3.1 ECONOMIC ENVIRONMENT (1)

In 2020, the **global economy** shrank by 3.8% (1) in volume terms, its worst performance since 1946, when the decline was 8.1%. This slump, caused by the COVID-19 (coronavirus SARS-CoV-2) pandemic, hit an already sluggish economy, as growth had declined from 3% in 2018 to 2.5% in 2019. As well as being extremely severe, this contraction was rare because it was triggered by an external event and because it affected all regions around the world. The virus first appeared in November 2019 in Hubei province, China, before spreading around the world through people's movements. The World Health Organization announced a state of health emergency in January 2020, then declared the pandemic in March. After a first wave of contagion in spring, the situation seemed to improve before deteriorating again in the autumn, gaining strength and reaching countries that were initially spared. During the two spikes in infection, and in particular during the first wave, almost all countries in the world chose to protect their populations by imposing varying degrees of social distancing measures, regardless of their economic cost. These measures included the closure of non-essential shops, schools and borders, curfews, a ban on travelling between regions or gathering, an obligation to work from home where possible, and the closure or reduction in activity at industrial sites. The restrictions triggered a slump in activity in the economies concerned, in line with the severity of the measures imposed. Even countries the least affected by the pandemic, and/or those which applied minimal or no restrictions, were affected through their external trade, with global trade expected to have declined by 8.8% in 2020 (6% for goods and 15% for services). Economies that are highly dependent on international tourism recorded some of the worst recessions even though they were overall less affected by the health crisis and applied fewer restrictive measures. The disruptions caused by the reduction in capacity in international air, marine and road transport, which was still far from being reversed at the end of the year, obviously played a negative role. In order to limit the impact, governments allowed automatic stabilisers to take effect and, in some cases, within the limits of their resources, they adopted fiscal and monetary policies to support households and businesses. These measures included the reduction or deferral of taxes and charges, short-time working schemes, the suspension of redundancies, loan repayment deferrals, the distribution of money to households, interest rate cuts, the provision of liquidity to banks, and loan guarantees. Despite these measures, all regions of the world were affected to a greater or lesser extent. Advanced economies posted a decline in GDP of 5.1% (after a slight increase of 1.6% in 2019), while emerging markets contracted by 2.3% (after growth of 3.7%).

The **eurozone** economy recorded one of the strongest contractions in the world (-6.5%), led by **Spain** (-11.0%), **Greece** (-9.3%), **Italy** (-8.8%), **France** (-8.3%) **Portugal** (-7.6%), and **Belgium** (-6.2%), due to the severity of the health crisis and the restrictions imposed as well as these countries' exposure to the services sector and tourism in particular, where social interaction is crucial and where distancing measures had a devastating effect. In France, Belgium and Spain, the strong presence of the automotive and/or aerospace sectors, which too were hard hit, also played a role. **Germany** (-5.0%) was less badly affected. The health crisis and the measures introduced were, at least initially, less severe, while the industrial sector, which has a stronger presence in the German economy, was less affected than services and benefited from the resilience of China, its major export market. Its automotive industry was impacted, but probably less so due to its specialisation in the high-end segment. The Netherlands was also relatively less hard hit (-4%) due to the minimal restrictions applied (despite the gravity of the health situation), the fairly rapid resumption of trade in goods, on which the country is very dependent due to its ports, and the fact that the Dutch had no choice but to spend their holidays in their own country. As usual, Ireland took the lead (2.9%) due to the strong presence of the pharmaceuticals and IT sectors in its economy, coupled with a moderate rate of infections.

The **United Kingdom** was hit hard (-10.8%). The automotive industry and tourism suffered particularly badly. Uncertainty over the terms of Brexit lasted until the end of the year, with a negative impact on investment. The US economy showed some resilience (-3.7%). Despite the seriousness of the health situation, measures taken to contain the virus were overall limited. Domestic demand was supported by very accommodative policies from both the Treasury and the Fed. Unemployment protection has been strengthened and money was given to all households. Housing construction remained strong thanks to low interest rates and the wealth effect linked to excellent stock market performances. The strength of the pharmaceutical and digital sectors offset the poor performance of energy, retail, tourism and aerospace. The Japanese economy posted a similar decline (-5.3%), probably because the epidemic was contained and did not require strict measures, but also because of the resilience of its main external markets (China, South Korea and the United States) and high-tech sectors, which partially offset the absence of foreign tourists. Australia also recorded a comparable contraction (-3%), with the strength of Chinese demand for commodities (excluding coal, which is subject to an informal embargo), strong housing construction supported by cheap credit, a limited health crisis and few restrictive measures offsetting the absence of tourism and foreign students. South Korea (-1%) and Taiwan (3.0%) benefited from their excellent handling of the epidemic, the strong performance of their exports of electronic components and high-tech products, very accommodative economic policies, and, for Taiwan, the trade war between China and the United States, which led to the repatriation of manufacturing activities from mainland China.

Among the emerging regions, **Latin America** was the worst performer (-7.2%), faring worse than the eurozone. Admittedly, its economies were already weak in 2019, with growth of only 0.7%. Argentina fell further into recession (-11% after -2.1%), despite the sharp increase in public spending. Consumer spending, which was already affected by unemployment and inflation, was hit by the health crisis and the severity of related restrictions. Investment suffered from controls on capital movements and the uncertain economic policy owing to ongoing debt renegotiations. Peru (-12%) faced an extreme health crisis, which the authorities struggled to control, despite providing considerable fiscal support, due to the strength of the informal economy and limited healthcare resources. In addition, mining was temporarily halted. The Mexican economy (-8.5%) suffered from both the pandemic and the lack of a fiscal response. Exports were negatively impacted by the weak situation in North America, while investors remained sceptical about President Obrador's policy. However, while Brazil was also affected by the epidemic, it limited the decline (-4.5%) thanks to massive fiscal and monetary support, as well as the excellent performance of its external trade, while the implementation of health protection measures varied across the country. Chile and Colombia, both mining countries, also suffered (-6.2% and -7% respectively) from the health crisis, despite the support of accommodative economic policies. In Chile, this included central bank purchases of government

(1) Group estimates.

securities and the possibility for households to withdraw some of their pension savings. However, Chile faced a referendum to modify its constitution, while Colombia was hit by falling oil and coal prices, as well as the drying up of foreign direct investment.

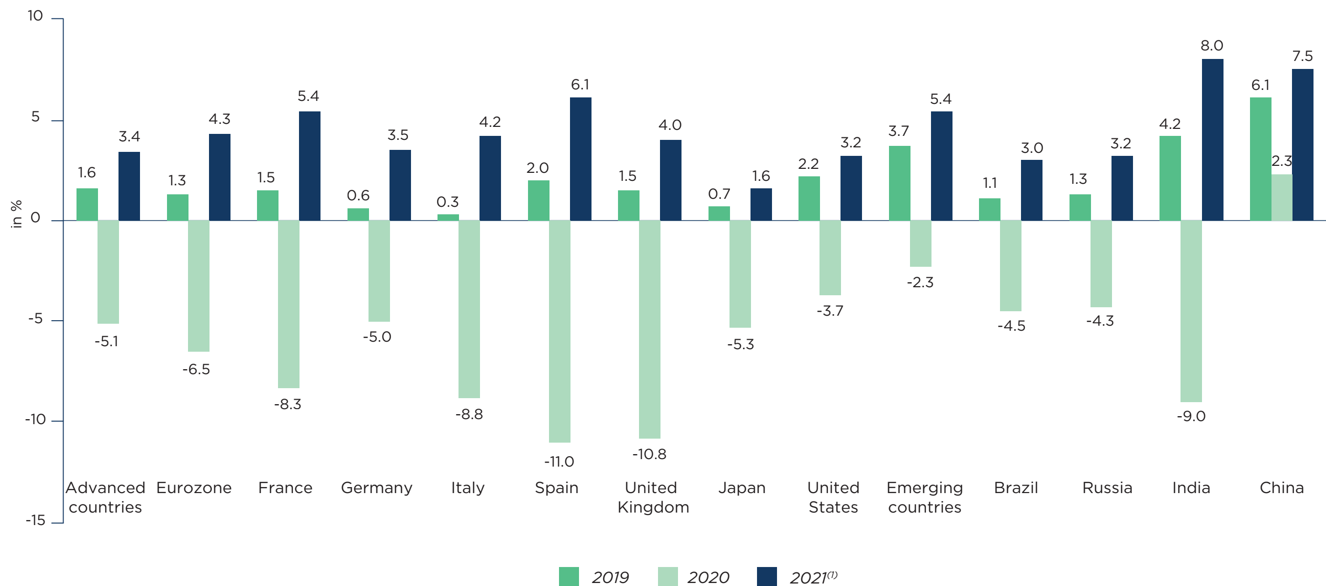
The **Middle East** and **North Africa** saw their economies shrink by 6.2%. Oil-producing countries suffered from both the slide in prices and the drop in production provided for in the OPEC+ agreement: Algeria (-6.5%), Oman (-6.2%), United Arab Emirates (-6.1%), Saudi Arabia (-4.3%), Iraq (-12%). Iran, which still faced US sanctions, contracted slightly more (-8% after -6.5%). Israel (-5.5%) suffered from strict health measures, soaring unemployment, the collapse of tourism and the impact of the slowdown in Europe on its exports. Morocco (-7%) and Tunisia (-9%) faced a decline in exports to Europe, the absence of tourists, and the health crisis.

Central European economies overall declined by 4.9%, with major disparities: Slovakia (-7.6%), Czech Republic (-7.1%), Hungary (-6.6%), due to their high exposure to the European automotive sector, and Croatia (-9.5%) due to its dependence on tourism, suffered much more than Poland (-2.8%) or Serbia (-1.5%), where household spending held up well. Similarly, Turkey (0.5%) introduced an ultra-accommodative monetary policy, causing a sharp deterioration in its current account balance. Eastern Europe and Central Asia saw GDP fall by 4.1% overall, for example in Russia (-4.3%), Kazakhstan (-3.5%) and Ukraine (-5.2%). These three countries were hit by the health crisis, and Kazakhstan and Ukraine responded with strict measures. Russia and Kazakhstan faced a drop in oil and gas revenues, while Ukraine benefited from strong grain and iron ore prices. Consumption fell in line with shrinking incomes and rising unemployment, as did investment, despite fiscal support in Kazakhstan financed by drawing on the sovereign fund.

Sub-Saharan Africa posted a decline of 3.3%. Oil-producing countries such as Nigeria (-3.5%) and Angola (-4%) suffered, while agricultural countries resisted: Côte d'Ivoire (1%), Kenya (0.5%), Ghana (1%). South Africa (-8%), which was already in a weak position (0.2% in 2019), suffered both a violent health crisis with strict lockdown measures and a drop in external demand for its vehicles and commodities.

Finally, **emerging Asia** fell by only 0.2% thanks to support from **China** (2.3%) and Vietnam (2.9%). China quickly contained the epidemic, allowing its economy to recover strongly, particularly through exports and investment. Vietnam benefited from the transfer of some production capacity from China due to its trade dispute with the United States. Indonesia resisted (-1.7%) due to the cushion provided by its agricultural sector and variable distancing measures due to the country's size, but this came at the expense of a high death toll and a contraction in imports, which largely offset the absence of tourists. The other major emerging economies suffered more: India (-9%), Philippines (-9.5%), Thailand (-5.5%), Malaysia (-5%). All of them faced a major health crisis and took severe measures that had a significant impact on domestic demand through a loss of income and rising unemployment. Fiscal support came at the expense of public investment. While their exports of electronic and IT equipment, as well as agricultural products, resumed in the second half of the year with the recovery in China and the relaunch of supply chains, tourism remained on hold.

/ GDP GROWTH (AS A%): 2019, 2020 AND 2021 (1) (SOURCE COFACE)



(1) Group estimates.

