



T R A N S C R I P T

Conference Call Transcript

FY 2014 Results: Analyst Call

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Operator (Audio begins in progress)

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending December 2014. I now hand over to Mr. Jean-Marc Pillu, CEO of Coface. Sir, please go ahead.

Jean-Marc PILLU, CEO, Coface

Thank you. Good evening, everybody. Welcome to our full-year results' conference call. As usual, I'm with Carine Pichon, our Group CFO. I will give the floor to Carine in a few minutes for a detailed presentation of our performance last year. But before this, I would like to make some global comments. You may like to give a glance to the slides which have been provided to you.

So firstly, the economic background. The macro environment is improving, as we said last year, on the occasion of the IPO. We said that 2014 should be better than 2013, and that 2015 will probably show an even better improvement.

The latest GDP estimation confirmed this opinion, as you can see on page 5 of our presentation. Growth is higher in most of the countries, even in Europe but especially in the U.S. And in emerging countries, even if growth is constrained, the performance in 2014 is at the same level as in 2013. In 2015 growth will continue to be constrained, but nevertheless we expect slightly accelerated growth.

It's clear that cheaper oil prices and the much lower euro exchange rate will help in this respect. The supply side reforms which have been delivered in some countries, and are still to be delivered in others, are going in the right direction - although there are still numerous areas of fragility around the world. By these areas of fragility I'm referring to countries, but also to certain economic sectors. I will come back to this subject later, when we discuss risk monitoring.

So, while the recovery is here, it's true that it's slow and laborious. From a micro-perspective, this is weighing on corporates and companies, many of them being hurt by the long crisis. There is still, consequently, quite a high level of insolvencies, as you may judge by yourselves from the right hand side of page 5 of the presentation.

When comparing 2014 to 2007, you will see that with the one exception of Germany, we have not returned to the levels of 2007. So, not before the crisis we are now exiting progressively, but the previous one of 2008 – 2009. This is no surprise, as we know that insolvencies only decrease when the rate of growth is sufficiently high. This is something that we will examine today.

Leaving this global perspective, I will now focus on Coface and comment on our business model. As a reminder, as shown on page 6, our business model is structured around three pillars. These are topline growth, risk management performance and operational leverage. Let us go through each of them, starting with operational leverage.

On the right-hand side of page 6, you will see that last year we were able to maintain our internal costs flat, and stabilise our staff numbers through measures to improve our productivity. Some examples of this are shown on the slide. As a result, you can see the quasi-stability of our cost ratio last year, compared to 2013. As regards commercial momentum, we did not benefit from a very high growth in the activity of our clients last year, even though this seems to have picked up slightly.

Nevertheless, in an offer-driven market, we are targeting growth through the combined means of

innovation, product differentiation, geographical expansion and industrialisation of our processes. If we look at page 7, we can see that as regards innovation and product differentiation with TopLiner, for the second year we have a nice demonstration that new products can help to increase our top line. You can see there are 19 million euros in new premiums thanks to TopLiner, compared to 12 million in 2013 - and starting from zero the year before.

You may also remember that we launched a very large programme of innovations. These innovations concern not only new insurance contracts for SMEs, but also new services and new products for existing clients. We continue to deliver and position these new products in the various countries where we are active.

From the presentation you can see that we gained 12 new countries this year for EasyLiner, to bring us to over 60 countries. On the subject of geographical expansion, I would like to remind you that we have the largest geographical footprint in the credit insurance business. But we do not intend to rest on our laurels. We want to grow and develop credit insurance wherever it is useful for our clients.

You may remember that I took the example of the U.S. to illustrate that the more we are proactive in the various countries where we operate, the more we will sell policies. For us, the U.S. is a good area to test and build up on this strong opinion. For this reason we have increased our number of sales agents in the U.S. by 50% - and you can see the results in terms of growth of our top line in this country.

In addition to this, you may remember that we mentioned the acquisition of a licence in Colombia at the beginning of last year. We also acquired a new license in Morocco last year and today we are announcing a new license in Israel, from the beginning of this year. We also mentioned a partnership in Serbia and since then, we have opened a rep office in Kazakhstan. So we will go on opening new countries and strengthening our position in these countries through the acquisition of new licences. And we'll keep you informed of what we're doing.

Last but not least, in an offer-driven market, the industrialisation of sales processes is key. This forms the main part of our 'industrialisation of processes' pillar described on the left of page 6. This starts with lead generation and then covers multi-channel distribution, direct, brokers, partners, banks and general insurers, steering through KPIs and by having a funnel approach, from leads down to contract-signing. Sales force training is paramount. Credit insurance contracts are not sold by chance. They are sold if you have a trained sales force. At the end of last year, we finished the training of 1,200 commercial people all over the Coface world, if I can say so in such terms.

Our final pillar is the risk monitoring one, to which we refer in page 8, with its three main components. One of the things we worked on last year is our proximity to companies. You cannot underwrite risks properly, if you are not close to the risk. We were already in 45 countries in terms of information centres and we opened a new one in Indonesia. One advantage of this is to be able to get fresh information on risk and another is to be able to underwrite properly and quickly. Proactivity in risk underwriting is essential.

We had various occasions last year (and continue to do so) to launch and run specific action plans within countries and activity sectors. It is important to be quick and finely-tuned in this respect. This is particularly relevant to claims collection. As you may remember, we said that we still had some room to improve our efficiency in this respect. You can see that last year, we increased our collections rate up two points, to 48.7%.

Putting everything together, this leads to a decrease of our loss ratio from the previous year of 3.5 points. So in summary, despite a still challenging environment, the business model of Coface allowed us to deliver what we consider as good results, in line with our expectations. You can have a quick glance at these results on page 10.

A quick last comment on turnover growth, before going into more detail with Carine. We gave you a guidance on turnover growth of between 1.5 to 2.5. We are within this guidance, with 1.6 for the turnover and 2 points for the gross earned premiums. I am not referring here to the net earned

premiums: you may remember that we decreased our rate of cession to reinsurers. So this speeds up the rate of growth of our net earned premiums to 8.8%.

Referring to the net combined ratio, with a target of less than 80%, we are at 79.7%. This is 2.8 points less than the previous year, with a 3.5% contribution from the loss ratio I already referred to and a quasi-stable evolution of our cost ratio.

Finally, an operating income and a net income (excluding the restated items you are familiar with) with double-digit growth. But more than a double-digit growth, a double-digit starting with a '2', at 20.7% for the current operating income and 23.2% for the net income. I'm very happy to disclose these results and I now give the floor to Carine, to go into more detail.

Carine PICHON, CFO, Coface

Thank you, Jean-Marc. Good evening, everybody. So, I will go into the financial results in more detail. So, let's start with the commercial performance. Commercial performance of premiums, as just said, has seen 2% growth. When you look at the components of this, as on slide number 11, you'll see that we continue to have a positive evolution and steady growth in new production.

The growth of new production, in other words our capacity to acquire new clients, was 7% for 2014 compared to 2013 (which also saw growth compared with 2012). Retention rates, which measure our capacity to retain our existing clients, is at 89.2%. This continues to remain strong and is even better than the three years before. In terms of price, we do have price pressure on the market and it is higher this year than the year before. However, we have been able to manage and to contain this price evolution.

As you can see, the price effect for 2014 was -1% and this has been more than offset by the increase in our clients' activity. The growth of our own clients was 3.3%, compared to 1.8% in 2013. For the other components of turnover, let's take a look at page 12, on the right-hand part of the slide. Earned fees, which we always present to you, are a complementary revenue for insurance. Earned fees increased by 1.5% for the 2014 period, leading to a ratio of fees under gross earned premiums of 11.7%. This is the global picture for turnover.

Now if we look at the next slide, on page 13, we can clearly see that our model is to be in a maximum of countries. We mentioned before the fact that we developed and extended our geographical footprint last year. We will continue and it works because it is with these countries that we can capture and benefit from a high-growing market. This is what you can see from Central Europe to Latin America, where growth has been from 3%, and up to 13% in North America. So, we have really benefited from extending our geographical footprint.

Let's discuss now Northern Europe and Western Europe. Even though the evolution of turnover is negative, one feature of these regions is that the net production is better in 2014 than in 2013. Net production is the difference between new clients and clients that we have lost.

A specific word also about Western Europe. Western Europe, -2.1%. You will see later that Western Europe is the most profitable of the seven regions, with a very low loss ratio of under 40%. So we have had some complementary premium refunds, which are included in the top line. I would also say that premium refunds are a negative effect of a global positive effect in this region, which is a highly-profitable region.

Slide 14, our loss ratio. This loss ratio is the one before reinsurance. That is why the figure is different from the figure of 50% mentioned before. So before re-insurance, we posted a loss ratio of 47.6% for 2014, which is similar to what we have posted during the previous quarters and which is in any case better than the last few years. Having a look at the split of this ratio between the loss ratio of the current year (so 2014) and the positive run-off coming from the year before, you will see that we have 72.5% of current loss ratio. The positive run-off, which is more than 27 points, is also quite similar to what we have seen during the previous quarters.

Let's go to the global forecast ratio now, on page 15. You will see that our internal costs are under control, at 0% growth, so we can say flat growth, which can be compared to a 2% increase of gross premium. I would like to remind you here that we had said that our costs should grow at a lower rate than the growth in premiums and that is the case here, because the internal costs are stable.

Distribution costs have maybe increased a little, mainly because of the geographical mix. All in all, expenses have decreased by -1.4% on the period.

Another component of our profitability is reinsurance, which is on page 16. As you may know, we decided to increase our retention, so that is why it is at 76.5%, a higher retention rate than for the year before. But also, what is important is that we have improved, once again, our reinsurance conditions. You can see this in the ratio which is the commission we received from reinsurers, based on the premium we ceded to them. This is around 36%. It was around 34%, and even 32% the year before. So, we have benefited from the improvement of loss ratio and reinsurers have agreed to give us more commission. This is reflected in reinsurance results. The cost of reinsurance is €69 million. It was €66 million. So this is more or less stable, knowing that the profitability we will see before reinsurance has increased somewhat significantly.

We also mentioned an event, which has no effect on accounts, but which occurred at the end of last year. This event was the creation of a new company, called Coface Re. Coface Re has two main objectives. The first is to support the development of Coface Partners. We have a lot of partners in the world and we will centralise their reinsurance to facilitate follow up and discussions with them. It will also facilitate our capacity to distribute dividends.

I will explain a little what I mean by this. As you know, in the European Union we have an equalisation reserve, which is a reserve that we have to put into our statutory accounts. That is not the case in Switzerland, as it is not compulsory. So by transferring some results to Coface Re, we will be able to not book this reserve. This will therefore facilitate our capacity to distribute results for the year to come.

So, all in all, on page 17, you can see an improvement of the net combined ratio by 2.8. Just to come back to cost ratio, I mentioned earlier control of internal costs. The cost ratio is more or less stable at +0.6. The split corresponds to external acquisition costs - which is +0.8 and internal costs of -0.2 points for 2014. Another interesting element on this slide is the fact that the underwriting income grew by 21.2% before reinsurance, and after reinsurance by 30%. Clearly, this is another way to show that reinsurance commissions have improved during the year.

Page 18 now, for some comments on our investment income. We have a portfolio of €2.56 billion. Here we have the split per class or per type of asset. What is interesting to mention is (not on the last line but just before) that the accounting yield on the average investment portfolio is 1.9%. This is the same as last year but I think you know even better than I, that market conditions were not so easy this year. So we consider that this is a good result for the year. And even if we include the unrealized gains on our portfolio, you have here the economic yield on average portfolio, which is 3.2% - to be compared with 1.4%. So we have also improved our economic yield in the period. This is the summary for investment income.

Slide 19 now, with some comments on our balance sheet and our financial strengths. I think you will know this, because we just published it, but our ratings were reconfirmed at the end of the year by Fitch and Moody's at AA- and A2 respectively. We have also retained good financial ratios. Coverage and leverage ratios are stable compared with last year.

When we look at Coface's strengths, another component which is very important is our economic capital adequacy, as disclosed on page 20. Just before commenting on results, I want to tell you that we have changed our methodology of calculating the coverage ratio. Last year, the way we did it was to take our available capital and deduct it from the capital needed for factoring activities.

This year, we have anticipated a Solvency II way of calculation. We have added economic capital for both activities - factoring and insurance - and we have compared it with the full amount of available

capital. So having restated this method, you can see that the coverage ratio was 145% for 2013. For this year, the ratio is stable at 144%.

So, the same coverage ratio and same financial strengths in terms of capital as for last year.

On page 21, you have the change in our return on average tangible equity. You can see from the bottom of the slide, that we have increased this by 110 basis points. We were at 8.4 and 7.6 if we exclude exceptionals of 2013. You can see that we have increased it, thanks to improving technical results i.e. improving combined ratio by 1.6. Financial results have also contributed by 0.1 points.

We have decreased our tax rate. This led to 0.3 points of improvement on this return. Then we have hybrid debt costs and others, which were a negative aspect, as expected. All in all, we achieved a return on average tangible equity of 8.7% for 2014. Based on this result, and also on the calculation of economic capital, we plan to have a payout ratio of 60%, which means that we will have a dividend per share of €0.48 to be distributed next May.

Looking at the last slide on page 22, there is something which is important to mention concerning the agenda. We will be proposing amending the company by-laws next May, to say that there should be one vote for one share. As you know, there are currently some discussions in France. There may be some discrepancies, but have we decided that we will apply this rule of one vote for one share, for all investors. And now, to conclude, we are open for any questions.

Operator

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

Benoît PETRARQUE

Yes, good evening. This is Benoit from Kepler. Yes, so the first question is on solvency. Thanks for the economic capital of 145. I was wondering if you now kind of expect significant differences with your Solvency II ratio. I know that you are in the process of discussing that with your regulator, but are any large differences expected at this point? And I was a bit surprised to see the economic capital is relatively stable in 2014. Obviously you have much more insured risk. I think it's up 7% in the year. But what can we expect in 2014? Can we anticipate further reduction of the required capital on the ratio?

The next question is on price pressure. Very limited so far. I mean, normally better macro comes with a little bit more pricing pressure. You probably renegotiated a large part of your contracts for 2015. What do you see in 2015 and what do you expect in terms of pricing pressure? Will that stay close to zero, or could that be a bit more negative?

Then on the cost side, I do see a little bit of higher costs in the fourth quarter. It looks like the adjusted net operating expenses were just below 80 million in the fourth quarter, and I was wondering if there were any specific items, maybe seasonality or something special in that quarter. So just focussing on the fourth quarter.

And finally on the net loss ratio, it's a little bit up for the full year versus the first nine months and I was wondering if there's anything special which we should be aware of – any, maybe, special items, or special claims that you have been suffering from in the fourth quarter. Just trying to understand the Q on Q trends in the fourth quarter in terms of net loss ratio. Thank you.

Carine PICHON, CFO, Coface

So I will answer on Solvency II. On Solvency II, there is nothing new. We are having discussions with the French regulatory authority, the ACPR, and there is a lot of work. We are currently having discussions on some technical and parametrical aspects of the model and how it is calculated. They have their own agenda, so we think that before the end of the year, or at the end of the year, we will have more information to give to the market. As of today, there is no news. No bad news, no good news. We are in the process of discussing with them.

In terms of evolution of the economic capital, you are right. If we just focus, for instance, on slide 20. On the insurance economic detail, it was 1,015 million and it is now 1,029 million. So it's an increase of 1.4%. I understand that you had expected a higher increase. Just to remind you, what we said last year still holds true: we have higher need of capital when premiums are increasing, and not only premium increases of the year before, but also expected growth because we anticipate results in the economic capital of the year to come.

We also benefited from two positive aspects on capital. The first is the fact that when the loss ratio is improving, you need less capital, so there is a positive effect. Secondly we also explained that the further we were from 2008, the better we would be in terms of calculation of capital, because the weight of that year will be lower and lower. So that's the reason why you see this increase of 1.4% in insurance economic capital.

Concerning the other question, maybe I will just start with cost. You are right, there may be some variation in costs during the year, per quarter. This is linked to commitments of expense made over the year and which can obviously vary from one quarter to the other. So this is why I prefer to comment on the full year results in terms of cost which is at the flat level of 0.0. It was 1.1 at the end of September, so you can see the variation we also had in 2013. We are continuing to control our costs. We didn't mention that our staff costs have also stabilised, in terms of number of people. We are continuing to work on productivity. We gave you some examples of this, but we know that there is some room for improvement and we will continue in that direction.

Benoît PETRARQUE

Could you give us some examples of typical seasonality for your business? Is there anything special? I'm just trying to understand why it should be up in the fourth quarter except for big bonuses at the end of the year? I'm just trying to understand the seasonality.

Carine PICHON, CFO, Coface

I don't think you should make any comparison with bank bonuses. We don't have the same level of bonuses.

Benoît PETRARQUE

I was joking, of course.

Carine PICHON, CFO, Coface

Okay - I am not saying there is no bonus, but that's okay. You may also have some provisions according to the timetable of departure of some people, but provisions can move during the year. It's not mathematical, but we know that it happens.

In terms of net loss ratio, which was one of your questions, I prefer to comment on gross loss ratio - because you can really see the trend of notification we received. Jean-Marc has told you before that we are cautious on the macro environment and the micro environment too. So we are not overly optimistic or overly pessimistic. But globally speaking, the situation is not so bad as a whole, so there are no bad announcements in that respect.

As to the price pressure mentioned, you're right, there is more price pressure on the credit-insurance market, globally. So that's why our strategy is to acquire new new clients [*clients who were not credit-insured*] for credit insurance, which are all the more important and relevant to maintain the profitability of our portfolio. This is one of the main aspects of our commercial strategy. We have some room for improvement in price increases in some markets, where the loss ratio was not so good one or two years ago. That is the balance we have as of today, but it's true that in some markets there is price pressure.

Benoît PETRARQUE

Okay. Thank you very much.

Operator

A question from Thomas Fossard, HSBC. Please go ahead.

Thomas FOSSARD

Yes, good evening. I've got several questions. The first one would be probably for Jean-Marc. In your preliminary comment, you indicated that up to now the GDP growth was not as strong, or was not strong enough, to have a positive impact on the claims environment. Could you comment a bit more on what should be the level of GDP growth that should have, or should start to have, a significant positive impact on your loss ratio, on your claims entry. That would be the first question.

The second question would be related to your growth rate, so 1.6%. True, I would say this is within the guidance of 1.5% to 2.5%. But still, that's at the very low end of the targeted range. So I wanted to better understand where, from your point of view are the special elements which are holding back a bit more than you were expecting at the start of the year for the growth rate.

And the third question will be on Coface Re. You mentioned the capability of, I would say, higher cash flows or quicker cash flows in the future. Can you talk a bit about potential cost savings on the reinsurance side? I guess that you'd be able, potentially, to do more pooling that you are doing currently. And potentially, what could be the evolution of the impact on your tax rate in two or three years' time when you see the results have been built-up in the Swiss entity? Thank you.

Jean-Marc PILLU, CEO, Coface

Maybe I will start by answering the two first questions and Carine will take the lead for the following ones. I mentioned GDP growth versus insolvencies and it's something that Yves Zlotowski, or in the close future, Julien Marcilly, could develop in a very extended way. It's true that if you want to decrease the number of insolvencies, you have to have to benefit from a minimum level of GDP growth. In France, for example, it is higher than 1%. Between 1% or 2%. It varies from one country to another. But you know very well, from being close to our business, that when we talk about claims, we are not talking about insolvencies, because most of the time, I'd say if not 90%, 80% of our claims come from non-payments. The non-paying entity is not insolvent - it is just not paying the debt it should pay. So, GDP growth by itself is a nice indicator of insolvency, but it is not an appropriate mathematical indicator of claims levels. It is just an illustration of the fact that things improve only when GDP growth gives, let's say, more room to manoeuvre for the companies - which is not totally yet the case in some countries.

But coming back to claims and maybe answering the previous question about Q4 compared to the whole year. What we see and what is described in our press release in the conclusion, is that things are improving. So we are not changing our global vision of the situation. Things are improving, but in a slower way than we considered eight months ago, and with (I will come back to that) some spots of fragility. I didn't mention any countries, but we could quote Brazil and, more globally, the Latin American continent, where we know that the pace of growth in some countries like Brazil grew by maybe 0.3% last year and this year by 0.8%. It's something which is totally new for the local companies there to adapt to, and it is creating some disturbances for the situation of corporates, and thus the claims. The same in Russia. Russia is not a new subject for us. We have been keeping strict monitoring on Russia for years. As a reminder the rating for Russia is C, so we are following the Russian situation very closely.

Besides quoting these countries, we could also quote some sectors - building and construction, for example, in Europe, metals in Europe and in the United States. We could also mention retail and distribution in Europe. So even if, globally, things are improving, we can see some claims tickets here or there, which could create some differences from one quarter to another. What you saw in Q4 is the exact consequence of what I just said. Nothing to worry about, but it must be clear that for the year to come, that we will need to tread wisely, simultaneously following the path of the growth of our top line, while being careful to avoid the path of higher claims. But I'm totally confident in our monitoring and business model and I'm sure that in the future we'll deliver appropriate results. This kind of evolution from one quarter to another could happen on a seamless, let's say on a structural,

well managed evolution, as we described on the occasion of the IPO.

For the growth rate, it's true that 1.6 is within the range but it's also true that 1.6 is closer to the lower part than the higher part. Are there some reasons? Not really. The pace of growth is slightly different from the new world, if I can say, the emerging countries, where we have been very wise to be in terms of competitive positioning, as compared to others. We are strengthened by the nice growth we have registered in these countries. If you compare the growth within these regions to the growth we delivered last year, you can see very easily that the performance is much better in all these regions and it's also the case for Western Europe. So, we are strengthened by these regions.

Then you have Western Europe, where, as Carine said, premium returns are a counterpart to a nice event - which is a very low loss ratio in this region. In addition to that, I should remind you that we launched a commercialre-engineering plan more than one year ago, especially in France. The results will come progressively, over the year to come. In Germany we launched a similar re-engineering plan at the beginning of last year, having hired a new manager as the head of the region, at the head of Germany. The results are not there yet, because for this kind of very large reshuffling plan, particularly of the commercial team, it takes naturally more than one year and even two years to see the top line results coming back to a growth trend. 1.6 is 0.4 less than 2%, but if you consider everything, in fact it's not very far from 2%. It was a very narrow range and you should not draw any conclusions from the fact that we are 0.4 points less than the middle of this range. Now I give the floor to Carine for the other –

Thomas FOSSARD

Maybe before switching to Switzerland, can you refresh our minds regarding what would be the top-line growth expected for 2015?

Jean-Marc PILLU, CEO, Coface

For 2015? Yes, you can try to ask the question but you know you will not get the answer! Another way to answer your question is that you refer to the guidance we gave for the two years to come, 2015 and 2016. We didn't mention the guidance tonight, but we don't mention things when we have nothing additional to say, or nothing contrary to what we said before. So it is, I remind you, 3 to 5 as an average between 2014 and 2016. Nothing new to add.

Carine PICHON, CFO, Coface

So for Coface Re, the two questions you asked Thomas. The first one was would we expect some cost savings regarding external reinsurance. We have already centralised our reinsurance organisations, so we already have a pooled organisation. So from that respect it won't change. Maybe it will facilitate discussions with reinsurers but global speaking no cost savings to wait for. The second point is on tax rates. We will apply the tax rate which is currently the tax rate in Switzerland, so we will benefit.

Operator

The next question is from François Boissin, Exane BNP. Please go ahead.

François BOISSIN

Yes. Good evening everybody. Just a few questions please. First on your reinvestment yield, could you disclose what your current reinvestment yield is and what we should expect in terms of yield dilution in the years to come following lower interest rates? Okay, that's the first question. The second question is, can you talk about your exposure to the oil industry and to Russia? Maybe some numbers on your exposure and how you are dealing with those risks? That would be quite useful. And finally on your tax rates, what is the order of magnitude of the tax rate improvement that we can expect from the Coface Re implementation? Thank you.

Carine PICHON, CFO, Coface

On the first question, François, current investment yield, you can see that we were at 1.9 for this year. It's true that the rate has decreased, it's a reality. I remind you that we have quite a fresh

investment portfolio because most of it has been bought during the second half of 2013 and even the first half of 2014. So we may have some differences, but not as huge as you may have for institutional or longer-term insurers. Concerning tax rates, the tax rate effect will be progressive. I think Jean-Marc told you before that it will be done according to the implementation of what we transfer to Coface Re, so it will be progressive on a two or three years' basis. On Russia, I think we have said a lot on Russia. Jean-Marc has explained that it is a country we follow closely. It is not new. It was already rated C and we continue to monitor the risk on Russia. We don't disclose exposure on any particular sector or country and that would include Russia too.

Jean-Marc PILLU, CEO, Coface

In fact for Russia we apply exactly the same principles and rules that we applied before in other countries. I won't start the long list of all the tricky countries we have had to manage during the last four years, but it's exactly the same. And keep in mind that we don't disclose exposure because we don't want to disclose it by itself – because it's only part of the answer to the question. Exposure is not the enemy. I'm not saying we are not decreasing the global exposure, surely we are doing so in Russia, but exposure is not a good overall reference. What is a good reference is how this exposure is broken down into various debtors we have in our database, according to their solidity and quality. And that's where it becomes tricky to comment. It's a monitoring plan as you know, and to answer the question we would have to enter into too much detail and it's not appropriate to do that here anyway, because we would become much too precise.

François BOISSIN

And can you maybe just comment on the order of magnitude of the decline in terms of the exposure to Russia over the past 12 months?

Jean-Marc PILLU, CEO, Coface

The decline is the decline which is necessary in order to allow us to come back to a nice loss ratio - or not to further deteriorate the loss ratio as compared to what it is today. Sorry for this answer but it's really something we do not disclose.

François BOISSIN

Okay. Thank you very much.

Operator

A question from Michael Huttner, J.P.Morgan. Please go ahead.

Michael HUTTNER

Hi there, can you hear me?

Operator

Yes, please go ahead.

Michael HUTTNER

Thank you .Fantastic .Just two things. One, I must say I'm a bit disappointed (and I'm sorry to say that) but I remember for the nine months the return on average tangible equity was, I think 9.8. We're now at 8.7. Now my maths is very imprecise so please excuse me, but it's roughly going from 10 to about seven in the fourth quarter. So I feel that something has happened in the fourth quarter and I don't feel that this was explained in the questions. But, you know, that's just me. And then could you explain a little bit more how you see the economic capital developing? Thank you.

Carine PICHON, CFO, Coface

Okay. On the economic capital development, what I said the last year is still true. It's the fact that economic capital will depend on first our growth, so growth will increase, and if our profitability and loss ratio are specifically improving, we shall have a lower growth of economic capital than growth in

our premiums. That's the first point. On the return on average, I understand that you are disappointed. When we saw that we had increased by 110 points we were quite pleased but a main reason of this is the fact that the combined ratio is different from one quarter to another quarter. So even if the global 2014 results are good, we have differences between the Q4 to Q3 results. But that's mathematics and it doesn't change the global trend of the year.

Michael HUTTNER

But I suppose the question I'm really asking is, if the nine months is so different from the full year, how much sense is there in producing quarterly accounts? I suppose that's really the question I'm asking, because it feels like a different company from the one I looked at, at the nine months stage. I'm sorry to labour that point, it sounds very bad, but there we go. And then on the economic capital, do you remember you had this thing as we get further away from those surprise years of 2008 and 2009, the influence of that particular loss ratio disappears and so economic capital can improve. I sense that you're not mentioning this so much now and it sounds therefore that this is not something that will have much of an impact. Is that fair, or am I wrong?

Carine PICHON, CFO, Coface

No, no, Michael. I mentioned it before, I can come back. You have the positive effect. Just maybe a specific technical comment. Economic capital, it's a view of what could happen in a one-year horizon of time. So we include the growth we expect in terms of premiums for the year to come. So we don't give you the year to come but the range between 2014 and 2016, which is between 3 and 5%. So when I say that we have increased by 1.4%, I would bear in mind what I just said - the fact that quotes will be higher, that the loss ratio has improved and that we have already benefited in 2014 from the fact that we are further away from 2008. So we have this effect. It's already in the 1.4% growth of economic capital of the year.

Michael HUTTNER

Okay. That's clear. I still am bit puzzled between nine months and 12 months but, yeah, I have to remain puzzled. Yeah. I'm sorry, I am actually a little bit puzzled, but thank you.

Operator

We have a question from Thomas Fossard, HSBC. Please go ahead.

Thomas FOSSARD

Sorry to come back again. