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.

FY-2018 Results

Conference Call Transcription

Paris, 11 February 2019

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Readers should read the Interim financial report for the for the first half 2018 and complete this information with the Registration Document for the year 2017, which was registered by the Autorité des marchés financiers ("AMF") on 5 April 2018 under the number No. D.18-0267. These documents all together present a detailed description of the Coface Group, its business, financial condition, results of operations and risk factors.

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Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending December 31, 2018. At this time, all participants are in a listen-only mode. We will conduct a question and answer session later. As a reminder, this conference call is being recorded. Your hosts for today's conference call will be Xavier Durand, CEO of COFACE and Carine Pichon, CFO.

I would like now to turn the call over to Mr Xavier Durand. Sir, you may begin.

Xavier DURAND, CEO, Coface

Good evening everyone and thank you for logging in. As we said, today we are going to report our full-year 2018 results. Today also marks the milestone of my third year at Coface.

We are reporting a net income of EUR 122.3 million, which is up 47% from last year. I think this reflects the strong underwriting discipline we have had throughout the year, albeit in an economic environment that is becoming more volatile. Our turnover reached EUR 1.384 billion, up 4.6% at constant FX and perimeter. For Q4, it was up 6.3% and 4% excluding one-offs. I think an important point is that underlying trade credit insurance grew by 5.7% at constant FX, which sets a high point in our recent years. The insured turnover and client retention continue to be at record levels, consistent with what we have seen in prior quarters.

In terms of losses, the full-year 2018 net loss ratio is down 6.2 points at 45.1%, bringing the net combined ratio to 79.6%. In Q4, the net loss ratio stood at 45.5%. This was partially due to good claims management from the past and also from continued underwriting discipline in new business. The full-year 2018 net cost ratio has started to come down, by 0.7 points to 34.5%, versus 35.2% in 2017. It is continuing to reflect tight cost controls and our sustained investments in making our business stronger. As a result, the net combined ratio for Q4 stood at 81.4%. As I said, full-year net income is EUR 122.3 million, of which EUR 24.1 million was for Q4. The earnings per share reached a high point, at € 0.79 per share.

We also end the year with a strong balance sheet. Our solvency ratio stands at 169%, leading us to propose a 100% payout for the year. The return on average tangible equity comes in at 7.7% for the year. When taking out the non-recurrent, we are at 8%, which is close to our through-the-cycle targets, excluding further capital management actions. As I said, our estimated solvency ratio is 169%, increased by both the better operating performance of the business and the continued optimisation of the standard formula model that we use today. We maintained our quota share reinsurance at 26%, as at the end of the year. As you know, the programme is split into two pieces of two years each. Our EUR 15 million additional share buyback programme, which was launched in October 2018, was completed at early January 2019. You may remember that we have a pending standard formula evolution which is now expected to be applied in 2020. We are still targeting to apply for the partial internal model in the summer of 2019 and an important point is that we have begun discussions with the regulator. We are continuing to actively manage our capital, in line with what we have said in the Fit to Win plan and we are proposing a 100% payout of the year's results. At this point, at least 60% of that will be as dividends. The method for paying out the other 40%, whether dividends or stock buyback, will be determined by the Board prior to the next General Assembly.

On page 6, as we enter the third and last year of our Fit to Win plan, I thought it would be helpful to take a step back and to see where we stand on the plan's execution. As I said on prior calls, I am convinced with hindsight that Fit to Win is the right strategy, as we can see the world becoming more volatile. We are making progress towards our key KPIs. Throughout this period, we have maintained very disciplined underwriting and we have beaten our savings targets. At the same time we have made deliberate investments into our business to make it agile and resilient. These investments have been more than financed by the cost-savings. The return on tangible equity has gone from -0.8% in 2016, to 5.3% in 2017 and 7.7% in 2018. Over this time, the loss ratio has fallen from 65.5% to 45.1%. Revenue growth was initially slightly down, as we were still cleaning-up the books and for the year it was positive by 4.6%. The share of emerging markets has been contained at 37%, slightly below where it was in 2016 and more so compared to 2015. At the same time, as I said, the cost ratio has started to come down, which I think is good for the future. We have a strong balance sheet and our solvency has risen from 150% to 169% over the period. This is the second year in a row that we will be proposing a 100% payout, at least 60% through dividends. Over the last three years, we will have returned a total of EUR 241 million to shareholders. Going forward in 2019, we are continuing to focus on the execution of Fit to Win and this is our third year. Underwriting will continue to be disciplined, particularly as the economy slows down. We are continuing to drive differentiated growth. The strategy we initially highlighted with Fit to Win continues to be completely valid and we will obviously be very focused on progressing the partial internal model. I think our teams have done a very solid job and as I said, we have begun the discussions with the regulators.

