Please note that the conference call was accompanied by a complementary presentation in PDF format available on the Group's website: http://www.coface.com/Investors, under the "Financial results and reports" section.

H1-2023 results

Conference Call Transcription

Paris, 10 August 2023

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's H1-2023 results. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO and Phalla Gervais, CFO.

Xavier DURAND, CEO

Thank you and welcome to all the people who've joined us today. It's a bit of an odd call in the middle of the summer. We appreciate your flexibility. We're delighted to present our first half 2023 results. You can see from the headline that the company continues to perform well. Net profit in the first half of €128.8m, solvency at 192%. When you go through the different items of the P&L, I think you see continued performance with the turnover up 11.1% all things equal, including 11.2% for TCI, which continues to be driven by client activity. These are largely the same trends you've seen in the prior quarters. Our client retention is still at a historic record for the business. Pricing is down as in the first quarter but it's obviously recovering from last year. We continue to see good momentum in our business information line of business, which is up almost 15% for the first half. Factoring is up 5%. You'll notice a slowdown there. It was double digits in the first quarter and clearly slowed down significantly in the second quarter. I think it reflects a clear slowdown in the economy in Germany and in Poland. Factoring is typically the line of business for us which is impacted soonest. So, it's an indication of a slowdown in the European economy. The net loss ratio for the first half stands at 40.3%, up almost four points from last year, which included the last part of the government pay-outs. That brings our net combined ratio to 65.5%, which is a very strong level, up two points from first half 2022. The gross loss ratio is slightly below 40%, up 7% from last year in a risk environment which is continuing to normalise. The net cost ratio stands at 25.2%, a very low level that reflects both our cost controls and high reinsurance commissions. It's also interesting to note that we have continued and we're continuing to invest in our business transformation and our growth, with good performance there as well.

That brings the annualised RoATE to 14.3%. As I said, the solvency at 192% is above our long-term target range of 155% to 175%. So, the company is strong. Also, we're reporting all those numbers now under the new accounting rules IFRS 17 and IFRS 9.

Going to the next page, we've added a page here on the environment because I think it's interesting for everybody to follow where we stand in the cycle. On the top left, you can see client activity for the last five years. There was clearly a dip during Covid in 2020 and a strong recovery buoyed by inflation in 2021 and 2022. Clearly in this first half of 2023, we're seeing slower client activity. There's a very significant slowdown here going on with client activity at 2.8%. You can see in the bottom left chart the change in corporate insolvencies, where the dark blue line represents the change versus last year. You can see that insolvencies are up in most countries. The UK is up 7%, France up 43%, Germany up 20% and the US up 33%. One exception is Italy at -5%. The green line shows where we stand versus the more normal pre-Covid period in 2019, and you can see insolvencies are already well up in the UK, back to 2019 levels in France, and still below in Germany, the US and Italy. But clearly the normalisation we've been talking about for the last two years is happening. It's continuing to happen. In that context, we're managing risk carefully. Our exposure growth is 3% in the first half of this year to €690bn. That compares to growth of about 13% last year. We've increased our prevention actions in close coordination with our clients, and you can see that versus 2019 which we consider to be a reference normal year, we're up 27% year-to-date and 66% in June. Our client activity is back to 2019 levels. Commodities, metals and energy are clearly offsetting continued price increases in the agro-food sector, and then I've already spoken about insolvencies. The bottom right chart just reflects what I've been talking about in terms of number of actions. So clearly there is a slowdown in the economy. Insolvencies are rising and we're managing the situation very carefully. That's the mission that we set for ourselves.

Page 6 on CSR is another important topic for Coface. We've been investing in the sector for a number of years now. I'll just go through the key changes here which are highlighted in dark green. On the responsible insurer side, we're continuing to expand our commercial exclusion policy. So far, we weren't covering sale, transport or dealings of thermal coal and oil. We've just added new exclusions which pertain to drilling, extraction and equipment, in relation to fossil energy, the sale of jet fuel and financing of these activities. So we're continuing to expand our exclusions to areas which we think are the most carbon intensive and most damaging to the environment. For the second year, we performed a climate stress scenario in our stress case for the regulators. We're continuing our work to decrease the emissions of our investment portfolio and we formally joined the NZAOA, which is the Net-Zero Asset Owner Alliance, together with about another 80 asset owners. This is different from the NZIA, the Net-Zero Insurance Alliance, which had multiple defections. We've set a goal of reducing the emissions of our portfolio by 30% in 2025 versus 2020. In terms of the way this is calculated – we outsource this to a third party named Amundi – there continues to be methodology changes that need accounting for, but there's nothing that leads us to believe that we're not going to reach that goal. I think we're well on track to do that and committed to those goals.

In terms of employees, we continue to survey very closely the morale of our employees and, for the first time, we're now above the benchmark of the industry for our employee Net Promoter Score. This is an area where Coface had been actually lagging the industry for a long time, so it shows that we continue to make progress and get more engagement from our employee base. We continue to drive our initiative to promote ESG projects in the area of single risk and that's going very well. We're well above our target in that area. In terms of fighting carbon, you can see in the responsible enterprise part that we are putting in place a series of measurements to reduce our consumption of carbon. We did a full assessment of our carbon consumption last year and we're now trying to reduce that footprint. This mainly comprises the buildings that we use, the transportation that we use, and the technology and IT consumption that we have as a business. And so we're putting in place the KPIs that are allowing us to really keep track of where we are, and I think we're making significant progress. In terms of communications and infrastructure, this is all based on a now well ingrained infrastructure. We have trained people. We have champions in every part of the world to follow these initiatives and align the whole company. As you know the regulations around the space are quickly getting more and more complex, and we're gearing up to be able to report based on the different sets of regulations being put in place. So that's where we are on CSR. We're absolutely committed to continuing to drive that part of the business.

On page 8, I'm going to go through the usual pages that you're now very familiar with. You see the growth components – 11.1% total, 11.2% for trade credit insurance, other revenues up 10.4%. I already mentioned the 15% for business information. In third party debt collection, we're doing more in that space now that we have launched a single global collection system. We're seeing 35% growth on the back of a renewed initiative in that area, and also a market which is more favourable. Factoring is up 5%, which I've already talked about. The good news here is on the insurance fees which are recovering with 11.3% growth in the first half at constant FX and that's really helping in terms of cost ratio.

When you go to page 9, you can look at the geography and the growth by region. It's a continuation of the story we had in the first quarter. Western Europe is up but there's an element of one off here so we're around 9%-10% growth without that one off in Western Europe. Northern Europe, which is Germany, is up 7%, Central Europe is up zero but if you take out the runoff that we're doing in Russia, we would be closer to 6%. Mediterranean and Africa continues to see good growth at 15% and North America at 7%. Asia Pacific is recovering from a lull we had in Q1, which was mainly tied to lower sales in the ICT technology sector. Latin America remains strong, driven by soft commodities and good client retention.

On the next page, the other way to look at our growth is the different components. I've already spoken about volume effect on the bottom, which is much lower than last year and getting back to the kind of numbers we were used to seeing in the past. I already mentioned a significant slowdown in some parts of the world. The price effect is better than last year but still negative. I think we're seeing better momentum on that front. The retention rate is at a record 94.4% so we're continuing to perform for our clients. We have great NPS scores and we're very focused on that. And finally, new production is rebounding from last year, so it's very consistent with the strategy we laid out to make sure we control risks when things are too good to be true, and remain ready to write business when the markets are a little bit more favourable.

If you go to the next page, on the loss ratio you see that it was another good quarter at 38.1% loss ratio before reinsurance and including claims handling expenses. As I've said now for the last two years, normalisation is slow, but it is happening. The number of claims has been increasing since the middle of 2021 so we're now two years into this. It's very near pre-Covid level. The large losses are increasing but they're still below the cycle average. Reserve releases you can see on the bottom right-hand side remain at a high level because we're coming out of a couple of years of very good performance. That's the 36.3% that you see in the more intense blue line which compares to the prior years which were exceptional but are still higher than what we would get in a normal year. And then you see that we've opened the new year at 73.4% under IFRS 17 rules. That would compare just for reference to about 77.5% in the IFRS 4 world that we used to know, within the range of what we would have done under IFRS 4, so we're still reserving at a pretty significant level.

On the next page, we see the annual losses in the first half of 2023. I'd rather comment the next page which is the quarterly results because I think it's more telling at this point in the year. On the bottom, you have the four largest and more stable markets. You can see that there's really not that much to report here. Western Europe's losses continue to be very good at around 35%, Northern Europe at 29%, Central Europe at 33%, and Mediterranean and Africa at 46%. Not much movement here and continued strong performance. On the three smaller but more volatile markets historically – North America, Latin America and Asia – there's not much to report again on North America or Asia Pacific. There was a drop in Latin America following the big loss that we had at the end of last year in Brazil. Things are normalising but this is an area of the world where we see more losses and where we are actively working, so that's the story on risk.

Page 14 talks about costs and there again we're continuing our strategy to make steady productivity gains and at the same time continue to invest in our business. You see the costs are up 10.2%. That compares to the 11.2% growth that we've had in the business so we're still getting operating leverage. At the same time internal costs are up 10.4%, but within that you have 2.4% that are the costs of building the business information line, so without this we're closer to 8% compared to 11.2% growth in premiums. And then it's noteworthy to say that the cost ratios have improved by about a half point through the increased fee revenues that we've been enjoying through the beginning of the year. So that brings us to a 25% net cost ratio for the first half of 2023, which is a record for Coface and maybe for this industry. With that I'm going to pass it over to Phalla to take us through the next few pages.

Phalla GERVAIS, Group CFO and Risk Director

Thanks Xavier, so we are on page 15 on the reinsurance results. I will start with the premium cession rate at 27.1%, comparable to the first half of last year. We're moving back towards the pre-Covid premium cession rate. The claims cession rate has risen from 17.2% to 25.4%, however, in the first half of last year we drew the line under the reserve releases related to the public schemes so this explains the 17.2%. This year we're moving back towards the pre-Covid situation, although you may remember that the first half is slightly impacted by the excess loss on the very large claim that we had in Latin America. We are still benefiting from the higher reinsurance commissions and, as a result, our reinsurance result rose from -€83.2m last year to -€47.4m this year.

If we go to the next page, the net combined ratio stands at 65.5%. Again, I'd like to compare apples to apples, so if we look at the first half of 2022 without the public schemes, we were at 57.2% with a net cost ratio moving from 26.5% to 25.2%. As Xavier mentioned, this shows really very good cost discipline and high reinsurance commissions within an inflationary environment. The net cost ratio is very low. The net loss ratio on the other hand rose from 30.7% to 40.3% on a comparable basis, which really reflects the loss normalisation environment that we're going through.

Moving to the financial portfolio, I will start with the chart on the top left-hand side. The mark-to-market of our investment portfolio stands at €2.88bn. The asset allocation has not changed much for a couple of months now with the majority of our investments in bonds at 77%, a very small portion invested in equity at 3%, investments in real estate funds at 7%, and the remainder of the asset allocation is in liquid assets. In terms of key highlights, firstly the fact that the recurring income from our investment portfolio stands at almost €32m for the first half of the year, with the new money invested at 3.4%. Clearly, we are benefiting from the higher interest rate environment. The fair value to P&L line accounts for both realised and unrealised gains and losses. As already discussed in the first quarter, we booked a negative mark-to-market on our real estate investments. We booked -€12m in Q1 and an additional -€4m in Q2. The FX line also reflects the fact that we have to account for or apply IAS 29 related to the hyperinflation in Argentina and Turkey and this is accounted for -€6.4m. Another thing I want to highlight is the new Insurance Finance Expenses line introduced by IFRS 17. We discussed that a bit earlier on the gross loss ratio where you have the discount effect. With the discount effect that used to be under IFRS 4, the result was undiscounted and booked as a technical result. Now we have to isolate the discount effect in financial income and expenses in this specific IFE line.

This leads us to a strong half year net income of almost €129m, of which almost €68m was generated in the second quarter. Compared to last year's pro forma figures, net profit is down 4.4%, however, last year we didn't book anything related to hyperinflation.

If we move to page 19 which is the return on average tangible equity. IFRS equity at the beginning of the year was €2.018bn. We paid €227m in dividends in May. We accounted for the net income for the period, and then the €16.6m is the unrealised gain that we have on our investment portfolio, mainly bonds and equities. This leads to IFRS equity at the end of the period of €1.9bn, and the return on average tangible equity rose from 12.7% to 14.3%.

