5

MAIN RISK FACTORS AND RISK MANAGEMENT WITHIN THE GROUP

5.1 SUMMARY OF MAIN RISKS

The Group operates in a rapidly evolving environment that gives rise 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 explains how they are managed.

Despite a complex economic environment marked by the conflict in Ukraine, the energy crisis, inflation and the consequences of the Covid-19 pandemic, Coface Group has been able to maintain discipline in its risk management.

The table below presents the main risks to which Coface is exposed. It was prepared using the risk map, which is reviewed annually by general management and the Board of Directors' Risk Committee. The risk map is based on a qualitative risk analysis aimed at assessing the probability of occurrence and potential impact of each risk factor, taking into account the corresponding level of control implemented within the Group.

In 2022, a number of changes were made to the risk mapping to take into account the updated assessment of their effects on the Group as well as certain additional risks. The exposure to these different risks is described in more detail in Section 5.2 of this report. The non-operational risk assessment methodology was adapted to align with that used for operational risks so as to provide a uniform view of all risks. As a result, the assessment of the risk frequency and its residual impact (impact of each risk after taking into account risk mitigation techniques such as the implementation of controls, procedures, governance, systems or human resources) is carried out on a scale with four levels: high, significant, medium, low. The approach is completed by an expert analysis that can take into account any other relevant element in order to best assess these risks. A *pro-forma* 2021 risk assessment was performed according to this methodology to enable comparison.

RISK CATEGORIES	MAIN RISK FACTORS	PROBABILITY OF OCCURRENCE	RESIDUAL IMPACT	CHANGE IN THESE RISKS BETWEEN 2021 AND 2022*
Credit risk	Risk related to the management of the Group's exposure in its insurance business	High	Significant	→
	Risk of debtor insolvency	Significant	Medium	→
	Risk related to technical provisions	Significant	Medium	→
Financial risk	Interest rate risk	Significant	Medium	↑
	Equity risk	Medium	Low	↓
	Real estate risk	Significant	Medium	→
	Liquidity risk	Significant	Medium	→
	Foreign exchange risk	Medium	Medium	→
Strategic risk	Risks related to market and geopolitical conditions	High	High	→
	Risks related to changes in the regulations governing the Group's activities	Medium	Low	→
	Risk of deviating from the strategic plan	Significant	Medium	→
	Reputational risk	Medium	Low	→
Reinsurance risk	Residual reinsurance risk	Significant	Medium	→
Operational and compliance risk	Risks related to information systems and cybersecurity (non-financial performance disclosures)	High	Significant	→
	Modelling risk	Significant	Medium	→
	Compliance risk	Significant	Medium	↓
	Outsourcing risk	Significant	Medium	Not assessed in 2021
Climate change risks	Climate change risks	Low	Low	Not assessed in 2021

* *Change based on 2021 pro-forma assessment.*

Before making a decision to invest in the Company's shares, prospective investors should consider carefully all the information set out in this document, including the risks described below. As of the date of this report, these risks, were they to occur, are those the Group believes could have a material adverse effect on the Group, its business, its financial position, its solvency, its operating results or outlook, and which are material in making an investment decision. 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 of the date of this Document, is not considered likely to have a material adverse effect on the Group, its business, its financial position, its operating results or outlook.

5.2 DEFINITION AND MEASUREMENT OF RISKS

Risk factors related to the Issuer

/ **BREAKDOWN OF THE GROUP'S OVERALL EXPOSURE BY BUSINESS LINE *(IN €BN)***

	2022		2021	2020
BY BUSINESS LINE	*(in €bn)*	*(as a %)*	*(in €bn)*	*(in €bn)*
Credit insurance	666.9	96.6%	587.6	486.4
Bonding	14.7	2.2%	13.5	12.9
Single Risk Insurance	3.5	0.4%	2.7	3.1
Other*	4.6	0.7%	4.3	-
TOTAL	**689.7**	**100.0%**	**608.1**	**502.4**

* *The Latitudine exposure (supervised discretionary credit limit) at Coface Italy and the bonding reinsurance business have been incorporated into the risk management tools since December 2021.*

The data and charts on exposures provided below relate to credit insurance, which accounts for 97% of total amounts outstanding.

5.2.1 Credit risk

a) Risk related to the management of the Group's exposure in its trade credit insurance business

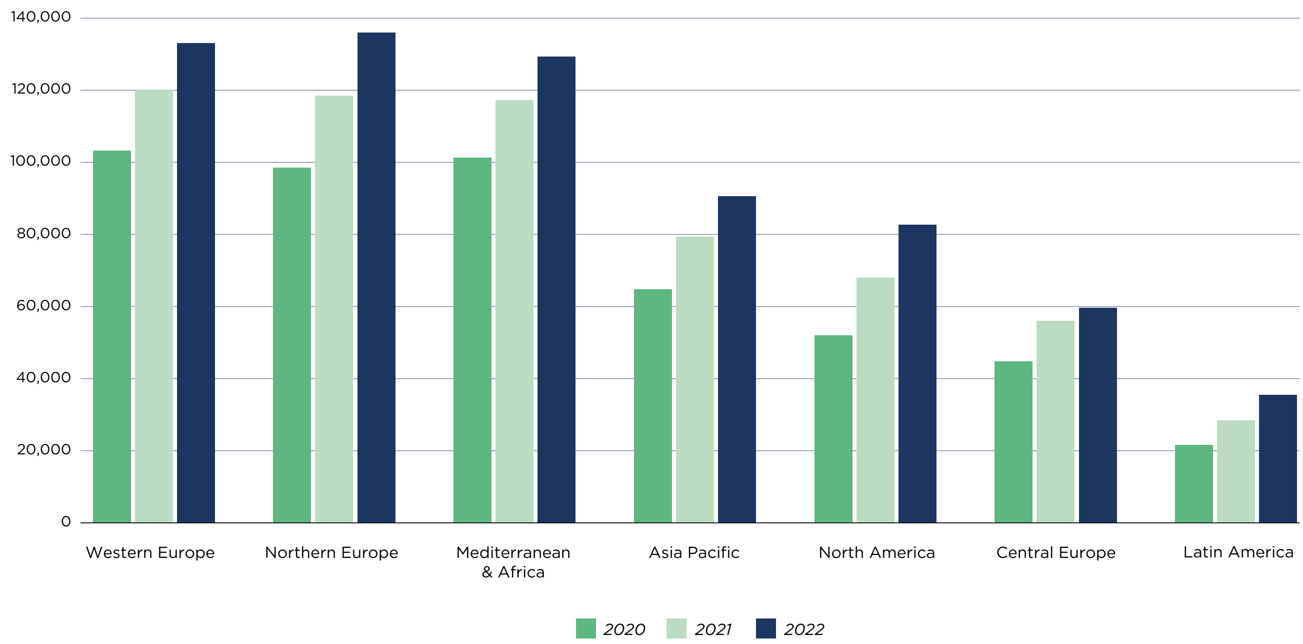
Exposure to certain countries with high corporate default rates or the concentration of exposures in fragile economic sectors could have a material impact on the Group's loss ratio, operating income, liquidity and solvency margin.

As part of its trade credit insurance activities, the Group allocates its exposures between clients operating in a wide range of economic sectors and established in different countries around the world. In this regard, it manages its exposures and determines the maximum amount of risk that it is willing to accept for each group of debtors based on the underlying level of risk related to the economic sector concerned and/or the location of those groups of debtors.

The Group significantly increased its exposure in 2021 as the Covid-19 pandemic receded. This followed a significant decrease in exposures due to risk management action taken at the height of the pandemic in 2020. Exposure continued to grow at a slower pace in 2022, in a context of high inflation that supports Coface's clients' turnover. It stood at €667 billion at the end of 2022.

The chart below shows a breakdown of the level of exposure by region for the periods ended December 31, 2020, 2021 and 2022 respectively:

/ BREAKDOWN OF THE GROUP'S CREDIT INSURANCE EXPOSURES BY GEOGRAPHIC REGION *(IN BILLION OF EUROS)*



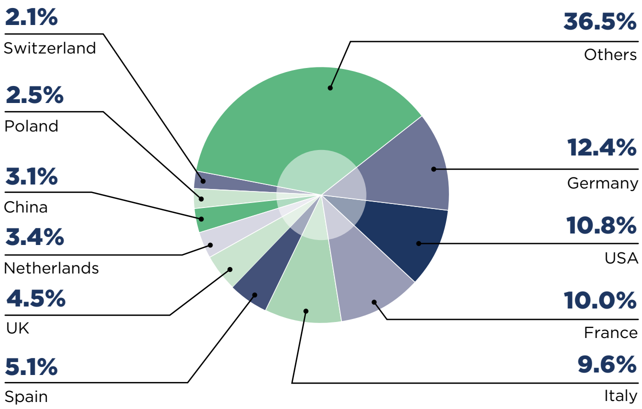
All of the Group's regions recorded an increase in exposure. Following an increase of nearly 15% in 2022, the Mediterranean and Africa region became the Group's largest region in terms of exposure, slightly ahead of Western Europe. Latin America recorded the largest increase, at nearly 25%. However, this region remains the Group's smallest region. In contrast, growth was weaker in Central Europe in 2022 (6.5%, compared to the 13.5% increase for the Group as a whole), due in particular to the risk management action implemented in response to Russia's invasion of Ukraine.

More specifically, risk management action reduced exposure to Russian debtors to €640 million at the end of 2022, a reduction of more than 85% compared to pre-invasion levels. Claims notifications on Russian debtors remained at a moderate level during 2022 and had no significant impact on the Group's loss ratio. Coface is continuing to reduce its activity in Russia while preserving debt collection and risk management capabilities in the region.

The geographical breakdown of risk is monitored according to the Group's country risk assessment, which estimates the average credit risk of companies in a given country using a risk scale ranging from A1 (the highest rating) to E (the lowest rating). The concentration of exposure on the lowest-rated countries is constantly monitored as part of Coface's risk appetite.

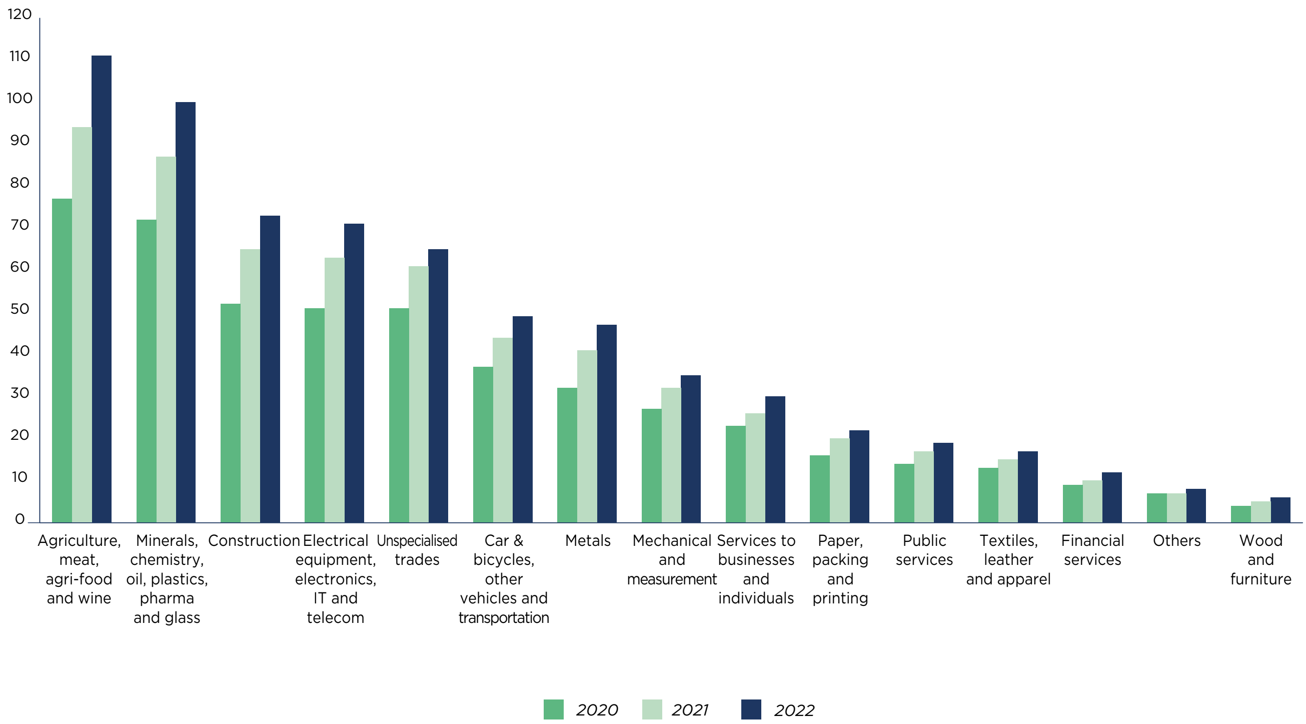
At December 31, 2022, the top ten countries accounted for 63.5% of credit insurance exposures, compared with 63.7% at December 31, 2021. Germany, which accounts for nearly 12.4% of the Group's risks, remains the country in which the Group has the biggest exposure. More than 80% of the debtors covered by credit insurance policies are located in OECD countries.

/ BREAKDOWN OF THE GROUP'S CREDIT INSURANCE EXPOSURE BY COUNTRY AT DECEMBER 31, 2022



The Group's exposure is also diversified by economic sector. All sectors recorded an increase in exposure in 2022. The concentration on the largest sector, namely agriculture, increased slightly to 16.6% of total exposure. The weight of the transport and metals sectors, which fell significantly at the beginning of the pandemic, was stable in 2022, while the share of exposure to non-specialised retail clients dropped to less than 10%.

/ BREAKDOWN OF THE GROUP'S CREDIT INSURANCE EXPOSURE BY ECONOMIC SECTOR AT DECEMBER 31, 2022 ***(IN BILLION OF EUROS)***



At December 31, 2022, more than 95% of the Group's total exposure consisted of short-term risks. The maximum credit term stipulated in its policies rarely exceeds 180 days.

However, an adverse change in the economic cycle (at a global, sector, geographical or country level) resulting from:

(i) a financial or health crisis, such as the financial crisis in Latin America in 2019 or the global Covid-19 pandemic in 2020;

(ii) a failure of the Group's management systems, processes or governance;

(iii) a poor assessment of the risks associated with an economic sector, geographical area or country,

could lead to delays in reducing exposures and/or an overestimation of the quality of exposures to the economic sector, geographical area or country concerned. In such an event, the Group's credit risk would increase and it could experience a sharp rise in paid claims, which would have an impact on its loss ratio, operating income, liquidity and solvency margin.

b) Risk of debtor insolvency

An overestimation of the quality of our debtors, poor management of the concentration of debtors or a delay in assessing certain adverse economic developments could lead to the granting of inappropriate limits to companies that may encounter financial difficulties and potentially default on their payment obligations towards our policyholders, thereby increasing the claims submitted to the Group.

The approval of the maximum amount of risk incurred on debtors is based on an analysis of their financial strength and an assessment of their capacity to pay amounts due to our policyholders in a given economic situation. This analysis is carried out by the Group's credit analysts and underwriters, who continually assess and monitor debtor solvency based on publicly available information and/or data collected directly from the debtors and/or using an internal assessment tool and a historical database.

The default risk of debtors (policyholders' clients) is analysed according to the concentration of exposures to a group of debtors. The Group provides unpaid receivables risk insurance covering over two million debtors worldwide. At December 31, 2022, the Group's average exposure to individual debtors was contained, with an average risk per debtor close to €280,000.

The table below shows a breakdown of the Group's policyholders at December 31, 2022 according to the total outstanding credit risk incurred by the Group. Analysis of the number of debtors by amounts outstanding shows that the risk concentration is limited. For example, debtors to which the Group's exposure totals less than €5 million account for nearly 50% of the Group's total exposure.

DEBTOR TOTAL EXPOSURE BRACKETS	OUTSTANDING AMOUNTS* (in millions of euros) 2022
€1 – €100,000	42,282
€101,000 – €200,000	28,548
€201,000 – €400,000	37,732
€401,000 – €800,000	48,349
€801,000 – €1.5 million	51,414
€1.5 million – €5 million	116,200
€5 million – €50 million	227,648
€50 million – €200 million	76,670
€200 million and more	38,072
TOTAL	**666,916**

* *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.*

The risk of debtor insolvency can also be exacerbated by debtors' exposure to climate risk. Coface has incorporated a climate stress test as part of its annual own risk and solvency assessment (ORSA). In a scenario reflecting the risk of a delayed transition to a low-carbon economy, debtors operating in sectors the most exposed to transition risk (such as carbon intensive sectors) and whose financial strength is low or medium would be the most exposed. However, the share of these companies in Coface's portfolio is very low. As a result, the impact of this stress scenario on the Group's profitability and solvency is not material. For more information on how Coface manages environmental risks, please refer to Chapter 6 of this document.

The Group is mainly exposed to small and medium-sized debtors and, to a certain extent, to larger debtors for larger amounts. Although the Group's exposures are covered by a reinsurance programme, the default of a number of small and medium-sized debtors, each for amounts below the minimum amounts covered by the reinsurance programme, could be borne directly by the Group. In addition, the default of certain debtors for a significant amount may exceed the upper limit of the reinsurance programme. As a result, adverse developments in the economic situation of a debtor, internal defaults of debtors, or a failure in the Group's systems or processes leading to an incorrect assessment of the risk of insolvency of a debtor or group of debtors, may lead to an underestimation of this risk of default of one or more debtors, thereby increasing the claims presented to the Group, which may have a material impact on its operating income, liquidity and solvency margin.

c) Risk related to technical provisions

The Group uses actuarial techniques and calculations to value technical reserves that may not correspond to actual experience and could have an adverse impact on the Group's financial position and solvency margin.

