, on this date, Coface's Board of Directors will be composed of ten members comprising four members proposed by Arch and six independent directors (including the current five independent directors). Coface's Board of Directors, liaising with the Nominations and Compensation Committee, decided to immediately launch a search for the future Chairman of the Board whose term of office will take effect on the closing date of the transaction. The Chairman of the Board will be an independent director.

Arch affirmed support of COFACE's current management and of its new 2023 strategic plan Build to Lead.

Review of the credit insurance sector by Moody's

The rating agency Moody's confirmed Coface's Insurance Financial Strength (IFS) A2 rating on 27 March 2020. The outlook for this rating has been changed to negative. As part of its credit insurance sector review, the agency estimates that the progression of the coronavirus epidemic, and the measures taken by governments to slow its spread, represent a scenario of severe stress for credit insurers.

Fitch places Coface on Rating Watch Negative

Ratings agency Fitch has, on 31 March 2020 placed Coface on Rating Watch Negative. This includes Coface's Insurer Financial Strength (IFS) rating. The ratings agency estimates that the adverse effects of the coronavirus pandemic will have a negative impact on the trade credit insurance industry, and that it is now more likely that Coface's profitability, as measured by Fitch, will reach a level no longer compatible with the current rating.

Announcement regarding the dividend

Due to the high level of uncertainty created by this crisis, for reasons of prudence in line with the recommendations of regulatory and governmental authorities, and to maintain COFACE SA's agility, the Board of Directors held on 1st of April has decided to propose to the Combined General Meeting of 14 May 2020 to pay no dividend for the financial year ending 31 December 2019. The Board of Directors reserves the right to reconsider this position in the coming months depending on the evolution of the situation.

Consolidated balance sheet

Asset

<i>(in thousands of euros)</i>	March 31, 2020	Dec. 31, 2019
Intangible assets	220,208	220,844
Goodwill	155,678	155,833
Other intangible assets	64,530	65,011
Insurance business investments	2,908,720	2,990,686
Investment property	288	288
Held-to-maturity securities	1,863	1,842
Available-for-sale securities	2,759,233	2,911,034
Trading securities	77	43
Derivatives	71,062	1,809
Loans and receivables	76,197	75,670
Receivables arising from banking activities	2,423,148	2,346,710
Reinsurers' share of insurance liabilities	471,911	450,367
Other assets	1,084,863	1,053,538
Buildings used for operations purposes and other property, plant and equipment	118,443	123,776
Deferred acquisition costs	41,684	40,384
Deferred tax assets	63,306	64,042
Receivables arising from insurance and reinsurance operations	534,692	532,362
Trade receivables arising from service activities	66,562	62,112
Current tax receivables	51,908	49,675
Other receivables	208,268	181,187
Cash and cash equivalents	433,651	320,777
TOTAL ASSETS	7,542,501	7,382,922

Liability

<i>(in thousands of euros)</i>	March 31, 2020	Dec. 31, 2019
Equity attributable to owners of the parent	1,854,670	1,924,472
Share capital	304,064	304,064
Additional paid-in capital	810,420	810,420
Retained earnings	659,580	512,438
Other comprehensive income	67,941	150,821
Consolidated net income of the year	12,665	146,729
Non-controlling interests	223	269
Total equity	1,854,893	1,924,741
Provisions for liabilities and charges	97,478	100,932
Financing liabilities	377,423	389,261
Lease liabilities	89,875	92,990
Liabilities relating to insurance contracts	1,861,439	1,827,219
Payables arising from banking activities	2,430,373	2,362,805
Amounts due to banking sector companies	636,004	523,020
Amounts due to customers of banking sector companies	265,492	301,058
Debt securities	1,528,877	1,538,727
Other liabilities	831,020	684,974
Deferred tax liabilities	82,140	107,357
Payables arising from insurance and reinsurance operations	247,683	219,863
Current taxes payables	62,317	66,295
Derivatives	79,284	889
Other payables	359,596	290,570
TOTAL EQUITY AND LIABILITIES	7,542,501	7,382,922

