3.1 ECONOMIC ENVIRONMENT [1]

2024, a pivotal year

After a somewhat turbulent 2023, which ultimately turned out much better than expected, 2024 is shaping up to be as decisive as it is uncertain. As geopolitical tensions intensify internationally, against a backdrop of ever-worsening antagonisms and strategic rivalries, no fewer than 60 national elections - presidential and/or legislative - will shape the year, in a political and social environment that is unsettled to say the least.

In this context, the macroeconomic equation has clearly become a derivative of (geo)political balances. Consequently, our central scenario, which remains that of a prolonged but still soft landing for **the global economy (+2.2% after +2.6% in 2023)**, is more akin to a ridge than a boulevard. There are many associated risks, some of them vertiginously bearish. After ending the year with a bang, the financial markets, still convinced that disinflation can be completely immaculate, have gradually come to their senses. Without even mentioning the disruption of value chains, brought to the fore by the strikes in the Red Sea, or the ever-increasing risk of the Middle East conflict spreading, there is no guarantee at present that the battle against inflation has been won. Neither in the long-term, of course, nor even in the short-term, despite the ongoing slowdown in the global economy. With core inflation still twice the central bank target in most developed monetary areas, the challenge for 2024 will be to see whether the monetary tightening that has been underway for over 18 months is enough to go the "last mile" and bring inflation back to 2%. And to keep it there.

Regardless, and barring an accident of course, the interest rate environment to which all agents - households, businesses, and governments - have become accustomed over the last fifteen years is now firmly in the past. While the volume of debt to be refinanced will gradually increase, there is every reason to believe that the pivot of monetary policy will not be pivotal in terms of claims, and that the upward trend in insolvencies that we have witnessed for over a year will continue. This remains the main endogenous risk to our central scenario: that the virtuous circle that has hitherto combined low insolvencies, a resilient labour market and household dissaving will be replaced by a vicious circle combining accelerating insolvencies, rising unemployment, a marked slowdown in wages and, in this context, a rise in household savings. This ultimately would have an even greater impact on demand, despite the fall in inflation.

In the framework of our central scenario, we have adjusted 13 country assessments (12 upgrades and 1 downgrade) and 22 sector assessments (17 upgrades and 5 downgrades), reflecting a significant improvement in the outlook, albeit fragile, in an environment that remains highly unstable and therefore uncertain.

Global growth still stalling

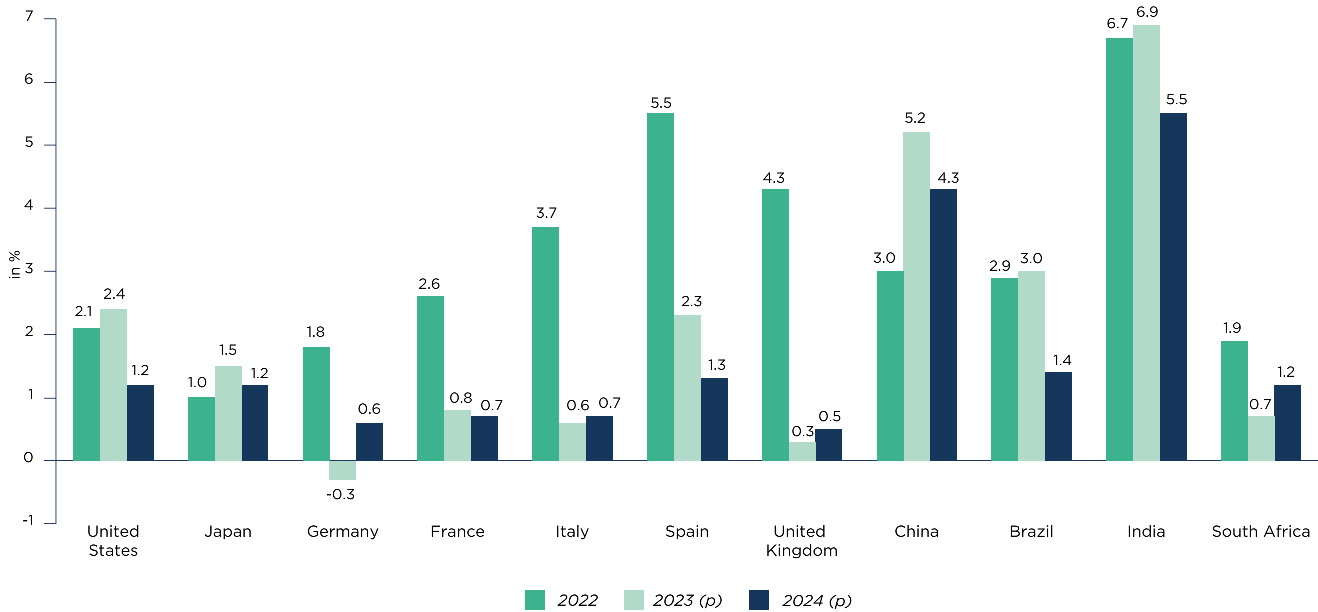
In line with the last quarter of 2023, the global economy will be decelerating in the first few weeks of 2024, but with most regions escaping recession. As we anticipated in our previous Barometer [2], the indicators point to a marked slowdown in the United States, stagnation in the eurozone and a still incomplete and disappointing recovery in China.

As a result, we are maintaining our growth forecast for the world economy in 2024 unchanged at 2.2% (**Chart 1**), confirming the forthcoming slowdown for the third consecutive year. Excluding the pandemic and the financial crisis of 2008-2009, one must go back to 2002 to trace such a slowdown in global activity. While we have kept our forecasts unchanged for the major eurozone economies, our (slight) upward revisions for the US and China are attributable rather to positive surprises in the past than to an improved outlook (**Chart 2**). Given the lacklustre performance of these three markets, global growth will be driven mainly by the emerging economies. This trend is reflected in our changes to country assessments this quarter, since 9 of the 12 upgrades concern emerging economies. Conversely, we downgraded a single country this quarter (Israel). The balance is also positive in terms of sectoral assessment changes, with 17 upgrades, mainly in the automotive and energy sectors, and only 5 downgrades.

1) *Group estimates*

2) *Coface Barometer: Macroeconomics put to the test by microeconomic deterioration, 17 October 2023.µµµURL: https://www.coface.com/news-economy-and-insights/country-and-sector-risk-barometer-q3-2023-macroeconomics-put-to-the-test-by-microeconomic-deterioration*

/ **CHART 1 – WORLD REAL GDP GROWTH (ANNUAL AVERAGE, %)**



Sources: IMF, National Statistical Institutes, Refinitiv Datastream, Coface forecasts

Emerging economies driving global growth, but still very heterogeneous

In 2024, the emerging countries will be the main drivers of the global economy, contributing 1.7 percentage points to the 2.2% growth in world GDP. Emerging economies will therefore account for three quarters of global growth, the highest since 2013.

South-East Asia will once again be one of the most dynamic regions, with growth of 4.6%, after 4% last year. The recovery in the global electronics sector will benefit Singapore, Vietnam, and Malaysia, which are important links in the regional supply chain. The continuing recovery in tourism will also benefit most of the countries in the region, particularly Thailand and the Philippines because of the sector's preponderance in their GDP. In Indonesia, where economic activity is based mainly on domestic demand, household consumption will remain solid. However, the slowdown in global growth will limit the dynamism of exports from the region's economies.