Let's move now to capital management on page 21. We have a very strong balance sheet. Total assets, total liabilities standing at €7.7bn. We discussed the insurance investments at €2.9bn, factoring assets at €3.1bn totally backed by factoring refinancing. We had no change in the hybrid debt and of course the net shareholders' equity that we discussed at €1.9bn. In terms of our financial strength, in May AM Best affirmed our Excellent A rating with a stable outlook. Book value per share is at €12.9 and tangible book value per share at €11.3. I think with the stock trading today at €13.4, we're above the book value per share so the market is giving us some credit.

Moving to the solvency page, page 22, the solvency ratio dropped from 201% at the end of last year to 192%. The 192% for the first half of 2023 should also be compared to the 192% in H1-22. You can see that the decrease is really coming from the SCR, so the capital consumption coming from our insurance and factoring businesses. We're basically financing our organic growth, and 192% is still comfortably above the upper range of our comfort zone. On the right-hand side, again we still have these two stress tests that you're used to seeing. The first one at the top is the stress test related to financial market shocks, in terms of interest rate spread and equity markets. You can see that applying all the shocks we'll still be way above the upper range of our comfort zone and this is mainly because we have de-risked our portfolio over the past 18 months. On the bottom right, you also have the crisis scenario shocks, the 1/20 events and 1/50 events. Again, 1/50 is the 2008 crisis with a combined ratio above 100%. Here we will be either above the upper range of our comfort zone or in the middle range of our comfort zone.

If we move to the next page, it just shows you the breakdown of the capital requirements between insurance and factoring so capital requirements stand at €1.278bn, compared to eligible own funds of €2.451bn. This gives us our solvency ratio of 192%. With this, Xavier, I'll give the floor back to you.

Xavier DURAND, CEO

OK just to conclude, another strong quarter. Very good results in line with the prior years in an environment that is changing. We're seeing double-digit growth in both the business information and the trade credit insurance lines. The combined ratio under IFRS 17 is at 65.5%. By all standards that's outstanding. Annual return on equity we've mentioned is 14.5%. The credit cycle is turning. After a very unusual inflationary outbreak, we're seeing lower economic growth and lower inflation which are driving lower client activity. The central banks around the world are dead set on taming inflation. It takes about a year for monetary policy to start affecting the real world. I think we're starting to see that but there's more to come so corporates are facing less availability of financing and they're facing higher payments and costs. We know the regulators are obviously watchful about not going too far, but I think it'll take a little bit more pain before they start easing off. In this context, we are continuing to consistently deploy our strategy. We're actively managing our risk in the areas, sectors and countries where it is less favourable. We're continuing to invest, building our services and investing to grow some of the new platforms that we've spoken about. We're really focusing on the clients. Our eNPS score and our NPS score with clients are both at a record level. And then we are making progress on our agenda for CSR, which is becoming more and more important for the business, so all on track. We're also happy to announce that we will present the new plan because we're coming to the end of Build to Lead and that's going to be March 5, 2024. So, we're still a while away but obviously working on it and we're excited about presenting the continuation of the Coface story for the next four years. With that I think that's all we have for you today and we are ready to take any questions.

Q & A session

Hadley COHEN (Deutsche Bank) Another great quarter. A couple of questions on solvency and a couple of questions on the investment income please. Firstly on solvency, it's 192%. Am I right in thinking that we should think of that more like 182% given the expected debt maturity later in the year or am I missing something there? And then on the sensitivities, even though your overall insured exposures have been going up over the last few years, your sensitivity to credit market shocks has been coming down, but it looks like the sensitivities have increased relative to the previous ones, particularly the one in 50 years. I'm just wondering if you can give some detail around that please. Then on the investment side, I think the regular income in the second quarter was around about €17m. Just wondering, is there anything funny in that or is it reasonable to assume that we can annualise that number in terms of thinking about the investment income outlook? Obviously, we might have to make some adjustments for hyperinflation and the like but all else equal can we annualise the €17m number? And any guidance you can give around the IFE and how we think about the outlook for that. Maybe what the underlying level was in the second quarter and any sensitivity to market movements or how we can think about that. Thanks very much.

Xavier DURAND (CEO, Coface) So, I will leave the second question to Phalla but I'll try to provide some clarity on the solvency. We're at 192%. You're right to say that that includes excess debt that we had taken on when we got the opportunity, and we were happy we did it. We do intend to refinance the debt that's coming due at the beginning of next year if the market lets us do it. We're also happy we took that debt so far because whatever happens we'll be in a good position. On the sensitivities, I think on solvency there are two things that are happening here. One is pro-cyclicality of the calculations, and the second one is some seasonality. So, the pro-cyclicality means that when you're stressing something that is very low, the stress is proportionate and so you get less sensitivity than when you're starting from the higher point. The seasonality is that when you do it at the end of the year, you pretty much know what the renewals look like. When you do it in the middle of the year, you have to make a series of assumptions for what's going to happen next year and we tend to be a little bit conservative on those assumptions. We never know, so it's just modelling here, so I hope that explains the solvency piece.

Phalla GERVAIS (CFO and Risk Director, Coface) So on the investment questions, you're right that in the second quarter we had recurring income of €17m. I think this is probably the slow pace of our recurring income increase taking into account of course that the interest rate environment is increasing, so there's nothing unusual or one off in the €17m. And I think that is paying off in terms of our investment strategy.

Hadley COHEN (Deutsche Bank) That's all very helpful thank you, and then just on the IFE guidance and how we should think about that going forward.

Phalla GERVAIS (CFO and Risk Director, Coface) We will help you to model it if that's your question. If we assume that the risk-free yield curve is at 3% and €300m in net premiums per quarter. All being equal, I think you just do the math. Of course, it all depends on the movement of the interest rate, but if we assume that we have a flattish yield curve, a risk-free yield curve at 3% with €300m in net earned premiums per quarter, we'll do the math together.

Hadley COHEN (Deutsche Bank) Yeah, I might follow up offline. Thank you.

Benoit VALLEAUX (Oddo BHF) Yes, hi, good evening. A few questions on my side. First one regarding your risk appetite. There's a slightly better momentum in terms of new production in Q2 versus Q1 so I just wondered whether this reflects some slight change in your risk appetite. The second question is related to reserve releases. Under IFRS 17 you are at roughly 36 percentage points in H1, similar to Q1 so how do you see it? Is it a fair assumption to assume a broadly similar level for the full year this year or not? And the third question, just to come back again on investment income. When I look at your new reinvestment rate, which was at 2.0% in Q1 and 3.4% in H1, suggesting broadly 4.8% in Q2, I'm just trying to understand what explains the increase in the reinvestment rate from Q1 to Q2 this year.

Xavier DURAND (CEO, Coface) OK so the second and third questions will go to Phalla and I'll take the first one. On the risk appetite, we have to fundamentally change our risk appetite. I mean we're trying to be smart. As you know, what we do is we try to get good clients when we can and these good clients are people that are going to be partnering with us over a long period of time, and we will go through the good and bad times of the credit cycle together. So that's really the main thing we look at. Then, when we write a policy, we will look at the request for limits and that is a very detailed line by line assessment. We have well-defined and strict guidelines around the way we do it. And then obviously in the markets where the risk is going up, you see more interest from clients, you probably also see a bit of rationalisation in the market although it's still probably early to say that. And that probably explains why we're doing a little better.

Phalla GERVAIS (CFO and Risk Director, Coface) I'll take the reserve release. You know that under IFRS 17, the reserve release is related to the prior year so it's really the prior year developments. I cannot predict that the release will remain the same in the coming months or coming quarters. It really depends on how the different developments will go. But I would say that we have been maintaining the same philosophy in terms of reserving. Moving from one standard to another doesn't change that, and what is clear is that the Covid period reserve, the 2020 reserve was already partially released last year. I think what is remaining, since we have a two-year business cycle, would be 2021 and partly 2022. It really depends on how it will evolve. I cannot comment much more on this one.

In terms of investments, we are invested now at 3.4%. You know that in Q1 it was above 2%. We're really taking advantage of the yield curve which is reversing. You have the short-term rate higher than the long-term rate and this is really benefiting our business.

Benoit VALLEAUX (Oddo BHF) Just regarding the reserve releases, is it fair to assume that there are still no reserve releases related to Russia in Q2 or H1 this year?