3.2 SIGNIFICANT EVENTS OF 2020

3.2.1 Coface launches its new 2023 strategic plan, Build to Lead

During its investor day organised on February 25 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.

The rapid occurrence of the health and economic crisis induced after the presentation of the plan does not call into question the fundamentals of the plan. Circumstances have led to a review of the Group's short-term priorities, but the strategic direction remains the same.

3.2.2 Coface demonstrates its agility in crisis management

Faced with the occurrence of the health crisis and the economic freeze in a large number of countries, Coface quickly took measures to mitigate the effects on its economic model. First, Coface's teams were working from home with no disruption in quality of service delivered to clients, thus demonstrating operational agility.

On the financial level, Coface rapidly reduced the level of risk of its investment portfolio and significantly increased its liquidity level to 21% at the peak of the crisis at the end of the first quarter, before gradually reinvesting its liquidities folowing the implementation of the financial measures taken by governments and central banks.

During this period, the Group was able to refinance its factoring business without any problems thanks to the over-collateralisation of available bank lines and the responsiveness of its teams, who were also able to renew certain bank lines on time or in advance, while maintaining satisfactory financial conditions in line with its expectations.

For reasons of prudence, in line with the recommendations of regulatory and governmental authorities, and to maintain its financial agility, the Board of Directors decided at its meeting on April 1 to propose to the Combined General Meeting of May 14, 2020 to pay no dividend for the financial year ending December 31, 2019. This measure resulted in a gain of approximately 13 points on the Group's solvency ratio.

Lastly, in response to the general deterioration in credit risk, Coface took an exceptionally high number of preventive measures in its insurance and factoring portfolios. Despite record volumes, most of the decisions were taken following a detailed analysis of the situation of each debtor, based on its country, sector and specific situation.

3.2.3 Coface cooperates with a number of countries to guarantee the availability of credit insurance

In 2020, many governments were quick to recognize the crucial role of credit insurance in maintaining business-to-business credit, the primary source of financing for many businesses. In order to guarantee the availability of credit insurance in a period when the risk is not necessarily insurable, many states have set up guarantee mechanisms of varying form and scope. During the year Coface has signed 13 government agreements that represent 64% of its exposure as of December 31, 2020.

Depending on the country, these mechanisms take the form of proportional reinsurance treaties or supplementary guarantees. The treaties generally cover domestic policyholders or policyholders domiciled in the country and concern the entire existing portfolio and new business. Depending on the country, the schemes are subject to a cession rate for premiums and claims, which may differ, and generally give rise to the payment of a reinsurance commission. It enables the insurer's customers to purchase a guarantee that is no longer available on the private market because of the difficulty of insuring risks that have become too uncertain.

The impact of all these governmental schemes on FY-2020 accounts have lowered pre-tax profit by €5.9 million in 2020. Given the current low level of claims activity, under these schemes, Coface will end up ceding more premiums than claims.

During the last quarter, Coface signed 12 extensions of agreements with France, Germany, Italy, United Kingdom, the Netherlands, Denmark, Belgium, Slovenia, Canada, Portugal, Israel and Norway. These agreements aim to extend the arrangements put in place in 2020 until June 30, 2021.

3.2.4 Rating agencies recognise Coface's good performances

Before the beginning of the crisis, on February 24, 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.

After the crisis started, the rating agencies quickly analysed the potential consequences of the crisis on the various sectors of economic activity. In the insurance sector, and particularly in credit insurance, the first reaction was to anticipate a deterioration in the rating profile.

Thus, the rating agency Moody's confirmed Coface's Insurance Financial Strength (IFS) A2 rating on March 27,2020 but the outlook is now moved to negative.

Ratings agency Fitch has, on March 31, 2020 placed Coface on Rating Watch Negative. This includes Coface's Insurer Financial Strength (IFS) rating. On November 5th, the agency maintained the rating watch at negative.

3.2.5 Shareholding evolution

On 25th of February 2020, 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.

Final completion of the transaction is subject to obtaining all the required regulatory authorizations.

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

3.2.6 Coface finalised the acquisition of GIEK Kredittforsikring AS

On July 1, Coface announced the closing of the acquisition of GIEK Kredittforsikring AS, a company created in 2001 that manages the short-term export credit insurance portfolio previously underwritten by the Norwegian ECA, GIEK. Coface has acquired all GIEK Kredittforsikring AS shares, and the business will thus operate under the brand name Coface GK.

GIEK is consolidated in the Group account starting from 1st of July and its integration lead to the recognition of a €8.9 million badwill in the September 2020 net result.

3.2.7 Merger of the Brazilian subsidiary SBCE (Seguradora Brasileira C.E.) with Coface Do Brasil

Following the buyout in 2019 by Compagnie française d'assurance pour le commerce extérieur of minority interests in its subsidiary SBCE (Seguradora Brasileira C.E.), it was decided to merge it into its other subsidiary Coface Do Brasil. This operation is in line with the Group's desire to rationalise its presence in Brazil and meet regulatory requirements. The impact of this transaction on the consolidated financial statements for the year is nil.

3.2.8 Nicolas Namias is appointed as Chairman of Directors of COFACE SA

The Board of Directors of COFACE SA had a meeting on September 9, 2020 and elected Nicolas Namias, Chief Executive Officer of Natixis, as Chairman of the Board of Directors. He succeeds François Riahi, who is leaving the COFACE SA Board following his departure from Natixis.

3.2.9 Implementation of a share buyback programme

Through its Build to Lead plan, Coface continues to improve the capital efficiency of its business model. Confident in the strength of its balance sheet, Coface launched on October 26, 2020 a shares buybacks programs for a total amount of 15 million euros. The description of these programs is as follows:

- a program for a targeted amount of 15 million euros was launched at October 27, 2020 and extends until January 29, 2021 with 1,852,157 additional shares bought. As of December 31, 2020, Coface purchased 1,110,677 shares for an amount of 8,613,694.42 euros.

3.3 COMMENTS ON THE RESULTS AS AT DECEMBER 31, 2020

3.3.1 Group performance

Consolidated turnover came to €1,450.9 million, down 0.6% on 2019 at constant FX and perimeter. The net combined ratio stood at 79.8%, or 2.1 points above the level recorded in 2019 (77.7%). This breaks down into a 2.7 point increase in the loss ratio to 47.7% and a 0.6 point decline in the cost ratio to 32.1% compared with 2019. The Group ended the year with net income (Group share) down 43%, to €82.9 million (*vs.* €146.7 million in 2019) and return on equity of 4.8%.

The Group adjusted its target solvency ratio upwards to a range of between 155% and 175%. The solvency ratio is estimated at 204.7% at December 31, 2020 [(1)]. Coface will propose the payment of a dividend [(2)] of €0.55 per share to shareholders, representing a payout ratio of 100%.

The changes at constant FX and perimeter, presented for comparison purposes in the tables below, take into account the consolidation of Coface PKZ as of April 1, 2019 and of Coface GK from July 1, 2020.

3.3.2 Turnover

The Group's consolidated turnover fell by 0.6% at constant FX and perimeter (down -2.0% at current FX and perimeter) to €1,450.9 million at December 31, 2020.

Changes in exchange rates reduced turnover by 2.1 points. This was mainly due to the depreciation of Latin American currencies (especially the Argentinean peso, but also the Brazilian real and the Chilean peso) and the Turkish lira.

The table below shows changes in the Group's consolidated turnover by business line as of December 31, 2019 and 2020:

	AS AT DEC. 31		CHANGE		
Change in consolidated turnover by business line *(in millions of euros)*	**2020**	**2019**	*in €m*	*as a %*	*as a %: at constant FX and perimeter*
Insurance	1,392.4	1,417.0	(24.6)	(1.7%)	(0.2%)
*o/w Gross earned premiums**	*1,204.3*	*1,235.6*	*(31.3)*	*(2.5%)*	*(0.8%)*
*o/w Services***	*188.1*	*181.4*	*6.7*	*3.7%*	*4.1%*
Factoring	58.5	64.1	(5.7)	(8.8%)	(8.3%)
CONSOLIDATED TURNOVER	**1,450.9**	**1,481.1**	**(30.2)**	**(2.0%)**	**(0.6%)**

* Gross earned premiums-credit, Single Risk and surety bond insurance.
** Sum of turnover from services related to credit insurance ("Fee and commission income" and "Other insurance-related services") and services provided to customers without credit insurance (access to information on corporate solvency and marketing information – "Information and other services", and debt collection services – "Receivables management").

(1) *This estimated solvency ratio is a preliminary calculation made according to Coface's interpretation of Solvency II Regulations, using the Partial Internal Model. The result of the definitive calculation may differ from the preliminary calculation. The estimated solvency ratio is not audited.*
(2) *The proposed dividend is subject to the approval of the Annual General Shareholders' Meeting of May 12, 2021.*

Insurance

Turnover from the insurance business (including surety bond and Single Risk insurance) was down by 0.2% at constant FX and perimeter (-1.7% at current FX and perimeter), at €1,392.4 million in 2020, compared with €1,417.0 million in 2019.

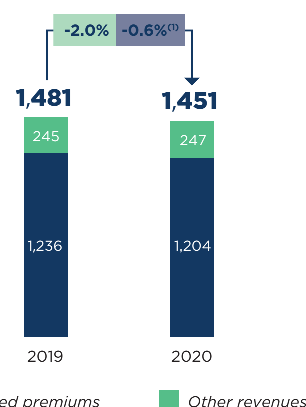
Gross earned premiums were down by 0.8% at constant FX and perimeter (-2.5% at current FX and perimeter), at €1,204.3 million in 2020, compared with €1,235.6 million in 2019.

The production of new contracts amounted to €138 million, up €5 million compared with 2019.

The contract retention rate (ratio between the annual value of renewed policies and the value of policies to be renewed during the year) was high in most regions and stood at 91.9% for the Group (compared with 91.6% at December 31, 2019). The price effect was positive, at 1.4%, after prices were under pressure in 2019 (-1.0%), reflecting selective repricing measures implemented during the year.

Coface's customers' activity declined by 1.1% in 2020 after having had a positive impact of 2.8% in 2019.

Turnover from the services business was up by 4.1% at constant FX and perimeter (up +3.7% at current FX and perimeter), rising from €181.4 million in 2019 to €188.1 million in 2020. This good performance was due in particular to the growth of the "business information" activity (+11%).



(1) At constant exchange rate

Factoring

Factoring turnover (only in Germany and Poland) was down 8.3% at constant FX (-8.8% at current FX), from €64.1 million in 2019 to €58.5 million in 2020.

Turnover in Germany was down -7.5% due to a major contraction in the volumes financed, which was partially offset by portfolio repricing.

In Poland, which was also impacted by this effect, turnover was down -9.7% at constant FX (-12.7% at current FX).

Change in turnover by region

The table below shows trends in consolidated turnover (net of intra-group flows) in the Coface Group's seven geographic regions for the financial years ended December 31, 2019 and 2020:

	AS AT DEC. 31		CHANGE			
Change in consolidated turnover by invoicing region *(in millions of euros)*	**2020**	**2019**	*in €m*	*as a %*	*as a %: at constant FX*	*as a %: at constant FX and perimeter*
Western Europe	291.9	294.6	(2.7)	(0.9%)	(0.9%)	(0.9%)
Northern Europe	297.6	307.5	(9.8)	(3.2%)	(3.0%)	(4.7%)
Mediterranean and Africa	394.9	394.2	0.7	0.2%	1.6%	1.6%
North America	136.5	138.5	(2.0)	(1.4%)	0.6%	0.6%
Central Europe	143.1	148.1	(5.0)	(3.4%)	(0.6%)	(2.7%)
Asia-Pacific	119.5	117.6	1.9	1.6%	2.7%	2.7%
Latin America	67.3	80.7	(13.3)	(16.5%)	3.7%	3.7%
CONSOLIDATED TURNOVER	**1,450.9**	**1,481.1**	**(30.2)**	**(2.0%)**	**0.0%**	**(0.6%)**

The regions posted different turnover trends at constant FX and perimeter, ranging from -4.7% for Northern Europe to +3.7% for Latin America.

