



Coface 9M-2016 Results

Call Conference Transcription

Paris – November 3rd, 2016

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Welcome and Opening Remarks

Operator

Ladies and gentlemen, welcome to the Coface Financial Results conference call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. As a reminder, this conference call is being recorded. Your hosts for today's conference will be Mr Xavier Durand, CEO of Coface and Ms Carine Pichon, Group CFO. I would like to turn the call over to Mr Xavier Durand. Sir, you may begin.

Call conference for the 9M-2016

Xavier Durand, Chief Executive Officer

Thank you very much, good evening everyone and thanks for joining the call. Today we are reporting our third-quarter 2016 results.

I'm going to go directly to slide 4 of the presentation. The key message I want to drive from this presentation is that, from an operating point of view, all the metrics for the quarter are in line with our expectations and with the previous guidance we provided in the context of Fit to Win. Our operating income stands at €56.3 million for the first nine months of the year and at €4.5 million for the third quarter. Turnover is €1,065 million, which is in line with previous trends. For Q3 only, the turnover is down by 3.7%, at constant FX. In terms of underlying trends on these growth numbers, there's really limited news here. We continue to see pressure in mature markets and we are also seeing the impact of our risk measures in emerging markets. Our net combined ratio for the first nine months is 96.6%. Our net loss ratio stands at 64.6% and is in the middle of the range that we gave you earlier this year as guidance. By the way, we confirm our guidance that the net loss ratio will be between 63% and 66% for the full year. Our net cost ratio stands at 31.9%, which is mostly driven by flat costs in Q3 versus Q2 2016, and down from Q3 2015. Overall, I would say operations have performed as expected.

Net income for the first nine months of 2016 stands at €14.4 million, as we unfortunately had to record a €7.8 million non-recurring loss on our minority ownership of the Cofacrédit company. Net income would be €22.2 million if we strip out this exceptional loss. As a background, we own 36% of a French factoring company, named Cofacrédit, which is operationally controlled and managed by our long-term partner, Crédit Mutuel. This joint venture, which has been in place for more than three decades, has been very profitable over time. It is a longstanding relationship and we do not have an operating role in this entity. In Q3 2016, the company had to face a client fraud case, which is, as you know, the biggest risk in this kind of business. The risk has been fully provisioned. We are taking 36% of the net loss of the company (which is the €7.8 million I mentioned earlier) in our accounts. So it's clearly a one-off. I just want to mention that our relationship with Crédit Mutuel extends well beyond Cofacrédit and it's been profitable. We expect this to continue in the future.

So net-net, it's an operating quarter which is very much in line with our expectations, and with the guidance we provided. The quarter net income is unfortunately impacted by a one-off event in a minority-held non-controlled entity.

Moving on to page 5, for the key business highlights, we are continuing to work on commercial and risk management initiatives to restore profitability in emerging markets. As you know, this is our priority. We've been working on exposures in places like Turkey and continuing to do so in Latin American and Asian commodity sectors - so pretty much the usual suspects. The UK's post-Brexit announcement is also under our watch, and we're working to carefully watch our exposures and drive pricing.

Our Fit to Win plan was generally welcomed by clients, partners and employees. We have launched the plan and started consultations with unions in France and Germany, as well as with our European Works Council. We've implemented a project management office, both at the centre and with the regional

quarters. If you look at the regions at the bottom of the page (the more mature markets), you can see that the trends are pretty much in line, with Central Europe at 50.4%, Western Europe coming in at slightly below 40%, Northern Europe at 58%, and Mediterranean & Africa at 51.7%. So these are close to the Q2 figures. On the top are the more volatile markets which we highlighted in previous discussions. North America is still high at 85% and in Asia Pacific we're still very high at 141% - but, as we predicted, it will take a few quarters for the losses to come down in this part of the world, as we took our key risk actions towards the end of 2015. Latin America is still above where we'd like it to be, but stabilising at a level of 67% for the cumulated nine months of the year.

Going on to page 12, we are continuing to see good execution on the costs side, as we have started the implementation of *Fit to Win*. The total costs for the business are down by 1.4% from 2015, year to date and you can see the mix here. External acquisition costs are down by 2.4% from last year. Internal costs are down by 1.2% from last year. We are keeping a very tight control on expenses and particularly on all expenses outside of the *Fit to Win* investment areas. As I mentioned earlier, we have started to make the required investments in the areas we identified in *Fit to Win*. Our cost ratio stands at 31.9% - or 31% excluding the exceptionals which we mentioned at the beginning of the year.

With this, I'm going to turn it over to Carine to take us through the rest of the presentation.

Carine Pichon, Chief Financial Officer

Thank you, Xavier. Good evening everybody. On page 13, reinsurance costs are less than for last year, as they absorbed part of the loss ratio deterioration. Reinsurance costs stand at -€8 million for the first nine months of 2016, compared with -€39 million for the previous year. As I pointed out in Q2, we have a one-off reinsurance impact. This explains why ceded claims rose from 21% to 23%. However, all in all, our reinsurance plays its role in absorbing part of the loss ratio deterioration.

On page 14 we can see the gross combined ratio, which is 95.6% for the first nine months. On a quarterly basis, for Q3, we are at 101%. This is clearly in line with Q2, even though we have an Asian loss ratio which is still high. So we have a combined ratio for Q3, compared with Q2, which is in line with our expectations. If we now look at combined ratio after reinsurance, on page 15, we don't have the same positive one-off in Q3 (that I mentioned earlier) from reinsurance adjustments, but we are at 105%. This is in line, if we exclude the specific effect.

On page 16, our net investment income is €43.1 million, up from €40.5 million last year. This is mainly due to the registered positive FX effects for this quarter. The accounting yield (meaning the recurring yield on the bond portfolio and on equities) on our average portfolio is 1.3%, compared to 1.6% for last year. This is not surprising, considering current market conditions.

On page 17, the return on average tangible equity is still being impacted by the higher loss ratio and strong capitalisation. It stood at 2.3%, as at the end of September, compared to 8.5% last year. The main effect is the technical results - that is the increase of the loss ratio - as well as some changes in effective tax rates. Tax rates have increased considering the fact that we have some losses in some countries where we haven't integrated all the deferred tax assets. So 2.3% for the first nine months of 2016.

So those are the figures. I now hand back to Xavier for the key takeaways.

Xavier Durand, Chief Executive Officer

In terms of key takeaways, I reiterate what I said at the beginning - , which is that we are disappointed that our net income is below where we'd like it to be. This is driven by a one-off loss at Cofacrédit, our minority investment held in France in the factoring business. On the operational side though, this is a quarter that is right in line with our expectations. It is absolutely in line with our *Fit to Win* expectations and guidance, in terms of net turnover, costs and on the risk side. We are still seeing the same trends at play, with pressure on turnover in mature markets, due to low growth and risk environments. We are continuing to execute our risk and underwriting initiatives in emerging markets. We're being prudent in

these markets and we're starting to see some ability to price, as well as some capacity reduction in these markets. These, for me, are good signs. We're confirming the loss ratio guidance (of 63% to 66% for the full year 2016) that we made in Q2. Finally, just to say, the business is now completely focused on the execution of our *Fit to Win* plan. It's obviously very early days, but we've got some good traction on some of the elements we've highlighted - and that's where the business is focused.

So thanks for your attention. With that, I will open it up to questions.

Questions and Answers (Q&A)

Operator

Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypads. We have a question from Mr Benoit Petrarque from Kepler Cheuvreux. Please go ahead.

Benoît Pétrarque, Kepler Cheuvreux

Yes, good evening, everybody. A few questions on my side. The first one will be on slide 10. I'll try to focus on the current year loss ratio, because obviously there's a lot of clean-up going on for the previous year. If I look at 71.8% for the nine months, when I look at six months, we were at 73.7% - so you came down on the nine-month basis. This suggests that the Q3 level is relatively low. I mean, just a rough estimate, but you could probably talk of around 70% for the current-year loss ratio in the third quarter. So I was trying to get a view on the underlying trend. So forget about the clean-up on previous years, but what is going on in the third quarter in terms of new claims and size of claims. Could you describe a little bit the kind of fundamental trend that is going on right now?

The second question is on pricing - and I think you referred to a capacity reduction in the market. Do you have tangible examples of this? I think you're going to start the repricing actions for 2017 soon, so how do you see pricing going in 2017, please?