Phalla GERVAIS (CFO and Risk Director, Coface) Well, again we have the Russian cases that we have reserved in Coface Russia and the business that we're doing in Russia, so is it related to what would come out in terms of notification? So far what we can say is that losses on Russia are behaving in largely the same way as what we're seeing in other regions, so there's no specific case or behaviour surrounding the loss situation in Russia. It will evolve, and we can say that our Russian exposure has been drastically reduced. We're probably at less than €500m or even €400m of exposure and we have the reserving against this exposure according to our reserving policy.

Benoit VALLEAUX (Oddo BHF) Thank you.

Michael HUTTNER (Berenberg) Thanks, again fantastic results. If I were an investor, I'd always be puzzled. Your tone is so measured and the results are so good. I just wondered what your tone will be when the results might not be so good, but anyway that was just an aside. I've got loads of little questions, so I hope you don't mind. The first one, the retention is huge at 94.4%. I think you said a previous quarter was the record, but this sounds like the record so just wondering about that. You mentioned rationalisation, and I just wondered if you can give a little bit more colour on that. And on the pricing outlook, it looks as if the market is much firmer than expected. The second one is on business information. Now, you probably won't answer my question but I was looking at the Catalana accounts and I noticed they have a big business which appears to be the same as yours, so I just wondered who are your competitors or who do you see as your competitors in what you're trying to do? Are you unique or are there other people? Just to get a feel for that particular market. The third question is on the reinsurance result. If I were a reinsurer, I'd still be quite happy with €47m but obviously not as happy as with €87m. I just wondered if there's anything exceptional here we should adjust for in the €87m, for example if the €87m included the government schemes or something. My concern is that when it comes to renewals, and I know we're not quite there yet, but the reinsurers will actually want a lot more than they're getting at the moment. On real estate, is it done? I don't remember your comments in Q1 but I was hoping it was done and there's a little bit more dribbling through. And linked to that, I notice that investment assets are down in Q2 versus Q1. It's not a big move, €3.02bn to €2.88bn, but I just wondered why that should be given that you're growing your business. And then the last question about IFRS, so we've got the discount unwind, call it the IFE as Hadley said. Where's the discounting benefit and how much is that so I can think about how those two are related?

Xavier DURAND (CEO, Coface) So let me answer a few. I'll leave Phalla to deal with investment assets which I think is linked to the dividend but maybe she'll have a better idea.

Phalla GERVAIS (CFO and Risk Director, Coface) Exactly.

Xavier DURAND (CEO, Coface) OK so we can knock that one out, but we paid a dividend. The IFRS discount, she'll deal with this one and the real estate. If anybody can say that real estate is done at this stage in the cycle, good luck! In terms of retention, you're right to point out that this is a record for us. It's a very good number I think for the industry. I mean we have just put in place a whole process around this because we understand the value of the client relationship and that's really what makes Coface what it is, so we have a process. The market is what it is. We need to remain competitive. I think our cost ratio makes us quite competitive. We need to be within the market in terms of risk appetite and we make sure we are, but we're working on these aspects and I think that's why the retention is what it is.

In terms of business information, I didn't get the name of the business you were mentioning.

Michael HUTTNER (Berenberg) So you're number three, number two is Atradius or Catalana.

Xavier DURAND (CEO, Coface) In what?

Michael HUTTNER (Berenberg) In business information. I'm not sure they are your competitor, but I do see in their accounts there's a big line that they call business information, and that's Catalana or Atradius.

Xavier DURAND (CEO, Coface) Oh I'm not aware. So it corresponds to what we call our historic business, which we have in Central Europe and in Israel. In these places historically credit insurers including Coface had a basic information set-up where we produce information. We're competing with all the major information providers out there, I don't really want to mention names, but all the offers you can get in the marketplace. So, I think that's what they're doing. They had a company called Graydon. I think they sold that actually in the last 12 months, so I don't know what else they have in there but that's I think what we're referring to. But I think you should ask them.