In Western Europe, turnover was down 0.9% at constant FX due to the decline in short term credit insurance. This decrease was linked to the policyholder activity indicator, which contracted sharply over the period and was negative for the entire financial year. Conversely, customer retention indicators and the price effect increased in 2020 compared with 2019.

In Northern Europe, turnover was down 4.7% at constant FX and perimeter (-3.2% at current FX and perimeter, mainly due to the acquisition of Coface GK). Credit insurance and factoring turnover accounted for most of this decline. In credit insurance, the growth in new business and the positive price effect did not offset the rise in terminations and the decline in policyholder activity.

Turnover in the Mediterranean & Africa region grew by 1.6% at constant FX and perimeter thanks to strong sales momentum (high retention rate and positive price effect) and the development of the "business information" activity. This good commercial performance was mitigated by the level of activity of Coface's policyholders.

In North America, turnover increased by 0.6% at constant FX. In addition to a strong currency effect, the credit insurance portfolio is expanding well thanks to new business and a

positive price effect, despite the decline in policyholder activity.

Central Europe posted a drop in turnover of 2.7% at constant FX and perimeter (-3.4% at current FX and perimeter). The decline in factoring was the main reason for the fall in turnover in 2020. The level of insurance premiums (-2.3% at constant FX and perimeter) was impacted by the decline in policyholder activity.

Asia-Pacific recorded a 2.7% increase in turnover at constant FX (+1.6% at current FX). This growth was driven by credit insurance and Single Risk insurance. In credit insurance, the portfolio's development was linked to net production and the price effect, which were mitigated by lower policyholder activity.

Latin America posted an increase in turnover of 3.7% at constant FX (-17% at current FX due to the sharp devaluation of the region's currencies), due to a positive price effect.

3.3.3 Underwriting income

Underwriting income before reinsurance

Underwriting income before reinsurance stood at €171.4 million, down 36% compared to end-December 2019 (€265.9 million) due to the increase in the loss ratio.

The 7.8-point deterioration in the combined ratio before reinsurance to 85.5% in 2020 (77.8% in 2019) was attributable to a +8.4 point deterioration in the loss ratio and a slight decline in the cost ratio of -0.6 points. In particular, the cost ratio benefited from savings made thanks to the measures taken very quickly at the start of the crisis and the sharp reduction in spending on business travel, seminars, etc.

Loss experience

The Group's loss ratio before reinsurance, including claims-handling expenses, increased by 8.4 points, from 43.4% for 2019 to 51.8% in 2020 due to the impact of the crisis. This increase in the loss experience was limited by government support measures for their economies. The Group continues to benefit from the strict management of past claims, and recoveries remain at a high level.

Loss experience *(in millions of euros and as a%)*	**AS AT DEC. 31**		**CHANGE**	
	2020	**2019**	*in €m*	*as a %*
Claims expenses incl. claims handling costs	623.7	536.2	87.4	16.3%
Loss ratio before reinsurance	51.8%	43.4%	-	8.4 pts
Earned premiums	1,204.3	1,235.6	(31.3)	(2.5%)

In Western Europe, the loss ratio was up 13.2 points to 47.8%. This increase was linked to the level of the opening loss ratio of the 2020 insurance year, and reflects the crisis.

Thanks to an improvement in losses on previous years, Northern Europe saw its ratio decrease by 3.9 percentage points to 37%.

The 9.2 points increase in the loss ratio in the Mediterranean & Africa region compared to 2019 was due to the effects of the crisis. This increase in the loss ratio was due to the opening level and because recoveries were below the average of recent years.

In North America, the loss ratio rose by 17.9 points to 63.7%, *vs.* 45.8% in 2019. The impact of the crisis was more pronounced in this region than in most of the Group's regions.

The loss ratio in Central Europe rose by 3.6 points to 46.1%, *vs.* 42.5% in 2019. Recoveries declined against 2019 (the 2019 financial year benefited from the favourable development of past claims in Russia).

The Asia-Pacific loss ratio increased by 12.9 points to 48.8%. The crisis environment and a significant Single Risk claim explain this increase in the loss ratio, which nevertheless remains at a satisfactory level.

The loss ratio in Latin America rose by 12.2 points to 72.3%, due, on the one hand, to a deterioration in past claim loss experience, particularly in Mexico and Brazil, and on the other hand, to the high opening level due to the crisis.

Change in loss experience by invoicing region *(as a%)*	**AS AT DEC. 31** **2020**	**2019**	**CHANGE IN POINTS**
Western Europe	47.8%	34.6%	13.2 pts
Northern Europe	37.0%	40.9%	(3.9 pts)
Mediterranean and Africa	55.5%	46.3%	9.2 pts
North America	63.7%	45.8%	17.9 pts
Central Europe	46.1%	42.5%	3.6 pts
Asia-Pacific	48.8%	35.9%	12.9 pts
Latin America	72.3%	60.1%	12.2 pts
LOSS RATIO BEFORE REINSURANCE	**51.8%**	**43.4%**	**8.4 PTS**

/ OVERHEADS

Overheads *(in millions of euros)*	**AS AT DEC. 31**		**CHANGE**	
	2020	**2019**	*as a %*	*as a %: at constant FX and perimeter*
Internal overheads	536.1	547.0	(2.0%)	(0.7%)
o/w claims handling expenses	*31.8*	*31.2*	*2%*	*3%*
o/w internal investment management expenses	*3.4*	*4.0*	*(15.3%)*	*(15.2%)*
Commissions	154.8	165.3	(6.4%)	(4.4%)
TOTAL OVERHEADS	**690.9**	**712.4**	**(3.0%)**	**(1.6%)**

Total overheads, which include claims handling expenses and internal investment management expenses, were down by 1.6% at constant FX and perimeter (-3% at current FX and perimeter), from €712.4 million at December 31, 2019 to €690.9 million at December 31, 2020.

Policy acquisition commissions were down 4.4% at constant FX and perimeter (-6.4% at current FX and perimeter), from €165.3 million in 2019 to €154.8 million in 2020. This fall was bigger than the decline in earned premiums (-0.8% at constant FX and perimeter) due to the increase in savings generated by the insourcing of agents in North America.

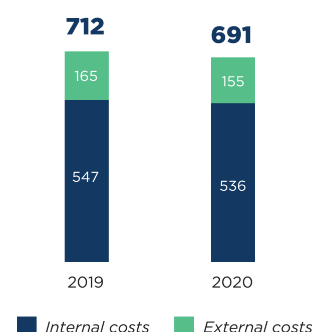
Internal overheads, which include claims handling expenses and internal investment management expenses, fell by 0.7% at constant FX and perimeter (-2% at current FX and perimeter), from €547.0 million in 2019 to €536.1 million in 2020.

Payroll costs were up by 2.3% at constant FX and perimeter (+1.5% at current FX and perimeter), from €298.1 million in 2019 to €302.7 million in 2020. Annual revaluations and changes in headcount explain this increase.

IT costs fell by 9% at constant FX and perimeter (-8.6% at current FX and perimeter), from €52.3 million in 2019 to €47.8 million in 2020, while transformation projects and investments were re-prioritised to adapt to the ongoing crisis.

Other expenses (taxes, information costs, rent) were down 3.1% at constant FX and perimeter (-5.6% at current FX and perimeter), from €196.6 million in 2019 to €185.6 million in 2020. Travel and seminar costs naturally fell with the stoppage of business trips. Consulting fees also substantially declined as some projects were postponed.

The cost ratio before reinsurance improved by 0.6 points, from 34.4% for the year ended December 31, 2019 to 33.7% for the year ended December 31, 2020 thanks to measures taken to address the decline in premiums. As a result, the decrease in earned premiums had an adverse impact of 0.9 points, which was offset by the favourable effect of the fall in commissions (-0.9 points) and in internal overheads (-0.6 points).



In Western Europe, overheads fell by 5.1% at constant FX (-4.6% at current FX), while both external expenses (policy acquisition commissions) and internal costs declined, with targeted decreases in variable compensation, IT costs, and travel costs.

In Northern Europe, overheads posted a 5.8% decline at constant FX and perimeter. The region saw savings in variable compensation and policy acquisition commissions.

Overheads in the Mediterranean & Africa region were up 5.1% at constant FX. This change was mainly due to the rise in variable costs on the "business information" activity (due to the growth in turnover in this segment) and higher re-billed central expenses (excluding this impact overheads increased by 2.8%).

In Central Europe, overheads decreased by 4.7% at constant FX and perimeter (-5% at current FX and perimeter), owing to savings on rent, travel, and communications.

In North America, overheads declined by 1.6% at constant FX (-3.6% at current FX), benefiting from the insourcing of agents and savings.

In Latin America, overheads increased by 7.7% at constant FX (down by 14% at current FX given the sharp devaluation of

the region's currencies). High inflation, particularly in Argentina, drove wage increases. The region also incurred an increase in re-billed central expenses (excluding this impact, overheads decreased by 0.5%).

In Asia-Pacific, overheads were up slightly, by 0.6% at constant FX, due to a targeted increase in information purchases (in line with the increase in turnover in this segment).

Underwriting income after reinsurance

Underwriting income after reinsurance totalled €127.3 million, down by 32% compared with 2019 (€187.9 million).

The 43% decline in the cost of reinsurance, to -€44.1 million at December 31, 2020 (-€78 million at December 31, 2019) was due to the rise in loss experience and the implementation of government reinsurance schemes (negative impact of €6 million), which resulted in a higher rate of ceded claims for the current underwriting year, which experienced a higher loss ratio.

	AS AT DEC. 31		CHANGE	
(in thousands of euros and%)	2020	2019	*(in €k)*	*(as a%)*
Turnover	1,450,864	1,481,088	(30,224)	(2.0%)
Claims expenses	(623,653)	(536,247)	(87,406)	16.3%
Contract acquisition costs	(238,453)	(242,675)	4,222	(1.7%)
Administration costs	(261,807)	(274,784)	12,977	(4.7%)
Other expenses from insurance activities	(60,971)	(70,739)	9,768	(13.8%)
Expenses from banking activities, excluding cost of risk	(12,833)	(13,742)	909	(6.6%)
Cost of risk	(100)	(1,804)	1,704	(94.4%)
Expenses from other activities	(81,608)	(75,198)	(6,410)	8.5%
Underwriting income before reinsurance	**171,439**	**265,899**	**(94,460)**	**(35.5%)**
Income and expenses after ceded reinsurance	(44,116)	(77,963)	33,847	(43.4%)
UNDERWRITING INCOME AFTER REINSURANCE	**127,322**	**187,936**	**(60,614)**	**(32.3%)**
Net combined ratio	79.8%	77.7%	-	-

3.3.4 Investment income, net of management expenses

Financial markets

In 2020, the global economy suffered an exceptional shock. The successive waves of COVID-19 contagion led to significant restrictions on business that weighed heavily on GDP. However, the rapid and massive support provided by central banks and governments helped avoid a collapse in household income in developed countries and a systemic financial crisis.

In the United States, GDP is expected to have fallen by 4.3%. The health crisis led to a drop in consumer spending while household income came under increased pressure due to the unprecedented deterioration in the labour market. Despite the extremely bad health situation, the Fed's very accommodative monetary policy and two fiscal stimulus plans, combined with the US economy's capacity to adapt, fostered a rise in the financial markets. After the market collapsed in March, the main indices, namely the Dow, S&P and Nasdaq, posted record high performances, with annual gains of 6.6%, 15.5% and 43.4% respectively. Among other reasons, the rally on the tech-heavy Nasdaq index was due to growing demand for IT solutions with the rise in remote working. On the fixed income side, short term yields remained relatively low, close to zero, which pushed the long end of the curve down further and boosted the performance of bonds. Moreover, the Fed's decision to keep rates low in the short term led the dollar to decline against all major currencies, by as much as -4% in the summer. The US 10-year yield fell from 1.88% at the beginning of the year to 0.56% in March due to the slowdown in the global economy, before ending the year at 0.93%.

In the eurozone, GDP growth was already slowing when COVID-19 stopped many sectors in their tracks at the end of Q1. Reflecting developments in of the number of infections and lockdown measures, economic activity contracted by 3.7% in Q1 and 11.7% in Q2 before rebounding by 12.5% in Q3, though it remained well below the level seen at the end of 2019. In Q4, the economy probably contracted again. The crisis hit the services sector hard, as services are greatly dependent on local activities, while the manufacturing sector held up better. Inflation declined gradually, moving into negative territory towards the end of the year, despite stronger than usual food price trends. Governments implemented far-reaching fiscal measures to protect jobs, household incomes and businesses, leading to a surge in public deficits and debt ratios, which have reached almost unprecedented levels. Major support measures were also decided at EU level. The ECB took very expansionary measures, including a new asset purchase programme, as well as ramping up its existing programmes. Against this backdrop, most equity indices ended the year down despite liquidity injections. On the fixed income market, the German 10-year yield reached an all-time low of -0.85% in mid-March, before ending the year at -0.51%.

The pandemic did not spare any emerging countries, with many recording double-digit declines in GDP in Q1 and/or Q2, a sharp depreciation in their currencies and record capital outflows. To combat the virus and minimise the negative impact of the crisis on the economy, governments massively increased their spending. Despite the financial support provided by international institutions, the widening of public deficits weighed on the most vulnerable countries and increased the risk on external financing. Against this backdrop,

rating agencies have downgraded the sovereign ratings of several countries. Central banks took action and eased their monetary policies significantly with rate cuts and/or quantitative easing. While the situation improved in emerging economies in Q3, particularly in Asia, some countries have had to deal with a second wave of the epidemic. Governments and central banks continued to support growth, although their room for manoeuvre has declined considerably.

Financial income

Against this backdrop of crisis, the Group lowered its portfolio's risk level at the end of February by significantly reducing its exposure to emerging market debt, high yield debt, BBB-rated corporate bonds and equities, in favour of money market instruments. Later, following interventions by central banks and governments, the strategic allocation was adjusted. Accordingly, the proportion of money market instruments was then gradually reduced in exchange for investment grade corporate bonds, investment grade emerging market debt and equities. These investments were all made within a strictly defined risk framework. Issuer credit quality, issue sensitivity, and the spread of risk across issuers and geographic regions are covered by clear rules set out in the investment mandates granted to the Group's dedicated asset managers.

The market value of the portfolio remained stable over 2020, with the moderate decline in the European equity markets offset by the increase in the value of fixed income products (bonds, loans, deposits and money market mutual funds) in a crisis environment that was significantly improved by the support measures taken by central banks and governments.

The following table shows the financial portfolio by main asset class:

/ MARKET VALUE

	AS AT DEC. 31	
(in millions of euros)	**2020**	**2019**
Listed shares	141	160
Unlisted shares	8	15
Bonds	1,914	2,119
Loans, deposits and money market mutual funds	540	319
Real estate	231	236
Total investment portfolio	**2,834**	**2,848**
Non-consolidated companies	150	142
TOTAL	**2,984**	**2,991**

Income from the investment portfolio amounted to €26.9 million, of which -€1.7 million in realised gains, impairment/reversals and equity/interest rate derivatives (representing 1.1% of 2020 average annual assets under management and 1.2% excluding realised gains, impairment/reversals and equity/interest rate derivatives), compared with €36.9 million in 2019, of which €3.1 million in realised gains, impairment/reversals and equity/interest rate derivatives (1.7% of 2019 average annual assets under management and 1.6% excluding realised gains, impairment/reversals and equity/interest rate derivatives). Against the backdrop of the crisis, the increase in the allocation of assets to money market products accounts for most of the decline in the return on the investment portfolio.

/ INVESTMENT PORTFOLIO INCOME

(in millions of euros)	AS AT DEC. 31 2020	2019
Equities*	(0.8)	0.6
Fixed income**	22.2	38.7
Investment property	9.7	8.4
Investment income	**31.1**	**47.7**
o/w realised gains, impairment and reversals, derivatives (equity and interest rate)	(1.7)	3.1
- o/w disposals	*(3.3)*	*5.5*
- o/w impairment and reversals	*(4.4)*	*4.6*
- o/w derivatives (equity and interest rate)	*6.0*	*(7.0)*
Investment income excluding realised gains	**32.9**	**44.6**
Foreign exchange income	(3.5)	1.8
- o/w foreign exchange	*(5.5)*	*(0.7)*
- o/w currency derivatives	*2.0*	*2.5*
Other	(0.8)	(12.6)
- o/w non-consolidated subsidiaries	*5.2*	*(4.7)*
- o/w financial and investment charges	*(6.0)*	*(7.8)*
NET INCOME FROM INVESTMENTS	**26.9**	**36.9**

* *Including equity derivatives.*
** *Including interest rate derivatives.*

After income from equity securities, foreign exchange income, income from derivatives, and financial and investment charges, the Group's financial income for 2020 totalled €26.9 million.

The portfolio's economic rate of return was positive at +1.5% in 2020 thanks to an increase in revaluation reserves, with the decline in interest rates offsetting a moderate fall in the equity market.

3.3.5 Operating income/(loss)

(in millions of euros)	AS AT DEC. 31 2020	2019	CHANGE *(in €m)*	*(as a%)*	*(as a%: at constant FX and perimeter)*
Consolidated operating income	**140.4**	**218.9**	**(78.4)**	**(35.8%)**	**(34.6%)**
Operating income including finance costs	**118.7**	**197.5**	**(78.8)**	**(39.9%)**	**(38.6%)**
Other operating income and expenses	**(13.8)**	**(6.0)**	**(7.8)**	**130%**	**130%**
OPERATING INCOME INCLUDING FINANCE COSTS AND EXCLUDING OTHER OPERATING INCOME AND EXPENSES	**132.5**	**203.5**	**(71.0)**	**(34.9%)**	**(33.6%)**

Consolidated operating income decreased by 34.6% at constant FX and perimeter, from €218.9 million for the year ended December 31, 2019 to €140.4 million for the year ended December 31, 2020.

Current operating income, including finance costs and excluding non-recurring items (other operating income and expenses), declined by 33.6% at constant FX and perimeter, from €203.5 million in 2019 to €132.5 million in 2020.

The net combined ratio increased by 2.1 percentage points, from 77.7% in 2019 to 79.8% in 2020, including a 2.7 percentage point increase in the net loss ratio and a decline of -0.6 percentage points in the cost ratio.

Other operating income and expenses amounted to -€13.8 million, breaking down as follows:

- expenses for the implementation and execution of the sale of shares by its main shareholder;
- investment expenses and provisions for restructuring in line with the Build to Lead strategic plan.

Change in operating income by invoicing region *(in millions of euros)*	AS AT DEC. 31		CHANGE	SHARE OF ANNUAL TOTAL AT DEC. 31, 2020
	2020	2018		
Western Europe	(13.4)	31.3	(44.7)	(9%)
Northern Europe	73.7	74.3	(0.6)	52%
Mediterranean and Africa	70.8	79.0	(8.1)	50%
North America	(13.1)	16.3	(29.4)	(9%)
Central Europe	27.9	30.4	(2.5)	20%
Asia-Pacific	(8.9)	21.4	(30.3)	(6%)
Latin America	5.9	2.3	3.7	4%
TOTAL (EXCLUDING INTERREGIONAL FLOWS AND NON-REBILLED HOLDING COSTS)	**143.0**	**255.0**	**(112.0)**	**100%**

3.3.6 Net income (Group share)

Coface Group's effective tax rate rose from 28.1% in 2019 to 37.4% in 2020, an increase of 9.3 points. Net income (Group share) came to €82.9 million, down 43% compared to the year ended December 31, 2019 (€146.7 million).

3.4 GROUP CASH AND CAPITAL RESOURCES

Information in this section is derived from the statement of cash flows in the consolidated financial statements and from Note 9 "Cash and cash equivalents" in the Company's consolidated financial statements.

(in millions of euros)	AS AT DEC. 31	
	2020	2019
Net cash flows generated from operating activities	194.4	247.7
Net cash flows generated from investment activities	(54.3)	(77.6)
Net cash flows generated from financing activities	(39.5)	(155.3)

(in millions of euros)	AS AT DEC. 31	
	2020	2019
Cash and cash equivalents at beginning of period	320.8	302.4
Cash and cash equivalents at end of period	401.0	320.8
Net change in cash and cash equivalents	80.2	18.4

3.4.1 Group debt and sources of financing

The Group's debt comprises financial debt (financing liabilities) and operating debt linked to its factoring activities (composed of "Amounts due to banking sector companies" and "Debt securities").

(in millions of euros)	AS AT DEC. 31 2020	2019
Subordinated borrowings	389.8	389.3
Sub-total financial debt	**389.8**	**389.3**
Amounts due to banking sector companies	535.4	523.0
Debt securities	1,425.6	1,538.7
Sub-total operating debt	**1,961.0**	**2,061.7**

Financial debt

For the financial year ended December 31, 2020, the Group's financing liabilities, totalling €389.8 million, only include the subordinated borrowings.

This fixed rate subordinated note (4.125% maturing on March 27, 2024) was issued on March 27, 2014 by COFACE SA for a nominal amount of €380 million.

The issue allowed the Group to optimise its capital structure, which had previously been characterised by an extremely low debt ratio (less than 1% at end-2013), and to strengthen its regulatory equity.

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

Operating debt linked to the factoring business

The Group's operating debt is mainly linked to financing for its factoring activities.

This debt, which includes "Amounts due to banking sector companies" and "Debt securities" items, corresponds to sources of refinancing for the Group's factoring companies (Coface Finanz in Germany and Coface Poland Factoring in Poland).

Amounts due to banking sector companies, which correspond to drawdowns on the bilateral credit lines (see "Bilateral credit lines" below) set up with various banking partners of Coface Finanz and Coface Poland Factoring and the Group's leading local banks, amounted to €535.4 million for the financial year ended on December 31, 2020.

Borrowings represented by securities amounted to €1,425.6 million for the financial year ended on December 31, 2020, including:

- senior units issued by the Vega securitisation fund under the Coface Finanz factoring receivables securitisation programme (see "Securitisation programme" below), in the amount of €887.9 million; and
- commercial paper issued by COFACE SA (see "Commercial paper programme" below) to finance the activity of Coface Finanz in the amount of €537.7 million.

Coface Group's main sources of operational financing

To date, the Coface Group's main sources of operational financing are:

- a securitisation programme to refinance its factoring receivables for a maximum amount of €1,100 million;
- a commercial paper programme for a maximum amount of €650 million; and
- bilateral credit lines for a maximum total amount of €928.5 million.

In February 2012, the Group took a first step towards achieving financial autonomy by implementing a factoring receivables securitisation programme dedicated to financing the business of Coface Finanz (Germany) and implemented a commercial paper programme dedicated to factoring financing.

In 2014, a structural addition was introduced into the securitisation programme which allowed the maximum amount of the programme to be increased to €1,195 million (the initial amount was €1,100 million). At the end of 2015, the securitisation programme was renewed ahead of schedule, for an unchanged maximum amount.