The third question will just be on the reinsurance actions, with the Solvency II impact. Any news, discussions or updates which would be relevant for us? Thank you very much.

Xavier Durand, Chief Executive Officer

I'll refer to Carine for the risk question and I'll talk about pricing. On pricing, what I was mentioning is that we've been through some serious volatility in emerging markets for a year and a half now. I think, for the first time, we're starting to see the appetite of some of the players in the market being reduced, particularly in the most volatile parts of the emerging markets - I'm thinking of Brazil and places like that. We are seeing a better response from the market, in terms of accepting better pricing for the coverage that we provide. That, to me, shows a shift in the way the market is thinking and the available capacity. Now, realising this is still a small part of our portfolio in terms of the premium volume, it's still early days, so it's too early to quantify what this would mean exactly in terms of the renewal season for 2017.

Carine Pichon, Chief Financial Officer

Regarding your question on the fundamental trends for new claims, we have not had any bad surprises in Q3 - as we had in Q2. At that time we adjusted our reserving policy, specifically with regards to risks on emerging markets. We are in line with what we said at that time. Taking more of a look on the loss, on 22nd September I insisted on the fact that on average it takes two years to see results materialising from adjustments on the risk side. To come back specifically to Asia, you may remember that we cut our exposure in China by half, in December 2015. In Q1 we made some further adjustments in commodities - and we are continuing with this. There is no further news since we discussed this on 22nd September and in July. We need some time to see the full effects of all the measures that we have taken - specifically in emerging markets and in Asia.

As regards your third question, on reinsurance, we are really in the early stages of discussions with reinsurers for the moment. As a reminder, what we are trying to do is to find a correct scheme for the next three years. This is ongoing, so we have no specific news on that.

Xavier Durand, Chief Executive Officer

It's very early stages.

Benoît Pétrarque, Kepler Cheuvreux

Okay, thank you.

Operator

We have a question from Mr Benoit Menou. Sir, please go ahead.

Benoit Menou, Agefi

Yes, good evening everyone. Yesterday you announced some new arrivals and you've just said that you now have a strong structure. Can we expect further arrivals? Also, as concerns the transfer of public guarantees to BPI France - is there any news, or is everything advancing according to schedule?

Xavier Durand, Chief Executive Officer

No, there's no news on that front. We're still proceeding as planned and as we have highlighted in our previous calls. The transfer is planned for the very end of this year and the government is due to pass a law which will formally trigger this event. At this stage, it's still planned to be at the end of the year. I don't have any further news on this front.

Benoit Menou, Agefi

Okay. And about the new arrivals and the strong structure you have now?

Xavier Durand, Chief Executive Officer

I highlighted that we had four more arrivals. Some of these were made public a little earlier in the quarter. I just wanted to make sure that we have given you the full information here, as an HR leader and a compliance leader are going to be joining us. If you add up all the additions we've made to the business over the course of the last six months, I think we've seriously increased our level of expertise and knowledge, both functionally and geographically. So I clearly see this as a reinforcement of the business.

Benoit Menou, Agefi

Thank you.

Operator

We have a question from Mr Thomas Fossard from HSBC. Sir, please go ahead.

Thomas Fossard, HSBC

Good evening. Just two questions on my side. The first question is, could you remind us of the relationship between cutting exposures and the turnover evolution? I'm specifically thinking about Asia Pacific, on slide 8. You've taken very decisive measures to reduce your risk exposure there, at minus 50%, but the impact on the turnover seems to be rather limited. Can you help us to understand if that would be a gradual effect, or if there is a risk connection, but not fully?

And I would say related to that, can you help us to better assess what could be your turnover evolution for the full-year 2017? Thank you.

Xavier Durand, Chief Executive Officer

The way this industry works is, at the beginning of the year, you agree a premium level and a certain coverage level with clients. Then, as the year develops, we can adapt our exposure levels to reflect the reality of the risks happening in the marketplace. We have taken strong measures to cut exposures, particularly in Asia. Then, when the next renewal season comes, we have a dialogue with our clients in

terms of the right balance between premiums and exposure. This either leads to more exposure and higher prices, or less exposure and lower prices - or, eventually, the client will decide to leave. So I think it is quite normal in this business to see a lag between the risk decisions you make and the impact on premiums. We felt that such adjustments in the business (it was actually before my time) were necessary and I think they were too. We are now having these dialogues with our clients. We do not provide guidance on volumes and that's not something we are going to provide for 2017, at this stage. As I said during the *Fit to Win* plan, we are more focused on value creation than just volume for the sake of volume.

