PRESS RELEASE

Paris, 29 July 2020 – 17:35

# Coface reports a positive net income of €11.3m for the second quarter 2020 and continues to implement its strategic plan

- **Turnover for the first semester: €725m, down 0.6% at constant FX and perimeter**
  - Client retention and new business achieve record levels, with a positive net production of €33m
  - First effects of re-pricing are now visible (+0.2%)
  - Revenues from services progress by 7%, including information services up by 13%
  - Client activities continue to slowdown – a trend expected to continue over the following quarters
- **Net loss ratio of 57.4%, up by 13.4 ppts; net combined ratio of 88.6% (91.4% for Q2-2020)**
  - Gross loss ratio increased by 18.1 ppts, mainly driven by higher provisions for an anticipated rise in claim frequencies
  - Net loss ratio only increased by 13.4 ppts, as government schemes come into play
  - Net cost ratio down by 0.8 ppt to 31.2%, reflecting strict cost discipline and growing service revenues
- **Net income (group share) of €24.0m, of which €11.3m for Q2-2020; annualised RoATE[1] of 2.8%**
- **Estimated Solvency ratio at 191%[2], and 183%[2] excluding government schemes, above the target range (155% - 175%)**
- **Coface proves its agility and resilience within a very challenging economic environment**
  - Strengthened by its new corporate culture and a solid balance sheet, Coface is confidently continuing with the execution of its Build to Lead strategic plan

*Unless otherwise indicated, changes are expressed by comparison with the results as at 30 June 2019*
*[1] RoATE = Average return on equity I [2] This estimated solvency ratio disclosed is a preliminary calculation made according to Coface's interpretation of Solvency II regulations and using the Partial Internal Model. The final calculation may differ from this preliminary calculation. The estimated Solvency ratio is not audited.*

**Xavier Durand, Coface's Chief Executive Officer, commented:**

*"Over the first six months of the year, Coface's teams have achieved very high levels of performance and engagement, despite the unusual and difficult operational and economic conditions. Our client retention and new business hit record high levels, resulting in a positive net production. We are also seeing the initial effects of our portfolio re-pricing efforts.*

*On the risk side, we have consistently pursued preventive measures while ensuring that we exercise good judgment in our underwriting decisions. Many governments have recognized the important role that credit insurance plays in maintaining business-to-business credit. Coface has already finalised 11 government agreements and is continuing further discussions with other countries.*

*During the second quarter, we generated a positive net income of €11.3 million. Our solvency reached 183%, excluding government schemes. Coface is therefore well equipped to face an economic environment that will continue to be governed by evolving health developments. Strengthened by its culture, its resilience, and a solid balance sheet that is further reinforced by government schemes, Coface is continuing to execute its strategic plan with confidence."*

P R E S S R E L E A S E

### Key figures at 30 June 2020

The Board of Directors of COFACE SA examined the consolidated financial statements at 30 June 2020 at its meeting of 29 July 2020. The Audit Committee, at its meeting on 24 July 2020, also previously reviewed them. These interim consolidated financial statements have been subject to limited review by the statutory auditors. The limited review report is being issued.

| Income statements items in €m | H1-19 | H1-20 | % | % ex. FX* |
|---|---|---|---|---|
| Gross earned premiums | 605.3 | 599.1 | (1.0)% | (0.4)% |
| Services revenue | 127.3 | 125.5 | (1.4)% | (1.5)% |
| **REVENUE** | **732.6** | **724.6** | **(1.1)%** | **(0.6)%** |
| UNDERWRITING INCOME/LOSS AFTER REINSURANCE | 99.5 | 40.4 | (59.4)% | (58.1)% |
| Investment income, net of management expenses | 16.6 | 16.7 | +0.7% | +11.3% |
| **CURRENT OPERATING INCOME** | **116.1** | **57.1** | **(50.8)%** | **(48.2)%** |
| Other operating income / expenses | 1.1 | (1.8) | N.A | N.A |
| **OPERATING INCOME** | **117.2** | **55.4** | **(52.8)%** | **(50.2)%** |
| **NET INCOME** | **78.5** | **24.0** | **(69.5)%** | **(67.0)%** |

| Key ratios | H1-19 | H1-20 | % | % ex. FX* |
|---|---|---|---|---|
| Loss ratio net of reinsurance | 44.0% | 57.4% | +13.4 | ppts. |
| Cost ratio net of reinsurance | 32.0% | 31.2% | (0.8) | ppt. |
| **COMBINED RATIO NET OF REINSURANCE** | **76.0%** | **88.6%** | **+12.6** | **ppts.** |

| Balance sheet items in €m | H1-19 | H1-20 | % | % ex. FX* |
|---|---|---|---|---|
| Total Equity (group share) | 1,814.8 | 1,916.2 | +5.6% | |
| **SOLVENCY RATIO** | **162%**[1] | **191%**[2] | +29 | ppts. |

* Also excludes scope impact

[1] The estimated Solvency ratio disclosed is a preliminary calculation based on Coface's interpretation of Solvency II. The final calculation may differ from this preliminary calculation. The estimated Solvency ratio is not audited.

[2] This estimated solvency ratio constitutes a preliminary calculation made according to Coface's interpretation of Solvency II regulations and using the Partial Internal Model. The result of the definitive calculation may differ from the preliminary calculation. The estimated solvency ratio is not audited

## 1. Turnover

Coface recorded consolidated sales of €724.6m for H1-2020, down by -0.6% at constant FX and perimeter compared to H1-2019. On a reported basis (at current FX and perimeter), turnover was down by -1.1%. These figures include the contribution of Coface PKZ, the activity that was integrated during Q2-2019.

Turnover has been affected by the decline (and anticipated decline) in client activities. This deceleration is expected to continue over the coming quarters. The re-pricing effect has become positive (at +0.2%) for the first time in several years, showing the first effects of the portfolio re-pricing programme.

The client retention remained high in all regions and reached a new record level of 93.4% for the Group. New business, at €86m, confirmed the relative recovery seen in the first quarter. This was a rise of 32%, despite an unchanged appetite for risk. Net production on the portfolio showed a positive result of €33m.

Turnover from insurance activities (including bonding and Single Risk) was down by -2.3% at constant FX and perimeter compared to H1-2019. This reflects the slowing in client activities, past and anticipated.

Revenues from other activities (factoring and services) were down by -1.3% compared to H1-2019. The decline in factoring (-13.8% at constant FX and perimeter) is due to the sharp contraction in financed volumes, although this is partially offset by portfolio re-pricing. Growth in services stood at + 7%, driven by a rise in information services (+ 13%).

| Total revenue - cumulated - in €m | H1-19 | H1-20 | % | % ex. FX* |
|---|---|---|---|---|
| Northern Europe | 156.1 | 147.0 | (5.8)% | (5.8)% |
| Western Europe | 147.5 | 142.6 | (3.3)% | (3.7)% |
| Central & Eastern Europe | 71.5 | 73.5 | +2.8% | +0.1% |
| Mediterranean & Africa | 190.9 | 200.5 | +5.0% | +5.6% |
| North America | 68.1 | 69.2 | +1.7% | (0.5)% |
| Latin America | 39.8 | 34.7 | (12.8)% | +5.8% |
| Asia Pacific | 58.7 | 57.1 | (2.7)% | (4.9)% |
| **Total Group** | **732.6** | **724.6** | **(1.1)%** | **(0.6)%** |

In the Northern Europe region, revenues decreased by -5.8% at constant and current FX mainly due to the decline in factoring. Credit insurance was down -4%, supported by strong retention and growing new business, but with a negative volume effect.

In Western Europe, turnover was down by -3.3% and by -3.7% at constant FX. Weaker client activity was only partially offset by the continued positive growth in the bonding activities.

In Central and Eastern Europe, turnover grew by +2.8% and by +0.1% at constant FX. This growth is mainly explained by the integration of Coface PKZ. Factoring revenues are down in Poland, while credit insurance is up by +1.8%.

In Mediterranean and Africa, a region driven by Italy and Spain, turnover grew by +5.0% and by +5.6% at constant FX. This was due to high levels of retention and new business, as well as good progression in services.

* Also excludes scope impact

In North America, revenues increased by +1.7% on a reported basis but decreased by -0.5% at constant FX. Growth in new business activity with more positive pricing is offset by the slowdown in customer activity.

Revenues in the Asia-Pacific region were down by -2.7% at current FX and by -4.9% at constant FX. High retention levels were not sufficient to compensate for the fall in client activities.

In Latin America, turnover fell by -12.8% at current FX, but rose by + 5.8% at constant FX. These figures are affected by the existence of local policies expressed in international currencies. The level of new local business remains low, within a very challenging economic context.

## 2. Result

– Combined ratio

The combined ratio, net of reinsurance, stood at 88.6% for H1-2020 (a rise of 12.6 points compared to H1-2019).

(i) Loss ratio

The gross of reinsurance loss ratio for H1-2020 stood at 59.0%, a rise of 18.1 points compared to the previous year. The gross loss ratio for Q2-2020 rose by 20.9 points compared to Q2-2019 (62.8% vs 41.9%).

The Group's reserving policy remains unchanged. Provisioning for the subscription year is particularly high, at 87.6%. This reflects a rise in claims declarations received, particularly claims of a larger size, as well as in increase in provisions to anticipate a likely rise in claims frequency.

Strict management of past claims made it possible to record 31.1 points of recoveries from past claims during the first half-year. These levels remain well above the historical average.

The loss ratio net of reinsurance rose by 13.4 ppts compared to H1-2019, to reach 57.4%. This increase is 4.7 points lower than the increase in the gross ratio. This difference is explained by the implementation of government reinsurance schemes, which resulted in a higher cession rate for the current subscription year, which has a higher loss ratio.

(ii) Cost ratio

Coface has continued with its policy of strict cost controls and investment. During H1-2020, costs fell by -6.3% and by - 5.1% at constant FX and perimeter. This decrease is due to proactive efforts on all variable costs (travel, communications, and consultants).

Strong control on expenses enabled a decrease in the gross loss ratio of 0.7 ppt, down from 33.9% in H1-2019 to 33.2% in H1-2020. The net cost ratio improved by -0.8 ppt to 31.2%, compared to 32.0% for H1-2019. The increase in the second quarter (33.5% vs 32.2% for Q2-2019) is explained by the implementation of government schemes whose commission rates are generally lower.

– Financial income

Net financial income for H1-2020 period was €16.7m, showing a slight rise of €0.1m for the year. The accounting yield[1], excluding capital gains and depreciation, stood at 0.6% (vs 0.9% at H1-2019), affected by the strong reduction in risks made in the first half of 2020.

This apparent stability is partly explained by the non-recurrence of depreciation charges that were recorded in H1-2019.

– Operating income and net income

Operating income for H1-2020 amounted to €55.4m, of which €8m due to government schemes, down by 52.8% compared to the previous year, mainly due to the rise in the combined ratio (which is in turn due to the higher loss ratio within the current economic and health crisis).

The effective tax rate rose to 46%, compared to 29% for H1-2019. This increase is mainly explained by a claim which was very large compared to the size of the entity that reported it.

In total, net income (group share) was €24.0m, of which €11.3m was in Q2-2020. This clearly demonstrates the resilience of Coface, despite the very challenging economic context.

### 3. Shareholders' equity

As at 30 June 2020, shareholders' equity group share was €1,916.2m, representing a decline of €8.3m, or -0.4% (vs €1,924.5m at 31 December 2019).

These changes are mainly due to the positive net income of €24.0m, offset by the decrease in unrealized capital gains (- €19.9 million).

The annualised return on average tangible equity (RoATE) stood at 2.8% as at 30 June 2020, mainly due to the deterioration in underwriting results due to the increase in the loss ratio.

The solvency ratio is 191%[2], above the target range (155% - 175%). It is explained by a decrease in capital requirements reflecting the reduction of risks (prevention measures) and by a decrease in eligible own funds mainly due to the anticipation of higher future losses.

The solvency ratio benefited to the extent of 8 points from government plans. In the absence of these risk transfer schemes, the solvency ratio would have been at 183%[2], still above the target range.

[1] Book yield calculated on the average of the investment portfolio excluding non-consolidated subsidiaries
[2] This estimated solvency ratio constitutes a preliminary calculation made according to Coface's interpretation of Solvency II regulations and using the Partial Internal Model. The result of the definitive calculation may differ from the preliminary calculation. The estimated solvency ratio is not audited

## 4. Outlook

Coface is forecasting that global GDP will show a contraction of 4.4% for the year 2020, followed by a recovery of 5.1% in 2021. The overall global level of economic activity is not expected to return to 2019 levels before 2022 or 2023. This is a rather modest recovery when compared to the levels of governmental support that have been provided for the economy. These forecasts are based on the hypothesis of the absence of a significant second wave and of the availability of a vaccine or a treatment in 2021. Finally, 2020 is a US election year, which always has an influence on financial markets.

Coface recorded a solid operational performance during H1-2020. Even during the strictest period of the confinement, risk management teams continued to operate at record levels of activity. Q2 figures have also confirmed the positive trend of recent quarters, enabling the client portfolio to once again experience positive net production.

The radical change in the risk environment requires significant but differentiated re-pricing, which takes into account the countries, sectors and histories of each client. The first effects of these actions, which are set to continue, are now visible in the accounts.

Many governments have recognized that credit insurance is essential for maintaining business-to-business credit – the primary source of financing for many industries. Coface has already finalised 11 agreements with different states, mainly in Europe, and is continuing discussions with a number of other countries. These agreements have also led to a temporary increase in solvency, estimated at 8 ppts. They protect Coface's profitability and solvency in case of significantly deteriorated economic environments.

Coface's operations continue to be supported by a solid balance sheet. The solvency ratio reached 191%[1] (183%[1] excluding government schemes). These levels are above the target range of 155% to 175%.

Within this environment of a soft recovery, where the risk of relapse exists, Coface, strengthened with its new corporate culture and a solid balance sheet, is maintaining its focus on operational performance. Coface is also confidently pursuing the implementation of its long-term Build to Lead strategic plan which strategic pillars are confirmed.

**Conference call for financial analysts**

Coface's H1-2020 results will be discussed with financial analysts during the conference call on 29 July 2020 at 18.00 (Paris time). Dial one of the following numbers:

- +33 1 72 72 74 03 (France)
- +44 207 1943 759 (United Kingdom)
- +1 646 722 4916 (United States)

The access code for participants is: **69005181#**

The presentation will be available (in English only) at the following address:
http://www.coface.com/Investors/financial-results-and-reports

[1]This estimated solvency ratio disclosed is a preliminary calculation made according to Coface's interpretation of Solvency II regulations and using the Partial Internal Model. The final calculation may differ from this preliminary calculation. The estimated Solvency ratio is not audited.

## Annexes

Quarterly results

| Income statements items in €m Quarterly figures | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | % | % ex. FX* |
|---|---|---|---|---|---|---|---|---|
| Gross earned premiums | 299.0 | 306.3 | 312.6 | 317.7 | 301.2 | 297.9 | (2.7)% | (1.1)% |
| Services revenue | 66.4 | 60.8 | 58.3 | 59.9 | 69.3 | 56.3 | (7.5)% | (7.1)% |
| **REVENUE** | **365.5** | **367.1** | **370.9** | **377.6** | **370.5** | **354.2** | **(3.5)%** | **(2.1)%** |
| **UNDERWRITING INCOME(LOSS) AFTER REINSURANCE** | **52.0** | **47.4** | **46.3** | **42.2** | **28.2** | **12.1** | **(74.4)%** | **(76.2)%** |
| Investment income, net of management expenses | 5.1 | 11.5 | 11.8 | 8.5 | 2.7 | 14.0 | +22.4% | +32.9% |
| **CURRENT OPERATING INCOME** | **57.2** | **58.9** | **58.0** | **50.7** | **30.9** | **26.2** | **(55.6)%** | **(54.6)%** |
| Other operating income / expenses | (0.2) | 1.3 | (1.0) | (6.1) | (0.2) | (1.6) | N.A | N.A |
| **OPERATING INCOME** | **56.9** | **60.3** | **57.0** | **44.6** | **30.7** | **24.6** | **(59.2)%** | **(57.1)%** |
| **NET INCOME** | **36.4** | **42.2** | **38.8** | **29.4** | **12.7** | **11.3** | **(73.2)%** | **(72.4)%** |
| *Income tax rate* | *29.4%* | *28.9%* | *25.0%* | *29.1%* | *50.5%* | *39.9%* | *+ 11 pts* | |

Cumulated results

| Income statements items in €m Cumulated figures | Q1-19 | H1-19 | 9M-19 | FY-19 | Q1-20 | H1-20 | % | % ex. FX* |
|---|---|---|---|---|---|---|---|---|
| Gross earned premiums | 299.0 | 605.3 | 917.9 | 1,235.6 | 301.2 | 599.1 | (1.0)% | (0.4)% |
| Services revenue | 66.4 | 127.3 | 185.6 | 245.5 | 69.3 | 125.5 | (1.4)% | (1.5)% |
| **REVENUE** | **365.5** | **732.6** | **1,103.4** | **1,481.1** | **370.5** | **724.6** | **(1.1)%** | **(0.6)%** |
| **UNDERWRITING INCOME(LOSS) AFTER REINSURANCE** | **52.0** | **99.5** | **145.7** | **187.9** | **28.2** | **40.4** | **(59.4)%** | **(58.1)%** |
| Investment income, net of management expenses | 5.1 | 16.6 | 28.4 | 36.9 | 2.7 | 16.7 | +0.7% | +11.3% |
| **CURRENT OPERATING INCOME** | **57.2** | **116.1** | **174.1** | **224.9** | **30.9** | **57.1** | **(50.8)%** | **(48.2)%** |
| Other operating income / expenses | (0.2) | 1.1 | 0.1 | (6.0) | (0.2) | (1.8) | N.A | N.A |
| **OPERATING INCOME** | **56.9** | **117.2** | **174.2** | **218.9** | **30.7** | **55.4** | **(52.8)%** | **(49.6)%** |
| **NET INCOME** | **36.4** | **78.5** | **117.3** | **146.7** | **12.7** | **24.0** | **(69.5)%** | **(67.0)%** |
| *Income tax rate* | *29.4%* | *29.2%* | *27.8%* | *28.0%* | *50.5%* | *46.0%* | *+ 16.8 pts* | |

* Also excludes scope impact

P R E S S R E L E A S E

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**FINANCIAL CALENDAR 2020 (subject to change)**

9M-2020 results: 29 October 2020 (after market close)

**FINANCIAL INFORMATION**

This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:
http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim Financial Report for S1-2020 and our 2019 Universal Registration Document.

**Coface: for trade**

With over 70 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Single Risk insurance, Bonding and Information services. Coface's experts work to the beat of the global economy, helping ~50,000 clients build successful, growing, and dynamic businesses across the world. Coface helps companies in their credit decisions. The Group's services and solutions strengthen their ability to sell by protecting them against the risks of non-payment in their domestic and export markets. In 2019, Coface employed ~4,250 people and registered a turnover of €1.5 billion.

www.coface.com

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