In terms of us, we are unique in the sense that we're a one stop shop. So we have about 100 different sources of information that we are utilising for our own good for credit insurance. We monitor millions of companies for our own purposes, and we have mapped all the different scores in all the different systems to be able to provide a one stop shop experience to anybody that's looking for data across the globe. So that's the first thing that makes us unique. The second thing is we're mainly not providing basic information, which is not our line of business, but we are providing insights and scores and ratings or expectancies of default on companies which has more value added. I think the message point is we've got €700bn of credit risk hanging on this. We've done it for a century, and I think we have experience proving that we can do it in all the different places in the cycle. So, I think that's our unique selling point, and that's why in that dimension I think we're quite unique.

In terms of reinsurance, we are getting good conditions in the marketplace, but clearly I think it remains a good programme for the reinsurers. I can't tell you what the next round of discussions is going to be like. I think it's way too early in the cycle. So we have to go through that and we'll see how things pan out. Every year is a new story but I think it remains a good programme, and it's driven by our performance. The fact that we perform is what makes it good.

Phalla GERVAIS **(CFO and Risk Director, Coface)** I think on the reinsurance side a couple things to be added. So in 2020, of course the external reinsurers have a lower base because the €83m that we're showing in 2020, part of that – almost €35m – went to the government that put in place the public schemes. So in 2023, we don't have the public schemes anymore, so everything goes to the external reinsurers. I think that answers your question. And then in terms of renewal, just to add to what Xavier said, I think the reinsurers are enjoying with us the good results that we have so far in the past at least two years.

Michael HUTTNER **(Berenberg)** And the discounting?

Xavier DURAND **(CEO, Coface)** You had three questions. On real estate, I think I told you what I think but Phalla do you have anything else to add on this one? We're managing that exposure but clearly we're still invested and it's not over and we're subject to whatever the markets what will drive in. In terms of the discounting, Phalla do you want to take that question?

Phalla GERVAIS **(CFO and Risk Director, Coface)** Under IFRS 17, we just isolate this discounting effect into the financial line, so if we try to compare apples to apples, under IFRS 4 it would have stayed in the technical result. I hope this answers your question.

Michael HUTTNER **(Berenberg)** So, what I'm trying to understand if I give you some of the numbers for Allianz, Zurich or Axa for example. So they have a big discounting number within the combined ratio. Typically it's around €400m for these companies. And then they have an unwind and a discount as you as you have it in the financial income and that is typically at the moment €300m, so on a half year basis they have a net positive of somewhere between €300m and €400m and that's the number I'm trying to kind of isolate.

Xavier DURAND **(CEO, Coface)** I understand, so for us it's the same thing. You get a discount which we've highlighted here on the reserve, so that lowers your loss ratio, and you take an amortisation of that discount on the right hand side in the finance revenues, but just to be noted there's a big difference between Axa and us. We're a lot more short term, so our discounting happens over the course of 2.5 to 3 years maximum. There should be less of a difference but that's just the intuition here. I haven't done the math to be honest.

Michael HUTTNER **(Berenberg)** That's really helpful. Can you also talk about the quality of the €700bn relative to Q1 or 2019?

Xavier DURAND **(CEO, Coface)** I don't think there's much of a change here. Over a quarter as you know we have 94% retention, which means that we have the same clients essentially that we had a quarter ago plus or minus 1% or so. We're basically invested in the same lines, in the same businesses with the same people doing the same kind of trades. I know it's not the exact answer to your question but it gives you a feel. We're a pretty stable business. And then in terms of the quality, it varies mainly because in some instances the economy is tougher, so companies get downgraded. And then against that we are working the book by doing all the actions I described on the second page of my presentation. So I don't have a number for you here but essentially I think the book continues to be pretty good.

Xavier DURAND **(CEO, Coface)** I just want to thank everybody for making the effort to join us on 10th August which is typically the middle of summer and everybody's got things to do hopefully. And also on a day where there's a lot of publications happening, so thank you all. Thank you for your questions. Thanks for following the story and we look forward to speaking with you in November when we present our third quarter results. Have a great summer everybody.

Phalla GERVAIS **(CFO and Risk Director, Coface)** Thank you.

End of transcript

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FINANCIAL CALENDAR 2023 / 2024
(subject to change)
9M-2023 results: 14 November 2023 (after market close)
Investor Day: 5 March 2024 (Paris)

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 H1-2023 and our 2022 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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