Thomas Fossard, HSBC

Okay, thanks. Can I come back on the specific example of Asia Pacific? So should we expect, as part of the renewals for Q1 next year, a kind of automatic significant turnover reduction from Asia Pacific as the logical consequence of the risk action plans and decisions you have taken last December?

Xavier Durand, Chief Executive Officer

I think it's a mixture of things. In some cases, it's the negotiation of different prices with clients, in some cases a change in the parameters of the policies we provide - and in some cases, the clients might decide that they do not want our services. I think we have to find - on a client-by-client and country-by-country basis - the right configuration. When we find that right configuration, we write the business - and if it's not right, then we will not do it.

Thomas Fossard, HSBC

Okay. I have another question on the kind of claims entries you're seeing at the present time. Earlier today, Swiss Re mentioned a kind of change in the claims pattern, with a higher amount of mid-sized claims. I think that you also mentioned that a couple of quarters ago. Is this something that you are currently seeing - i.e. no significant increase in the frequency but more of these mid-sized losses? I mean, obviously you're pretty safe on that side. Thank you.

Xavier Durand, Chief Executive Officer

I think we made the comment (and maybe some others did), that we had seen an increase in medium-sized claims from the previous years - but I would not say there is anything new this quarter in addition to what we said last quarter.

Thomas Fossard, HSBC

Okay. Thank you.

Operator

We have another question from Mr Guilhem Horvath, from Exane BNP Paribas. Sir, please go ahead.

Guilhem Horvath, Exane BNP Paribas

Yes, thanks for taking my questions. The first one is on the loss ratios by region, and actually, if I compare them with H1, I see a bit of a deterioration in Asia Pacific and Latin America. I think H1 in Latin America was particularly low, thanks to something that you wouldn't call a one-off, but it was an exceptional positive. I think Asia Pacific is deteriorating. Is this normal, or should we expect the risk reduction plan to have a linear impact on the gross loss ratios - by that I mean converging to a lower level of loss ratios, or should we expect something more abrupt?

I will take a chance with my second question. Do you think that next year, we will have a chance to see a loss ratio beginning with a 5 instead of a 6? Or is it too soon to consider this as a possibility?

My final question is on reinsurance. We see on your slides regarding reinsurance, that the profits made by reinsurers are lower this year. Do you think this is likely to impact your bargaining power with them in the upcoming negotiations regarding the Solvency relief deal? Thanks.

Xavier Durand, Chief Executive Officer

So let me start with the question on the volatility slope. As we said, the risk reductions will take time to materialise. That doesn't mean that you're not going to see volatility, quarter by quarter, depending on the amount of premium we write any one given region. Asia is around 8% of our business. It's not a lot of premium and the existence or non-existence of a claim can swing the ratio quite significantly - so if you look at it quarter by quarter, you're not going to see very smooth lines. However, we do expect that the volatility and the slope will materialise over time. That's always the difficulty, as you get more and more granular; into smaller and smaller areas and shorter and shorter periods of time, you still see volatility. I think you're right to point out that we have not yet fully seen the effects of the risk measures taken in Asia Pacific. For Latin America, some of the same forces are at play here. I think the dips in the Latin American economy, particularly in Brazil - as highlighted during our previous calls - have been longer and more protracted than we've had in the past.

I'll turn it over to Carine for your other question.

Carine Pichon, Chief Financial Officer

On the reinsurance side, I will start by saying that we have also introduced the *Fit to Win* plan to reinsurers. They like the fact that we focus on risks and profitability and so it's something which has really been welcomed by them. As you know, we have very good, longstanding relationships with reinsurers. They are used to looking at results, not only over one year but on a long-term basis - and there is still capacity on the market. It is rather premature for me to be able to give you an indication on prices, but we can say that, as always, we are having very positive discussions with them. So for the moment, no negative signal on prices for next year.

Guilhem Horvath, Exane BNP Paribas

Okay, and on the loss ratio outlook?

Carine Pichon, Chief Financial Officer

Sorry, we won't be able to give you an answer on this.

Guilhem Horvath, Exane BNP Paribas

Okay. I have one last question on the restructuring costs and the fact that so far, you haven't accounted for any exceptional items for that. You are starting to work on the non-union-dependent measures, so shouldn't we see some of the charges from this as well?

Carine Pichon, Chief Financial Officer

No, to answer your question, the main restructuring costs are clearly linked to discussions with unions. As you know, from an accounting point of view, to book the reserve, you need to meet three criteria - one of which is to clearly give the precise details of the plan to the unions. This aspect is ongoing. The global discussions began in Q3, so it's something we'll book in Q4 - as we announced on 22nd September. So that will be for Q4 and not Q3.

Guilhem Horvath, Exane BNP Paribas

Okay, that's great. Thank you very much.

Operator

We have another question from Mr Micheal Huttner, from JP Morgan. Sir, please go ahead.

Michael Huttner, JP Morgan

Thank you very much. I wasn't able to listen to all the call, so I just wondered if you could help me out a little bit. Where is Cofacredit in the combined ratio? Which region is it in? Can you explain how much it would be in terms of combined ratio and exactly where it comes from?

Xavier Durand, Chief Executive Officer



Yes Michael, this is a minority investment in a company that we do not control or operate - and so it is not part of the ratios that we provide. It's outside of the operating business, so it is not in the ratios that you're mentioning. It's a line item at the bottom of the P&L.

Carine Pichon, Chief Financial Officer

It's a line on the consolidated statement, which is the net result under 'equity method'. I believe it's the last line, just before tax.

Michael Huttner, JP Morgan

Could you recap the circumstances of that loss and how much is still to come?

Xavier Durand, Chief Executive Officer

This is a factoring company which is part of the Crédit Mutuel group, for which we hold 36% of the equity. It's part of Crédit Mutuel's operations and they have been a longstanding partner of ours. They have had one exceptional loss this quarter, linked to a client situation. They're taking the bulk of the loss.

Carine Pichon, Chief Financial Officer

The full effect of 100% of the loss has been put into the accounts of Cofacrédit, and we have taken a 36% share.

Xavier Durand, Chief Executive Officer

It's been completely reserved and booked for at this stage. There is nothing pending left on this one event.

Michael Huttner, JP Morgan

Okay. And then, like my colleague, I was comparing the combined ratios by region - for six months and nine months. I know you say it's granularity and we shouldn't worry too much, but the Asia Pacific standalone in Q3 must have been close to 200% to get to that number? It can't have been very different.

Xavier Durand, Chief Executive Officer

I believe it was 170% or 169.

Michael Huttner, JP Morgan

170%, okay. Is it just volatility - or to me, it sounds like there's something still not right that hasn't been addressed. Q1 was around 179%, Q2 must have been just over 100% and in Q3, we're now back at 170%. It sounds like there's something which hasn't been addressed there and I remember in the past, you discussed insuring trading operations and stuff like that. Is there something we should think about, going forward, which isn't fully addressed? This is what these numbers suggest to me, because if you look at the curve on page 11, it's a straight line up with no dips.

Xavier Durand, Chief Executive Officer

Yeah, Michael, I hear you, but I think we've been trying to be clear all through our calls in the previous quarters. There is a time delay from the time you book a premium, to the time that you get the claim and you fully receive all the potential claims on a given premium. That time delay is over nine months in this industry, particularly in these parts of the world, in emerging markets. That's a reality for a number of reasons which we explained in Q2. I think what we're seeing here is just the materialisation of what I was talking about during Q2 and during the *Fit to Win* discussions that we had.

Michael Huttner, JP Morgan

Well, I'm a chartered accountant (although this was many years ago) and if you're aware of a claim, you reserve it. You don't defer it to the next quarter. This - and I'm sure you do things properly - sounds to

me like there's something else at play - because otherwise, you would have reserved it in Q2. There was no reason not to. This is what I don't understand.

Carine Pichon, Chief Financial Officer

Michael, you're right. We make assessments of the reserve and then we confirm the assessment with the actual figure - the ultimate loss ratio. So sometimes it is positive, sometimes it is less positive, or even negative – as is the case for Asia. So it's a question of reassessment and re-evaluating the reserve in this region. I think this is important, because we knew that there was some volatility specifically in this market. That's the reason why we have given you a range of loss ratios for the end of the year, between 63 and 66, because we know that measures which have been taken will have a longer effect. We may then receive some claims relating to risks born before the measures we have taken. So, what could be a kind of comfort for you is that we are exactly in the middle of the range of this net loss ratio - and we plan to be in this range for the end of the year. So it's not a surprise that we may have some adjustments in claims' assessments from one quarter to another, specifically in this region.

Michael Huttner, JP Morgan

I'm sorry, I still don't understand. It doesn't matter.

The other question that I have is, given that these results are clearly below consensus, what impact does this have on solvency and your commitment (because I think you have given a fixed commitment) to the dividend this year?

Carine Pichon, Chief Financial Officer

We have said there will be two elements to the dividend. We will distribute 0.06 euro per share and, on top of that, 60% of the normalised net results for 2016. By normalised, we mean that we will exclude the gain on the sale (or the transfer) of the public guarantees, as well as all restructuring costs. These two elements will be excluded, while all others will be included in the basis of distribution. We haven't given a precise number, but it's 6 centimes plus 60% of the normalised net income.

Michael Huttner, JP Morgan

The 60% of normalised, it can't be a negative?

Carine Pichon, Chief Financial Officer

It's your guess.

Michael Huttner, JP Morgan

I see. In theory it could be a negative. In other words, the dividend could actually be below 6, if things don't turn out right?

Carine Pichon, Chief Financial Officer

Whatever happens, 6 centimes is sure.

Michael Huttner, JP Morgan

I understand, but your 6-plus?

Xavier Durand, Chief Executive Officer

6 or more.

Michael Huttner, JP Morgan

6 or more. Okay, that's what I wanted to hear. I was thinking 60% of a negative could be...

Carine Pichon, Chief Financial Officer

It's a minimum.

Michael Huttner, JP Morgan

It's a minimum. That's good. Okay.

The other thing is that, during the Investor Day, I half understood that, because you'd announced the restructuring (and this was a very public announcement) that you would therefore take it in Q3. That's why I had that in my numbers. I'm sure you said it, it's just that...

Xavier Durand, Chief Executive Officer

Michael, you can reserve the restructuring when you've announced it to the people who are impacted. In this case, you need a detailed plan that pinpoints what the plan means for each impacted individual. You need to have notified the impacted individuals of what's going to happen. As you know, we have a consultation process with the unions which we need to go through before we can recognise these elements.

Michael Huttner, JP Morgan

Okay. Thank you very much for your help.

Operator

We have another question from Mr Hadley Cohen from Deutsche Bank. Sir, please go ahead.

Hadley Cohen, Deutsche Bank

Hi, thanks very much. Apologies, as I was slightly late to the call, too. I guess I'm still struggling a little bit to understand why the combined ratio was so bad in the third quarter. Why is it 105.4? I mean, I'm still slightly confused by the Asia Pacific loss ratio, but I guess we can put that down to volatility - but what else is there going on specifically in the quarter? I mean, the cost ratio is 33%. Apologies if I missed this earlier, but can you just explain why it's so high this quarter and is there anything else in the loss ratio that we should be aware of? Thanks.

Carine Pichon, Chief Financial Officer

Maybe I can take the question on the cost ratio. It's important to note that the value of costs in Q3 2016 is even below that of Q2 2016, so we are really controlling our cost base. Turnover is another element in the calculation of the cost ratio, and we also sometimes have a little seasonality, with Q2 being slightly higher in terms of turnover than Q3. So it's more mechanic effects making our turnover lower in Q3 than it was in Q2. Clearly however, on a global scale, our internal and external costs are fully under control.

I am not sure I understand the question on Asia. We knew that there could still be some volatility for the quarters to come on this specific region, because the economic environment is very volatile, it's a high-risk area, and because measures were taken later than in Latin America, if we can make a comparison: measures were taken end 2015 and beginning of 2016 in Asia. Thus we know that there may be some claims arising, so we follow them. We have taken the measures needed and we will continue to do everything that needs to be done. That's why we have this range of net loss ratios. It's a question of time in order to see the full effect of measures we have taken - let's say - more recently for this region.

Hadley Cohen, Deutsche Bank

Okay, thank you.

Operator

We have another question from Mr Thomas Fossard, from HSBC. Sir, please go ahead.