Consolidated income statement

<i>(in thousands of euros)</i>	March 31, 2020	March 31, 2019
<i>Gross written premiums</i>	356,379	344,774
<i>Premium refunds</i>	(19,467)	(21,905)
<i>Net change in unearned premium provisions</i>	(35,737)	(23,840)
Earned premiums	301,175	299,029
<i>Fee and commission income</i>	41,293	37,923
<i>Net income from banking activities</i>	16,030	16,957
<i>Income from services activities</i>	11,952	11,558
Other revenue	69,275	66,438
Revenue	370,450	365,467
Claims expenses	(166,198)	(119,038)
<i>Policy acquisition costs</i>	(58,417)	(61,883)
<i>Administrative costs</i>	(69,694)	(66,333)
<i>Other insurance activity expenses</i>	(16,103)	(16,399)
<i>Expenses from banking activities, excluding cost of risk</i>	(3,309)	(3,412)
<i>Expenses from services activities</i>	(19,757)	(19,190)
Operating expenses	(167,280)	(167,217)
Risk cost	56	(553)
UNDERWRITING INCOME BEFORE REINSURANCE	37,028	78,659
Income and expenses from ceded reinsurance	(8,786)	(26,625)
UNDERWRITING INCOME AFTER REINSURANCE	28,242	52,034
Investment income, net of management expenses (excluding finance costs)	2,679	5,132
CURRENT OPERATING INCOME	30,921	57,166
Other operating income and expenses	(195)	(245)
OPERATING INCOME	30,726	56,921
Finance costs	(5,181)	(5,275)
Share in net income of associates		
Badwill	(0)	(0)
Income tax expense	(12,897)	(15,209)
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS	12,648	36,437
Non-controlling interests	17	(69)
NET INCOME FOR THE YEAR	12,665	36,368

Consolidated statement of comprehensive income

<i>(in thousands of euros)</i>	Notes	Mar. 31, 2020	Mar. 31, 2019
Net income of the period		12,665	36,368
Non-controlling interests		(17)	69
Other comprehensive income			
Currency translation differences reclassifiable to income		(8,923)	9,291
<i>Reclassified to income</i>			
<i>Recognised in equity</i>		(8,923)	9,291
Fair value adjustments on available-for-sale financial assets		(73,983)	30,635
<i>Recognised in equity – reclassifiable to income – gross</i>		(109,033)	46,278
<i>Recognised in equity – reclassifiable to income – tax effect</i>		24,900	(11,709)
<i>Reclassified to income – gross</i>		10,390	(5,282)
<i>Reclassified to income – tax effect</i>		(240)	1,348
Fair value adjustments on employee benefit obligations		(7)	
<i>Recognised in equity – not reclassifiable to income – gross</i>		(6)	
<i>Recognised in equity – not reclassifiable to income – tax effect</i>		(1)	(0)
Other comprehensive income of the period, net of tax		(82,913)	39,926
Total comprehensive income of the period		(70,265)	76,363
- attributable to owners of the parent		(70,215)	76,272
- attributable to non-controlling interests		(50)	91

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, 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							85,338			85,338	7	85,345
Fair value adjustments on available-for-sale financial assets reclassified to income statement							(7,320)			(7,320)	(1)	(7,321)
Change in actuarial gains and losses (IAS 19R)									(3,229)	(3,229)		(3,229)
Currency translation differences						19,161				19,161	2	19,163
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
Effect of the first application of the standard IFRS 16				(0)						(0)		(0)
2019 net income to be appropriated				146,729					(146,729)			
Payment of 2019 dividends in 2020												
Total transactions with owners		(0)	(0)	146,729	(0)	(0)	(0)	(0)	(146,729)	(0)		(0)
March 31, 2020 net income									11,145	11,145	(17)	11,128
Fair value adjustments on available-for-sale financial assets recognized in equity							(84,120)			(84,120)	(13)	(84,133)
Fair value adjustments on available-for-sale financial assets reclassified to income statement							10,150			10,150	1	10,151
Change in actuarial gains and losses (IAS 19R)									(8)	(8)		(8)
Currency translation differences						(8,902)				(8,902)	(21)	(8,923)
Cancellation of COFACE SA shares												
Treasury shares elimination												
Free share plans expenses				428						428		428
Transactions with shareholders				(15)						(15)	4	(11)
Equity at March 31, 2020		304,064	810,420	670,770	(11,190)	(17,327)	110,689	(25,421)	12,665	1,854,670	223	1,854,893