Page 8 shows more detail on the growth, the headline for the year is 4.6% growth, while Q4 was 6.3%. Underlying the growth, trade credit insurance is growing at 5.7% at constant FX, which I think is the highest point in many years. As in prior quarters, growth has been driven by client activity and retention and you will see that pricing remains under control. At the same time, the other revenues, very much in line with what we have seen in prior quarters, are down by 3.9% versus last year at constant FX. This is driven by factoring, as it was in the prior calls. Finally, fees are up by 3.1% at constant FX, versus 2017.

Going to page 9, when we look at the split by region, we see that all regions are now growing in the credit insurance space. Western Europe grew by 1.6%, driven by lower premium refunds and client activity. Northern Europe is slightly negative, driven by factoring, but actually the credit insurance business is growing for the first time, at 1.6%. This was an important milestone for us, to get Northern Europe to grow again. Central Europe and Africa are both growing significantly at 6.1% and 8.2%, in environments we recognise are becoming more volatile, but the teams are really focused on the risk there. North America grew by 8.3%, driven by single risk and client activity. Asia Pacific is finally coming out of the portfolio cleaning period that we have been undergoing for the last two years and is starting to grow a bit. Latin America had a pretty good year with growth picking up. This was driven by large international relationships and I would say due to the recovery of the economy in Brazil. Argentina continues to be a hotspot that we are watching closely.

On page 10, growth is continuing to be driven by the volume effect and retention. New business was slightly lower than last year's. Actually, as you may recall, we had a slow start in the first quarter, but it got better towards the end of the year. The Q4 numbers are actually slightly above what we had in Q4 2017. The retention rate has reached record levels in recent years, in most regions at the same time. The price change is -1.4%, which is better than we have had in prior years. We can see controlled price decreases in mature markets, while at the same time we are starting to see the ability to re-price some of the riskier markets that we have been facing throughout the year. Finally, growth was driven by the volume effect and it is actually much higher than it was in prior years. We continue to be disciplined about writing new business, although the client activity and retention is better.

Going to page 11, I think the good news comes from our loss ratio at 45.3%, which is stabilising despite an environment that has become riskier. In one year, we have gone from 51.4% to 44.2%. I'd just like to point out the sequence on the chart and the numbers in white which take out the FX adjustments, particularly with the currencies in emerging markets being quite volatile in the second part of the year. Taking out the FX, we have gone from 45% in Q2 to 43.6% in Q3 and 46.3% in Q4. We opened the year with new business at 75.7, higher than prior years. This is driven by some rollovers from the prior year for a little more than 2%, as well as some large files that appeared in Q4, particularly in Western Europe. The Bonis from prior have actually been better at 34% and again, more than 2% is driven by rollovers from prior years.

If we look at the risk picture on page 12 by region, what I would say is that this describes the yearly sequence from 2015 to 2018. You can see that at Group level we reached a high point of 63% in 2016 and have come back down to 44.2% in 2018. I think that the news on this chart is that all regions are actually below 50%, except Latin America, which comes in at 51.8 when you take out the FX impact of Argentina – and this is quite close to our target for the year. Central Europe is very stable, while Western Europe is at 34%, Northern Europe is actually better than the prior two years. Med and Africa are pretty stable again. I think that both North America and Asia Pacific show pretty good numbers for the year.