In 2017, the Group continued to set up new bilateral lines in Germany and Poland. At the end of 2017, the securitisation programme was entirely renewed ahead of schedule, for a period of five years and for an unchanged amount. Concerning the commercial paper issue programme, the Group restructured the credit lines likely to be drawn should the commercial paper market shut down. Since July 28, 2017, the Group has had a syndicated loan maturing in three years with two one-year extension options for a maximum amount of €700 million. This loan replaced the bilateral credit lines covering the maximum amount of the €600 million commercial paper programme, and includes an additional liquidity line of €100 million available to factoring entities if needed.

On June 8, 2018, Coface Poland Factoring and a pool of partner banks set up a €300 million multi-currency syndicated loan. This syndicated loan partly replaced existing bilateral credit lines. The loan has a two-year maturity with the option of a one-year extension, at the lenders' discretion. The maximum amount of the commercial paper programme was increased to €650 million with the option to issue commercial paper in euros, dollars and pound sterling. The additional Group-level liquidity line available to factoring entities, if needed, was thus increased to €50 million.

In 2019, the securitisation programme was reduced to €1,100 million in July and then renewed early in December. The following extensions were exercised during the year:

- third year of the €300 million multi-currency syndicated loan for Coface Poland Factoring;
- fifth year of the €700 million syndicated loan for COFACE SA.

In 2020, Coface Poland Factoring's syndicated multi-currency loan was renewed early in the amount of €281 million. The loan has a two-year maturity with the option of a one-year extension, at the lenders' discretion.

At December 31, 2020, the amount of the Coface Group's debt linked to its factoring activities amounted to €1,961 million.

a) Securitisation programme

In connection with the refinancing of its factoring activities, in February 2012 the Group implemented a securitisation programme for its factoring trade receivables for a maximum total amount of €1,100 million, guaranteed by Compagnie française d'assurance pour le commerce extérieur. The maximum amount of the programme was increased by €95 million, thanks to a structural addition set up in July 2014. The ceding entity was Coface Finanz, the German wholly-owned subsidiary of Compagnie française d'assurance pour le commerce extérieur. The purchaser of the receivables is a French securitisation mutual fund, Vega, governed by the stipulations of the French Monetary and Financial Code. The Group gained initial funding from this programme, with 35% of the programme due in one year and the remaining 65% in three years. On February 3, 2014, the Group reached an agreement with the banks in charge of the funding to renew the funding due in one year and extend the three-year portion of the funding, which was accordingly raised to 75% of the programme size. Thanks to the additional financing that was introduced in July 2014, the portion of financing over three years stood at 77%. The securitisation programme was completely renewed early in December 2017, for a maximum amount of €1,195 million, with 23% maturing in one year and 77% in three years.

In July 2019, the securitisation programme was reduced to a maximum amount of €1,100 million and was subsequently renewed early in December 2019. The programme was adjusted with 25% due in one year and 75% in three years. The main monitoring indicators for the programme include the default ratio, the delinquency ratio and the dilution ratio. The priority units issued by the Vega securitisation mutual fund were subscribed and refinanced by four vehicles issued in consideration for the short-term securities. The subordinated units were underwritten by Coface Poland Factoring.

At December 31, 2020, €887.9 million had been used under this programme.

This securitisation programme includes a number of usual early payment cases associated with such a programme, concerning the financial position of Coface Finanz (the ceding company) and other Group entities (including certain indicators regarding the quality of the ceded receivables), and linked to the occurrence of various events, such as:

- payment default of Coface Finanz or of Compagnie française d'assurance pour le commerce extérieur for any sum due under the securitisation fund;
- the cross default of any Group entity pertaining to debt above €100 million;
- closure of the asset-backed commercial paper market for a consecutive period of 180 days;
- winding-up proceedings against Coface Finanz, Coface Poland Factoring, the Company or Compagnie française d'assurance pour le commerce extérieur;
- the discontinuance of or substantial change to the activities practised by Coface Finanz or by Compagnie française d'assurance pour le commerce extérieur;
- a downgrading of the financial rating of Compagnie française d'assurance pour le commerce extérieur below BBB- for the main funding (maximum amount of €1,100 million) and to below A for additional funding (maximum amount of €70 million); as well as in case of
- non-compliance with one of the covenants linked to the quality of the portfolio of ceded factoring receivables.

The securitisation programme does not contain a change of control clause for the Company, but contains restrictions regarding the change of control in Compagnie française d'assurance pour le commerce extérieur and the factoring companies resulting in their exit from the Group.

The three covenants set by the securitisation programme include:

COVENANT	DEFINITION	TRIGGER THRESHOLD
Default ratio	Three-month moving average of the rate of unpaid receivables beyond 60 days after their due date	> 2.24%
Delinquency ratio	Three-month moving average of the rate of unpaid receivables beyond 30 days after their due date	> 5.21%
Dilution ratio	Three-month moving average of the dilution ratio	> 9.71%

At December 31, 2020, the Group had complied with all of these covenants.

b) Bilateral credit lines

In connection with the refinancing of its factoring business, the Group also introduced, mainly through its subsidiaries, a number of bilateral credit lines and overdraft facilities for a total maximum amount of €928.5 million:

- bilateral credit lines and bank overdrafts concluded with six German banks (the "German credit lines") and two Polish banks (the "Polish overdraft facilities") for a maximum amount of €297.5 million. These bilateral credit lines and bank overdrafts were concluded for a maximum period of one to two years. Some German credit lines contain the usual clauses, such as: borrower compliance with a specified net asset level; borrower change of control clause; and benefit for the lender of the strictest financial covenant granted by the borrower to other financial institutions. The Polish overdraft facilities contain the standard commitments. At December 31, 2020, €117.7 million had been drawn down under the German credit lines and Polish overdraft facilities;
- bilateral credit lines concluded with the Group's eight relationship banks:
  - three lines for a maximum total amount of €175 million for Coface Finanz (with maturities ranging between one and three years), of which €98.4 million had been drawn down as of December 31, 2020;
  - two lines for a maximum total amount of €175 million for Coface Poland Factoring (with maturities ranging between one and two years), of which €141.2 million had been drawn down as of December 31, 2020;
  - a syndicated loan facility for a total amount of €281 million for Coface Poland Factoring, of which €178.1 million had been drawn down as of December 31, 2020.

c) Commercial paper programme

The Group has a commercial paper issuance programme that was extended in October 2015 and increased in June 2018 to reach a maximum amount of €650 million. Under this programme, the Company frequently issues securities with due dates ranging generally between one and six months. At December 31, 2020, securities issued under the commercial paper programme totalled €537.7 million. The programme was rated P-2 by Moody's and F1 by Fitch.

Should the commercial paper market shut down, since July 28, 2017 the Group has had a currently unused syndicated loan, granted for a period of three years with two one-year extension options and covering the maximum amount of the commercial paper issue programme (€650 million). This loan replaces the former bilateral credit lines in force in the event of a market shutdown. The agreement regulating this syndicated loan contains the usual restrictive clauses (such as a negative pledge clause, prohibition from assigning the assets outside the Group above a specified threshold or restrictions related to the discontinuance or any substantial change in the Group's business activities) and early repayment clauses (payment default, cross default, non-compliance with representations, warranties and commitments, significant adverse change affecting the Company and its capacity to meet its obligations under these bilateral credit lines, insolvency and winding-up proceedings), in line with market practices. The fifth year of the €700 million syndicated loan for COFACE SA was exercised.

3.4.2 Group solvency [1]

The Group measures its financial strength based on the capital requirement (amount of equity required to cover its managed risks) according to the Solvency II Regulation for its insurance business and according to banking regulations for the Group's financing companies. The change in capital requirement depends on numerous factors and parameters linked to changes in the loss ratio, underwriting volumes, risk volatility, the sequencing of loss settlement and the asset types invested in the Company's balance sheet.

For insurance activities, pursuant to the Solvency II Regulation which became effective on January 1, 2016, the Group proceeded with the calculation of the solvency capital requirement (SCR) on December 31, 2020, using the partial internal model introduced by European Directive No. 2009/138/EC. The Group's SCR evaluates the risks linked to pricing, underwriting, establishment of provisions, as well as market risks and operational risks. It takes account of frequency risks and major risks. This calculation is calibrated to cover the risk of loss corresponding to a 99.5% quantile at a one-year horizon. At December 31, 2020, the estimated capital required for the two Group businesses amounted to €1,077 million, compared with €1,158 million at the end of 2019.

At December 31, 2020, the required capital for the factoring business was estimated at €168.7 million by applying a rate of 10.5% to the risk-weighted assets, or RWA. The Group has reported its capital requirements using the standard approach since December 31, 2019. It should be noted that the local regulators for Germany and Poland (the two countries in which the Group operates its factoring business) have not defined specific mandatory capital requirements for factoring companies.

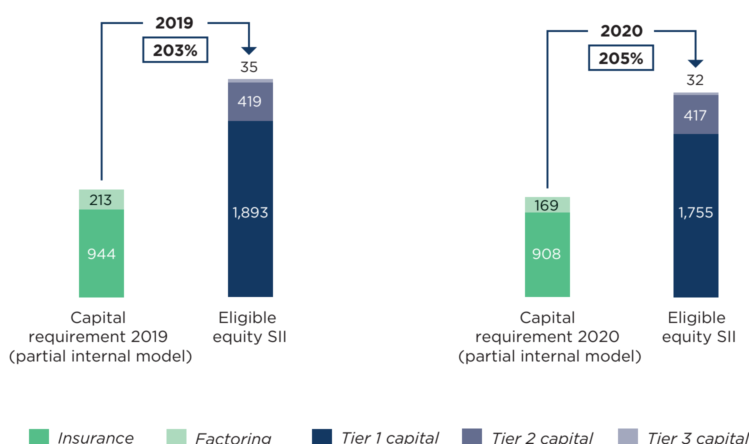
The sum of the capital requirement for the insurance business and the capital requirement for the factoring business is compared with the estimated available capital, which totalled €2,204 million as of December 31, 2020.

At this date, the solvency ratio (ratio between the Group's available capital and its capital requirement for insurance and factoring) was estimated at 205% [2], compared to 203% [3] at the end of 2019.

(1) Solvency information is not audited.
(2) This estimated solvency ratio is a preliminary calculation made according to Coface's interpretation of Solvency II Regulations, using the Partial Internal Model. The result of the definitive calculation may differ from the preliminary calculation. The estimated solvency ratio is not audited.
(3) The final solvency ratio at end-2019 amounted to 203% (based on Coface's interpretation of Solvency II and incorporating an estimated Factoring SCR using the Standard Approach). Unaudited.

The table below presents the items for calculating the Group's solvency ratio:

(in millions of euros)	AS AT DECEMBER 31, 2020	AS AT DECEMBER 31, 2019
Total equity	1,999	1,925
- Goodwill and other intangible assets (net of deferred taxes)	(207)	(199)
+ Revaluation of provisions using the best estimate method (net of deferred taxes)	243	381
+/- Other adjustments	(159)	(179)
- Dividend payments	(89)	-0
+ Subordinated debt (valued at market value)	417	419
= Solvency II available own funds (A)	**2,204**	**2,347**
Capital requirement – Insurance (B)	908	944
Capital requirement – Factoring (C)	169	213
Capital requirement (D) = (B) + (C)	1,077	1,158
SOLVENCY RATIO (E) = (A)/(D)	**205%**	**203%**



3.4.3 Return on equity

The return on equity ratio is used to measure the return on the Group's invested capital. Return on average tangible equity (or RoATE) is the ratio between net income (Group share) and the average of accounting equity (Group share) restated for intangible items (intangible asset values).

The table below presents the elements used to calculate the Group's RoATE over the 2019-2020 period:

	AS AT DEC. 31		
(in millions of euros)	2020	2019	2019 [(1)]
Accounting equity (Group share) – A	1,998	1,924	1,927 [(2)]
Intangible assets – B	231	221	221
Equity, net of intangible assets – C (A - B)	1,767	1,704	1,706
Average equity, net of intangible assets – D ([C_n + C_n -1]/2)	1,736	1,645	1,646
Net income (Group share) – E	82.9	146.7	149.3
RoATE – E/D	4.8%	8.9%	9.1%

(1) Calculation restated for non-recurring items.
(2) Recalculated on the basis of net income excluding non-recurring items.

3.4.4 Off-balance sheet commitments

Most of the Group's off-balance sheet commitments concern certain credit lines, guarantees received (pledged securities received from reinsurers corresponding to deposits made by reinsurers under commitments binding them to the Coface Group) and transactions on financial markets.

The table below presents the details of the Group's off-balance sheet commitments for the 2019-2020 period:

(in thousands of euros)	DEC. 31, 2020	RELATED TO FINANCING	RELATED TO ACTIVITY
Commitments given	**1,029,839**	**1,018,188**	**11,651**
Endorsements and letters of credit	1,018,188	1,018,188	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	4,151		4,151
Commitments received	**1,537,881**	**1,018,976**	**518,905**
Endorsements and letters of credit	117,702		117,702
Guarantees	398,704		398,704
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	318,976	318,976	
Contingent capital	0		0
Financial commitments in respect of equity interests	2,500		2,500
Guarantees received	**401,315**		**401,315**
Securities lodged as collateral by reinsurers	401,315		401,315
Financial market transactions	163,766		163,766

(in thousands of euros)	DEC. 31, 2019	RELATED TO FINANCING	RELATED TO ACTIVITY
Commitments given	**1,055,216**	**1,037,195**	**18,021**
Endorsements and letters of credit	1,037,195	1,037,195	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	10,521		10,521
Commitments received	**1,503,863**	**1,018,308**	**485,555**
Endorsements and letters of credit	140,576		140,576
Guarantees	342,479		342,479
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	318,308	318,308	
Contingent capital	0		0
Financial commitments in respect of equity interests	2,500		2,500
Guarantees received	**382,200**		**382,200**
Securities lodged as collateral by reinsurers	382,200		382,000
Financial market transactions	281,097		281,097

Endorsements and letters of credit totalling €1,018,188,000 for the financial year ended December 31, 2020 correspond mainly to:

- a joint surety bond of €380,000,000 in favour of investors in COFACE SA subordinated notes (10-year maturity);
- various joint surety bonds totalling €638,188,000 given by the Group, in particular to banks financing the factoring business.

Collateral concerns Coface Re for €365,715,000 and Compagnie française pour le commerce extérieur for €35,600,000.

The syndicated loan for a maximum amount of €700 million for the financial year ended December 31, 2020 includes the coverage of the Group's commercial paper issuance programme for €650 million and an additional liquidity line of €50 million available to factoring entities if needed (see Section 3.4.1 "Group debt and sources of financing").

3.5 POST CLOSINXG EVENTS AT DECEMBER 31, 2020

3.5.1 Changes in shareholding and governance – Arch Capital Group takes a stake in Coface and Bernardo Sanchez Incera appointed Chairman of the Board of Directors

On February 10, 2021, Natixis and Arch Capital announced that the sale of a 29.5% stake in Coface capital had received all the necessary approvals for its closing. In line with the announcements made in February 2020, all the directors representing Natixis have resigned. The Board then co-opted four directors presented by Arch as well as Bernardo Sanchez Incera, who was then appointed Chairman of the Board. As of today, Coface's Board of Directors has therefore 10 members, 4 women and 6 men, the majority (6) of whom are independent directors.

3.6 OUTLOOK

3.6.1 Economic environment [1]

The health situation remains very uncertain, making the forecast modelling exercise more volatile. The outlook is also highly dependent on the measures taken by governments to counter the negative effects of the crisis on the economy and society. Coface's economic teams assess and monitor these effects and the scenario presented below is the core scenario at the time of writing.

In 2021, global activity is expected to rebound sharply, with growth of 4.5% (after a decline of 3.9% in 2020). With this recovery, global output is expected to return to pre-crisis levels at the end of 2021. However, much of this performance will be due to a favourable base effect since the level of activity at the end of 2020 had already recovered some of the ground lost during the year. In addition, a large part of this growth will be due to the Chinese economy, meaning that other countries will not have returned to pre-crisis levels. Finally, in relation to the rising world population, output will not have returned to pre-crisis levels. This will, of course, be the case in many low-income or emerging countries that are experiencing significant population growth and where, as a result, GDP *per capita* will still be lower than before the crisis. Furthermore, and crucially, this scenario is based on an improvement in the health situation, in particular through the extension of vaccine coverage, which will allow the lifting of restrictions on economic activity to continue, although some constraints, such as border controls, are likely to remain in place, with consequences for transport and tourism.

As in the past, growth is expected to be higher in emerging economies (5.4%, after a decline of 2.3%) than in advanced economies (3.7%, after a decline of 5.2%). However, this difference in favour of emerging countries will only be due to the strong performance of emerging Asia, as the other emerging regions will either equal or fare less well than advanced economies.

In 2021, the United States is expected to grow by 3.2% (after a decline of 3.7%). Consumer spending, which represents two-thirds of GDP, should once again be the main driver of growth, supported by persistently low interest rates and a wealth effect linked to high real estate and stock market prices. An improvement in the health situation is expected to be a major factor. Moreover, while housing construction should remain strong and public investment will benefit from a federal infrastructure programme, business investment is likely to be slow due to the adverse situation in energy, office and retail space. Finally, external trade is expected to contribute negatively as imports rise faster than exports. In the United Kingdom, the economy is expected to rebound by 5.9% (after a slump of 11.4%). The trade agreement with the European Union removes considerable uncertainty. Despite a difficult start to the year due to the worsening health situation, consumer spending should be the first to recover with the lifting of travel restrictions, the reopening of shops and the savings built up during the epidemic. In contrast, while public investment is likely to benefit from fiscal support, business investment could be held back by the resumption of loan and tax payments after a grace period. In Japan, growth is expected to be slightly positive (1.6% after a drop of 3.5%). The new restrictions imposed in early January due to the worsening health situation will delay the recovery in consumption and tourism. In contrast, exports of transport equipment, electronics and machinery should continue to benefit from the improvement in China, notwithstanding uncertainty over trade relations with South Korea. However, it remains uncertain whether the Tokyo Olympic Games will go ahead.

Eurozone growth is expected to rebound sharply (4.9% in 2021 *vs.* -7.4% in 2020). Lending conditions will remain extremely loose due to the ECB's ultra-accommodative policy. A recovery is expected in Germany (3.5% *vs.* -5.6%), despite the slowdown caused by the restrictions introduced in late 2020/early 2021 as the health situation worsened, and the possibility of further upsets. Unlike the services sector, industry, which accounts for a large part of the German economy, is little affected by restrictions. In addition, consumers have changed their habits. Exports, including vehicles, which were already being underpinned by the Chinese recovery, should benefit from the recovery in other markets (Europe, North America). Moreover, many of the fiscal support measures for employment and income will remain in place in 2021. In France, the rebound should be greater, but from a worse situation (7.1% after -9.2%). The main driver of growth will be domestic demand, spurred by the release of household savings built up during the lockdowns, as well as

(1) *Group estimates.*

the extension of fiscal support measures and the recovery plan for both households and businesses. However, exports are likely to continue to suffer from difficulties in the aerospace and tourism sectors. Finally, the upturn will be gradual and subject to developments in the health situation. Spain will still be far from returning to its pre-crisis situation, with GDP expected to rise by 6.4% after shrinking by 11.5%. While exports of goods, such as vehicles and textiles, will benefit from the improvement in the European market, tourism is expected to remain on hold for at least the first half of the year. Meanwhile, domestic demand will benefit from the extension of fiscal support measures. Similarly, in Italy (5.1% after -9.3%), the improvement will not be sufficient to return to the pre-crisis situation. Exports of manufactured products (textiles, vehicles, food) will benefit from the recovery in demand in advanced and emerging economies, while tourism will continue to struggle. Consumption and investment should benefit from the extension of certain support measures, as well as a rise in confidence, provided that the health situation improves as vaccine coverage increases.

As mentioned above, there will be a two-speed recovery in emerging countries, with Asian countries, led by China, recording much stronger growth than most countries on other continents.

As such, emerging Asia is expected to post growth of 6.7% in 2021, after a decline of only 0.2% in 2020. As usual, this region will owe most of its excellent performance to China (7.5% after 2.3%), where the recovery that began in the second quarter of 2020 should gather pace as domestic demand picks up and also due to an upturn in foreign demand, although trade relations with the United States remain tense. Other economies in the region (India, Indonesia, Malaysia, Philippines, Vietnam) will also perform strongly. Central Europe is expected to achieve growth of 3.7% (after -5.1%), with all countries benefiting from the recovery in demand in Western Europe, particularly in the automotive sector, and from the arrival of new funds from Europe. Russia is expected to grow by 3.2% (after -4.3%), a modest performance, in line with the rise in consumption and investment. A moderate performance is also expected in Ukraine (2.5% after -5.2%) and Kazakhstan (2.8% after -3.5%). Turkey should fare a little better (4% after 0.5%), with exports to Europe offsetting weaker domestic demand with the return of a stricter monetary policy, although tourism will continue to suffer. The Middle East and North Africa (3% after -6.2%), for example Saudi Arabia (2.7% after -4.3%), will struggle to recover due to the slow resumption of tourism and efforts to restore public finances, although oil and gas revenues will rise. Latin America's performance (3.1% after -7.3%) will reflect that of its heavyweights: Argentina (3% after -11%), Brazil (3% after -4.5%), Colombia (3.7% after -7%) and Mexico (2.5% after -9%). As well as benefiting from an easing in the effects of the health crisis, consumption should benefit from better employment trends, continued accommodative monetary policy and, in Mexico, an increase in expatriate workers' remittances. Their exports should also pick up on the back of external demand and commodity prices. However, with the exception of Colombia, investment is likely to remain weak due to political uncertainty and reduced fiscal leeway. Despite their political uncertainties, Chile (4.5% after -6.2%) and Peru (8% after -12%) should gain from the excellent trend in metals prices, particularly copper, while monetary and fiscal policy will boost consumption and investment. Finally, the sub-Saharan Africa economy is expected to grow by just 2.5% in 2021, after shrinking by 3.7% in 2020, dragged down by its major economies, Nigeria (1.5% after -4%) and South Africa (3% after -9%), where, although exports will pick up, the domestic economies will continue to be hampered by structural problems, particularly at a fiscal level. Likewise, Angola, Congo, Gabon, Mozambique, Namibia, Zambia and Zimbabwe will reap little reward from higher prices for their oil and gas, metals or diamonds. The situation should be different for economies where agriculture (exports and/or subsistence farming) is important, sometimes alongside gold, wood, diamond and oil, such as Côte d'Ivoire, Ghana, Kenya or Senegal, as well as countries in the Sahel, despite their security problems. These countries were less badly affected in 2020 and are expected to grow between 4% and 6% in 2021.

3.6.2 Outlook for the Coface Group

The start of 2021 is marked by renewed uncertainties around the coronavirus crisis. Just as the global vaccination campaign began, new, and often more contagious, variants of the virus began to appear. This means that tougher measures will be required to curb the spread of the virus, subsequently delaying an economic recovery. So far, the vaccines appear to be effective against these new variants.

Regions that are less affected by the pandemic (Asia in particular) are continuing to grow. There are therefore significant disparities between countries and between sectors of economic activity. The current crisis has accelerated a number of major trends, such as increased digitization of the economy, the proliferation of zombie companies, and decarbonisation of the economy.

In this uncertain context, Coface's strategy – based on excellence in trade credit insurance, the development of adjacent activities, and agility – is thus fully relevant. Moreover, Coface will continue to work with governments, who have set up dedicated schemes for credit insurance in order to maintain supplier credit to the best possible extent. Coface has signed, where relevant, extensions to the schemes launched in 2020.

2021 also marks important changes in the Company's governance of the Company, with the arrival of 5 new directors, including one independent director and the appointment of Bernardo Sanchez Incera as Chairman.

Coface's Board of Directors is therefore now composed of 10 members, including 4 appointed by Arch. It is therefore composed of a majority of independent directors, including the Chairman.

3.7 KEY FINANCIAL PERFORMANCE INDICATORS

3.7.1 Financial indicators

Consolidated turnover

The composition of the Group's consolidated turnover (premiums, other revenue) is described under "Accounting principles and methods" in the notes to the consolidated financial statements.

Claims expenses

"Claims expenses" correspond to claims paid under credit insurance contracts, Single Risk policies and surety bonds, less changes in recoveries following recourse (amounts recovered from the debtor after paying the policyholder for the claim) during the financial year, and to the change in claims provisions during the financial year, and the handling expenses for these claims, which cover the costs of processing and managing policyholders' claims declarations, and those generated by monitoring recovery procedures (charges and provisions for internal and external debt collection fees).

Claims paid correspond to compensation paid under the policies during the financial year, net of collections received, plus costs incurred to provide the management, regardless of the financial year during which the claim was declared or during which the event producing the claim took place, less amounts recovered during the financial year for claims previously indemnified, regardless of the year the indemnification was paid.

Claims provisions are established for claims declared but not yet settled at financial year end, as well as for claims that have not yet been declared, but which have been deemed probable by the Group, given the events that have arisen during the financial year (incurred but not reported – IBNR provisions). The amounts thus provisioned also take into consideration a forecast of the amount to be collected for these claims. These provisions are decreased each year by recoveries made following the payment of compensation or the estimate of potential losses for declared or potential claims. The difference between the amount of provisions in a given financial year (established during the first year of underwriting a policy) and the amounts revalued the following years is either a liquidation profit (revaluation downward) or loss (upwards revaluation) (see Note 23 to the consolidated financial statements).

Operating expenses

"Operating expenses" correspond to the sum of the following items:

- "Contract acquisition costs", consisting of:
  - external acquisition costs, namely commissions paid to business contributors (brokers or other intermediaries) and which are based on the turnover contributed by such intermediaries, and
  - internal acquisition costs corresponding essentially to fixed costs related to payroll costs linked to contract acquisition and to the costs of the Group's sales network;
- "Administration costs" (including Group operating costs, payroll costs, IT costs, etc., excluding profit sharing and incentive schemes). Contract acquisition costs as well as administration costs primarily include costs linked to the credit insurance business. However, due to pooling, costs related to the Group's other businesses are also included in these items;
- "Other current operating expenses" (expenses that cannot be allocated to any of the functions defined by the chart of accounts, including in particular general management expenses);
- "Expenses from banking activities" (general operating expenses, such as payroll costs, IT costs, etc.) relating to factoring activities; and
- "Expenses from other activities" (overheads related exclusively to information and debt collection for customers without credit insurance).

As such, "Operating expenses" consist of all overheads, with the exception of internal investment management expenses for insurance – which are recognised in the "Investment income, net of management expenses (excluding finance costs)" aggregate – and claims handling expenses, with the latter included in the "Claims expenses" aggregate.

Total internal overheads (*i.e.* overheads excluding external acquisition costs (commissions), are analysed by function, regardless of the accounting method applied to them, in all of the Group's countries. This presentation enables a better understanding of the Group's savings and differs on certain points from the presentation of the income statement, which meets the presentation requirements of the accounting standards.

Cost of risk

"Cost of risk" corresponds to expenses and provisions linked to covering the ceding company risk (inherent to the factoring business) and the credit risk, net of credit insurance coverage.

Underwriting income

Underwriting income is an intermediate balance of the income statement which reflects the operational performance of the Group's activities, excluding the management of business investments. It is calculated before and after recognition of the income or loss from ceded reinsurance:

- "Underwriting income before reinsurance" (or underwriting income gross of reinsurance) corresponds to the balance between consolidated turnover and the total represented by the sum of claims expenses, operating expenses and cost of risk;
- "Underwriting income after reinsurance" (or underwriting income net of reinsurance) includes, in addition to the underwriting income before reinsurance, the income or loss from ceded reinsurance, as defined below.

Income (loss) from ceded reinsurance (expenses or income net of ceded reinsurance)

"Reinsurance income" (or income and expenses net of ceded reinsurance) corresponds to the sum of income from ceded reinsurance (claims ceded to reinsurers during the financial year under the Group's reinsurance treaties, net of the change in the provision for claims net of recoveries that was also ceded, plus the reinsurance commissions paid by reinsurers to the Group for proportional reinsurance), and charges from ceded reinsurance (premiums ceded to reinsurers during the financial year for reinsurance treaties of the Group, net of the change in provisions for premiums also ceded to reinsurers).

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

"Investment income, net of management expenses (excluding finance costs)" combines the result of the Group's investment portfolio (investment income, net gains on disposals and addition to/reversals of provisions for impairment), exchange rate differences and investment management expenses.

Current operating income/(loss)

"Current operating income (loss)" corresponds to the sum of "Underwriting income after reinsurance", "Net investment income excluding finance costs" and non-current items, namely "Other operating income and expenses".

In the presentation of operating income by region, the amounts are represented before turnover from interregional flows and holding costs not charged back to the regions have been eliminated.

Income tax

Tax expenses include tax payable and deferred tax that results from consolidation restatements and temporary tax differences, insofar as the tax position of the companies concerned so justifies (as more extensively described under "Accounting principles and methods" and in Note 29 to the consolidated financial statements).

Net income (Group share)

Net income (Group share) corresponds to the amount of "Net income from continuing operations" (corresponding to "Operating income", net of "Finance costs", "Share in net income of associates" and "Income tax"), "Net income from discontinued operations" and "Non-controlling interests".

3.7.2 Operating indicators

As part of its business operations, in addition to the financial aggregates published in accordance with the International Financial Reporting Standards (IFRS), the Group uses four operational indicators to track its commercial performance. They are described below:

Production of new contracts

The production of new contracts corresponds to the annual value of credit insurance policies taken out by new customers during the period. The Group generally records a higher production of new contracts during the first quarter of a given financial year.

Retention rate

The rate corresponds to the ratio between the annual value of the policies actually renewed and that of the policies that were supposed to be renewed at the end of the preceding period. The annual value of the policies corresponds to the value of the credit insurance policies over a 12-month period according to an estimate of the volume of related sales and the level of the rate conditions in effect at the time the policy is taken out.

Price effect of credit insurance policies

The price effect of the credit insurance policies corresponds to the difference between the annual value of the contracts, calculated based on the rate conditions in effect at the time the policy is taken out, and the annual value of the policies for the preceding period (calculated based on the rate conditions of the preceding period and excluding any volume effect related to the definitive revenue of the policyholders).

Volume effect

The method for calculating premiums on the Group's turnover produces its effects throughout the life of the policies, and not for a single financial year. When the volume of a policyholder's actual sales is higher than what was taken into consideration to determine the amount of premiums billed during the period covered by the policy, this difference produces a positive effect on the earned premiums recorded by the Group with a one-year lag. Conversely, when the volume of the policyholder's sales is less than what was used as the basis for calculating the flat rate, this difference does not produce any effect on the Group's turnover for the following financial year.

3.7.3 Breakdown of the calculation of ratios as of December 31

EARNED PREMIUMS *(in thousands of euros)*	2020	2019
Gross earned premiums [A]	**1,204,334**	**1,235,597**
Ceded earned premiums	(599,203)	(353,585)
NET EARNED PREMIUMS [D]	**645,131**	**882,012**

CLAIMS EXPENSES *(in thousands of euros)*	2020	2019
Claims expenses* [B]	**(623,653)**	**(536,247)**
Ceded claims	180,639	126,829
Change in claims provisions net of recoveries	135,321	12,622
NET CLAIMS EXPENSES [E]	**(307,692)**	**(396,797)**

* *Of which claims handling expenses.*

OPERATIONAL EXPENSES *(in thousands of euros)*	2020	2019
Operating expenses	**(655,672)**	**(677,138)**
Of which employee profit sharing	2,854	7,038
Other income (services)	246,530	245,491
Operating expenses, net of other income – before reinsurance [C]	(406,288)	(424,609)
Commissions paid by reinsurers	199,126	136,172
OPERATING EXPENSES, NET OF OTHER INCOME – AFTER REINSURANCE [F]	**(207,162)**	**(288,437)**

Gross comined ratio = gross loss ratio	B / A	**+ gross cost ratio**	C / A
Net combined ratio = net loss ratio	E / D	**+ net cost ratio**	F / D

RATIOS	2020	2019
Loss ratio before reinsurance	51.8%	43.4%
Loss ratio after reinsurance	47.7%	45.0%
Cost ratio before reinsurance	33.7%	34.4%
Cost ratio after reinsurance	32.1%	32.7%
Combined ratio before reinsurance	85.5%	77.8%
Combined ratio after reinsurance	79.8%	77.7%

3.7.4 Alternative performance measures (APM) as of December 31, 2020

This section takes a look at KPIs not defined by accounting standards but used by the Company for its financial communications.

This section is a follow-up to the AMF's position – IAP DOC 2015-12.

The indicators below represent indicators listed as belonging to the category of Alternative Performance Measures.

a) Alternative Performance Measures related to turnover and its constituent items

DEFINITION	JUSTIFICATION
Turnover with restated items	
(1) Two types of restatements on turnover: **i.** Calculation of turnover growth percentages, like-for-like: • year N recalculated at the exchange rate of year N-1; • year N-1 at the Group structure of year N. **ii.** Removal or addition of turnover in value (€) considered as extraordinary in the current year. The term "extraordinary" refers to impacts on turnover which do not occur every year.	**i.** Historic method used by Coface to calculate *pro forma* %. **ii**. Item considered as extraordinary, i.e. which will only occur in the current financial year (year N).
Fee and commission income/Gross earned premiums (current – like-for-like)	
Weight of fee and commission income over earned premiums on like-for-like basis: • year N at the exchange rate of year N-1; • year N-1 at the Group structure of year N. Fee and commission income corresponds to the turnover invoiced on additional services.	Indicator used to monitor changes in fee and commission income compared with the main turnover item at constant scope.
Internal overheads excluding extraordinary items	
(2) Restatement or Addition of items considered as extraordinary with respect to internal overheads. The term "extraordinary" refers to impacts on expenses which do not occur every year.	Indicator used to compare changes in internal overheads by excluding extraordinary items.

b) Alternative Performance Measures related to operating income

DEFINITION	JUSTIFICATION
Operating income excluding restated extraordinary items (including finance costs and excluding other operating income and expenses)	
Restatement or Addition of items considered as extraordinary to operating income: these include extraordinary income and expenses impacting either turnover (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in operating income by excluding extraordinary items.

c) Alternative Performance Measures related to net income

DEFINITION	JUSTIFICATION
Net income excluding extraordinary items	
Restatement or Addition of items considered as extraordinary with respect to net income. This includes extraordinary income and expenses likely to impact either turnover (see definition above **(1)**) or overheads (see definition above **(2)**). This aggregate is also restated for "current operating income and expenses", which are recorded after operating income in the management income statement.	Indicator used to compare changes in net income by excluding extraordinary items.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M 2020	2019
i. (Current turnover N – FX Impact N-1)/(Current turnover N-1 + Perimeter impact N) -1 ii. Current turnover N +/- Restatements/Additions of extraordinary items N	**i. +0.6%** = (1,450.9 -30.5)/(1,481.1 +8.6 Coface PKZ & Coface GK) -1 ii. 1,450.9 +/- 0.0	**i. N/A** = (1,481.1 -2.9)/(1,384.7 +11.2 Coface PKZ) -1 ii. 1,481.1 +/- 0.0
Fee and commission income/Earned premiums – Like-for-like	**Current: 12.0%** = 144.0/1,204.3 Like-for-like: 11.8% = 145.3/1,233.3	**Current: 11.3%** = 140.2/1,235.6 Like-for-like: 11.3% = 139.8/1,234.0
Current internal overheads +/- Restatements +/- Additions of extraordinary items	**€536.1m** = 536.1 +/- 0.0	**€547.0m** = 547.0 +/- 0.0

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M 2020	2019
Operating income +/- Restatements +/- Addition of extraordinary items	**€132.5m** = 140.4 + (-21.8) – (-13.8 Non-recurring items)	**€203.5m** = 218.9 + (-21.4) – (-6.0 Non-recurring items)

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M 2020	2019
Current operating income +/- Restatements +/- Additions of extraordinary items net of tax	Not applicable for this reporting date	**€149.3m** = 146.7 – (-6.0 Non-recurring items -4.0 Non-recurring fees +4.7 Badwill PKZ) – (2.8 Tax on non-recurring items and fees)

d) Alternative Performance Measures related to the combined ratio

DEFINITION	JUSTIFICATION
Loss ratio gross of reinsurance (loss ratio before reinsurance) and gross loss ratio with claims handling expenses refer to the same indicator	
The ratio of claims expenses to gross earned premiums (the sum of gross earned premiums and unearned premium provisions), net of premium refunds.	Indicator for monitoring the level of loss borne by the Group with respect to premiums, after ceded reinsurance.
Loss ratio net of reinsurance (loss ratio after reinsurance)	
Ratio between claims expenses net of claims expenses ceded to reinsurers under reinsurance treaties entered into by the Group, and total earned premiums net of premiums ceded to reinsurers.	Indicator for monitoring the level of loss borne by the Group with respect to premiums, after ceded reinsurance.
Cost ratio before reinsurance	
Ratio between operating expenses (net of employee profit sharing) less other income* and earned premiums.	Indicator for monitoring the level of operating expenses (insurance contracts portfolio acquisition and management) borne by the Group with respect to premiums.
Cost ratio after reinsurance	
Ratio between operating expenses (net of employee profit sharing) less other income* net of commissions received from reinsurers under reinsurance treaties entered into by the Group, and the total of earned premiums net of premiums ceded to reinsurers.	Indicator for monitoring the level of operating expenses (insurance contracts portfolio acquisition and management) borne by the Group with respect to premiums after ceded reinsurance.
Combined ratio before/after reinsurance	
The combined ratio is the sum of the loss ratios (before/after reinsurance) and cost ratios (before/after reinsurance) as defined above.	Overall profitability indicator of the Group's activities and of its technical margin before and after ceded reinsurance.
Net combined ratio excluding restated and extraordinary items [A]	
Restatement or Addition of items considered as extraordinary with respect to combined ratio after reinsurance. This includes extraordinary income and expenses impacting either turnover (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in combined ratios after reinsurance by excluding extraordinary items.
Loss ratio excluding extraordinary items [B]	
Restatement or Addition of items considered as extraordinary with respect to loss ratio net of reinsurance.	Indicator used to compare changes in loss ratios after reinsurance by excluding extraordinary items.
Net cost ratio excluding restated and extraordinary items [C]	
Restatement or Addition of items considered as extraordinary to cost ratio after reinsurance: these include extraordinary income and expenses impacting either turnover (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in cost ratios after reinsurance by excluding extraordinary items.
Current year gross loss ratio – before reinsurance excluding claims handling expenses [D]	
Ultimate claims expense (after recoveries) over earned premiums (after premium refunds) for the current year. The insurance period is exclusively the current year N.	Indicator used to calculate the loss ratio before reinsurance excluding claims handling expenses.
Prior year gross loss ratio – before reinsurance excluding claims handling expenses [E]	
Corresponds to gains/losses for insurance periods prior to current year N excluded. A gain or loss corresponds to an excess or deficit of claims provisions compared with the loss ratio actually recorded.	Indicator used to calculate the loss ratio before reinsurance excluding claims handling expenses.
Comprehensive gross loss ratio – before reinsurance excluding claims handling expenses [F]	
Corresponds to the accounting loss ratio for all insurance periods (current year N and its prior years). This concerns the loss ratio before reinsurance excluding claims handling expenses.	Key indicator in loss monitoring.

* *Operating expenses include overheads linked to the execution of additional services (business information and debt collection) inherent to the credit insurance business. These also include overheads for service businesses carried out by the Group, such as factoring. In order for the cost ratio calculated by the Group to be comparable to the cost ratio calculated by other main market players, "Other revenue", namely the revenue generated by the additional businesses (non-insurance), is deducted from overheads.*

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M 2020	2019
- Claims expenses/Gross earned premiums	See 3.7.3 – "Breakdown of the calculation of ratios at December 31"	
- (Claims expenses + Ceded claims + Change in provisions on claims net of recourse)/(Gross earned premiums + Expenses from ceded reinsurance)	See 3.7.3 – "Breakdown of the calculation of ratios at December 31"	
- (Operating expenses – Employee profit sharing – Other income)/Gross earned premiums	See 3.7.3 – "Breakdown of the calculation of ratios at December 31"	
- (Operating expenses – Employee profit sharing – Other income – Commissions received from reinsurers)/(Gross earned premiums + Expenses from ceded reinsurance)	See 3.7.3 – "Breakdown of the calculation of ratios at December 31"	
Loss ratio (before/after reinsurance) + Cost ratio (before/after reinsurance)	See 3.7.3 – "Breakdown of the calculation of ratios at December 31"	
Combined ratio after reinsurance +/- Restatements/Additions of extraordinary items	**[A] = [B] + [C]** **84.5%** = 53.0% +31.6%	**[A] = [B] + [C]** **77.7%** = 45.0% +32.7%
Loss ratio after reinsurance +/- Restatements/Additions of extraordinary items	**53.0%** = 47.7% +/-5.3 pt	**45.0%** = 45.0% +/-0.0 pt
Cost ratio after reinsurance +/- Restatements/Additions of extraordinary items	**31.6%** = 32.1% -0.5 pt	**32.7%** = 32.7% +/-0.0 pt
Claims reported in the current year/Earned premiums for the current year, see ultimate loss ratios development triangle	**78.4%** = see ultimate loss ratios development triangle	**73.1%** = see ultimate loss ratios development triangle
[E] = [F – D]	**(29.3%)** = 49.1% -78.4%	**(32.2%)** = 40.9% -73.1%
- (Claims paid net of recourse + Change in claims provisions)/Earned premiums	**49.1%** = - (-591.8/1,204.3)	**40.9%** = - (-505.0/1,235.6)

e) Alternative Performance Measures related to equity

DEFINITION	JUSTIFICATION
RoATE – Return on average tangible equity	
Net income (Group share) over average tangible equity (average equity (Group share) for the period restated for intangible assets).	The return on equity ratio is used to measure the return on the Coface Group's invested capital.
RoATE excluding non-recurring items	
The calculation of RoATE (see definition of RoATE above) is based on net income excluding non-recurring items and Average Tangible Equity (see RoATE definition above) excluding non-recurring items. For this calculation, interest or commissions linked to capital management instruments (such as hybrid debt, contingent equity) are not considered as non-recurring items.	The calculation of the return on equity ratio excluding non-recurring items is used to monitor the Group's profitability between two reporting periods.

f) Alternative Performance Measures related to the investment portfolio

DEFINITION	JUSTIFICATION
Accounting rate of return of financial assets	
Investment income before income from equity securities, foreign exchange income and financial expenses compared with the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the accounting performance of the financial assets portfolio.
Accounting rate of return of financial assets excluding income from disposals	
Investment income before income from equity securities, foreign exchange income and financial expense excluding capital gains or losses on disposals compared with the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the recurring accounting performance of the financial assets portfolio.
Economic rate of return of financial assets	
Economic performance of the asset portfolio. Thus, the change in revaluation reserves for the year over the balance sheet total of financial assets is added to the accounting rate of return.	Indicator used to monitor the economic performance of the financial assets portfolio.
Investment portfolio income	
Investment portfolio income (shares/fixed-income instruments and real estate).	Used to monitor the income from the investment portfolio only.
Other	
Income from derivatives excluding currency derivatives, income from equity securities and investment fees.	Used to monitor income from equity securities, derivatives excluding currency derivatives and fees relating to investments.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M	
	2020	2019
Net income (Group share) for year N/[(Equity (Group share) N-1, restated for intangible assets N-1 + Equity (Group share) restated for intangible assets N)/2]	**4.8%** = 82.9/[(1,704 +1,767)/2]	**8.9%** = 146.7/[(1,704 +1,586)/2]
Net income (Group share) for year N excluding non-recurring items/[Equity (Group share) excluding non-recurring items N-1, restated for intangible assets N-1 + Equity (Group share) excluding non-recurring items N restated for intangible assets N)/2]	Not applicable for this reporting date	**9.1%** = 149.3/[(1,706 +1,586)/2]

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M	
	2020	2019
Investment portfolio income/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/2)	**1.1%** = 31.1/(((2,984 - 150) + (2,991 - 142))/2	**1.7%** = 47.7/(((2,991 - 142) + (2,834 - 129))/2)
Investment portfolio income excluding capital gains or losses/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/2).	**1.2%** = (31.1 + 1.7)/(((2.984 - 150) + (2,991 - 142))/2)	**1.6%** = (47.7 - 3.1)/(((2,991 - 142) + (2,834 - 129))/2)
Accounting rate of return on financial assets + (revaluation reserves of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N- revaluation reserves of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1]/2)	**1.5%** = (31.1 + 96.2 - 85.2)/(((2,988 - 150) + (2,991 - 142)	**4.7%** = (47.7 + 85.2 -2.4)/(((2,991 - 142) + (2,834 - 129))/2)
Income from shares excluding equity securities + income from fixed-income instruments + real estate income	**€31.1m** = - 6.8 + 22.2 + 9.7 + 6.0	**€47.7m** = 6.6 + 39.8 + 8.4 -7.0
Income from derivatives excluding exchange rate + income from equity securities + investment fees	**(€4.2m)** = - 3.5 +5.2 - 6.0	**(€10.8m)** = 1.8 - 4.7 - 7.8

g) Alternative Performance Measures linked to reinsurance

DEFINITION	JUSTIFICATION
Ceded premiums/Gross earned premiums (rate of ceded premiums)	
Weight of Ceded premiums compared with earned premiums. Ceded premiums correspond to the share of earned premiums that Coface cedes to its reinsurers under reinsurance treaties signed with them. Earned premiums correspond to the sum of written premiums and provisions on earned premiums not yet written.	Indicator used to monitor changes in reinsurance income.
Ceded claims/total claims (rate of ceded claims)	
Weight of ceded claims compared with total claims. Ceded claims correspond to the share of Coface claims ceded to its reinsurers under reinsurance treaties signed with them.	Indicator used to monitor changes in reinsurance income.
Underwriting income before/after reinsurance (underwriting income gross/net of reinsurance)	
See definition above (financial indicators). Underwriting income before and after reinsurance is now reported directly in the income statement following changes in its presentation.	

3.8 INVESTMENTS OUTSIDE THE INVESTMENT PORTFOLIO

Information can be found in Note 6 “Buildings used in the business and other property, plant and equipment” of the Group’s consolidated financial statements.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON – €M	
	2020	2019
- (Ceded premiums (of which, change in premiums provisions)/Earned premiums)	**46.4%** = - (- 559.2/1,204.3)	**28.6%** = - (-353.6/1,235.6)
- Ceded claims (including change in claims provisions after recourse)/Total claims (including claims handling expenses)	**50.7%** = - 316.0/[(-91.8) + (-31.8)]	**26.0%** = -139.5/[(-505.0) + (-31.2)]

3