Consolidated statement of cash flows

<i>(in thousands of euros)</i>	March 31, 2020	March 31, 2019
Net income for the period	12,665	36,368
Non-controlling interests	(17)	69
Income tax expense	12,897	15,209
Finance costs	5,181	5,275
Operating income (A)	30,726	56,921
+/- Depreciation, amortization and impairment losses	6,812	8,122
+/- Net additions to / reversals from technical provisions	54,209	23,514
+/- Unrealized foreign exchange income / loss	1,506	10,027
+/- Non-cash items	12,336	(5,150)
Total non-cash items (B)	74,862	36,513
Gross cash flows from operations (C) = (A) + (B)	105,588	93,434
Change in operating receivables and payables	35,261	(16,321)
Net taxes paid	(19,895)	(1,558)
Net cash related to operating activities (D)	15,366	(17,879)
Increase (decrease) in receivables arising from factoring operations	(101,793)	15,381
Increase (decrease) in payables arising from factoring operations	(45,416)	65,704
Increase (decrease) in factoring liabilities	137,650	(108,036)
Net cash generated from banking and factoring operations (E)	(9,559)	(26,951)
Net cash generated from operating activities (F) = (C+D+E)	111,395	48,604
Acquisitions of investments	(323,057)	(403,127)
Disposals of investments	358,412	371,586
Net cash used in movements in investments (G)	35,355	(31,541)
Acquisitions of consolidated subsidiaries, net of cash acquired	(0)	(0)
Disposals of consolidated companies, net of cash transferred	(0)	(0)
Net cash used in changes in scope of consolidation (H)	(0)	(0)
Acquisitions of property, plant and equipment and intangible assets	(2,616)	(13,410)
Disposals of property, plant and equipment and intangible assets	32	150
Net cash generated from (used in) acquisitions and disposals of property, plant and equipment and intangible assets (I)	(2,584)	(13,260)
Net cash used in investing activities (J) = (G+H+I)	32,771	(44,801)
Proceeds from the issue of equity instruments	(0)	(0)
Treasury share transactions	(0)	(1,264)
Dividends paid to owners of the parent	(0)	(0)
Dividends paid to non-controlling interests	(0)	(0)
Cash flows related to transactions with owners	(0)	(1,264)
Proceeds from the issue of debt instruments	0	7,698
Cash used in the redemption of debt instruments	(0)	(0)
Lease liabilities variations	(2,756)	(0)
Interests paid	(16,803)	(16,665)
Cash flows related to the financing of Group operations	(19,559)	(8,967)
Net cash generated from (used in) financing activities (K)	(19,559)	(10,231)
Impact of changes in exchange rates on cash and cash equivalents (L)	(11,733)	3,253
NET INCREASE IN CASH AND CASH EQUIVALENTS (F+J+K+L)	112,874	(3,175)
Net cash generated from operating activities (F)	111,395	48,604
Net cash used in investing activities (J)	32,771	(44,801)
Net cash generated from (used in) financing activities (K)	(19,559)	(10,231)
Impact of changes in exchange rates on cash and cash equivalents (L)	(11,733)	3,253
Cash and cash equivalents at beginning of period	320,777	302,419
Cash and cash equivalents at end of period	433,651	299,244
NET CHANGE IN CASH AND CASH EQUIVALENTS	112,874	(3,175)

Events after the reporting period

Coface and the French State are mobilizing to support French companies

On 10 April 2020, given the current health and economic context, Coface has announced that it is mobilising alongside the French State to relaunch the exceptional public credit insurance supplement system, developed in 2008. Coface undertakes to market these complementary offers of inter-company credit cover as part of a system benefiting from State reinsurance. This system will therefore allow French companies to maintain their trade in a context where the financial situation of their buyers is deteriorating, and to secure their cash flow. The European Commission having given its approval to the French authorities, Coface is making these solutions available to its policyholders.

German government is setting up protective shield for suppliers credit

On 16 April 2020, together with the credit insurers, the German government is setting up a €30 billion protective shield to secure suppliers credit for German companies and to support the economy in difficult times. Coface is also cooperating in this extensive programme for domestic and export business. The EU Commission has approved the programme.

The credit insurers participate substantially and transfer 65% of the premium income in 2020 to the Federal Government. In addition, they bear losses up to an amount of €500 million themselves and assume the default risks exceeding the Federal Government's guarantee amount.

This scheme is applicable for claims cases from 1st of March 2020 onwards and related to deliveries or services rendered from 1st of January 2020 to 31st December 2020.

The impact has been evaluated as non significant for Q1 closing and has not been included in the quarterly accounts.