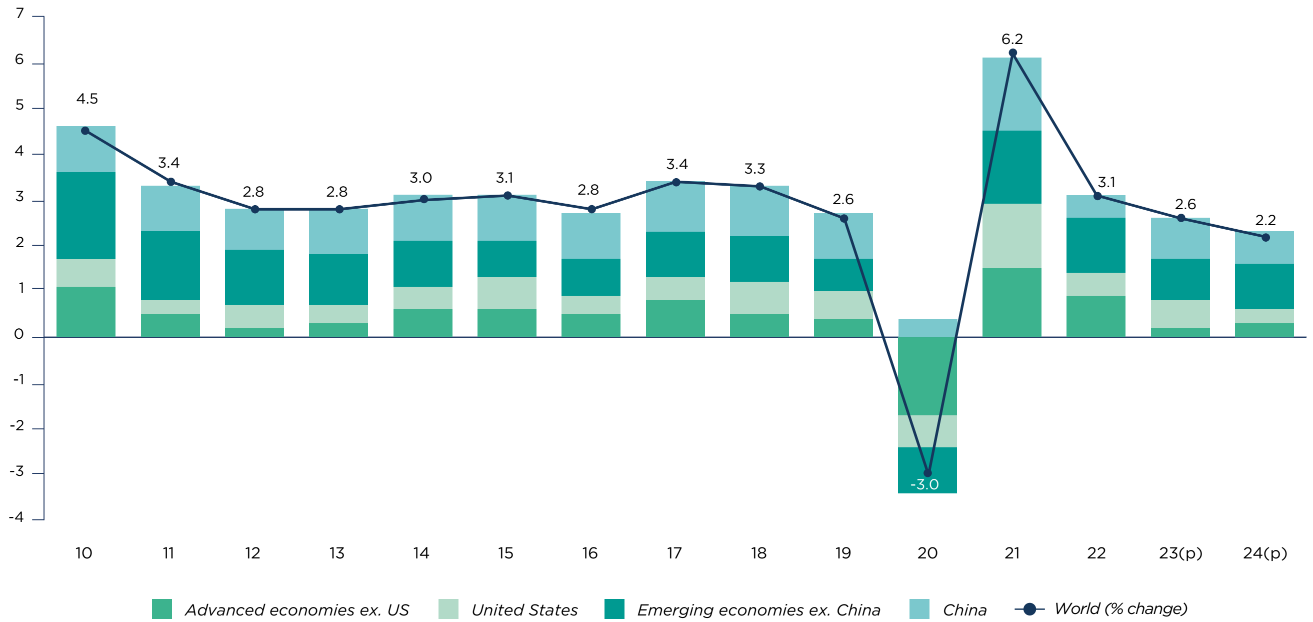
The poorest and most indebted countries will face greater difficulties. While the launch of the Fed's monetary easing cycle during the year will be welcome, interest rates will remain high throughout the year. With the dollar set to remain strong, there is every reason to fear a resurgence in sovereign defaults. This will be all the more the case given that the volume of debt reaching maturity in 2024 and 2025 has risen sharply, due to the increase in public debt over the last fifteen years, but also, more recently, to the issue of bonds with shorter maturities. Some countries are already in default or near default, such as Sri Lanka, Ghana, Ethiopia, Malawi, Pakistan, and Laos. In parallel, many countries are currently experiencing major difficulties in refinancing their debt or accessing foreign currency. On the African continent [(1)] this is particularly true of Egypt and Tunisia, which are restricting imports to limit the use of foreign currency. For its part, in a U-turn interpreted by the markets as an ominous sign, Kenya, after announcing that it would bring forward the repayment of part of the USD 2 billion in bonds maturing in 2024, has finally backtracked.

1) *Coface Focus, Debt sustainability in Africa under the spotlight again, 12 July 2023.µµµURL: https://www.coface.com/news-economy-and-insights/debt-sustainability-in-africa-under-the-spotlight-again*

In Latin America, despite the passing of a law authorising the sale of gold reserves to convert them into foreign currency in April, Bolivia's foreign currency reserves continued to plummet in 2023. While the country will face limited debt maturities in 2024, restrictions on imports are to be expected. Argentina, despite concluding an agreement with the IMF that will just about enable it to repay the latter in the coming months, is still facing one of the most precarious situations. Despite the recent 54% devaluation and drastic budget cuts, foreign exchange reserves, currently negative in net terms by USD 10 billion, should just about return to 0 by the end of the year, according to government forecasts. Thus, despite the abolition of import authorisation requirements, access to foreign currency remains staggered over time depending on the type of goods, effectively limiting imports. With inflation now over 200%, a deep recession is inevitable, for the second year running.

While the "Global South" will be the main driver of the world economy, it remains marked by profound heterogeneity.

/ CHART 2 - REAL GDP GROWTH (ANNUAL AVERAGE, %)



Sources: IMF, National Statistical Institutes, Refinitiv Datastream, Coface forecasts

3.2 SIGNIFICANT EVENTS OF 2023

3.2.1 Acquisition of North America data analytics boutique Rel8ed

On January 30, 2023, Coface announced the acquisition of North American data analytics boutique Rel8ed. The acquisition brings new, rich data sets and analytics capabilities, which will benefit Coface trade credit insurance as well as the Company's business information customers and teams.

3.2.2 Financial and non-financial rating agency

AM Best affirms Coface's main operating subsidiaries rating at A (Excellent) with a stable outlook

On May 19, 2023, the rating agency AM Best affirmed the A (Excellent) Insurer Financial Strength – IFS rating of *Compagnie française d'assurance pour le commerce extérieur (la Compagnie)*, Coface North America Insurance Company (CNAIC) and Coface Re. The outlook for these ratings remains "stable".

Moody's upgrades Coface's main operating Company to A1 IFSR, stable outlook

The rating agency Moody's, on September 28, 2023, has upgraded the financial strength rating (Insurance Financial Strength Rating – IFSR) for Coface to A1 from A2. The agency has also changed the outlook for Coface to stable from positive.

Fitch affirms Coface AA- rating, with "stable" outlook

On November 9, 2023, the rating agency Fitch affirmed Coface AA- Insurer Financial Strength (IFS) rating. The outlook remains stable.

3.2.3 Launch of ALYX, a new all-in-one credit management platform

On June 6, 2023, Coface announced the launch of a new digital trade credit risk management platform for its policyholders. Named Alyx, it allows Coface's customers to automate and centralize their credit risk management from lead to cash.

The platform was built and is proposed in partnership with CreditDevice, a Dutch software company specialized in commercial credit risk management. At first, Alyx will be proposed primarily to mid-market clients in France, Germany, Denmark, and in Norway.

3.2.4 Issuance tier 2 notes Success of its debt management exercise

On November 28, 2023, COFACE SA issued an €300,000,000 tier 2 notes bearing a fixed interest rate of 5.750 per cent., due on 28 November 2033.

3.3 COMMENTS ON THE RESULTS AS AT DECEMBER 31, 2023

3.3.1 Group performance

Coface applied IFRS 17 and IFRS 9 accounting standards from January 1, 2023. All comparisons are made with 2022 figures adjusted for the new accounting standard IFRS 17, as presented on April 27, 2023

Consolidated turnover amounted to €1,868.2 million, up 6.0% on 2022 at constant FX and perimeter. The net combined ratio stood at 64.3%, or 3.3 points above the level recorded in 2022 (67.6%). This breaks down into 2.0 points decrease in the loss ratio to 37.7% and a 1.3 point decline in the cost ratio to 26.6% in relation to 2022. The Group ended the year with net income (Group share) of €240.5 million (vs. €240.4 million in 2022) and return on equity of 13.4%.