Page 29 describes the quarterly sequence for the last five quarters. As you know, the quarterly numbers are more volatile, as large claims in one or another region can actually impact the results. Of the larger and more stable parts of the world, Central Europe has remained quite constantly below 50%, at 47.5%. Western Europe has actually had an increase in claims, driven by some large claims in France towards the end of the year. Northern Europe has actually been improving during the same period and we continue to exercise strong underwriting discipline. Med and Africa has been stable at 44.1%, slightly down when you exclude the impact of FX. North America is at 59.5%, a bit lower than the 65.8% that we had in Q3 (as explained last time, when you exclude large claims that have been reinsured separately to the reinsurance market). Asia Pacific I would say is normalising, at 50.9%. Latin America, which as you know has been a volatile part of the world, ended the year at 37.4%, excluding FX. Just as a reminder, we were at 70% in Q3, so I would say that the teams in Latin America have done a good job managing the volatility, particularly in Argentina.

Going back to page 13, you can see that costs have started to improve. They are up 3.5% in total from last year, 4.4% if you exclude the impact of the Italian one-off which we had last year. Internal costs, which are actually quite stable, increased a bit in Q4. This was mainly driven by better performance in France, which actually drove employee profit share, which we had not reserved throughout the year. There was also the start of some investments in the IFRS transformation, which the business is going to go through. In total for the year, we have achieved over EUR 39 million of cost-savings. This is significantly better than the goal of 30 million which we set ourselves for 2018. We continued to invest during the year, with EUR 18 million allocated to a variety of actions, risk management, compliance, processes and growth. Our cost ratio came down from 36.5 in 2017, to 35.9 for 2018, driven by growth and the fact that we have controlled costs.

With that, I am going to pass it over to Carine to talk about reinsurance and the other points.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier. Good evening, everybody. On reinsurance, we have successfully renewed our second quota share of 13% and, overall, we can consider that slightly better terms have been secured. Cession rates also now show the full impact of higher cession contracts. The premium cession rate was at 28.7% and claim cession rates quite similar, at 27.1%.

All in all, on page 15, our net combined ratio is at 79.6% for the full-year. This is a decrease of seven points compared to last year's combined ratio, mainly due to lower losses, as well as cost discipline. The cost ratio is down 0.7 percentage points, as investments are fully financed by cost-savings. The loss ratio is down by 6.2 points. Taking a quarterly view, the combined ratio for this quarter is 81.4%. Clearly the Q4 loss ratio remains under control at 45.5% and 47.6% if we exclude FX effect. The Q4 2018 combined ratio is clearly below the cycle target, which is 83%. If we compare loss ratio without FX, we have a slightly increase between Q3 at 44% and 47.6% for the last quarter of the year.

As regards the financial portfolio, we have been able to stabilise our yield. As you know, this is not easy in the current environment and on the financial markets globally, knowing that most of our portfolio is bond-related. Accounting yield and average investment portfolio was 1.7% for 2018, compared to 1.8% the year before. We have realised less on gains on sales, considering the market environment. Excluding these gains, we have even been able to have a yield that is a little higher than last year, at 1.5%, compared to the 1.4% for the full-year 2017.

On page 17, net income globally was EUR 122.3 million, of which EUR 24 million was for the last quarter 2018. Operating income stands at EUR 203.9 million, which is clearly back to a historical high. Investment and restructuring expenses were EUR 5.7 million for the year. The global tax rate is 34.4% and for the last quarter 2018, it was a little less than 33%. All in, it leads to earnings per share of EUR 0.79. As has already been said, we propose a pay-out of 100% of the year's result, of which a minimum of 60% will be paid as dividends.

Page 18 gives a view on our return on average equity. The change in equity is quite stable. We have total equity of EUR 1.8 billion and the return on average tangible equity went from 5.3% for the full-year 2017, to 7.7% in 2018. Even if we exclude non-recurring, we had 8%. Clearly the driver of this rebound comes from the technical results, with the improvement of the combined ratio as well as some improvements in tax.

Section Three of the presentation relates to capital management, which as you know, we disclose every six months. We are reconfirming our solid balance sheet. We are entering a lot of changes from an IFRS point of view. As we already told you, the implementation of IFRS 9, which is only scoped on factoring activity, had a few impacts globally on our balance sheet and our P&L. The same occurred for the implementation of IFRS 16, which we applied from 3 January 2019 - so starting this year. You may see that the impact is estimated at around EUR 85.4 million as an additional debt in our balance sheet expected for this year. Clearly, as all insurers, we are in progress with IFRS 17 and have nothing specific to add in terms of ratings, knowing that our ratings have stable outlook.

Looking now to our solvency ratio on page 21, we have been able to increase our solvency ratio from 164% at the end of 2017, to an estimated 169% for the end of 2018. This mainly comes from an improvement in insurance, with lower insurance capital requirements, which represent 3.7 percentage points and a higher own funds variation of 1.4 percentage points. This estimation includes allowances for the 100% payout ratio that we propose. So we are above the target range and we continue to have capital with low-sensitivity to market shocks. This is on purpose and is managed in a similar way to the way we manage risks on our financial portfolio. We have updated our simulation of some shocks - either by increasing interest rates by 100 basis points, or by decreasing the stock market by 25%. The impact is a maximum five points of cover, so we consider we are able to manage a change in market environment. However, we know that we are clearly more sensitive to crisis scenarios on the liability side. On the loss ratio side, if we had to simulate the equivalent of a 2008 crisis, we would have a solvency ratio of 137% and a crisis over 20 years would lead to 156%. Clearly, our solvency requirements would therefore be respected in a crisis scenario.

Page 22 has more detail on this ratio. As you can see, we have eligible own funds under Solvency 2 of a little over EUR 2 billion, which is mainly Tier 1 for EUR 1.6 billion. EUR 416 million is related to the hybrid debt that we issued in 2014. The required capital is EUR 1.2 billion, split between factoring activities and insurance activities, which clearly represent the main part of our capital requirements.

This gives a view on our capital management and ratio. I now leave the floor to Xavier.

Xavier DURAND

Just to give you the key takeaways, as on page 24. As I have said before, I think that the results of 2018 show that Coface is able to perform in an environment that is obviously becoming more volatile. I think the fact is that we have improved underwriting and our infrastructure has allowed us to control volatility in places like Argentina and Turkey. We have also had to manage continued pressure on the British economy through Brexit and obviously Italy has been a more volatile place for us in 2018. The net combined ratio stands at 79.6%, driven by a loss ratio of 45.1%. Operating profit stands at EUR 203.9 million, with RoATE at 7.7%. As I said, these figures are close to our through-the-cycle targets, excluding further capital management. Then as I said, net income is up 47% from last year and we have a strong balance sheet, with solvency at 169%. We continue to work hard on the partial internal model. We have started discussions with the French regulator and we are not expecting the standard formula to change in 2020. We are affirming a 100% payout ratio for 2018, with the split between a dividend minimum of 60% and the remaining 40% to be confirmed between dividends and share buyback, before the next General Assembly.

Looking back I am convinced that Fit to Win is the right plan and is the right strategy in a more volatile economy. We mentioned that in our Q2 results, but we are seeing the economy becoming more volatile. We will continue with similar underwriting discipline in 2019, within a market which continues to change with the Chinese slowdown, confidence in Europe and clearly the question of Brexit, among others. We will continue to invest in long-term value-creation projects, so there is really no change in our philosophy there. We will invest EUR 25 million in 2019, which includes implementing new accounting standards and continued investment in technology, IT and innovation. We maintain our target of the end of this summer for applying for the internal model and we have begun discussions with regulators. We are confirming our targets for Fit to Win, with the 83% combined target through the cycle.

That is the wrap for this call. As usual, we are now happy to take questions.

Q & A session

Moderator

Ladies and gentlemen, if you wish to ask a question, please press zero one on your telephone keypad.

Michael HUTTNER, JP Morgan

Thank you very much and well done for these lovely results. I will not ask all my questions, because my colleagues will ask them much better than I can. The first one is very simple, on the tax rate for 2019 and going forward that we should use. The second is that you say the 2019 target return on average tangible equity is 8% plus 1%. I just wondered how certain is the 1%? This thing with reinsurance and stuff, how confident are you of achieving this extra 1%. The final one is when will we know the dividend per share figure and what does it depend on? I was a bit puzzled to hear you say that there was a total amount which we will have as dividend and it is at least 60%. I am still trying to guess what dividend percentage.

Xavier DURAND

Let me just make a precision here. We have not changed our overall objectives. Fit to Win is 8% plus 1%, but it is through the cycle after the implementation of the plan. The line has not changed and will not change. It has been that way for the last three years. You should not construe this as the guidance for 2019. Carine, you want to talk about the other two points?

Carine PICHON

The tax rate is highly dependent on the split of our net results for the world and we are in more than 100 countries. Let us say that we are not so far from the average French tax rate. That is what you see here and what you will see for next year. That is what we have on average.

Michael HUTTNER

I am still puzzled by the tax, because the two figures for the quarter and the full-year are so different, I think one is 34% and other one is around 20%. That is why I was puzzled.

Carine PICHON

No, no, no. If I may, Michael, for the full-year the tax rate is at 34.4% and for the last quarter of 2018, it is 32.8%.

Michael HUTTNER

I got it wrong. Okay.

Xavier DURAND

It is getting quite stable and I think we mentioned this, that when our profit normalises in faraway places, the tax rate kind of stabilises and reverts back to where it should be on average.

Carine PICHON

On dividend per share, we are sure that we will pay a minimum of 60% and the 40% will be decided by the Board of Directors before the next General Assembly. Once it has been done, we will publish the news and tell you precisely if it will be additional dividends, which will be proposed to the General Assembly, or if it will be a share buyback.

Michael HUTTNER

I am puzzled because you normally give us a dividend per share figure.

Xavier DURAND

We could give you the 60% but we cannot give you the other 40%.

Michael HUTTNER

Okay. The minimum would then be 60% of your EPS?

Carine PICHON

It will be 60% minimum, which is EUR 0.47 per share.

Michael HUTTNER

It does not depend on doing a buyback between now and then, it just depends on how you wish to allocate it between buyback and dividend?

Carine PICHON

Correct.

Michael HUTTNER

The buyback would only then start after the AGM, so after May?

Carine PICHON

I think we can start when the Board has decided, so it will be at the latest at the General Assembly, but it could be before. In any case, the Board has to take a decision and then we will publish it.

Benoit PETRARQUE, Kepler Cheuvreux

Few questions on my side. The first one is on the macro outlook for 2019. What can we expect in terms of combined ratio in 2019? I think you have 83% across the cycle? Do you expect to be at, or maybe above, cycle average in 2019? What is your view on that? On the cost ratio, it is 35.9% in Q4, up year-on-year. I was wondering if you could comment on the outlook and also for the cost ratio, taking into account your inflation outlook and the fact that there is no cost-cutting target anymore. The last question is on LATAM. I saw some reversals on provision in Q4 and I was wondering if you could comment on that and give some details?

Xavier DURAND

In terms of the macro outlook, we just came out of our country risk conference, which is a big event here in Paris and we spoke about all of the things happening in the economy. There are a number of moving parts and clearly Brexit is number one on my mind. I think the more this question tries to be clarified, the more obscure it becomes. I think it is anybody's guess how this goes forward, but it will clearly be a significant driver. The same thing for the plan that the Chinese government is trying to put in place to support the economy in 2019 and on what will happen with the China versus US trade war that has been going on. We expect continued volatility, but at which rhythm is probably a question of these two things - plus maybe oil prices and construction. It is hard to say, but I can just tell you that we are going to continue to apply the same level of discipline, be nimble and apply the principles that we have laid out in our Fit to Win plan. We will not provide guidance this year. This is what we have decided to do.

In terms of the cost ratio outlook, as I said, we have started to see the cost ratio come down last year. You mentioned Q4 and it was impacted by employee profit shares in France. I think this shows that the business is doing better and we are actually paying a higher profit share than we had in prior years. That was recognised in Q4, so I would not say that the trend in Q4 is consistent with the rest of the year. There is a bit of an exceptional here. The goals continued to be to drive savings and drive cost ratios down, while continuing to invest in the business to make sure that we have the appropriate infrastructure. As we discussed, the trade-off between cost and risk here in this business shows that we are better off investing in the business where we need to.

Carine PICHON

Just to understand your question, it was Latin America on loss ratio in Q4? On page 29, you can see that it was 37.4% excluding FX and in Q3 it was around 70%, also excluding FX. The improvement in Q4 is mainly linked to Brazil, where we have had some good developments and some contracts. You know that on just one quarter there is only quite a small amount of premiums, so you can have huge effects even if you have some slow recovery on some claims in Brazil.

Xavier DURAND

I think Latin America last year was a tale of two stories. Argentina was being very tough and surprising everyone with their kind of own version of a profit warning in May last year. At the same time, Brazil was going through elections and their economy was picking-up. It is a very contrasted situation by market.

Thomas FOSSARD, HSBC

Just a couple of questions. The first one is that I just wanted to come back on the DPS and the payout ratio of 60%. I cannot remember, but I am not sure this was the way you announced dividends last year. I was wondering why you decided to leave the 40% unclear at this stage and actually on which basis the Board will decide to opt for the dividend or the share buyback? The second question is related to the current macroeconomic environment. In your speeches and presentations, you have been talking about a more volatile environment, but what does that mean concretely? Were you starting to see higher claims entries in your books at the end of the year, maybe in Q4? Is it this which is leading you to be a bit more cautious in terms of guiding the market for loss ratios, or combined ratios in 2019? I also wanted to check with you now that you are starting to be relatively advanced in terms of your internal model setting and that you are starting the discussions with the regulators? Could you maybe guide us just to see potentially what could be the capital efficiency benefits you are expecting by moving from your current standard formula to a partial internal model?

Xavier DURAND

Let me start with capital efficiency. As you know, we have been working on this internal model for the better part of two years I would say. We are at the stage where we have a stack of proposals on which we have started discussions with the regulator. It would not be right for me to make any comments on these discussions because, as you know, there is a third-party involved that has the absolute ability to come back with conclusions of their own. I do not think we will be able to provide any further clarity until this process goes through and we get their feedback. When we get their feedback, we will be better able to assess what exactly it is going to take and where it is going to take us. I think that is as much as I can say.

In terms of the global environment, there is really nothing I have not talked about so far. One thing is, I think the world economic recovery from the 2007 crisis grew progressively to reach a high point in growth in 2017. We said that we had reached a peak in 2017 and towards the end of the year; we started to say that volatility is going to come back. Back then, you had low interest rates, low US dollars, low oil and synchronous growth in all the different parts of the world. That is obviously changing. We have seen global growth slow down a bit last year and we are seeing it continue to slow down this year. There is really nothing new that I have not talked about from last year and clearly there are some significant milestones ahead - which could go either way. It is anybody's guess what Brexit is going to look like and I would be hard pressed to tell you exactly how this ends. I insist on agility, because that is what we need to do. We cannot act too early because it does not make any sense and we could be completely wrong. We also cannot act too late, because obviously that could be very costly. That is the whole game I would say.

Do you want to talk about the DPS, Carine?

Carine PICHON

It is more a question of what is the most interesting and I think that is why it has to be reviewed by the Board of Directors. On one side you have dividends and on the other share buyback. They have asked us to look at it and in any case, the decision will be taken before the General Assembly.

Thomas FOSSARD

If I can come back on the macro environment and maybe to help us to understand the connection between what we have seen in Q4, especially in December with credit markets pricing a very tough recession coming. Can you help us to understand how fast the real economy is deteriorating, versus potentially what the financial markets are trying to price in? Again, I just wanted to check whether you have been concerned by the pick-up in the claims entries in Q4, or is it nothing that would really trigger specific comments from you at this stage?

Xavier DURAND

I think the best reference I would give you is to go back to the economic analysis that our teams are putting together and that are published on our website. They are basically saying that we expect to see delinquencies or late payments by companies increase this year. They kind of mention the range of 1% across Europe. Some other parts of the world being dependent on some of the events I have spoken about, that's kind of the central piece. Then there are these one-off events that are very hard to predict. I think the financial markets were forecasting doomsday in December, but suddenly everything was great again in January; now again, they are a little depressed. It is hard to say exactly what to read out of the financial markets. I think we are just saying that the economy is continuing to slowdown from the high point in 2017. You see the news, we all read the papers and have the same information here and that is what we have put in our plan.

Hadley COHEN, Deutsche Bank

Thank you very much. A few questions. Firstly, Carine, I think you said this on the call, but can you just confirm that the 169% solvency is net of the 100% payout, and so that it is already structured within that solvency ratio?

Xavier DURAND

The answer is yes.

Hadley COHEN

Cool, excellent, thank you. You mentioned Xavier, in the fourth quarter that the cost ratio is impacted by the profit sharing in France. Is it possible to quantify that? If I look at the investment results in the fourth quarter, unsurprisingly it was adversely impacted by realised losses. I think in the fourth quarter there was negative FX, but there was also a negative 2 million in the other section within the investment results. I was just wondering what that was? Finally, the 25 million that you are talking about investing in 2019, I appreciate that some of that will be going towards accounting changes, IFRS 17, etc. Is it possible to quantify what you expect the longer-term savings or earnings benefits to be from these investments?

Xavier DURAND

I will start with the first question on the cost ratio. I would say the majority of what we see in the cost deviation is driven by the profit share, maybe call it two-thirds and a third is coming from IFRS kind of investments. I hope that clarifies the question.

Hadley COHEN

If I look at the internal costs in Q4 2018 versus Q4 2017, it was 7 million higher year-on-year. If I assume that 4 million or 5 million of that was from…

Xavier DURAND

No, no, no. I am referring to the 131 which becomes 134, on page 13.

Carine PICHON

On investment income and FX, as you remember Q3 was highly impacted by positive FX results of a little more than 15 million, so just be careful if you convert Q4 to Q3. We have had 8.6 million for Q4 2018, it was 8.3 in Q1, 4.6 in Q2, so we have some volatility, but nothing specific to add. As you see globally, on the full-year we have an average yield of 1.5%, without gains on sales and 1.7% including it. Something that we are trying to achieve is to stabilise net investment income as much as possible on the year. As you know, considering the market conditions, it was not so easy last year, but in any case, that is our target.

Hadley COHEN

Just a final question on the 25 million investment in 2019, some of which I assume is due to accounting changes you mentioned. I wondered what the longer-term earnings or savings benefits are expected to be from these investments?

Xavier DURAND

There are a number of things in there. As you said, IFRS 17 and other things that we have to implement. There is some continuous reinforcement of our infrastructure, which I think will continue to happen, and there are process and service improvements - changes we are making in our organisation. It is a mixture. What I can tell you is that we are going to continue to drive costs out as we have. With the Fit to Win plan, we wanted to set a milestone of a couple of years, with a significant number we could track just to show that we are doing what we say and that the business is actively focused on saving costs. We have attacked every cost centre we could identify and looked at ways to save money. That is not going to change. Our goal is to continue to drive cost-savings on one hand and make investments in things that will help these cost-savings and make us stronger in terms of agility, ability to grow and ability to better control the risk in the business.

Michael HUTTNER

Just a question on the tangible equity, what it is? And then on the reinsurance, if I compare the reinsurance results to the reinsurance premiums, it kind of implies that reinsurers have a combined ratio of 80%. I just wondered if that is a fair split of profits, or how much that could change given what you just said about new terms and conditions. The last question is when will you announce the new three-year plan?