Thomas Fossard, HSBC

Yes, just one question from me on the investment side, maybe for Carine. Could you help us to understand how you're managing the current assets in the low-interest-rate environment, whether you are investing new money and what rate has been achieved in Q3? Thank you.

Carine Pichon, Chief Financial Officer

Yes, you are right. We are in an environment where we think that interest rates will be even lower in Q4. What we have done already in Q2 and what we continue to do, is to add some additional types of assets. We have investment in real estate which is at 5%, which is new. Now we are fully equipped in this class of asset, considering our risk appetite. We have equity at 6% and we are slowly decreasing the level of liquidity that we have in the 21% loan deposit and other financials. We have decreased this a little so that we can make bigger investments in other types of assets. So we have a more tactical approach to investment management. This involves decreasing our level of liquidity, step by step, and finding complementary assets with higher yields, however this remains in the range of our risk appetite for this activity. I remind that we have a very low level of sensitivity to shocks from the equity side, or from increases in spread or in rates. So, for our solvency ratios, we want to keep this sensitivity quite low. We have been working to optimise this and we will continue to do so.

Thomas Fossard, HSBC

Carine, can you remind us what is the average rating of your corporate bond portfolio? I think that you did some clean-up in Q1 and Q2, which generated some losses at that time.

Carine Pichon, Chief Financial Officer

You're right, we are very cautious on any credit risks we take. The average rating of our portfolio is A and we do not intend to change this. We are very cautious on that. Another important aspect is the duration of our portfolio, which is around 3 to 3.5 years and which do not want to move a lot. You make a good point here and this is something which we have discussed with ratings agencies, as they want to ensure that we have good policies on this. The ratings agencies have confirmed that our investment policy is correctly aligned with the risk appetite we have on the investment portfolio.

Thomas Fossard, HSBC

Could you mention any new money yield achieved in Q3?

Carine Pichon, Chief Financial Officer

What do you mean by –

Thomas Fossard, HSBC

Well, the kind of yield you've got on the invested assets - on the assets you invested in Q3 standalone.

Carine Pichon, Chief Financial Officer

Okay, standalone, so not so different from what we had during Q2. In fact, we have an investment yield – if this is your question – of around 1.2, 1.3, let's say, on the new money.

Thomas Fossard, HSBC

Okay. So basically the book yield, the portfolio yield - is it currently in line with what you can get on the new money?

Carine Pichon, Chief Financial Officer

Yes. For the moment, yes.

Thomas Fossard, HSBC

Okay. Thank you.

Operator

We have another question from Mr Benoit Petrarque from Kepler Cheuvreux. Sir, please go ahead.

Benoît Pétrarque, Kepler Cheuvreux

Just a follow-up question on my side. Coming back on the gross combined ratio on Asia Pacific, could you provide the gross loss on the current year and the prior year for this region? Because I think that would help to understand what is going on in the region. It looks like there is a lot of clean-up going on,



and we cannot analyse it on a quarterly basis. That's why the ratio is moving up and down. But do you have a split for the current year/prior year?

Carine Pichon, Chief Financial Officer

Actually, we don't plan to disclose it. We do not tend to disclose for each of the regions and each of the indicators, because at the end it gives too many indications and not exactly the trend of what is behind. But okay, we will look at it.

Benoît Pétrarque, Kepler Cheuvreux

Okay, thank you very much.

Operator

We have no other questions for the moment.

Xavier Durand, Chief Executive Officer

Okay, well I think if there are no other questions, there is no need to hold up everyone. Thank you again for joining the call. As I said, we're a month in to the execution of *Fit to Win*, so early days, but very focused on it, and looking forward to updating you during our next call with the total-year 2016 results. Thank you everyone.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.

(End of transcript)



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FINANCIAL CALENDAR 2017 (subject to change)

FY-2016 results: 8 February 2017, after market close

Q1-2017 results: 26 April 2017, after market close

Annual General Meeting: 17 May 2017

H1-2017 results: 28 July 2017, before market opening

9M-2017 results: 25 October 2017, after market close

FINANCIAL INFORMATION

This press release, as well as Coface SA's integral regulatory information, can be found on the Group's website:

<http://www.coface.com/Investors>

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim half year financial report

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2015, the Group, supported by its 4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.

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