The target solvency ratio range is between 155% and 175%. The solvency ratio is estimated at 198.54% [(1)] at December 31, 2023. Coface will propose the payment of a dividend [(2)] of €1.30 per share to shareholders, representing a payout ratio of 81%.

The changes at constant FX and perimeter, presented for comparison purposes in the tables below, take into account the integration of the following entities:

- In the third quarter of 2023: Coface Hungary Services and Coface Service Colombia;
- In the fourth quarter of 2023: Coface Services Japan and Coface Adriatics.

3.3.2 Turnover

The Group's consolidated turnover increased by 6.0% at constant FX and perimeter (+3.8% at current FX and perimeter), to €1,868.2 million at December 31, 2023, mainly due to a rebound in client activity in the insurance business.

The table below shows changes in the Group's consolidated turnover by business line as of December 31, 2022 and 2023:

Change in consolidated turnover by business line *(in millions of euros)*	AS AT DEC. 31		CHANGE		
	2023	**2022**	*(in €m)*	*(as a %)*	*as a %: at constant Fx and perimeter*
Insurance	1,795.5	1,728.6	66.9	3.9%	6.1%
*o/w Insurance revenues**	*1,559.1*	*1,515.7*	*43.4*	*2.9%*	*5.4%*
*o/w Services***	*236.5*	*213.0*	*23.5*	*11.0%*	*11.7%*
Factoring	72.7	70.4	2.3	3.2%	2.6%
CONSOLIDATED TURNOVER	**1,868.2**	**1,799.0**	**69.2**	**3.8%**	**6.0%**

** 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 wi thout credit insurance (access to information on corporate solvency and marketing information – "Information and other services", and debt collection services – "Re ceivables management").*

Insurance

Turnover from the insurance business (including surety bonds and Single Risk insurance) was up 6.1% at constant FX and perimeter (+3.9% at current FX and perimeter), at €1,795.5 million in 2023, compared with €1,728.6 million in 2022.

Gross earned premiums increased by 5.4% at constant scope and exchange rates (+2.9% at current scope and exchange rates), to €1,559.1 million in 2023, compared with €1,515.7 million in 2022.

New policy origination totalled €117 million, up by €7 million on 2022 owing to stronger demand.

The contract retention rate (ratio between the annual value of renewed policies and the value of policies to be renewed during the year) reached a record level of 93.1% over the year for the Group (compared with 92.9% at December 31, 2022). All regions contributed to this high retention rate despite a strict underwriting policy and preventive measures.

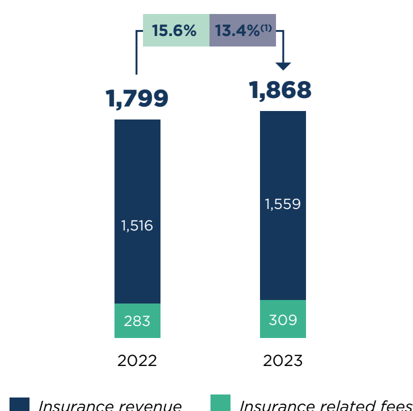
The price effect remained negative, coming in at -1.9% for FY-23 (compared to -3.0% for FY-22) and stabilised in Q4-23. This is largely due to very low past losses offset by the current normalisation environment.

Client activities continued to slow in line with the fall in inflation, at 2.3% (vs. 13.8% in 2022).

1) *This estimated solvency ratio 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.*

2) *The proposed dividend is subject to the approval of the Annual General Shareholders' Meeting of May 16, 2024.*

Turnover from the services business was up by 11.7% at constant FX and perimeter (up +11.0% at current FX and perimeter), rising from €213 million in 2022 to €236.5 million in 2023. The debt collection activity grew sharply (+42.1%) as the loss experience increased. Investments in the "information sales" business led to strong growth (+17.3% at constant FX and perimeter).



(1) At constant exchange rate

Factoring

Factoring turnover (only in Germany and Poland) increased by 2.6% at constant FX (+3.2% at current FX), from €70.4 million in 2022 to €72.7 million in 2023.

In Germany, turnover increased by 3.9%, boosted by an improvement in interest rates. In Poland, turnover was down 2.4% at constant FX due to lower volumes.

Change in turnover by region

The table below shows trends in Coface Group's consolidated turnover in its seven geographic regions for the financial years ended December 31, 2022 and 2023:

Change in consolidated turnover by invoicing region *(in millions of euros)*	**AS AT DEC. 31**		**CHANGE**			
	2023	**2022**	*(in €m)*	*(as a %)*	*as a %: at constant x*	*as a %: at constant Fx and perimeter*
Western Europe	380.1	359.6	20.4	5.7%	5.9%	5.9%
Northern Europe	379.6	373.1	6.5	1.7%	2.0%	2.0%
Mediterranean and Africa	526.3	484.7	41.6	8.6%	12.4%	12.4%
North America	171.8	168.4	3.5	2.1%	5.6%	5.6%
Central Europe	177.1	182.0	(4.9)	(2.7)%	(3.7)%	(4.5)%
Asia-Pacific	133.1	130.5	2.6	2.0%	6.3%	5.2%
Latin America	100.3	100.8	(0.5)	(0.5)%	11.9%	11.1%
CONSOLIDATED TURNOVER	**1,868.2**	**1,799.0**	**69.2**	**3.8%**	**6.2%**	**6.0%**

In Northern Europe, turnover increased +2.0% at constant FX and +1.7% at current FX. The region saw a slump in client activity but adjacent activities were on the rise. Factoring turnover rose by +3.9%.

In Western Europe, turnover increased +5.9% at constant FX (+5.7% at current FX). Client activities were resilient and information sales increased.

In Central and Eastern Europe, turnover fell -4.5% at constant FX (-2.7% at current FX) due to the decline in business in Russia. Excluding Russia, growth would be +1.3%.

In the Mediterranean and Africa region, which is driven by Italy and Spain, turnover rose +12.4% at constant FX and +8.6% at current FX on the back of strong sales performance.

In North America, turnover increased +5.6% at constant FX and +2.1% as reported, driven by the return in client activity and rising commissions.

In Latin America, turnover increased +11.1% at constant FX and fell -0.5% at current FX. The region saw a slump in client activity, mainly in commodities and metals, and the consequences of the devaluation of the Argentine peso.

In Asia-Pacific, turnover increased +5.2% at constant FX and +2.0% at current FX. The boost in revenue was driven by past sales performances, which sustained the growth of the portfolio, and high retention rates.

3.3.3 Underwriting income

Underwriting income before reinsurance

Underwriting income before reinsurance amounted to €454.0 million at December 31, 2023, up 1.5% in relation to the end of 2022 (€447.3 million).

The 0.1 point increase in the combined ratio before reinsurance to 67.3% in 2023 (67.2% in 2022) is explained by a slight increase in the loss ratio (+0.3 points), which was offset by a 0.2 point decrease in the cost ratio.

Loss experience

The Group's loss ratio before reinsurance, including claims-handling expenses, increased slightly, by 0.3 points, from 35.5% for 2022 to 35.8% in 2023. This change reflects the major loss experience in Latin America and Western Europe, which were offset by positive previous years developments in the Mediterranean & Africa, Central Europe and Northern Europe regions.

	AS AT DEC. 31		CHANGE	
(in millions of euros and as a%)	**2023**	**2022**	*(in €m)*	*(as a %)*
Claims expenses incl. claims handling costs	558.0	537.7	20.4	3.8%
Loss ratio before reinsurance	35.8%	35.5%	-	0.3 pts
Earned premiums	1,559.1	1,515.7	43.4	2.9%

In Western Europe, the loss ratio increased by 4.9 points to 38.3%, compared with 33.4% at year-end 2022. This increase reflects the claims frequency and the major loss experience in the region.

Northern Europe recorded a loss ratio of 27.7% compared with 39.2% in 2022. This change in the loss experience is explained by recoveries on previous years.

The loss ratio in the Mediterranean & Africa region decreased by 5.0 points compared to 2022 and stood at 40.1%. The loss experience improved, resulting in recoveries.

In North America, the loss ratio rose by 8.5 points to 27.5%, vs. 19% in 2022. This increase is explained by an increase in the claims frequency.

The loss ratio in Central Europe improved by 13.9 points to 24.0%, vs. 37.9% in 2022. The trend remains positive thanks to recoveries despite expectations of claims related to the conflict between Russia and Ukraine.

The Asia-Pacific loss ratio increased by 11.7 points to 19.9%. Reserve levels reflect the volatile loss experience in the region. The region's loss ratio is in line with trends in the loss experience.

Latin America's loss ratio increased by 32.1 points to 82.6% compared with 50.5% in 2022. This region is suffering from the major loss experience.

Change in loss experience by invoicing region	AS AT DEC. 31		CHANGE IN POINTS
(as a%)	**2023**	**2022**	
Western Europe	38.3%	33.4%	4.9 pts
Northern Europe	27.7%	39.2%	(11.4 pts)
Mediterranean and Africa	40.1%	45.1%	(5.0 pts)
North America	27.5%	19.0%	8.5 pts
Central Europe	24.0%	37.9%	(13.9 pts)
Asia-Pacific	19.9%	8.2%	11.7 pts
Latin America	82.6%	50.5%	32.1 pts
LOSS RATIO BEFORE REINSURANCE	**35.8%**	**35.5%**	**0.3 PT**

/ OVERHEADS

Overheads	AS AT DEC. 31		CHANGE		
(in millions of euros)	**2023**	**2022**	*(in €m)*	*(as a %)*	*as a %: at constant FX and perimeter*
Internal overheads	662.1	623.2	39.0	6.3%	8.4%
o/w claims handling expenses	*39.0*	*36.1*	*3.0*	*8.2%*	*5.7%*
o/w internal investment management expenses	*9.8*	*8.8*	*1.0*	*11.4%*	*10.7%*
Commissions	196.7	196.0	0.6	0.3%	2.6%
TOTAL OVERHEADS	**858.8**	**819.2**	**39.6**	**4.8%**	**7.0%**

Total overheads, which include claims handling expenses and internal investment management expenses, increased by 7.0% at constant FX and perimeter (4.8% at current FX and perimeter), from €819.2 million at December 31, 2022 to €858.8 million at December 31, 2023.

Policy acquisition commissions rose by 2.6% at constant FX and perimeter (0.3% at current FX and perimeter), from €196 million in 2022 to €196.7 million in 2023.

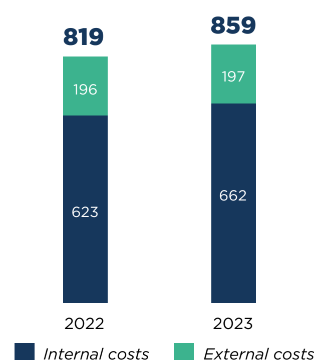
Internal overheads, which include claims handling and investment expenses, increased by 8.4% at constant FX and perimeter (6.3% at current FX and perimeter), from €623.2 million in 2022 to €662.1 million in 2023.

Payroll costs increased by 10.4% at constant FX and perimeter, from €364.8 million in 2022 to €402.7 million in 2023. This was mainly due to wage inflation and hiring in sales and operations management functions.

IT costs were up 3.5% at constant FX and perimeter, from €59.6 million in 2022 to €61.7 million in 2023.

Other expenses (taxes, information costs, rent) decreased by 0.5% at current FX and perimeter, from €198.8 million in 2022 to €197.7 million in 2023.

The cost ratio before reinsurance increased by 0.2 points, from 31.7% in 2022 to 31.5% in 2023.



Underwriting income after reinsurance

Underwriting income after reinsurance, other revenues and the cost of risk amounted to €395.4 million at December 31, 2023, up 13% in relation to the end of 2022 (€348.6 million).

The €34.4 million decrease in reinsurance costs to -€104.2 million at December 31, 2023 (-€138.6 million at December 31, 2022) can be attributed to the end of government reinsurance schemes (negative impact of €36.4 million in the first half of 2022).

	AS AT DECEMBER 31ST		CHANGE	
(in thousands of euros and %)	**2023**	**2022**	*(in €m)*	*(in %)*
Insurance Revenue	1,559,063	1,515,663	43,400	2.9%
Claims expenses	(558,644)	(540,425)	(18,219)	3.4%
Attributable costs	(546,999)	(530,692)	(16,307)	3.1%
Loss component & reversal of loss component	596	2,735	(2,140)	(78.2)%
Insurance Service Revenue, before reinsurance	**454,016**	**447,281**	**6,735**	**2%**
Income and expenses from ceded reinsurance	(104,240)	(138,640)	34,399	(25)%
Insurance Service Revenue, after reinsurance	**349,776**	**308,641**	**41,134**	**13%**
Other revenue	309,168	283,367	25,801	9%
Operating expenses	(263,003)	(243,684)	(19,320)	8%
Risk cost	(534)	308	(842)	(273)%
INCOME AFTER REINSURANCE, OTHER REVENUES AND COST OF RISK	**395,407**	**348,633**	**46,773**	**13%**
Net combined ratio	64.3%	67.6%		

3.3.4 Investment income, net of management expenses (excluding financing costs)

Trends in the financial markets

Inflation slowed in 2023, but it nevertheless remained above central bank targets. On the macroeconomic front, growth was surprisingly strong in the United States while Europe avoided the severe recession expected at the beginning of the year. Emerging economies enjoyed strong economic activity despite a disappointing recovery in China. Central banks in advanced economies continued to raise their interest rates, with the cycle widely perceived to be over at the end of the year. Meanwhile, some central banks in emerging economies were already starting to lower theirs. On the financial markets, bond yields reached new highs before falling sharply at the very end of the year, while equity markets rallied strongly. Global disinflation and the resilience of the US economy were the main catalysts for this rise.

In 2023, the US economy withstood the sharp rise in interest rates much better than expected. In the first three quarters of the year, GDP grew by 2.3% (with an acceleration in Q3). Job creations averaged more than 200,000 per month over the year, a very high figure, while the unemployment rate remained very low (3.7% in December). The abundant savings accumulated by households during the COVID crisis, companies' financing and cash reserves (which meant they were only gradually affected by higher interest rates) and fiscal measures to encourage investment explain these good figures. However, a slowdown was seen at the end of the year. Inflation fell sharply over the year: in December, the year-on-year increase in the consumer price index was 3.4% (vs. 6.5% in December 2022), while the core index stood at 3.9% (vs. 5.7%). The Federal Reserve raised interest rates four times between February and July, bringing the upper end of the target Fed Funds range to 5.5%. At the end of the year, it indicated that the pace of future rate cuts was now under discussion. Against this background, the US 10-year yield fell sharply, to stand at 3.87% at the end of the year. On the equity side, the S&P 500 gained 24.2% over the year.

In Europe, there were strong fears that economic activity would collapse due to natural gas supply difficulties at the beginning of the year. However, energy prices fell rapidly and the severe recession expected did not materialise. Nevertheless, activity failed to accelerate later in the year, mainly due to headwinds in the industrial sector and rising interest rates. As a result, eurozone GDP was virtually flat over the first three quarters of the year. Over the same period, France and Spain experienced slightly higher growth than Germany and Italy due to the composition of their economies (more services and less industry). Inflation fell sharply: in December 2023, the year-on-year increase in the general consumer price index was only 2.9% (vs. 9.2% in December 2022), while the core index stood at 3.4% (vs. 5.2%). The ECB raised its key interest rates six times from February to September, bringing its deposit rate to 4.0% (vs. 2.0% at end-December 2022). It then kept rates on hold, without committing to imminent rate cuts. The end of the year saw a sharp drop in sovereign yields and the German 10-year yield stood at around 2.0% at the end of December. On the equity markets, the Euro Stoxx 50 gained 19.2% over the year.

In 2023, annual growth in emerging economies was stable (GDP growth of around 4%). Overall, emerging countries were resilient in the face of the weak Chinese recovery (especially in Q2), higher global interest rates and geopolitical tensions. The slowdown in domestic demand and the easing of negative supply shocks led to a decline in inflation, which gradually spread from volatile sectors and goods to service prices, which are less flexible. This trend enabled emerging countries' central banks to begin to lower their key interest rates. Latin America led the way (all the major central banks except Mexico), followed by Central and Eastern Europe. On the equity markets, the MSCI Emerging Markets index ended the year higher (+7.1%) despite the poor performance of the Chinese market (-12.8%).

Financial income

In this environment of rising interest rates and economic uncertainty, Coface Group continued to reduce the risk in its portfolio in 2023 by lowering its exposure to assets the most at risk from the economic slowdown (credit, emerging markets and real estate) in favour of developed countries' sovereign bonds. Cash levels remained high throughout the year as a precautionary measure.

With regard to real assets, some real estate assets were reallocated from offices and retail to residential properties.

In 2023, the total value of the portfolio (excluding non-consolidated subsidiaries) increased by €356 million due to the reinvestment of the €300 million Coface bond (in money market mutual funds and sovereign bonds) and the rise in the infrastructure equity segment.

The listed equity portfolio was restructured into a long-term investment segment classified at fair value through other comprehensive income not reclassified to profit or loss (FV OCI NR). Bond investments will be recognised at fair value through other comprehensive income reclassified to profit or loss (FV OCI-R)

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

/ MARKET VALUE

(in millions of euros)	AT DEC. 31 2023	2022
Listed shares	75	77
Unlisted shares	6	8
Bonds	2,269	2,265
Loans, deposits and money market mutual funds	764	367
Real estate	180	220
Total investment portfolio	**3,294**	**2,937**
Non-consolidated companies	47	85
TOTAL	**3,341**	**3,022**

/ INVESTMENT PORTFOLIO INCOME

Net financial income from the investment portfolio amounted to +€12.4 million in 2023, including adjustments to the market value of assets measured at fair value through profit or loss for -€21.9 million and -€38.7 million in foreign exchange income. This amount includes -€10.9 million in expenses related to IAS 29 – hyperinflation (Coface has activities in Argentina and Turkey).

Income from the investment portfolio came to €68.3 million. Against the backdrop of inflation and high interest rates, the decline in the value of real estate assets was largely offset by capital gains and the rise in recurring income. These transactions allowed the Group to continue de-risking the investment portfolio by reducing the exposure to corporate bonds and equities in favour of developed country sovereign bonds.

(in millions of euros)	AT DEC. 31 2023
Investment income	68.3
Change in the fair value of financial instruments recognised at fair value through profit or loss	(21.9)
Net gains on disposals	18.2
Additions to and reversals of provisions for impairment	(0.1)
Foreign exchange gains and losses	(38.7)
Investment management fees	(13.4)
NET INCOME FROM INVESTMENTS	**12.4**

3.3.5 Operating income

(in millions of euros)	AS AT DEC. 31 2023	2022	CHANGE *(in €m)*	*(as a%)*	*(as a%: at constant Fx and perimeter)*
Consolidated operating income	**362.9**	**357.2**	**5.7**	**1.6%**	**(3.8)%**
Operating income including finance costs	**328.7**	**327.6**	**1.0**	**0.3%**	**(5.6)%**
Other operating income and expenses	**(5.0)**	**(9.5)**	**4.6**	**(48)%**	**(42)%**
OPERATING INCOME INCLUDING FINANCE COSTS AND EXCLUDING OTHER OPERATING INCOME AND EXPENSES	**333.6**	**337.2**	**(3.6)**	**(1.1)%**	**(6.6)%**

Consolidated operating income decreased by -3.8% at constant FX and perimeter, from €357.2 million for the year ended December 31, 2022 to €362.9 million for the year ended December 31, 2023.

Current operating income, including financing costs and excluding non-recurring items (other operating income and expenses), declined by 6.6% at constant FX and perimeter, from €337.2 million in 2022 to €333.6 million in 2023.

The net combined ratio improved by 3.3 percentage points, from 67.6% in 2022 to 64.3% in 2023, including a -2.0 points improvement in the net loss ratio and a -1.3 point decline in the cost ratio.

Other operating income and expenses amounted to -€5.0 million, comprising mainly the following:

- Expenses related to the entry of four service entities into the scope of consolidation for €2.0 million;
- Provisions for restructuring costs of €1.7 million.

Change in operating income by invoicing region *(in millions of euros)*	AS AT DEC. 31 2023	2022	CHANGE	SHARE OF ANNUAL TOTAL AT DEC. 31
Western Europe	119.2	73.1	46.1	33%
Northern Europe	90.3	72.4	17.9	25%
Mediterranean and Africa	86.7	85.1	1.6	24%
North America	14.6	23.0	(8.4)	4%
Central Europe	36.2	46.6	(10.4)	10%
Asia-Pacific	18.3	36.0	(17.7)	5%
Latin America	(2.3)	21.1	(23.4)	(1%)
TOTAL	**362.9**	**357.2**	**5.7**	**100%**

3.3.6 Net income (Group share)

Coface Group's effective tax rate rose from 26.5% in 2022 to 26.8% in 2023.

Net income (Group share) amounted to €240.5 million, stable against the year ended December 31, 2022 (€240.4 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 8 "Cash and cash equivalents" in the Company's consolidated financial statements.

(in millions of euros)	AS AT DEC. 31 2023	2022
Net cash flows generated from operating activities	290.7	455.9
Net cash flows generated from investment activities	(327.8)	(119.8)
Net cash flows generated from financing activities	17.5	(139.9)
Effect of exchange rate changes on cash and cash equivalents	(38.6)	(4.9)

(in millions of euros)	AS AT DEC. 31 2023	2022
Cash and cash equivalents at beginning of period	553.8	362.4
Cash and cash equivalents at end of period	495.6	553.8
Net change in cash and cash equivalents	(58.2)	191.3

3.4.1 Coface 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").

	AT DEC. 31	
(in millions of euros)	**2023**	**2022**
Subordinated borrowings	831.7	534.3
Sub-total financial debt	**831.7**	**534.3**
Amounts due to banking sector companies	762.9	743.2
Debt securities	1,655.7	1,794.9
SUB-TOTAL OPERATING DEBT	**2,418.6**	**2,538.1**

Financial debt

For the year ended December 31, 2023, the Group's financing liabilities, totalling €831.7 million, comprised two subordinated borrowings.

- A fixed-rate issue (4.125%) of subordinated notes carried out by COFACE SA on March 27, 2014 for a nominal amount of €380 million, maturing on March 27, 2024.

  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.

  COFACE SA redeemed €153 million of the subordinated bonds issued in 2014 at a fixed price of 103.625% on September 21, 2022.

  The nominal amount after this redemption stands at €227 million, still maturing on March 27, 2024;
- A fixed-rate issue (at 6.000%) of subordinated notes by COFACE SA on September 22, 2022, for a nominal amount of €300 million, maturing on September 22, 2032;
- A fixed-rate issue (at 5.750%) of subordinated notes by COFACE on November 28, 2023, for a nominal amount of €300 million, maturing on November 28, 2033.

The amounts raised through this issue will mainly be used to refinance the subordinated notes maturing on March 27, 2024.

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 the "Amounts due to banking sector companies" and "Debt securities" items, provides 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 set up with various banking partners of Coface Finanz and Coface Poland Factoring and the Group's local banks (see "Bilateral credit lines" below), amounted to €762.9 million for the financial year ended on December 31, 2023.

Debt securities amounted to €1,655.7 million for the financial year ended on December 31, 2023, 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 €1,015.2 million; and
- commercial paper issued by COFACE SA (see "Commercial paper programme" below) to finance the activity of Coface Finanz in the amount of €640.5 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 €1,300 million;
- A commercial paper programme for a maximum amount of €700 million; and
- Bilateral credit lines for a maximum total amount of €1,787.3 million.

In 2023, the securitisation programme was increased to €1,300 million and the senior 1-year and senior 3-year units were renewed in December. The first option to extend Coface Poland Factoring's multi-currency syndicated loan was exercised in August. This €310 million loan has an initial maturity of two years with two options for a one-year extension, at the lenders' discretion. In May, the option to extend the fifth year of the syndicated loan serving as a back-up to COFACE SA's €700 million commercial paper programme was exercised.

At December 31, 2023, Coface Group's debt linked to its factoring activities amounted to €2,419 million.

a) Securitisation programme

To refinance its factoring activities, in February 2012 the Group set up a securitisation programme for its factoring trade receivables, guaranteed by *Compagnie française d'assurance pour le commerce extérieur*. In December 2023, the securitisation programme was renewed and its maximum amount was increased to €1,300 million.

At December 31, 2023, €1,015.2 million had been used under this programme.

This securitisation programme includes a number of standard acceleration clauses 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 concerning 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* to below BBB- for the main funding line (maximum amount of €1,300 million);
- 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 a 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, 2023, the Group complied with all of these covenants.

b) Bilateral credit lines

To refinance its factoring business, the Group also set up a number of bilateral credit lines and overdraft facilities, mainly through its subsidiaries, for a total maximum amount of €1,787.3 million:

- bilateral credit lines and overdraft facilities with local banks for a maximum of €745.1 million, of which €56.6 million had been drawn in Germany and €14.5 million in Poland at December 31, 2023;
- bilateral credit lines concluded with banks:
  - six lines for a maximum total amount of €475 million for Coface Finanz (with maturities ranging between one and three years), of which €241.3 million had been drawn down as of December 31, 2023,
  - five lines (including a syndicated loan) for a maximum total amount of €667.2 million for Coface Poland Factoring (with maturities ranging between one and three years), of which €463.8 million had been drawn down as of December 31, 2023.

c) Commercial paper programme

The Group has a €700 million commercial paper issuance programme under which the Company regularly issues securities with due dates ranging generally between one and six months. At December 31, 2023, securities issued under the commercial paper programme totalled €640.5 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 covering the maximum amount of the commercial paper issue programme (€700 million since August 2021). 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. This syndicated loan was renewed in August 2021 for three years with two possibilities for an extension of one year each, which were exercised in 2022 and 2023.

3.4.2 Solvency of the Coface Group [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, 2023, 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, 2023, the estimated capital required for the two Group businesses amounted to €1,302 million, compared with €1,199 million at the end of 2022.

At December 31, 2023, the required capital for the factoring business was estimated at €239 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 €2,586 million as of December 31, 2023.

At this date, the solvency ratio (ratio between the Group's available capital and its capital requirement for insurance and factoring) was estimated at 199% [2], compared to 201% at the end of 2022.

The table below presents the items for calculating the Group's capital requirement:

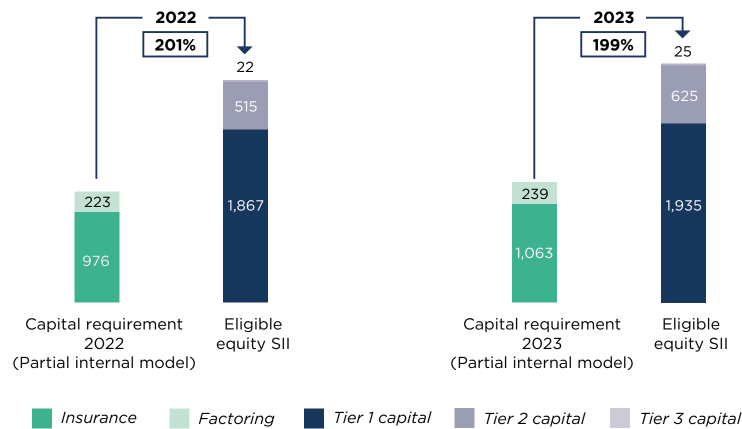
(in millions of euros)	AT DEC. 31, 2023	AT DEC. 31, 2022
Total equity	2,053	1,962
- Goodwill and other intangible assets (net of deferred taxes)	(218)	(217)
+ Revaluation of provisions using the best estimate method (net of deferred tax assets)	428	424
+/- Other adjustments	(111)	(53)
- Dividend payments	(192)	(226)
+ Subordinated debt (valued at market value)	626 [3]	515
= Solvency II available own funds (A)	**2,586**	**2,404**
Capital requirement - Insurance (B)	1,063	976
Capital requirement - Factoring [4] (C)	239	223
Capital requirement (D) = (B)+(C)	1,302	1,199
SOLVENCY RATIO (E) = (A)/(D)	**199%**	**201%**

1) *The estimated solvency ratio is not audited.*

2) *This estimated solvency ratio 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.*

3) *Amount after capping of subordinated debt not available pursuant to Article 82 of Delegated Regulation no. 2015/35.*

4) *Banking activity*



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 average 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 2022-2023 period:

(in millions of euros)	AT DEC. 31	
	2023	**2022**
Accounting equity (Group share) – A	2,051	2,019
Intangible assets – B	240	239
Equity, net of intangible assets – C (A - B)	1,811	1,780
Average equity, net of intangible assets – D ([Cn+Cn-1]/2)	1,795	1,890
Net income (Group share) – E	240.5	240.4
ROATE – E/D	**13.4%**	**12.7%**

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 2022-2023 period:

	DEC. 31, 2023		
(in thousands of euros)	TOTAL	RELATED TO FINANCING	RELATED TO ACTIVITY
Commitments given	**1,416,648**	**1,387,348**	**29,300**
Endorsements and letters of credit	1,387,348	1,387,348	0
Property guarantees	3,500	0	3,500
Financial commitments in respect of equity interests	25,800	0	25,800
Commitments received	**2,225,153**	**1,535,317**	**689,836**
Endorsements and letters of credit	143,308,	0	143,308
Guarantees	546,527	0	546,527
Credit lines linked to commercial paper	700,000	700,000	0
Credit lines linked to factoring	835,317	835,317	0
Financial commitments in respect of equity interests			
Guarantees received	**430,681**	**0.01**	**430,681**
Securities lodged as collateral by reinsurers	430,681	0.10	430,681
Financial market transactions	88,061	0.10	88,061

	DEC. 31, 2022		
(in thousands of euros)	TOTAL	RELATED TO FINANCING	RELATED TO ACTIVITY
Commitments given	**1,447,127**	**1,360,427**	**86,700**
Endorsements and letters of credit	1,360,427	1,360,427	0
Property guarantees	3,500	0	3,500
Financial commitments in respect of equity interests	83,200	0	83,200
Commitments received	**1,890,984**	**1,295,563**	**595,421**
Endorsements and letters of credit	146,290	0	146,290
Guarantees	449,131	0	449,131
Credit lines linked to commercial paper	700,000	700,000	0
Credit lines linked to factoring	595,563	595,563	0
Financial commitments in respect of equity interests	0	0	0
Guarantees received	**320,478**	**-**	**320,478**
Securities lodged as collateral by reinsurers	320,478	-	320,478
Financial market transactions	**105,965**	**-**	**105,965**

Endorsements and letters of credit totalling €1,387,348 thousand for the financial year ended December 31, 2023 correspond mainly to:

- A joint surety bond for investors in COFACE SA's subordinated bonds for €226,600 thousand, maturing on March 27, 2024. Following the redemption of subordinated bonds on September 21, 2022 for €153,400 thousand, the initial joint surety bond of €380,000 thousand was adjusted by an amendment.

  The two subordinated notes issued on September 22, 2022, for an amount of €300,000 thousand, and on November 28, 2023, also for €300,000 thousand, were not the subject of a joint surety bond;
- Various joint surety bonds totalling €1,054,000 thousand given by the Group, in particular to banks financing the factoring business.

Collateral concerns Coface Re for €412,501 thousand and *Compagnie française pour le commerce extérieur* for €42,595 thousand.

The syndicated loan for a maximum amount of €700 million for the financial year ended December 31, 2023 includes coverage of the Group's commercial paper issuance programme for €700 million (see Section 1.4.1 "Group debt and sources of financing").

3.5 POST-CLOSING EVENTS AT DECEMBER 31, 2023

None

3.6 OUTLOOK FOR THE GROUP

The most pessimistic scenarios for 2023 did not materialise. While the Chinese economy continued to disappoint, the United States continued to surprise on the upside. The economic impact of higher interest rates was delayed in an environment of full employment and still strong corporate balance sheets.

The most notable point of the year was the generalised decline in inflation through the second half of the year due to proactive coordinated actions of central banks and the fall of energy prices despite an increasingly tense geopolitical environment.

For 2024, Coface anticipates a drawn-out soft landing for the global economy, with growth expected at +2.2% after +2.6% in 2023. Downside risks are real, in particular due to the unprecedented number of political elections in the world, culminating with the US presidential election at the end of the year.

As expected, business failures continued to rise, sometimes above pre-pandemic levels. However, the many preventive measures taken by Coface so far avoided a spike in recorded claims. While the number of claims has not yet reached 2019 levels, the total claims amount is now equivalent.

In 2023, Coface's IFRS 17 results were stable against the previous year, once again demonstrating Coface's resilience in a challenging environment. This year marks the end of the Build to Lead strategic plan, with all its objectives having been met or exceeded. Coface will present its new strategic plan Power the Core (2024 - 2027), which will build on the success of the Build to Lead plan, on 5 March 2024.

3.7 APPENDIX - 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 bonding, 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 ensure their 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 reported but not yet settled at financial year end, as well as for claims that have not yet been reported, 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 reversals made following the payment of compensation or the estimate of potential losses for reported 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, which are essentially fixed costs related to payroll expenses for contract acquisition and the costs of the Group's sales network;
- "Administration costs" (including Group operating costs, payroll costs, IT costs, etc., excluding employee 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 financing 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 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 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 provisions for claims net of recourse 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 the Group's reinsurance treaties, 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 financing 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.

Operating income

"Current operating income (loss)" corresponds to the sum of "Underwriting income after reinsurance", "Net investment income excluding financing 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 expense

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 "Financing 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 retention rate corresponds to the ratio between the annual value of the policies actually renewed and that of the policies that were due 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 policies, calculated based on the tariffs 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 policyholders' actual revenue).

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, 2023

EARNED PREMIUMS *(In €k)*	FY-2023	FY-2022
Insurance revenue [A]	**1,559,063**	**1,515,663**
Ceded premiums	(424,015)	(408,812)
NET EARNED PREMIUMS [D]	**1,135,048**	**1,106,850**

CLAIMS EXPENSES *(In €k)*	FY-2023	FY-2022
Claims expenses [B]	**(558,048)**	**(537,689)**
Loss component	596	2,735
Ceded claims	130,559	99,313
Ceded loss component	(275)	(608)
NET CLAIMS EXPENSES [E]	**(427,764)**	**(438,985)**

TECHNICAL EXPENSES *(In €k)*	FY-2023	FY-2022
Operating expenses	**(810,002)**	**(774,376)**
Employee profit sharing sharing and incentive plans	9,193	10,120
Other revenue	309,168	283,367
Operating expenses, net of revenues from other services before reinsurance [C]	**(491,641)**	**(480,888)**
Commissions received from reinsurers	189,490	171,469
OPERATING EXPENSES, NET OF REVENUES FROM OTHER SERVICES AFTER REINSURANCE [F]	**(302,151)**	**(309,420)**

Gross combined ratio = gross loss ratio $\frac{B}{A}$ **+ gross cost ratio** $\frac{C}{A}$

Net combined ratio = net loss ratio $\frac{E}{D}$ **+ net cost ratio** $\frac{F}{D}$

RATIOS	FY-2023	FY-2022
Loss ratio before reinsurance	35.8%	35.5%
Loss ratio after reinsurance	**37.7%**	**39.7%**
Cost ratio before reinsurance	31.5%	31.7%
Cost ratio after reinsurance	**26.6%**	**28.0%**
Combined ratio before reinsurance	67.3%	67.2%
Combined ratio after reinsurance	**64.3%**	**67.6%**

3.7.4. Alternative Performance Measures (APM)

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	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
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	**i.** Historic method used by Coface to calculate pro forma %.	**i.** (Current turnover N - FX Impact N-1)/(Current turnover N-1 + Perimeter impact N) -1	**i. +6.0%** = (1,868.2 – (- 42.3))/(1,799.0 + 3.2 scope impact) - 1	**i. N/A**
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.	**ii.** Item considered as extraordinary, i.e. which will only occur in the current financial year (year N).	**ii.** Current turnover N +/- Restatements/Additions of extraordinary items N	**ii.** 1,868.2 +/- 0.0	**ii.** 1,799.0 +/- 0.0
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.	Fee and commission income/ Earned premiums – Like-for-like	**Current: 11.0%** = 171.4/1559.1 **Like-for-like: 10.9%** = 173.4/1,596.9	**Current: 10.5%** = 158.6/1,515.7 **Like-for-like: 10.5%** = 159.4/1,515.7
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.	Current internal overheads +/- Restatements +/- Additions of extraordinary items	**€662.1m** = 662.1 +/- 0.0	**€623.2m** = 623.2 +/- 0.0

b) Alternative performance measures related to operating income:

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
Operating income excluding restated extraordinary items (including financing 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.	Operating income +/- Financing expenses +/- Addition of extraordinary items	**€333.6m** = 362.9 + (-34.3) – (-5.0 Non-recurring items)	**€337.2m** = 357.2 + (-29.6) – (-9.5 Non-recurring items)

c) Alternative performance measures related to net income:

DEFINITION	DEFINITION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
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.	Current operating income +/- Restatements +/- Additions of extraordinary items net of tax	Not applicable for this reporting date	Not applicable for this reporting date

d) Alternative performance measures related to the combined ratio:

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
Loss ratio gross of reinsurance (loss ratio before reinsurance) and gross loss ratio with claims handling expenses refer to the same indicator				
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.	- Claims expenses/Gross earned premiums	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31
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.	- (Claims expenses + Ceded claims + Change in provisions for claims net of recourse)/(Gross earned premiums + Expenses from ceded reinsurance)	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M	
			2023	2022
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.	- (Operating expenses - Employee profit sharing - Other income)/Gross earned premiums	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31
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.	- (Operating expenses - Employee profit sharing - Other income - Commissions received from reinsurers)/(Gross earned premiums + Expenses from ceded reinsurance)	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31
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.	Loss ratio (before/after reinsurance) + Cost ratio (before/after reinsurance)	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31	See 4.3 Appendix - Breakdown of the calculation of ratios at December 31
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.	Combined ratio after reinsurance +/- Restatements +/- Additions of extraordinary items	Not applicable for this reporting date	Not applicable for this reporting date
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.	Loss ratio after reinsurance +/- Restatements/Additions of extraordinary items	Not applicable for this reporting date	Not applicable for this reporting date
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.	Cost ratio after reinsurance +/- Restatements/Additions of extraordinary items	Not applicable for this reporting date	Not applicable for this reporting date
Current year gross loss ratio - before reinsurance excluding claims handling expenses [D]				
Ultimate claims expense (after recourse) 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.	Claims for the current year/ Earned premiums for the current year see ultimate loss ratios development triangle	**80.4%**	**77.3%**

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
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.	[E] = [F-D]	**-47.1%** = 33.3% - 80.4%	**-44.2%** = 33.1% - 77.3%
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.	- (Claims paid after recourse including change in claims reserves + change in provision for onerous contracts)/Earned premiums	**33.3%** = - (-519.6 + 0.6)/1,559.1	**33.1%** = - (-504.3 + 2.7)/1,515.7

** 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.*

e) Alternative performance measures related to equity:

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
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 RoATE is used to measure the return on the Coface Group's invested capital.	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]	**13.4%** = 240.5/[(1,811 + 1,780)/2]	**12.7%** = 240.4/[(1,780 + 2,000)/2]
RoATE excluding non-recurring extraordinary items				
The calculation of RoATE (see definition of RoATE above) is based on net income excluding extraordinary items and average tangible equity (see RoATE definition above) excluding extraordinary items. For this calculation, interest or commissions linked to capital management instruments (such as hybrid debt, contingent capital) are not considered as extraordinary items.	RoATE excluding extraordinary items is used to monitor the Group's profitability between two reporting periods.	Net income (Group share) for year N excluding extraordinary items/[(Equity (Group share) excluding extraordinary items N-1, restated for intangible assets N-1 + Equity (Group share) excluding extraordinary items N restated for intangible assets N)/2]	Not applicable for this reporting date	Not applicable for this reporting date

f) Alternative performance measures related to the investment portfolio:

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
Accounting rate of return of financial assets				
Investment income after income from equity and interest rate derivatives and before income from equity securities, currencies and currency derivatives and financial expenses divided by the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the accounting performance of the financial assets portfolio.	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)	**2.0%** = 61.2/(((3,341 - 47) + (3,022 - 85))/2)	**2.1%** = 62.3/(((3,022 - 85) + (3,220 - 152))/2)
Accounting rate of return of financial assets excluding income from disposals				
Investment income before net gains on disposals, impairment and reversals, income from equity and interest rate derivatives, equity securities, currencies, currency derivatives and financial expenses, divided by the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the recurring accounting performance of the financial assets portfolio.	Investment portfolio income excluding net gains on disposals/((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)	**2.1%** = (61.2 --3.7)/(((3,341 - 47) + (3,022 - 85))/2)	**1.5%** = (62.3 - 17.7)/(((3,022 - 85) + (3,220 - 152))/2)
Economic rate of return of financial assets				
Economic performance of the asset portfolio. This measures the change in revaluation reserves for the year over the balance sheet total of financial assets plus the accounting rate of return.	Indicator used to monitor the economic performance of the financial assets portfolio.	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)	**4.0%** = (61.2 + -98.2 - -159.8)/ (((3,341 - 47) + (3,022 - 85))/2)	**-6.5%** = (62.3 + -151.5 -106.0)/ (((3,022 - 85) + (3,220 - 152))/2)
Investment portfolio income				
Investment portfolio income (shares/fixed income instruments and real estate).	Used to monitor income from the investment portfolio only.	Income from shares excluding equity securities + income from fixed income instruments + real estate income + income from equity and interest rate derivatives	**€61.2m** = 3.7 + 81.6 + -24.7 + 0.7	**€62.3m** = 34.6 + -6.4 + 25.1 + 9.1
Other				
Foreign exchange income, income from equity securities and investment fees	Used to monitor income from equity securities, foreign exchange income and fees relating to investments	Foreign exchange income + income from equity securities + investment fees	**-€48.8m** = -38.7 + 3.3 + -13.4	**-€22.1m** = -15.8 + 2.7 + -9.0

g) Alternative performance measures linked to reinsurance:

DEFINITION	EXPLANATION	RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON - €M 2023	2022
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 written.	Indicator used to monitor changes in reinsurance income.	- (Ceded premiums (including change in premiums provisions)/ Earned premiums)	**27.2%** = -(-424.0/1,559.1)	**27.0%** = -(-408.8/1,515.7)
Ceded claims/Total claims (rate of ceded claims)				
Weight of ceded claims compared with total claims. Ceded claims correspond to the share of claims that Coface cedes to its reinsurers under reinsurance treaties signed with them.	Indicator used to monitor changes in reinsurance income.	- Ceded claims (including change in provisions for claims net of recourse + change in provision for onerous contracts)/Total claims (including claims handling expenses)	**23.3%** = -(130.6-0.3)/ [(-519.6+0.6) + (-39.0)]	**18.4%** = -(99.3-0.6)/ [(-504.3+2.7) + (-36.1)]
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 5 “Operating building and other tangible assets” of the Group’s consolidated financial statements.