At December 31, 2022, the Group's loss ratio (before reinsurance) [(1)] stood at 31.2%, compared with 21.4% at December 31, 2021. The loss ratio rose from last year due to the normalisation of the loss experience following the Covid-19 pandemic.

Technical reserves of insurance policies are recorded on the liabilities side of the balance sheet. These reserves are measured in accordance with IFRS. They are an estimate of the amount of claims the Group is committed to pay (and the administrative fees relating to these claims):

- a reserve for claims payable is recorded for claims incurred, whether or not they have been reported to the Group (reserve risk);
- the Group also establishes a reserve for unearned premiums (premium risk).

In order to build up technical reserves for claims, the Group makes estimates based on various modelling techniques, using internal and external tools. Modelling results and the related analyses are subject to the various assumptions, expert judgements, modelling errors and limitations inherent in any statistical analysis. Differences may be observed retrospectively between the Group's estimates and the real cost of actual claims (see also "Operational and compliance risks – Model risk" below).

The technical reserves recognised in the IFRS financial statements cover simulated differences in reserve risk with a sufficient margin.

Furthermore, the Group's internal risk policy specifies that the level of reserves (all business lines and years combined) must at least equal the 90% quantile of the distribution of reserves for claims; in other words, the level of reserves must cover 90% of potential ultimate claims.

At December 31, 2022, accounting reserves exceeded the 90% quantile, thereby protecting the Group from a reserve shortfall in nine cases out of ten.

However, poor data quality, a deterioration in the economic environment not reflected in the projections or the use of inaccurate or incomplete models may lead to situations in which the actual experience deviates from the estimates, which may have an adverse effect on the Group's financial position and solvency margin.

(1) The Group's loss ratio (before reinsurance) corresponds to the ratio of claims expenses to gross earned premiums (that is, the sum of gross earned premiums and provisions for unearned premiums), net of premium repayments.

5.2.2 Financial risk

a) Interest rate 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.

The Group holds an investment portfolio composed mainly of listed financial instruments. Its portfolio allocation is mainly focused on debt products (almost all at fixed rates), as shown in the table below. The Group's portfolio of assets also enables it to meet some of its liquidity needs.

	AS AT DEC. 31					
	2022		2021		2020	
INVESTMENT PORTFOLIO (FAIR VALUE)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Equities	85	2.9%	233	7.6%	149	5.3%
Bonds	2,265	77.1%	2,115	69.0%	1,914	67.6%
Loans, deposits and other financial investments**	367	12.5%	507	16.5%	540	19.0%
Investment property	220	7.5%	213	6.9%	231	8.1%
TOTAL	**2,937**	**100.0%**	**3,068**	**100.0%**	**2,834**	**100.0%**

* *Excluding non-consolidated subsidiaries.*
** *Including units in money market UCITS.*

The Group's investment policy aims to respect legal and regulatory requirements while generating regular income with limited risk.

In 2022, global economic growth slowed from the peaks seen in 2021. The situation was exacerbated by the repercussions of the conflict between Russia and Ukraine, which pushed inflation above central bank expectations.

Under the effect of inflation, rising interest rates and widening credit spreads, the Group continued the downside adjustment of risk in its portfolio that it began in 2021, mainly by reducing its exposure to emerging countries and real estate funds in favour of government bonds.

Similarly, in anticipation of the implementation of IFRS 9 and in light of the decline in the markets, the Group significantly reduced its equity allocation. As such, the portfolio's equity exposure decreased by 4.7 points between the end of 2021 and the end of 2022 and the remaining equity allocation will be measured at fair value through non-recyclable other comprehensive income (FV OCI-NR) at January 1, 2023.

At December 31, 2022, the fair value of the Group's investment portfolio amounted to €2,937 million (excluding non-consolidated subsidiaries), down €131 million compared with the end of 2021 due to the rise in interest rates.

The bond portfolio is mainly invested in government bonds (55.4% at end-December 2022) and investment grade corporate bonds (42.5% at end-December 2022) (1). These investments were made in accordance with a clear risk policy with a particular focus on issuer quality, interest rate sensitivity, and the spread of issuers and geographic regions in the investment mandates granted to the Group's dedicated asset managers.

The average rating of the bond portfolio at the end of 2022 was A, with nearly 95.3% of securities rated BBB or above.

	AT DECEMBER 31, 2022	
BREAKDOWN BY RATING* OF BONDS IN THE BOND PORTFOLIO (FAIR VALUE)	*(in €m)*	*(as a %)*
AAA	306	13.5%
AA - A	1,126	49.7%
BBB	727	32.1%
BB - B	104	4.6%
CCC and below	2	0.1%
TOTAL	**2,265**	**100.0%**

Through its bond investments, the Group is exposed to interest rate risk, which includes

(i) interest rate risk reflected in the sensitivity of the value of assets, liabilities and financial instruments to changes in the yield curve or interest rate volatility and

(ii) credit spread risk reflected in the sensitivity of the value of assets, liabilities and financial instruments to changes in credit spreads against the interest rates at which sovereign bonds are issued.

The modified duration of the Group's bond portfolio is capped at 5 (2) in the Group's internal investment policy. At December 31, 2022, the bond portfolio's modified duration was 3.2, down 0.8 compared with the end of 2021. The Group's exposure to interest rate risk and, consequently, to spread risk, therefore remains limited.

(1) *According to the Standard & Poor's rating scale, 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 debt.*
(2) *A bond's modified duration measures its loss of value in the event of a rise in interest rates. Thus, a bond with a modified duration of 4 will see its market value decrease by 4% if interest rates rise by 1%.*

However, fluctuations in interest rates have a direct impact on the market value and return on the Group's investments since unrealised gains or losses and the return on securities held in its portfolio depend on the level of interest rates.

Interest rates are highly sensitive to a number of external factors, including monetary and fiscal policies, domestic and international economic and political environments, and investors' risk aversion.

The risk associated with a significant drop in interest rates is that either the portfolio's average rate decreases (in which case reinvestments are made at lower rates) or the portfolio's duration increases (which may make the portfolio more sensitive to future interest rate fluctuations). The risk associated with rising interest rates is a fall in the market value of the bond portfolio, which may lead the Group to record unrealised losses.

At December 31, 2022, the Group considered that an increase in interest rates of 100 basis points would have an impact of €71.4 million on the fair value of its portfolio (excluding hedging activities).

Any significant fluctuation in the value of the Group's bond portfolio due to a change in interest rates may have a material adverse effect on the Group's ability to manage this portfolio on favourable terms, which may have an impact on the Group's cash flows, solvency margin and financial position.

b) Equity risk

Equity risk arises from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the market value of equities.

At December 31, 2022, equity investments accounted for 2.9% of the Group's investment portfolio, compared with 7.6% at the end of 2021. This exposure is concentrated in the eurozone, in line with the Group's core business. These investments were partially hedged on the Euro Stoxx 50 index [1] with a view to protecting the portfolio in the event of a significant drop in the equity market. Following the choice to measures the portfolio's equity exposure at FV OCI-NR for accounting purposes, this hedging was discontinued and closed in early December 2022.

Equity prices may be affected by risks affecting the market as a whole (uncertainty over general economic conditions, such as expected growth trends, inflation, interest rate fluctuations, sovereign risk, etc.) and/or by risks affecting a single asset or a small number of assets. This may result in a fall in the price of equity instruments held by the Group and may have an impact on its realised or unrealised capital gains and losses.

The following table assesses the portfolio's sensitivity to a decline in the equity market:

/ SENSITIVITY OF THE PORTFOLIO TO CHANGES IN EQUITY MARKETS AT DECEMBER 31, 2022

(in millions of euros)	MARKET VALUE AT DECEMBER 31, 2022	IMPACT OF A 10% FALL IN EQUITY MARKETS [(1)]	IMPACT OF A 20% FALL IN EQUITY MARKETS [(1)]
Equities	85	(8.5)	(17.0)

(1) Excluding any hedging impact.

Any significant change in the value of the Group's equity instruments due to a decline in the equity markets may therefore have an adverse effect on the value of the Group's portfolio and on its ability to manage this portfolio on favourable terms, which may have an impact on the Group's cash flows, solvency margin and financial position.

c) Real estate risk

Real estate risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the market value of real estate assets.

The Group's current real estate portfolio consists of property used for its operating activities and investments having real estate as their underlying assets. At December 31, 2022, the fair value of the Group's real estate exposure was €288 million, with €68 million in real estate assets used for its operations and €220 million in real estate investment funds invested in real estate assets linked to various economic sectors in Europe. Investment in real estate investment funds accounts for a limited portion of the Group's investment portfolio (7.5%) due to the low liquidity of this asset class.

The rental income of the real estate portfolio is exposed to variations in the indices used to calculate rents (for example, the cost of construction index in France), risks related to the rental market (changes in supply and demand, vacancy rates, impact on market rental values or lease renewals) and the risk of default by leaseholders.

The value of real estate assets is exposed to the risk of obsolescence due to changes in applicable regulations, which could lead to impairment losses in the event of a sale of the assets or additional expenditure to restore the value of the assets.

(1) This position is hedged through the use of derivatives for which the change in value is recorded directly in the income statement under IFRS, as the Group has not opted for hedge accounting within the meaning of IFRS for this transaction and this underlying asset.

The following table assesses the portfolio's sensitivity to a downturn in the real estate market:

SENSITIVITY OF THE PORTFOLIO TO THE DECLINE IN THE REAL ESTATE MARKET AT DECEMBER 31, 2022

(in millions of euros)	MARKET VALUE AT DECEMBER 31, 2022	IMPACT OF A 10% DECLINE IN THE REAL ESTATE MARKET	IMPACT OF A 20% DECLINE IN THE REAL ESTATE MARKET
Real estate assets	220	(22.0)	(44.0)

Any significant change in the value of the Group's real estate portfolio due to real estate market trends may therefore have an adverse effect on the value of the Group's portfolio and on its ability to manage this portfolio on favourable terms, which may have an impact on the Group's cash flows, solvency margin and financial position.

d) Liquidity risk

Adverse conditions on the capital markets could have a significant impact on the Group's ability to fund its factoring business.

The Group has a commercial credit insurance business, which is the core of its business model, but has also developed a factoring business in Germany and Poland.

Through this business, the Group acquires and finances its clients' trade receivables, thereby generating a significant liquidity requirement insofar as it does not have an internal source of financing. For example, the liquidity used to fund this activity amounted to more than €2.5 billion at December 31, 2022. To finance its factoring activity on a sustainable basis, the Group has a diversified and resilient refinancing programme, consisting of a trade receivables securitisation programme of up to €1,200 million (increased from €1,100 million at December 31, 2021), and a commercial paper programme for up to €700 million (unchanged since December 31, 2021) as well as several credit lines and overdraft facilities for a maximum of €1,677 million. The Group's refinancing programme is oversized and guaranteed for a much longer maturity than the underlying short-term trade receivables it finances. It includes back-up facilities for its market financing solutions such as the commercial paper and securitisation programmes.

Any substantial downgrade of the credit ratings of the Group or one of its entities or any non-compliance with the obligations set out in the financing agreements could have a material adverse effect on the Group's ability to fund its factoring business due to the loss of financing available under existing credit facilities or difficulties in renewing these credit lines. In addition, any market event leading to the unavailability of the debt market or the commercial paper market, as sometimes happens during a financial crisis, could compromise the Group's ability to obtain adequate funding and lead to a decline in business and consequently a loss of revenue.

Liquidity tensions related to the payment of claims to its policyholders and/or the failure of some of its reinsurers to meet their obligations could cause the Group to record a loss in value of its portfolio. Significant disposals required within a few days and carried out urgently on illiquid assets or involving high execution costs could impact the value of the portfolio in sudden or adverse market scenarios, thereby having consequences for the Group's solvency margin and/or net income.

The Group's investment portfolio must be sufficiently liquid to meet significant cash requirements at all times. For this reason, it consists mainly of debt products (which represent the bulk of the Group's overall asset allocation) with a fixed rate and short duration, in line with the Group's liabilities. In addition, the Group allocates a significant portion of its assets to highly liquid money market instruments, which accounted for 12.5% of the investment portfolio at December 31, 2022 (loans, deposits and other financial investments), corresponding to €367 million at this date. Under current market conditions and according to the Group's assessment, this amount could be fully available in less than 15 days.

The following table presents the breakdown of the duration of the Group's bond portfolio:

BREAKDOWN OF THE BOND PORTFOLIO BY DURATION	AT DECEMBER 31, 2022 *(in €m)*	*(as a %)*
< 1 year	317	14.0%
1-3 years	849	37.5%
3-5 years	670	29.6%
5-10 years	349	15.4%
> 10 years	80	3.5%
TOTAL	**2,265**	**100.0%**

At December 31, 2022, 51.5% of the bond portfolio had a duration of less than three years.

This short duration allows the Group to have regular access to liquid assets that may be allocated to operating needs if necessary or to make regular reinvestments in market securities.

As an insurer, the Group must regularly pay claims and has implemented liquidity management policies for its investment portfolio as well as clear rules for monitoring its reinsurers' default risk.

e) Foreign exchange risk

Given its global presence, the Group is exposed to exchange rate fluctuations that may affect its profitability, financial position, liquidity and solvency margin.

Foreign exchange risk is the risk of loss resulting from adverse changes in exchange rates. It could have an impact on the Group's operating income (for example, turnover from subsidiaries or liabilities denominated in specific currencies) and on the value of the Group's assets (for example, through direct investments in assets denominated in foreign currencies).

At December 31, 2022, 37.9% of the Group's consolidated turnover was denominated in currencies other than the euro (mainly the currencies of the United States, the United Kingdom, Singapore and Hong Kong) thus exposing the Group to foreign exchange risk.

Most of the Group's investments are denominated in euros. At December 31, 2022, more than 72% of its investments were denominated in euros and the exposure to foreign exchange risk (mainly in US dollars, Singapore dollars, pounds sterling and Hong Kong dollars) was therefore limited.

However, the following types of foreign exchange risk have been identified by the Group:

- *Operations*: fluctuations in exchange rates may have consequences on the Group's operating income due to the translation of foreign currency transactions, the settlement of balances denominated in foreign currencies and a mismatch between monetary assets and liabilities in foreign currencies. To reduce the impact of this mismatch, the Group uses derivatives to hedge its positions against foreign exchange fluctuations in sensitive currencies, particularly during periods of heightened volatility on the capital markets. However, it is never possible to fully align monetary assets and liabilities and a potential impact on profits and losses may be recorded as a result of fluctuations in exchange rates and since these transactions are not subject to hedge accounting under IFRS;
- *Conversion*: the Group publishes its consolidated financial statements in euros, but some of its income and expenses, as well as its assets and liabilities, are denominated in currencies other than the euro. As a result, fluctuations in the exchange rates used to convert these currencies into euros may have a significant impact on reported turnover from one year to the next.

Any significant change in the exchange rates for currencies in which the Group operates or manages its assets is therefore likely to have an adverse effect on its cash flows, solvency margin and financial position as well as the value of its portfolio.

5.2.3 Strategic risk

a) Risks related to market conditions

Corporate insolvency rates were low during the post-pandemic recovery but are expected to increase, which could lead to higher credit losses for the Group, a loss in value of its investments or other difficulties. In addition, the economic environment has become less favourable. The war in Ukraine has intensified downward pressure on global growth and upward pressure on inflation.

In 2022, the economic rebound after the crisis triggered by the Covid-19 pandemic began to weaken as difficulties mounted. The rise in global inflation and the aggressive response of the main central banks are slowing economic growth. This slowdown is compounded by the fallout from the war in Ukraine and threats to growth in China (drought, zero-Covid policy, turbulence on the real estate market). Against this backdrop, and after corporate bankruptcies were unusually low in 2020 and 2021, they have started to rise in some of the world's largest economies. They have already exceeded pre-pandemic levels in the UK and Spain, and have returned to equivalent levels in France. In the United States, although business failures remain low, they seem to have bottomed out in the middle of the second quarter of 2022. The weak economic outlook for 2023 is likely to push corporate bankruptcies higher. In particular, tighter financial conditions should test the resilience of their balance sheets in the coming months.

The slowdown in global economic activity is expected to persist in 2023. The impacts of Russia's invasion of Ukraine and global monetary tightening will continue to be felt. In particular, the war worsened the outlook through higher commodity prices and supply chain disruptions due to the critical roles of Russia and Ukraine in the global production of energy, mining and agricultural products. The extent of the energy crisis, and therefore the recession, will depend on the fall in temperatures and how well the European Union can reduce its energy consumption. The region's efforts to rebuild gas stocks and mild temperatures in the autumn of 2022 provided a buffer at the start of the peak season of high demand (December to February).

Meanwhile, inflationary pressures, exacerbated by the war, remain high. Rising inflation is a risk due to its impact on household income and corporate margins, and thus on the economic environment. After reaching multi-decade highs in advanced economies, inflation could ease in 2023 with lower commodity prices and easing supply chain constraints, but pressure on prices is likely to remain high. Supply pressure is expected to keep commodity prices above pre-2020 levels, impacting inflation.

The war in Ukraine and uncertainty about the future of China's economic environment will also continue to threaten global supply chains. In addition, central banks face a growing risk of a de-anchoring of inflation expectations. As a result, they are tightening policy, notably by raising their key interest rates. The main central banks, led by the US Federal

Reserve (Fed), took decidedly aggressive action to contain inflation in 2022. Breaking with the low interest rate environment that prevailed after the global financial crisis (2008-2009), particularly in advanced economies, most central banks (United States, Canada, Europe, United Kingdom, Australia, etc.) have already returned to policy rates not seen in the past decade. Far from being deterred by the growing signs of a slowdown in activity, they are likely to keep their interest rates at levels that will restrict economic activity throughout 2023 in order to ease inflation.

Central banks are now at risk of pushing the global economy into a major slowdown or even a recession. In addition, the Fed's aggressiveness is leading to monetary tightening in other countries, particularly emerging countries, which are trying to limit the depreciation of their currencies against the dollar and capital flight. Such a tightening of global monetary and financial conditions poses a threat to global growth and financial stability. With global household, corporate and government debt exceeding 300% of GDP, higher borrowing costs are a major risk factor. In the eurozone, the challenge facing the European Central Bank (ECB) is all the more risky as rising interest rates threaten to widen the gap between member countries, with the most indebted countries being more vulnerable.

Some governments are expected to extend or implement measures to support households and businesses in the face of inflation, but tighter financial conditions will limit the ability of most governments to react, particularly in emerging and low-income countries. Those forced to implement fiscal consolidation measures while household living standards are under pressure could also face social unrest. Higher inflation and a weaker labour market could create the perfect conditions for political unrest, which could have an impact on the Group.

These trends created turbulence in the financial markets and led to a fall in the value of bonds and equities in 2022. They are likely to continue to fuel market volatility. Higher borrowing costs have also begun to have an impact on house prices in major countries. The course of the war in Ukraine remains particularly uncertain and will continue to cloud the outlook. More generally, these events have also rekindled concerns about geopolitical risks in other parts of the world.

The Group's strategic plan for 2020-2023 is based on (i) a core economic scenario developed by its research teams and (ii) assumptions arising from this scenario.

The plan, as well as the Group's results and solvency, could be significantly affected by economic and financial conditions in Europe and other countries around the world. There remains a threat of a global economic depression for health, financial and/or geopolitical reasons, and a lasting macroeconomic downturn could affect the Group's activities and results.

b) Risks related to changes in the regulations governing the Group's activities

If the Group is unable to comply with regulatory changes, new accounting standards or tax reforms, this could have a negative impact on its business or its financial position.

A significant portion of the Group's business is subject to the obtaining of approvals and licences issued by the public authorities in charge of supervising and controlling credit insurance and factoring activities. Under its strategy of sustained and profitable growth, the Group is developing new activities in certain countries and must obtain all the approvals, licences and authorisations necessary to carry out these activities. For example, in 2019 the Group launched a new credit insurance offering in Greece through a local branch that had to obtain the necessary local and European authorisations.

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.

In addition, the patchwork of regulatory regimes, capital standards and reporting requirements resulting from work on new capital requirements, as well as possible changes to solvency and capital adequacy requirements, such as the regulatory framework established by Solvency II or the forthcoming Insurance Recovery and Resolution Directive, could increase non-compliance risk, operational complexity and regulatory costs.

Tighter controls and higher capital requirements aimed at further strengthening the protection of policyholders and/or financial stability could affect the calculation of the local solvency margin and have a material adverse impact on the Group by increasing its external financing requirements and, as such, raising its funding costs. Insurance supervisors have broad administrative powers over many aspects of the insurance industry and the Group is unable to predict the timing or form of future regulatory initiatives.

In addition, changes in accounting standards (in particular the application of IFRS 17 from January 1, 2023) could have a significant impact on the Group by affecting the accounting treatment of certain assets and liabilities and thereby modifying the consolidated financial statements from one year to the next. These changes in accounting standards may change investors' perception of the Group's results and financial statements without being related to changes in the Group's activities.

Changes in tax laws and regulations or their interpretation may have a negative impact on the Group's performance, including its financial results and business model. In particular, legislative or regulatory changes may reduce the risk appetite of third parties and impact certain Group activities.

As such, the new IFRS 17 accounting standards, which are due to take effect from 2023, and IFRS 9, could modify the presentation of business indicators and have an operational and financial impact, particularly on information systems. Similarly, the Solvency II review could have an impact on the Group's solvency.

c) Risk of deviating from the strategic plan

Failures in the management or implementation of the strategic plan could have a negative impact on the Group's results or competitiveness.

Under the leadership and oversight of senior management, the 2020-2023 strategic plan was developed in consultation with the Group's regions and functional departments to ensure it was relevant and to engage its operational teams.

The strategic plan includes the following financial objectives through the cycle:

- a combined ratio of 80%;
- a return on average tangible equity of 9.5%;
- a solvency ratio of between 155% and 175%;
- a payout ratio of at least 80%.

A dedicated organisational structure was set up to monitor execution of the plan and thus minimise the risk of deviating from its objectives. This organisation is headed by the Group's Operations Department, with the support of the Finance Department.

In addition to risk factors arising from market conditions, risks associated with the achievement of the Group's strategic objectives could arise from the emergence of other risk factors that may have an impact on the Group, such as the strategy or growth of other credit insurance providers, internal factors such as a product launch that does not find a market or that generates excessive risks, delays in investment, adaptation or transformation projects, or shortcomings in the management of the strategic plan.

If the plan is not completed on schedule, the Group may have to modify one or more of the strategic indicators it provides to the market, which could have an impact on its ability to pay dividends to its shareholders and on the perception of its activities by the capital markets and investors in general, thereby putting pressure on the market value of its financial instruments and having a negative impact on its results or competitiveness.

d) Reputational risk

Adverse events affecting the Group's reputation may compromise the Group's ability to take on a risk, sell services and/or obtain competitive reinsurance terms.

Reputational risk is the risk that an internal or external event adversely affects stakeholders' perception of and confidence in the Group. It may also arise if there is a divergence between stakeholders' expectations and the Group's results.

Errors in the management of its investment portfolio or mismanagement of its exposures to certain geographical areas, economic sectors or debtors, particularly in a situation of economic uncertainty (see risk factor 5.2.1 "Risk related to the management of the Group's exposure in its insurance business"), serious IT failures affecting, for example, clients or partners or causing data leaks (see risk factor 5.2.5 "Risks related to information systems and cyber security"), or inadequate management of its environmental, social and governance policy could generate reputational risk for the Group and affect its ability to underwrite a risk and/or obtain competitive reinsurance terms. The deterioration of the Group's reputation may also affect its ability to finance its activities, particularly its factoring business, or increase its financing cost. Due to these factors, a deterioration in the Group's reputation could affect its solvency margin, cash flows and operating income.

5.2.4 Reinsurance risk

a) Residual reinsurance risk

Under certain adverse circumstances, reinsurance treaties may not be renewed in full or extended in line with the development of the Group's activities, which may have an adverse impact on the Group's solvency margin and operating income.

The main reinsurance risk is a lack of coverage available on the market, which would reduce the Group's risk appetite for future uncovered extreme credit events.

This risk may increase due to changes in the economic cycle, a poor financial performance by the Group, or a decline in the attractiveness of the credit insurance and bonding segments in relation to other risk segments that could be considered to be more profitable by the reinsurance market.

The Group has structured its reinsurance programme as follows:

- two proportional treaties covering 23% of its exposure. The renewal dates for these two-year quota share treaties are 12 months apart, so half of the coverage is already secured for the following year regardless of the outcome of the renewal in progress. Proportional coverage aims to protect the Group against a significant increase in the frequency of claims;
- a new proportional treaty covering 27% of its exposure to bonding and Single Risk. This treaty was signed at the end of July 2022 with effect from January 1, 2022. This 27% is in addition to the ceded reinsurance rate of 23%, bringing the share on bonding and Single Risk to 50%;
- after the quota shares, the residual exposure is covered by two excess of loss treaties aimed at covering the Group against the default of a significant exposure or the accumulation of losses related to small and medium-sized exposures. This coverage aims to protect the Group against an exceptional risk with a very high adverse financial impact;
- in the long term, the Group's residual exposure is also covered by a two year stop loss reinsurance treaty covering the Group against a combination of exceptional events.

If one or more reinsurance treaties cannot be renewed or are renewed for a lower coverage amount, the Group will incur more risks than expected, which may increase the final share of the losses it will have to finance and may have a negative impact on its solvency and operating income. In the event of serious losses, reinsurance companies may increase premiums, which may also have a direct impact on the Group's operating income.

The Group faced a capacity shortage at the end of 2008 and could only partially place its proportional reinsurance programme and the overall cost of the reinsurance programme was significantly higher than in the previous year. If a similar event occurs in the future with the current reinsurance structure, this may have a negative impact on the Group's solvency margin.

5.2.5 Operational and compliance risk

a) Risks related to information systems and cybersecurity

Like any company, the Group is exposed to cyber attacks or other security vulnerabilities in its IT systems and infrastructure, or in those of its third-party service providers, which could disrupt its activities, cause significant financial losses, harm its reputation and expose it to possible sanctions from the regulatory authorities.

As dependency on technology and digital infrastructure and data increases, the risks associated with information systems and cyber security are important for the Group. Information system risks may occur in project, design or production phases, any may be caused by technical or human errors, negligence or a lack of control or skills. Cyber security risks are mainly caused by internal or external malicious acts, for example, cyber attacks. These actions and the risks associated with the information system could lead to a breach of the confidentiality, integrity or availability of the Group's in-house or outsourced information systems.

The Group is exposed to cyber attacks or major failures in information systems affecting its systems or those of its third-party service providers, which may disrupt its activities (credit insurance, factoring, bonding, debt collection, business information). These attacks may vary greatly in terms of their sophistication and execution. The main types of attack include:

- *phishing or spear phishing*: scams by e-mail, social networks, SMS, voice calls, etc. could result in financial transactions or cause viral infection of information systems, leading to direct financial loss, disclosure of confidential information or the loss of integrity of our systems;
- *data leakage*: data could be stolen or made public in breach of the Group's regulatory or contractual obligations;
- *data diddling*: data could be deleted or corrupted, resulting in business interruption, loss of business and extended disruption due to the complexity of returning to a normal situation;
- *ransomware*: key infrastructure components (such as Active Directory [(1)]) could be attacked, leading to the partial or complete interruption of the Group's information systems. The Group may receive ransom demands and its activity could be suspended for several weeks;
- *system failure, loss of internet access or electricity supply*: systems and applications could be slowed or interrupted, resulting in lost productivity and repair costs;
- *failure of a key supplier*: for accidental or malicious reasons – these failures could disrupt the activity and require the implementation of possibly complex alternative or isolation solutions;
- *Distributed Denial of Service (DDoS)*: the Group may be the target of DDoS attacks resulting from malicious attempts to disrupt the normal traffic of its data centres or internet portals by overloading the systems or their surrounding infrastructure with internet traffic from multiple sources. The Group's data centres or internet portals could become unavailable in the event of a successful DDoS attack.

(1) The main objective of Active Directory is to provide centralised identification and authentication services to a network of computers using Windows, macOS or Linux systems.

Any of the above could cause significant damage to the Group's systems or data and could therefore lead to financial losses for the Group, harm its reputation and give rise to client complaints. This type of cyber attack may also result in a breach of the legal responsibility of the Group's executives and could also give rise to regulatory sanctions depending on the sensitivity of the data or the location of the system that is successfully attacked.

b) Modelling risk

The Group uses a number of models to carry out its activities. In certain circumstances, some models may no longer behave as expected, resulting in an inadequate assessment of its level of loss.

In performing its activities, the Group uses a number of models such as macroeconomic or stochastic models, debtor default prediction models, financial risk projection models to calculate premiums, and a partial internal model to calculate its regulatory capital requirement.

These models are based on estimates and assumptions that may prove incorrect. Some data may be incomplete or imperfect, and execution systems and procedures may have limitations or weaknesses, which could lead to errors in the pricing of insurance premiums in relation to the risk incurred for a given debtor, in the Group's assessment of the quality of its exposure in certain geographical areas or economic sectors, in the establishment of technical provisions or in the Group's management of its asset portfolio. As a result, if the models no longer behave as initially expected, this could have an impact on the Group's loss ratio, financial forecasts, solvency margin, cash flows, earnings and reputation.

c) Compliance risk

The Group is exposed to the risk of violation of economic sanctions and the breach of laws and regulations covering corruption, money laundering and terrorist financing, or external fraud, which could expose it to regulatory fines, financial losses and reputational harm.

As an entity supervised by the *French Prudential Supervision and Resolution Authority* (**ACPR**), Coface Group must comply with French, national and international laws, regulations, and professional and ethical standards relating in particular to economic sanctions, anti-money laundering and counter-terrorist financing measures, the fight against corruption, and other local financial crime regulations applicable to its activities. The Group, which comprises several subsidiaries and branches, must comply with economic sanctions issued by various sources such as the United Nations, the European Union and its members and the Office of Foreign Assets Control (**OFAC**) of the US Department of the Treasury. In particular with regard to anti-corruption laws and regulations, the Group must comply with the provisions of the Sapin II law in France, the US Foreign Corrupt Practices Act (**FCPA**) and other local laws such as the UK Bribery Act.

As it does business in more than 100 countries, the Group is exposed to the risk of violation of anti-corruption, anti-money laundering and counter-terrorist financing laws and regulations and economic sanctions in the countries in which it operates. Any breach of these laws and regulations could expose the Group to regulatory fines, financial losses and reputational harm that could have a direct and material impact on its business.

In addition, the Group is exposed to external fraud, which may take various forms, including cyber attacks and fraud committed by its policyholders' debtors. An act of fraud could generate a direct loss for the Group if it succeeds in circumventing the control or protection measures in place.

d) Outsourcing risk

The Group relies on a wide range of service providers in conducting its activities. The use of outsourcing may have consequences for its financial performance, relationship with clients or reputation. Outsourcing risk covers both the outsourcing of activities targeted by the regulations and outsourcing outside the regulatory framework to external service providers or internal service providers in the Shared Services Centers.

Outsourcing may expose Coface to several types of risks, including:

- the sub-performance of the outsourced service in relation to the Group's standards;
- vulnerability in the selection, assessment and management of a service provider;
- disruption of the business continuity system;
- leak of confidential data;
- fraud by a supplier;
- the risk of money laundering, terrorist financing or corruption;
- the risk of non-compliance with international sanctions.

Due to these many issues, policies cover the selection, governance and supervision of outsourced services.

Moreover, since the entry into force of the Solvency II Regulation, the outsourcing of important or critical functions and/or activities is strictly governed by the regulations applicable to insurance companies.

To date, the main material or critical activities outsourced by the Group concern the Company's financial investment management activity and the hosting of information systems.

Key functions are rarely outsourced with the exception of the Know Your Customer (KYC) process, which has been outsourced internally within the Coface Group and concerns clients of entities located in the Asia-Pacific region and clients of the French and Spanish entities of Compagnie française d'assurance pour le commerce extérieur.

5.2.6 Climate change risks

Over the past several years, collective awareness of climate risks has grown, leading businesses across the Board to integrate ESG (Environmental, Social and Governance) considerations in their communications and day-to-day management. Climate risks are one of Coface's strategic priorities as they affect its activities at two levels (the impact of Coface's operations on the climate – addressed in Chapter 6 – and the impact of climate risks on the Company's operations and profitability).

Although Coface's exposure to climate change risks seems limited as its business is credit insurance, the Group constantly monitors these risks as climate events are intensifying. There are two key risk categories:

- Physical risk: measures the financial impacts resulting from the effects of climate change such as extreme weather events (fires, floods, storms, etc.). This depends on both the country's exposure to this type of event and its dependence on external trade for goods that will become scarcer owing to climate change. The main threat of climate change is the increase in the frequency and violence of extreme weather events with massive financial consequences;
- Transition risk: incorporates all the risks brought about by the transition to a low carbon model. Transition risk includes political risk, regulatory risk, technology risk, reputational risk and market sentiment risk (such as consumer or business preference for products or services that are less damaging to the climate).

As part of the Group and Company ORSA, a climate risk stress test was conducted in 2022, mainly focused on transition risk. It did not reveal any significant impacts on the Group's solvency.

5.3 RISK GOVERNANCE

Within the framework of the Group's activity, risk-taking reflects the search for business opportunities and the strategy of developing the Company in an environment intrinsically subject to numerous hazards. The essential goal of the risk management function is to identify the risks to which the Group is exposed and to set up an efficient internal control system to create value.

To address these risks, the Group has established a risk management structure which aims to ensure i) the proper functioning of all of its internal processes, ii) compliance with the laws and regulations in all of the countries where it operates, and iii) control of compliance by all operating entities with the Group rules enacted with a view to managing the risks associated with operations and optimising the effectiveness of this control.

The Group defines the internal control system as a set of mechanisms intended to ensure control of its development, profitability, risks and business operations. These mechanisms seek to ensure that:

(i) risks of any kind are identified, assessed and managed;

(ii) operations and behaviours are in accordance with the decisions made by the management bodies, and comply with the laws, regulations, values and internal rules of the Group; as concerns financial information and management more specifically, they aim to ensure that they accurately reflect the Group's position and business; and

(iii) these operations are carried out to ensure effectiveness and efficient use of resources.

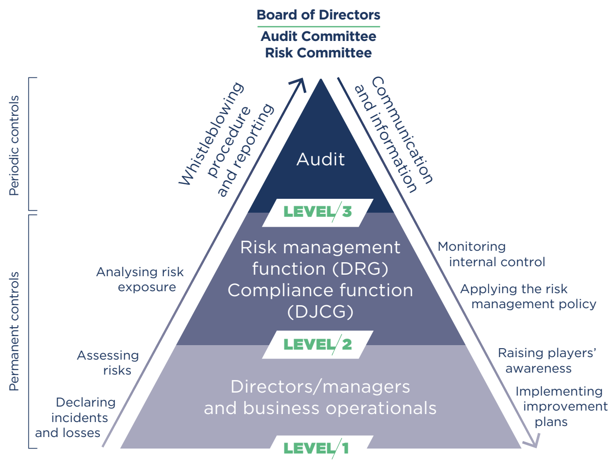
Lastly, this system provides managers with access to the information and tools required for the proper analysis and management of these risks. It also ensures the accuracy and relevance of the Group's financial statements as well as the information disclosed to financial markets.

5.3.1 Internal control system

Risk governance uses an internal control system compliant with the provisions of the Solvency II Directive and the French decree of November 3, 2014 on the internal control of companies active in banking, payment services and investment services and subject to ACPR supervision.

It is divided into three lines of defence that structure the Group's risk management and internal control policy as presented below:

/ RISK MANAGEMENT LINES OF DEFENCE



First line of defence: risk assessment and incident management

The operational functions are in charge of the proper assessment of the risks generated by their activities as well as for level one controls that enable them to ensure the correct execution of their operations. To do this, they have their own governance, most often based on risk-taking delegation systems and operational committees where risks are assessed and decisions made in accordance with the Group's operating rules. Their risk assessment and management work is laid out by the control functions on an annual basis, in particular through level one control plans.

Second line of defence: independent control by the risk management function and the compliance function

The risk management and compliance functions establish a strong risk management culture within the Company and are responsible for ensuring that the risks identified by the operational functions are effectively managed, in particular through the preparation of a risk map and level two control plans.

These two functions work closely together with the support of a dense network of more than one hundred risk and/or compliance officers in the Group's various countries. To do this, they have a centralised tool used in all entities to manage and launch level one and level two control plans, record operational or compliance incidents, update the risk map and business continuity plans and monitor action plans intended to address identified weaknesses.

Third line of defence: the audit function

The internal audit function provides an independent assessment of the efficiency of the risk management mechanism and more broadly, of all the Group's activities and processes, following a multi-year audit plan.

Role of the key functions

The Solvency II regulatory framework grants the Chief Executive Officer and, as applicable, the Deputy Chief Executive Officer, the status of executive directors of a group. It authorises the appointment by the Board of Directors of one or more other executive directors.

Each key function is controlled by the Chief Executive Officer or the effective manager 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' Rules of Procedure.

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 Chief Risk Officer, the risk management function, including the internal control function, covers all the Group's risks and reports to the Group Risk and Compliance Committee.

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. The policies are reviewed annually by senior management, then approved by the Board of Directors. They 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: the risk appetite takes into account six dimensions through 18 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;
- collects data on 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 regional risk managers 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 action plans.

Compliance function

The compliance function is in charge of developing best practices and preventing non-compliance risk within all Coface Group companies.

The compliance function's scope includes:

- financial crime prevention:
  - prevention of money laundering and terrorist financing,
  - compliance with embargoes, asset freezes and other international financial sanctions,
  - fraud prevention, prevention of active/passive corruption and influence peddling (Sapin II law);
- protection of clients and third parties:
  - business ethics,
  - relations with suppliers;
- data protection and confidentiality;
- professional ethics (management of conflicts of interest);
- prevention of agreements or arrangements between competitors;
- compliance with laws and regulations applicable to insurance activities.

(1) *The risk appetite represents the risk levels the Group wants to and can accept, with the purpose of reaching its strategic objectives and achieving its business plan.*

Internal audit function

The Group's Internal Audit Department is placed under the responsibility of the Group Audit Director, who is also in charge of the internal audit key function. The Audit Director attends the Group General Executive Committee meetings in an advisory capacity and reports to the Group's Chief Executive Officer.

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

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 assignment, and reporting on them:

- the quality of the financial position;
- the level of risks effectively incurred;
- the quality of organisation and management;
- the consistency, adequacy and proper functioning of risk assessment and control systems, 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). The audit 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 with the Group's policies, decisions by its corporate bodies, and its internal rules;
- the quality, effectiveness and smooth operation of the permanent control mechanism 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 function or from external audits by the supervisory authorities.

Assignments are set out 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 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 Audit Director has full authority to refer matters to 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 Audit Director may inform the ACPR (French Prudential Supervision and Resolution Authority) of any breaches observed.

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 duties.

Actuarial function

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

The actuarial function is the point of reference for actuarial matters for several Group departments (Finance, Information, Commercial, Marketing and Claims & Collections) in all Group entities. In particular, it informs 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:

- coordinating the calculation of technical provisions;
- ensuring the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions;
- assessing the adequacy and quality of data used in the calculation of technical provisions;
- comparing best estimates against experience;
- informing the administrative, management or supervisory bodies of the reliability and adequacy of the calculation of technical provisions;
- overseeing the calculation of technical provisions in the cases specified in Article 82 of the Directive (approximations related to data quality issues in the estimation of technical provisions);
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements; and
- contributing to the effective implementation of the risk management system referred to in Article 44. In particular, it ensures compliance with reserving and underwriting policies and the correct implementation of reinsurance.

5.3.2 Accounting control system

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

Local CFOs are responsible for:

a) the local accounting system (compliance with local regulations and Group rules);

b) IFRS financial statements as reported in the Group consolidation tool (compliance with IFRS regulations and Group rules);

c) financial risks, in particular compliance with the principle of matching of assets and liabilities in order to limit the financial risks on their balance sheets.

At Group level, the Group CFO is responsible for:

a) the quality of financial information;

b) the definition and monitoring of the investment policy;

c) the management of financial risks and the implementation of the rules for managing other risks, with the support of the Risk Department; and

d) the management of solvency, in particular relating to the Solvency II framework.

The Group's Accounting and Tax Department provides the regions with a control and reporting tool that enables proper oversight of reconciliations between management applications and the accounting tool.

Since the Q1 2018 reporting date, quarterly level one controls have been formalised within the ENABLON tool:

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

This tool improves the tracking and formalisation of level one controls carried out on accounting processes in each country. An assessment of the controls is carried out every quarter.

This process provides a full audit trail and produces standardised, reliable data across the Group and the Company.

Processing of accounting and financial information

The Group's Accounting and Tax Department, reporting to the Finance 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, the parent company financial statements, and the tax declarations of French entities (COFACE SA, parent company, Compagnie française d'assurance pour le commerce extérieur, Cofinpar, Fimipar and Cogéri).

Its tasks include:

- maintaining the general and ancillary accounts of entities located in France;
- accounting for operations, control and justification of operations;
- closing the quarterly accounts;
- producing consolidated financial statements;
- producing reports presenting the accounts: producing financial statements, internal reports and tax declarations;
- relations with the Statutory Auditors;
- preparing Group standards, regulatory oversight and strategic projects;
- setting and drafting Group accounting rules;
- drafting and monitoring accounting procedures;
- monitoring changes in accounting and tax regulations;
- assisting, training and providing technical support to subsidiaries and branches;
- producing analysis and reports on the impact of changes in scope on the consolidated financial statements;
- the accounting control system: monitoring the proper application of the standards and procedures in the Group;
- Group taxation.

Coordination with the Group's entities is based on the Group's functional matrix principles, under which the entities are delegated certain responsibilities pertaining to their scope. As such, the consolidated entities are responsible for producing the following, in accordance with their local standards and IFRS:

a) accounting information;

b) tax information;

c) regulatory information;

d) corporate information.

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

Common tool for general accounting, consolidation and management control

The monthly management control reports and quarterly accounting packages prepared under French standards and IFRS are entered into the same tool. The quality of the information received is improved through automatic reconciliation statements.

Additional controls are carried out at quarterly closing dates, especially using summary accounts and comparisons with management data. Consistency checks are carried out with the data received from management control reporting.

Overall controls are performed on consolidation operations: 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 book value of all branches, checking of intra-group transactions and their reconciliation, specific verification of reinsurance income and specific checks on the breakdown of expenses by destination. This analytical review allows for a verification of the overall consistency of the accounts.

Disclosure requirements for financial and accounting information

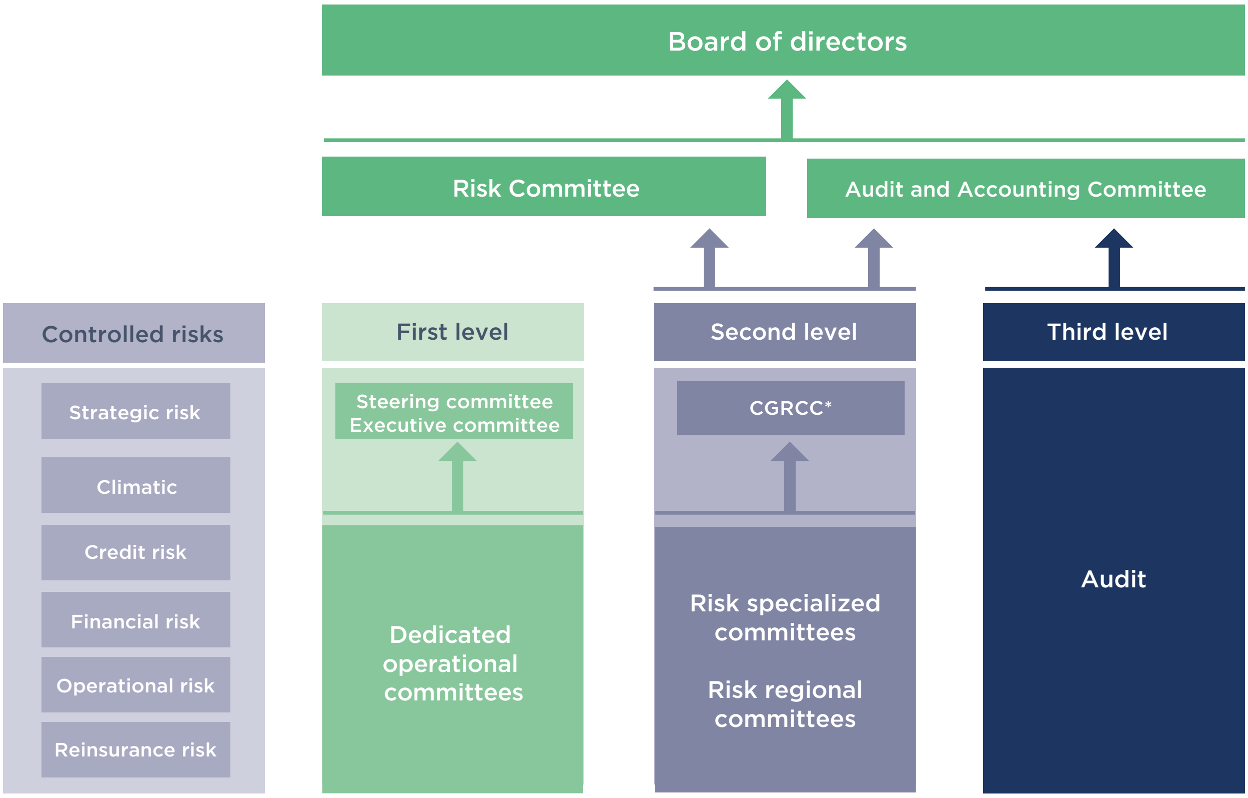
The Financial Communications Department, which reports to the Group Finance Department, produces, with the support of other departments, the financial information released to the financial markets, analysts and investors. The departments concerned provide the Financial Communications Department with contributions and reviews that help it mitigate the risk of material error or the release of inaccurate information.

5.3.3 Governance of the internal control system

Governance structure

The Group has implemented a risk management and control system that revolves around clear governance supported by a dedicated organisation based on the key functions described above. This is illustrated in the diagram below, which shows the link between the three lines of defence as described above and the committees that report to Coface's Board of Directors and senior management.

/ GOVERNANCE STRUCTURE



* *Coface Group Risk and Compliance Committee (CGRCC)*

Section 2.1.3 details the duties and activities of the Board of Directors and its specialised committees.

Governance under the authority of senior management relies on the Coface Group Risk and Compliance Committee, which in turn draws on specialised Risk Committees at the head office to address the major risk categories (credit, financial, strategic, operational and reinsurance risk). In addition, each of the seven regions where Coface operates has a regional Risk Committee, on which the Group is represented by the Chief Risk Officer and the Chief Compliance Officer.

The Group Risk and Compliance 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 Group Chief Risk Officer, the Group Chief Compliance Officer, the Group Audit Director and the Head of the Actuarial Department. Representatives of the operational or functional departments concerned also attend depending on the matters at hand.

Below is a summary of the committee's main duties and actions during 2022:

MAIN DUTIES OF THE GROUP RISK AND COMPLIANCE COMMITTEE	MAIN TOPICS REVIEWED IN 2022
• Review of the main risk management policies and procedures • Review of ORSA assumptions and results for the purpose of their approval by the Board of Directors • Proposal and monitoring of risk appetite limits • Monitoring of the Group's risk exposure in all its dimensions • Review of the main conclusions of sub-committee meetings • Acknowledgement of the work performed by the compliance function • Regular approval of the performance and results of the partial internal model The Group Risk and Compliance Committee reports on its work to the Audit and Accounts Committee or to the Risk Committee, as appropriate.	• Validation of Solvency II risk policies and regulatory reports (SFCR, RSR, ORSA) • Review and adaptation of ORSA scenarios, consideration of additional scenarios on stagflation and climate risks • Review of risk appetite indicators and their relevance • Validation of the risk map • Analysis of the impact of the conflict between Ukraine and Russia on the Group's main risks, particularly on the solvency ratio • Focus on the Group's outsourcing policy and the methodology for evaluating the services provided • Business continuity: presentation of Coface Group's level of resilience in the event of power outage • Monitoring of the Group's insurance coverage • Modelling risk: Presentation of changes made to Coface's partial internal model and reporting of ACPR findings on model changes • Presentation and monitoring of changes in the Company's data management strategy • Cyber risk monitoring: exposure, strategy and sharing of the Group's policy • Sharing of analysis on the Group's degree of alignment with the European digital operational resilience regulation (Digital Operational Resilience Act) • Validation of compliance policies and regulatory reports (anti-money laundering questionnaires, internal control report on anti-money laundering and counter-terrorist financing compliance) • Follow-up of audits and closure of audit recommendations • Presentation of the level one and level two permanent control plan relating to operational and compliance risk, the results of controls and associated action plans • Monitoring the Compliance Department's actions in terms of anti-money laundering and counter-terrorist financing, anti-corruption, fraud prevention, personal data protection and reviewing the main conclusions of the Fraud Committee and the Personal Data Protection Committee • Monitoring of compliance training completion rates • Monitoring of compliance key performance indicators and compliance incidents as well as the remediation plans implemented • Presentation of sanctions decisions issued by the ACPR's Sanctions Committee and related complaints

2022 major points of interest

Russia's invasion of Ukraine in February 2022 added to uncertainty about the global economic recovery in the medium term after two years impacted by the Covid-19 crisis. The Group Risk and Compliance Committee monitored the Ukrainian crisis closely and constantly, taking the necessary measures to preserve the interests of both Coface and its clients. These measures included monitoring the Group's exposure, strengthening the compliance teams as a result of the toughening of European Union sanctions against Russia and carrying out a stress test on the Group's solvency ratio, which confirmed the limited impact of the crisis.

In response to constantly changing threats, the Group Risk and Compliance Committee continued the action it initiated in 2021 to strengthen the Group's cyber resilience policy with the definition of new milestones in 2022 focusing on raising employee awareness of cyber security, defining a crisis scenario and carrying out tests.

Minor changes were also made to the partial internal model.

5.4 OUTLOOK

The Group does not expect the situation to return fully to normal in 2023 and its teams will continue to monitor the economic situation, which is deteriorating in emerging countries in particular, and the tense geopolitical situation, which could disrupt its business activity.

In this context, it will continue to manage its debtor risk carefully and prudently and, if necessary, will implement action plans to contain this risk, as it did in previous years. The structure of the reinsurance programme over several years offers good visibility for the management of debtor risk. With regard to financial and investment portfolio risks, the Group does not intend to significantly change its refinancing structure, which has proven its resilience, or its investment allocation, on which it will continue to act prudently. It will continue to invest in strengthening its risk management programmes, including cyber risk, non-compliance risk and ESG (Environmental, Social and Governance) risk, in order to address the changes that are under way in these areas.

CSR STRATEGY INTEGRATED
INTO THE BUILD TO LEAD STRATEGIC PLAN

INVESTMENTS: GH EMISSION REDUCTION
REDUCTION TARGET OF 30% (SCOPE 1 & 2)
EQUITIES AND CORPORATE BONS BY 2025

4,721 EMPLOYEES
IN 58 COUNTRIES

88/100
GENDER EQUALITY INDEX AT GROUP LEVEL

COMPLETED A FULL CARBON FOOTPRINT ASSESSMENT (BASE YEAR: 2019)
43,000 T CO2 EQ. EMITTED BY OPERATIONS (INCL. SCOPE 1, 2 & 3)