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 reporting" section.

FY-2017 Results

Conference Call Transcription

Paris, 12 February 2018

Presentation

Moderator

Welcome to the conference call for the presentation of Coface's results for the period ended 31 December 2017. Your hosts for today's conference will be Mr Xavier Durand, CEO of Coface and Ms. Carine Pichon, Group CFO and Risk Director.

Xavier DURAND, CEO, Coface

Good evening and thank you for joining the call today. We are pleased to report our full-year 2017 earnings. As usual, I will turn directly to the key highlights, which can be seen on page 4. As you already know, our net income came in at EUR 83.2 million for the year, driven by an improvement in the loss ratio. Our turnover reached EUR 1,354.9 million, up 0.3% at constant FX and scope, with the fourth quarter up by 2.3%. We have observed a continuation of trends seen in previous quarters in mature markets, which have picked up by 2.8%. There is no significant change in emerging markets. We have seen strong client activity, benefitting from a buoyant economy in all regions around the world. Overall, we are continuing to see high client retention rates, in what is still a competitive pricing environment. For the full year 2017, our net loss ratio is down by 14 points, to 51.4%. The total combined ratio for the year stands at 86.6%. Q4, at 41.8%, was helped by good management of past claims, as well as a lower flow of new claims, particularly in Asia and Latin America. In mature markets, we observed an overall stable frequency and a few large cases. Our net cost ratio is very stable at 35.2%, versus 35.1% in 2016. In total, the net income Group share comes in at EUR 83.2 million, with EUR 28.2 million in the fourth quarter. From an operational standpoint, as you know we have been going through a transformation journey at Coface and our Fit to Win investments are more than financed by the savings we have made. In total for the year (and we report this number every quarter), we achieved EUR 19 million in cost savings, so we are ahead of schedule. The goal of EUR 30 million that we identified for 2018 is confirmed. Over the year 2017 as a whole, we invested EUR 16 million into growth, risk and regulatory management and process transformation projects.

Following on from these highlights, I would like to go to page 5 and talk a little about the solvency and key capital points. As you can see, our solvency ratio stands at 166%, which is above our target range. This therefore allows us to trigger additional capital distribution. We publish these solvency figures twice a year and Carine will give you further details later on in this presentation. Our return on average tangible equity stands at 5.3% for the year. Our estimated solvency ratio has been going up since the last estimate made at the middle of last year. This has been driven by three factors:

- Better risk performance;
- An optimised reinsurance structure, as we discussed throughout last year;
- Some model refinements - we are talking here about the standard model that we apply.

We have decided to maintain our 26% quota share reinsurance cession rate, but we have also implemented a more resilient structure (which Carine will be able to explain in more detail later). In addition, we are relaunching an internal model project that we had been talking about in the past.

Given these numbers, we are activating the capital management lever, provided for in our Fit to Win plan. We are proposing a EUR 0.34 dividend per share, which corresponds to 64% of the earnings per share. We are also launching a share buy-back programme for a targeted total amount of EUR 30 million. When you add these two points, they bring the pay-out ratio to around 100% of the earnings for 2017.

Looking at the highlights on turnover on page 7, you can see that revenue growth is turning positive, largely boosted by client activity. As I mentioned, total revenues are up by 0.3% at cost, scope and FX, mainly driven by the activity of our clients. There is a double effect here, as the improved economic environment is driving turnover up and obviously improving risk environments - but it is also putting pressure on pricing. Our other revenues, from factoring and services, are up 2.4% for the year, ex-FX, and are growing in line with the rest of the business. Our fees to premium ratio is quite stable at 12%.

Looking at the split by region (on page 8) and how the stories are developing there, you can see that we are seeing improved performances in mature markets, although there is still some shrinkage in emerging markets. Western Europe grew by 3.6%, boosted by the continued positive impact of the volume effect from our clients' activities, as well as from bonding and single risk, which are growing. Northern Europe is better, but not yet positive. This region is still a tough market and is down by 1.1%. This is better than in previous years, but still not quite there yet. Central Europe is growing steadily at 3.7%. The Med and Africa has been growing strongly, with very good performances in Italy and Spain. North America is down by 8.9% - which is similar to trends we have seen in the past due to the cleaning-up of some of our portfolio and some non-repeated large deals. It is a little better but still negative. Asia Pacific is also continuing on a similar trend, down by 10%. Latin America is slightly down by 1.6% - which I would call more or less flat, driven by some large international contract negotiations which changed the parameters of our business a little. Basically, however, this region's performance is fairly flat.

If you look to page 9, again, you see overall trends are similar to those we have seen in previous quarters. New business, at EUR 129 million, is flat in mature markets but impacted by the actions we have taken in emerging markets. Our retention rate is actually at a record high of 89.7% for the year. Higher retention has been an area of focus and it is actually continuing to improve. As you can see, from a price standpoint, the year has been negative by 1.5%. This is better than in previous years, but you can still see the impact of the pretty intense competition going on in the market. When you look at the volume figures, you can see that after a flattish sort of 2016, the activity of our clients has rebounded. This reflects both the improvement in the economy and the better performance of commodities, which are significant in our mix of business.

On page 10, we can see significant improvements are continuing as regards to loss ratios. The total loss ratio for 2017, before reinsurance, comes in at 51.4%. This represents five continuous quarters of improvement in our loss ratio. In Q4, the headline loss ratio before reinsurance was 50.3%, but a large piece of facultative reinsurance business (risks that we had decided to reinsure with specific conditions), represents 9.7 percentage points of this. Therefore, if we were to compare to prior quarters, the real loss ratio stands at 40.6%, which shows a continuous improvement from the previous quarters. The traditional split of where we opened the year and how the past year has performed shows that we opened the year higher at 74.1%. This reflects one large case in Western Europe which is linked to business that we wrote in 2017. On the other hand, the "boni" from previous underwriting years have normalised (as we have highlighted several times here) to 25.1%. This is very much in line with historic levels and what happened in past years.

On page 11, where we split the risk numbers (loss ratio before reinsurance) by region, I will start with the four traditionally stable regions, which continue to be constant. Central Europe is just below 50%. Western Europe has been going up, but has been impacted by the phenomenon I just highlighted of the business with facultative reinsurance that is thus not impacting the loss ratio , as well as one large file. Northern Europe is stable at 57.2%. The Med and Africa again remains very stable at 48.4%. There is good news from North America, which ends the year at 49%, which is much improved from 2016. Asia Pacific ends the year at slightly below 54%, which I would call largely normalised. We are seeing both a lower flow of new business and better performance on past files. Latin America ends the year at 36%, which is quite a strong ending, with some of the same forces at play.

On page 12, which talks about costs, we have been very disciplined - and particularly so in two areas. Firstly, we are driving tight cost controls and secondly, through determined cost savings - so we are funding the transformation of the business. Our total costs are up by 2.3%. You may recall that we had a one-off tax item in Italy, in Q3 or Q2, that impacted the cost base. If we exclude this, our overall cost growth for the year is 1.4%. This is split between internal costs, which are flat and external costs, which continued to go up a little. This was driven by further intermediation of some of our markets, particularly in emerging markets. The split by quarter shows that Q4 ended up with EUR 127 million of internal costs and EUR 40 million of external costs, representing a growth of 1.4% in total. We continued to drive our Fit to Win savings programme throughout the year. As the restructuring actions are now taking hold, we have achieved EUR 19 million in total cost savings for the year, so we are clearly ahead of schedule. We are therefore confirming our EUR 30 million target for 2018. As we highlighted throughout 2017, we have been investing into growth initiatives, risk and regulatory management and process transformation. We are driving a deep transformation of Coface. From the EUR 518 million, we have saved EUR 19 million and reinvested EUR 16 million of this into different parts of the business. We had to incur EUR 10 million of inflation and the Italian story drives another EUR 3 million, which brings total costs to EUR 525 million for the year.

With that, I will turn it over to Carine, who will take you through the rest of the presentation.

Carine PICHON, CFO, Coface

Good evening everybody. Before I talk about the 2017 results, I would just like to highlight what we have decided to implement as the reinsurance structure for 2018 and the year after, on page 13. We have decided to keep a 26% quota share, with the same panel of reinsurers, but also to split this into two treaties. In this way, we can secure access to high quality partners through multi-year agreements. This is something that will start as from 1st January 2018.

Coming back to the 2017 results, premium cession rates rose to 27.2%, following on from the rise from 20% to 26% of quota share the year before. We also have an increase in claim cession rates, mainly due to the fact that we have had several large claims, which have been ceded through facultative reinsurance. That is why we have a higher cession rate in 2017.

Net combined ratio, on page 14, stands at 86.6%. This represents a decrease of 14 percentage points. The trend quarter by quarter is improving, down from around 103% in Q4 2016, to 76.4% in Q4 2017. This is mainly driven by an improved loss ratio, quarter by quarter.

Taking an overview on our financial portfolio on page 15, we have a slight increase in investment income at EUR 55.3 million, compared to EUR 48 million in 2016. Our portfolio is quite stable in terms of diversification of asset class and our accounting yield excluding gains on sales stands at 1.5%, up from 1.2%. In a global environment where interest rates have decreased, we have been able to more or less sustain our accounting yield in 2017.

On page 16, our net income is EUR 83.2 million. Our current operating income, which is a clearly our economic performance, stands at EUR 155 million - up from a little less than EUR 35 million. This is a sharp improvement. The tax rate is 41% for the full-year, which is an improvement compared to the 56% in 2016. I should also mention that in the last quarter we included a provision for the French tax settlement. As previously mentioned, we had a tax audit. This has now been completed and represents a one-off cost of EUR 12 million of tax. This has been incorporated into the last quarter of our 2017 results.

As concerns return on average tangible equity, on page 17, as a reminder, in 2016 we were at -0.8%. We have benefitted from 4.4 points of improvement due to technical results and particularly to improved combined ratios. 0.3 points resulted from a slightly higher investment income and the tax rate improvement represented an increase in the RoATE of 1.4 points, bringing us to 5.3% for the full-year 2017.

As you know, we publish an overview of our capital management twice a year. On page 19, our balance sheet remains solid and there is no change. Focussing on IFRS 9, this is a standard that we will have to apply - not to insurance activities (because it has been postponed), but to our factoring and services. This will have an impact as from 1 January 2018. We do not anticipate any major impacts from this standard for these activities. As you know, our financial strength was reaffirmed last year by Fitch with an AA- rating and by Moody’s with A2.

On page 20, our solvency ratio has improved. In 2016, we stood at 150% and this went up to around 166% for the end of 2017. The main evolution came from the decrease in insurance capital requirements, which represented an improvement of 14.5 points of solvency, as well as 8 points on own fund variations. This improvement mainly comes from better risk performance and greater profitability, which also helped strengthening our capacity to absorb shocks as per Solvency II, thanks to tax improvements. We also have the full benefit of our optimised reinsurance and particularly the fact that we increased quota share cession rate from 20% to 26%. We also brought in some model refinements, to optimise each line of the calculations. The -5.7 points of impact in factoring capital requirements mainly comes from the fact that we have anticipated changes in regulatory capital calculations which will come into effect over the following years.

All in all, our estimated solvency ratio is above the comfort range of 140% to 160%. We have earmarked four to five points for potential bolt-on investments and we have decided, based on this robust solvency ratio, to launch a EUR 30 million share buy-back programme. We have also updated the sensitivity of our solvency ratio to market shocks. We still have a low sensitivity to financial market shocks on our portfolio. For example, an increase of 100 basis points on interest rates represents a 5 points decrease in our ratio. A

100 basis points spread increase represents 3 points and a 25% decrease in stock markets would be 3 points too. We are clearly more sensitive to loss ratios or crisis scenarios, but our requirements are met as, even with a crisis comparable to 2008 and 2009, our ratio would be 135%.

On page 21 there are more details on the split of the solvency ratio. Before any diversification or tax capacity to absorb losses, we have a capital requirement for insurance activities of EUR 1.3 billion. There is just under EUR 900 million from insurance activities and to that we add market risks and counterparty risks. After diversification between each of these risks and after tax adjustments which have increased, we are at around EUR 1 billion, on top of which we have factoring required capital. The estimated capital requirement for the end of 2017 is EUR 1,260 million, which is covered by just under EUR 2.1 billion of own funds.

Xavier DURAND

To wrap this up, on page 23, before we go to the Q&A session, our total 2017 operating profit comes in at EUR 154 million, up by EUR 66 million from last year. Our net combined ratio is down 14 points, to 86.6%. The key improvements are driven by losses, particularly Asia and North America. We are seeing the full effect of the risk actions that we have been discussing quarter after quarter. This is on the back of an economic environment which is favourable, with synchronous growth in most regions of the world. We end the year with a strong solvency at 166%, which is above the upper target of our range. We are therefore proposing a dividend per share of EUR 0.34 and launching a EUR 30 million share buy-back programme, which brings the total pay-out for 2017 to 100%.

On the business side, our transformation is continuing at full speed as we go into 2018. As I said earlier, we are confirming our EUR 30 million cost savings target for 2018 and we will continue to drive investments for 2018, with a total of EUR 19 million to be spent in three major areas:

1. continuing to embrace digital and driving innovation - from portals and scores, to digital processes and new technologies;
2. leading in client service quality and improving the overall efficiency of the business;
3. relaunching the partial internal model project, which we halted a couple of years ago.

To summarise, we are intensifying our cultural transformation. So far, we have been focused on the upper layers of management and processes. We are now going deeper and broader into this transformation. All of this remains based on our four key values: client service is number one, a deep expertise in many different fields, collaboration between our different functions and geographies, and then courage - because we need people that can make the right calls in good or bad cycles for our clients, whatever happens.

We have just introduced our refreshed purpose statement and our new tagline will be, 'Coface for trade'. This is because we believe that trade is good for the world and that we are here to help companies trade more, grow, and expand. We believe that this is good for the economy and that we are uniquely positioned to do this. We believe that we have a very clear value proposition of being a real multinational, present in a hundred different countries, but also one that has human scale with 4,000 employees. For professionals with career-drive, we have a unique value proposition where they can work with the global economy, and where their efforts will matter and make a difference. That is our tagline and our purpose.

We are confirming our 83% combined ratio target through the cycle, so there is no change in this respect. As a final word on 2018, we see the outlook as favourable. The transformation is progressing and we think it will continue to do so in a favourable environment. We see the trends we have observed in 2017, continuing into 2018 - particularly in the first half. With that, I would like to turn it back to you and we are ready for questions.

Questions and Answers

Moderator

Ladies and gentlemen we have a first question from Guilhem Horvath, Exane BNP Paribas.

Guilhem HORVATH, Exane BNP Paribas

My first question will be on the reinsurance agreement. I would like to have a better view on how this really works, splitting the quota share into two separate treaties. How does it actually improve your capital consumption? If I understand correctly, you said that 26% would still stand for the future - or is it possible that you will increase cession in the future? If you do not increase cession, how will you release more capital in the future?

The second question is on the solvency capital requirement. Can you give us a little bit more of a view on what the split will be between better risk management, better reinsurance and better loss trends in the SCR improvement? I think the consensus was more or less there for the Solvency II forecast, but we missed the SCR improvement a little bit. What should we expect for the future given the new reinsurance agreement and what are you planning in terms of outlook and risk management improvements?

I also have a small question on the bolt-on investments. What is this?

My last question is on the outlook. You said the favourable trend seen in 2017 would continue in 2018 H1 at least, but in 2017 I think you had an improvement in terms of loss ratios. Is it an improvement we are going to see in H1 - or more of a stabilisation? When I look at gross loss ratios, it looks as if they are now negative in emerging markets and I would assume that this is not sustainable going forward.

Xavier DURAND

Let me take a crack at some of your questions. I will start with what we call bolt-on investments. I think there is no news here in a way. I have always said that we would be open to what I would call small acquisitions that could add scale to some parts of our business, or provide critical skills that we might be able to leverage using our existing infrastructure. There is no news on this but it is just that we have planned for capital if this were to happen. We would need the space to be able to host it in our capital base. That is all we are saying. There is no big news, but it is important to say that we remain open to acquisitions such as these which could be profitable for Coface, if they happen to be there.

In terms of the reinsurance agreement, as you know, we went from a 20% cession rate to 26%. We took a deliberate step last year, as we thought that the market conditions were favourable and that it would improve our capital position. This year, we chose to stay at 26%, but to split the contract in two. Each one of these contracts is a two-year contract, but starting every year. This does not change the capital consumption or the capital release. What it does is provide better visibility and stability to the ratio over time, should we decide to rely further on reinsurance to strengthen our capital base. We did not do so this year as, in parallel, we have relaunched the internal model project. We do not expect this to have an outcome in 2018, but we want to keep our options open to either go with an internal model, to rely on reinsurance, or have a combination of both. That is the reason why we have done it this way.

When it comes to the solvency capital ratio, as Carine mentioned, there are 14.5 points of improvement, which are what we call technical. There are three factors playing here and they are all kind of more or less the same size. The first is the reinsurance improvement from 20% to 26% and we are just seeing the full effect of this, which is about five points. The second is the improvement in losses. As we have fewer losses, we need less capital. The third factor is that as we have more profits, we pay more taxes. If there was a shock, we would be able to tax effect this shock in and this would cost less than if we were in a loss position. This is an impact that helps the tax rate.

Guilhem HORVATH

What should we expect going forward in terms of SCR improvements?

Xavier DURAND

We do not provide an outlook on SCR or forecast that number. What we can tell you is we are above the target. We provided enough to pay for potential bolt-on acquisitions and we are releasing some capital because we are above our target range. It will be a function of performance in the coming year.

Guilhem HORVATH

I had a last question on the loss ratio outlook.

Xavier DURAND

I think what we are saying is that you have seen a gradual improvement of our position. We expect this momentum to continue into the first half of the year. It is obviously harder to foresee the second half and as you mentioned quite rightly, things will not stay negative for ever. It is just not the business model.

Guilhem HORVATH

You are basically saying that in H1 2018 we should continue to see an improvement in the loss ratio?

Xavier DURAND

I think the way we phrase it is that we see the trends continuing through 2018, particularly in the first half.

Moderator

The next question comes from Benoit Petrarque, Kepler Cheuvreux.

Benoit PETRARQUE, Kepler Cheuvreux

I have a couple of questions on my side. The first one is just to come back to the potential bolt-on investments and the four to five percentage point impact on Solvency II. It sounds as if it is an investment of roughly EUR 50 million to EUR 70 million. Could you confirm this figure? What type of return on investment are you looking to generate with this? Can we expect positive returns and impact on earnings overall? Or will it be more of an investment without potentially large rewards, but more of a strategic investment for the future?

The second question concerns the partial internal model. I was wondering if you could tell us a little bit more about the timing of the implementation and if you have already discussed it with your regulators? If you have any impact in mind of moving to the partial internal model, that would be very useful.

My final question is on pricing. Pricing is okay - a bit negative but I would not say dramatically so. For 2018, how do you see pricing developing, given the very strong loss ratio? I do not really have an example of previous cycles, so I do not know when the macro is going very well. We should probably look back to 2005 and 2006 to see this type of pricing pressure. Do you expect positive pressure? Do you think you will be able to maintain stable prices in a relatively strong macro?

Xavier DURAND

Let me start with the bolt-on investments. There is no specific plan here. We are just highlighting the fact that we are not excluding such acquisitions, if they materialise. We would like to be able to do this for two reasons. The first is that they could make us some money. The second reason, as you said, is that they could be strategic pieces of property that might bring us critical skills and be part of a growth investment for the business. There is no set strategy, but we want to have the space to do this as we think it could potentially bring added value to Coface. Again, we are talking about possibilities, rather than something that I have specifics on.

I know the question on the internal model has been hanging around for a while. We previously stopped the project, as we did not believe it was going to lead anywhere. We are now relaunching this on a new basis and as you know, these processes are complicated. They take time and in the end they are subject to sanctions by the regulators - who obviously only step in when you are ready and then review what you have done. It is therefore very difficult to predict what the outcome would be, whether it would be approved and if it were, what conditions would be approved. We cannot predict this and we do not expect such an event to take place in 2018. We just wanted to highlight the fact that we are relaunching this initiative for two reasons. First reason: we are going to have to invest time, resources and effort in doing this, so that is part of our investments. Second reason: whether it happens or not in the future might condition how much reinsurance we decide to purchase. That is why we have decided to stabilise our reinsurance programme on one side, work on the partial internal model on the other side and monitor things as they go forward. I hope this is clear.

When it comes to pricing, we are clearly in a good part of the cycle and, as I highlighted in the presentation, pricing is thus under pressure. As you saw, we have 1.5% negative pricing for the year. The way I think about the business, for a company such as ours, is that a good client relationship lasts around a quarter of a century on average. The relationship will traverse the ups and downs of the economy and we will provide value to our clients by helping them to manage credit risk in good and bad times - and by being what we call the most agile credit insurance company in the industry. That is what our clients value. For me, the value of a good client relationship is very high. That is why we are focussing our attention on serving them well and putting so much effort into retention. Acquiring new business in the highest part of the cycle is not always the wisest thing, because you have to provide conditions that may not create long-term value. We are going to be intelligent about doing this and, as I said, we are not going to be growing for growth's sake. That is why we did not want to commit ourselves to a growth target. We will be evaluating new client relationships on the basis of what they can provide over the cycle and how much to push for them going forward. Yes, I do expect pricing to remain under pressure in a good part of the cycle - but that is just life in our business. I hope that answers your questions.

Moderator

The next question comes from Hadley Cohen, Deutsche Bank.

Hadley COHEN, Deutsche Bank

I have a couple of quick follow-up questions. I just wanted a point of clarification on the solvency ratio of 166%. Is this net of dividends, but not excluding the buy-back?

The second question is on the solvency. I was not quite sure what you were saying with regards to the capital requirements on the factoring business. Are there still higher RWA charges to come through on the factoring business which will have a negative impact on the solvency ratio and which will be fully adjusted for all future capital requirements?

As concerns the tax rate, can you provide us with any guidance on to how you see the tax rate developing in 2018 or going forward? How quickly will you get back to a more normalised rate? Can you give a rough guide on the benefits of the lower French corporate tax rate coming through over the next few years? How will this impact your numbers?

Carine PICHON

I will start with solvency. The 166% solvency ratio includes the dividend to be paid, if validated by the general assembly and the buy-back programme for EUR 30 million.

Hadley COHEN

So both are deducted?

Carine PICHON

That is correct.

On factoring, just to be clear, it is <u>not</u> because the quality of the portfolio is lower than the year before or that we have taken higher risk in the portfolio we have in Germany and Poland. It is only because we anticipate a change in the Basel III regulations. This could lead to an increase in risk-weighted assets and an increase in the percentage that is applied to the risk weighted assets. So it is nothing to do with the underlying performance, but only due to a change in regulations. We do not know yet when it will be implemented, but we prefer to anticipate and disclose this to you.

Hadley COHEN

You are including the full benefit of what you think the potential changes could be?

Carine PICHON

Yes, exactly. We have included the full impact so we should not have other news on that.

Concerning your question on the tax rate, it is very difficult to know what a normalised tax rate is, as we are recording our benefits in a lot of different countries. Let us just say that we think a normalised tax rate would be nearer to the French tax rate than to others. As regards anticipating a decrease in the tax rate, specifically in France, this will not be in the very short term. It will be very progressive, so we cannot forecast what improvements we will see from tax changes in the years to come. We should start to see some benefits after the Fit to Win plan.

Moderator

The next question comes from Michael Huttner, JP Morgan.

Michael HUTTNER, JP Morgan

Could you give me the figure on the tax, because I do not know the French tax rate?

What was the reaction of your major shareholder when they saw the results? Did they say something like 10.4 - in other words, do they have a stated plan to disengage from Coface and have they discussed this with you?

The final point is on the target. Using rough maths for RoATE, if you reduce capital for the dividend and the buy-back, and increase the earnings with lower tax rates, I am being a bit optimistic here, but say around 80% combined ratios assuming that the momentum remains strong (as you discussed), it looks like you would be very close to hitting maybe not 9%, but 8.5%. What would you do in this case? Increase your targets?

Carine PICHON

The French tax rate is around 33%.

Xavier DURAND

On Natixis, I think you are going to have to talk to them. We cannot speak for them. We never have and never will. I do not have anything to share on this one.

In terms of the RoATE it is great news. We are never going to stop trying to do better, but we have not changed our RoATE guidance through the cycle, or our goals through the plan. When we are done with this, we want to be able to deliver an 8-plus-1% or 9% RoATE through the cycle. We are not changing our Fit to Win plan.

Michael HUTTNER

This question is arising for many Groups at the moment - and particularly those in insurance which are achieving their plans one year early. This is great news and not at all negative. What I seem to see from investor reactions, from share price reaction, is that once a plan is achieved, investors move on. In other words, building a strong relationship with your shareholders at the moment is important, as their expectations are also growing. That was the reason for the question.

Xavier DURAND

I get your point, but the plan is for 2017, 2018 and 2019, so we are about a year into this and around one and a half year since the announcement of the plan. We have launched a deep transformation of the business, on which we are working on very hard and I see 2018 as an execution year. I see this as a year when we make things happen, where we deepen and broaden the transformation and where the rubber hits the road. I think we are there and we do not plan to put out another plan until we are done with this one. That being said, we will always strive to do the best we can and make this company better.

Moderator

The next question comes from Thomas Fossard, HSBC

Thomas FOSSARD, HSBC

My first question is related to the solvency model. As you have lower claims at present, it looks like the model is telling you to hold less capital. From my point of view, this points to a somewhat pro-cyclical reaction to your solvency model. I know that this is probably how the formula works, but I think that one of your competitors in the past counter balanced this element in order to be prudent and avoid releasing capital at a point where everything is very strong on the claims side.

My second question is on the cost ratio. In 2017, there was a very strong improvement in loss ratios ahead of plan. A 35% cost ratio seems very high, so I just want to understand if you could guide us a bit on how we should think about this 35% improving in the coming years? Related to that, what kind of top line growth should we expect in 2018? Should we expect it to be in the low mid-single digit growth rate in 2018 (which would help)? Also, can you tell us, again related to the cost ratio, what you have negotiated with your reinsurer for the two quota shares? Are you paying fixed commissions, or are they on a sliding scale - which could potentially also have implications on the cost ratio?

Xavier DURAND

I would like to provide some background and guidelines on how we are thinking about this. Clearly (and there is nothing we can do about it) the solvency models are pro cyclical. It is always going to be higher when things are going well and lower when they are bad. There is not much we can do about it and we are very conscious of that. That is why you see us enjoying a good ratio, but not rushing to release extraordinary amounts of capital - because when things go the other way we would have to call that capital back. The framework that we have highlighted with the sliding range of between 140 to 160% is our comfort zone. This provides for the cyclical adjustment that comes through the natural sway of the economy. What we have done, since we are higher than this range, is to say that we can release some capital and also make provisions for bolt-on buffers, or acquisitions. If something comes our way, we want to be able to grab it if it makes sense for us strategically, financially, or both. Nevertheless, we are very conscious of this phenomenon, and the solution to release more capital therefore requires one of the other two tools that I highlighted – in other words, reinsurance or an internal model which would change that formula. I hope this is clear.

When it comes to cost ratio, over the last two years I have highlighted that I believe there are trade-offs we need to make between a few things. One is the amount of costs we incur in this business, which include both the running costs and the amount we invest in making the business better. These investments include how much we spend on risk management discipline, infrastructure and other things that help our clients to manage their risk. The second point is how much growth investments we make in developing new markets, new products, or new features that will make a difference for the future. I do not believe that having the lowest cost ratio is necessarily the best thing for this business. In a way (and I do not want to claim any kind of victory here), I think that the trend of improvement that you have seen in this business is because we have reinvested and because we have been thoughtful and disciplined in how we manage risk.

We are trying to find the right balance between the amount of cost, the amount of growth and the amount of risk that you see in the business. You have seen how quickly risk can swing and I think a good underwriting decision makes a difference that you can never catch up to with cost savings. We therefore have to make the right choices and I think we are deliberate about making savings wherever we can and reinvesting them in the business to make it stronger and better performing in the future.

I steered clear of giving a growth target, because we can deliver any kind of growth anybody wants. That is not the point. The point is to write good quality business that is going to grow the value creation of the business over time. That is very much a function of the cycles and not one cycle because we are in so many countries and in 15 different industrial sectors. It is a nimble and thoughtful exercise that is very granular. I do not want to be tied to a specific number that we can always reach, but that may not make a tonne of sense.

I will let Carine respond on the reinsurance commission.

Carine PICHON

We have retained a very good range of reinsurance commissions that we already negotiated the year before. It is still based on a fixed commission for two years and we have a capacity to have a kind of profit sharing to make it increase if the loss ratio is improved. All in all, we have a minimum fixed commission which is quite high.

Moderator

The next question comes from Guilhem HORVATH, Exane BNP Paribas.

Guilhem HORVATH

I just have a few follow-up questions. The first one is on solvency. If I understood your answer to Hadley correctly, it looks like you are going to pay something like EUR 53 million of regular dividends and EUR 30 million in buy-backs. On top of that, if I calculate correctly, you have EUR 76 million of excess. That would mean that before any distribution, you would be at a 179% solvency ratio. Is this correct?

Xavier DURAND

Where does 179% comes from?

Carine PICHON

The three points and the EUR 30 million.

Xavier DURAND

No. He said 179.

Carine PICHON

I heard 169. EUR 30 million addition pay-out represents about that.

Xavier DURAND

I do not think we understood your point. Can you repeat your question?

Guilhem HORVATH

I will go back to the beginning. The regular dividend is something like EUR 53 million in total. Then, you have a EUR 30 million buy-back coming on top of that. If I look at the solvency ratio today, it is 166%, which means that it is six points over your 160 top of range.

Xavier DURAND

We can probably take that offline, but that already includes the dividend that will be paid.

Guilhem HORVATH

Okay, so I did not get your answer to Hadley.

My second question is on the pay-out ratio. Are there any constraints on you to not pay above 100% of your yearly net income?

My third question is on return on investment and the running yield, because you are starting to see a little bit of a better trend here. Should we expect this trend to continue in the future? Do you foresee stabilisation or an improvement going forward?

Carine PICHON

On return on investment, we do not see an immediate improvement of this because, firstly we do not think that interest rates increase will come immediately but rather that they will increase progressively. Secondly, we still have to follow the reimbursement of our bond. We are anticipating a possible increase maybe at the end of the year, but most probably in 2019.

Guilhem HORVATH

The 100% pay-out?

Xavier DURAND

There is no rule or legal constraint, but it is what we think makes sense given the scale, where we are, the outlook for the business, the point in the cycle and all the other considerations that we have already discussed on this call.

Moderator

The next question comes from Benoit Petrarque, Kepler Cheuvreux.

Benoit PETRARQUE

Just a follow-up question. I see the Tier 1 own funds moving by EUR 67 million between the end of June and 31 December. I was wondering why you have an increase in Tier 1, if you basically accrued for the 100% pay-out in the full-year? I was just wondering what is driving the increase of Tier 1 own funds?

Carine PICHON

In Tier 1 own funds, what you have specifically is the improvement in “best estimates”. Under the Solvency II regime, the way we estimate own funds is based on the provision calculated at “best estimate” and not on the IFRS. The improvement you see here is clearly the improvement in our risk performance and on best estimate of the loss ratio.

Xavier DURAND

That is the pro-cyclical element of the model.

Moderator

The next question comes from Michael Huttner, JP Morgan.

Michael HUTTNER

Just one clarification question and one more growth-related question. Regarding the 166% Solvency II ratio - is that before or after spending money set-aside for bolt-ons?

The second question is on loss ratios. You said you did not want to be tied by any kind of growth outlook but maybe you can talk us through a little bit on the countries where you see most return on all the investments you have made for growth, risk management and digital? That would be very helpful.

Xavier DURAND

This 166% is before we would make any bolt-on, or any other sort of investment.

In terms of your question on regions, I think you are aware that the business was challenged in 2014 and 2015 in the emerging markets of the world. I would add to this some sectors and we talked about what happened with commodities. We talked about some of the changes in the retail sector and what happened in the trading space throughout this time. Basically, what Coface has been doing is to review country by country, how much we knew, how much we could do, what the outlook was for business, what kinds of risk we were happy to take and those we believed we should probably not take because the risk-reward equation was not in our favour. We have done that deliberately and sometimes by saying that we will take some of the risk but we will reinforce our infrastructure around it by spending more money, hiring more people and doing more work. Sometimes, we just concluded that we wanted to get out of these risks. Sometimes, we just tailored things one way or another. The result of this work is what you can see in these graphs on page 11. I think it is hard to go all over the world, as there are a lot of factors in play, but the usual suspects were clearly Asian countries tied to a lot of trading. In North America it was energy and retail. In Latin America it was more tied to commodities - but more soft commodities with food and climate-related sectors. Then we had the other ongoing issues to manage with the UK Brexit situation, Turkey and the Middle East. The effort is very much split all over the world. We are continuing to manage situations on a very dynamic basis, one by one. The goal here is to be very agile and to react as things develop. I hope that answers your question in terms of what we are trying to do.

From a growth standpoint, I think we have again been deliberate about saying that we wanted to halt a decrease in market share that affected Coface in mature markets and about finding a growth rhythm in emerging markets which was consistent with the underlying risks and our real capabilities. I think you have seen that happen. We deliberately decided to remain in emerging markets, because to be present in these parts of the world, you need to have been through the cycles. You need to learn, experience and build your expertise over time. This is one of Coface's unique differentiating capabilities. We are deliberate about being there, but also about being there in a reasonable way and learning more when the risk-reward makes sense for us.

Michael HUTTNER

One of your major competitors is going to have no traded minorities at some stage. Clearly there have been a lot of management changes there linked to that. Is there an opportunity there for you to pick up talent, or market share or something?

Xavier DURAND

We have quite a few opportunities, as this industry is quite insider-bred. We have changed a lot of people at Coface as you know. We have been deliberate in reinforcing our structure and I do not think that is going to change our plans in any way, shape or form.

This has been a very active session but I think we are now over an hour, so we are probably running out of time. If you have any follow-up questions, we will pick them up with the team here on an individual basis. I want to thank you for joining the call. Today marks the two year anniversary of my personal tenure at Coface, so clearly there has been a lot going on. We had some rougher times and it looks now like we are having a better time. Thank you for your continued attention and we look forward to speaking with you again at the end of the first quarter. We will talk about what happened then. Thank you.

(End of transcript)

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FINANCIAL CALENDAR 2018 (subject to change)

3M-2018 results: April 24th 2018, after market close

Annual Shareholder's General Meeting 2017: May 16th 2018

H1-2018 results: July 26th 2018, before market opening

9M-2018 results: October 24th 2018, 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 H1-2017 and our 2016 Registration Document.

Coface: for trade - Building business together

70 years of experience and the most finely meshed 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 2017, Coface employed ~4,100 people in 100 countries and registered turnover of €1.4 billion.

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