Xavier DURAND

I will start with the second one. There are a couple of things I want to do this year. These plans go for three years and we are two years in, so we have got to give this plan a full chance of execution. The goal is to stay focused in 2019 and keep the teams focused on the existing plan before we start them on something else. The second thing I would tell you is that a number of us are going to be working on this plan, but it is not going to derail the execution on the existing one. Thirdly, I would say that it is important for us to get as much visibility as we can on the internal model question and the capital question, in order to build a new plan. I think that all of this combined, pushes us to put out the plan late in 2019, or as late as we can. In this way, we can make sure that we put in as much data and the most execution we can on the current plan.

Carine PICHON

The tangible equity was EUR 1.585 billion. On reinsurance, as I said we have slightly better terms secured, so we are happy with that. I think, as of today, we do not expect any major changes on this.

Michael HUTTNER

I know you have kind of answered it, but I was just hoping for a bit more clarity. You know the 8% plus 1%; my memory is that the 1% depends on reinsurance and capital management and all these wonderful things. Is that the bit that would definitely depend on the internal model, or does it depend more on reaching an agreement with reinsurers?

Carine PICHON

We prefer to use the internal model, because on a long-term basis it is less costly than paying reinsurance. We prefer to keep the money for investors and wholesales rather than give it to the reinsurers. That is why are now targeting a partial internal model.

Xavier DURAND

We would be counting on ourselves rather than being dependent on other parties. I think that is the argument by which credit insurance has to be more expensive, because there has been a hurricane in one part of the world is less palatable.

Michael HUTTNER

Yes, I understand.

Thomas FOSSARD, HSBC

I just wanted to touch on the reserve release. I am a bit surprised to see that despite the normalisation of the environment reserve releases at 34 points of combined ratio, it is still not showing too much normalisation yet. I think that in the past you mentioned that we should expect this number to trend lower. Actually, on page 67 of the annual accounts, from what I can see from the table here on reserve releases, the absolute number has increased by EUR 35 million year-on-year, which seems significant growth. Can you help us to understand the different moving parts in the current year and the reserve release and how we should expect these two numbers to evolve in the coming year, maybe in 2019?

Xavier DURAND

I will take this one, because it relates to the sequence I have been describing of the economy getting to the high point in 2017 and starting to show more volatility from the end of 2017 and the beginning of 2018. As we said, we expect that trend to continue. On the other hand, there are two things that happened in Coface. We had a tough year in 2016 in a tougher part of the cycle, in emerging markets in particular, which led to recoveries in the past couple of years. We also had a very good underwriting year in 2017, because that was the peak of the cycle and this is still coming through the P&L. I think we will continue to say the same thing we said before, that we expect this to normalise as it should, as the cycle goes through.

I will just wrap this up and thank everybody for logging in. Obviously, our team here will be able to follow up with you separately. We look forward to the next call, which will be for Q1.

(End of transcript)

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FINANCIAL CALENDAR 2019 (subject to change)

Q1-2019 results: 24 April 2019 (after market close)

Annual General Shareholders' Meeting 2018: 16 May 2019

H1-2019 results: 25 July 2019 (after market close)

9M-2019 results: 23 October 2019 (after market close)

FINANCIAL INFORMATION

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

For regulated information on Alternative Performance Measures (APM),

please refer to our Interim Financial Report for H1-2018 and our 2017 Registration Document.

Coface: for trade - Building business together

70 years of experience and the most finely meshed international network have made Coface a reference in credit insurance, risk management and the global economy. With the ambition to become the most agile, global trade credit insurance partner in the industry, Coface's experts work to the beat of the world economy, supporting 50,000 clients in building successful, growing and dynamic businesses. The Group's services and solutions protect and help companies take credit decisions to improve their ability to sell on both their domestic and export markets. In 2018, Coface employed ~4,100 people and registered turnover of €1.4 billion.

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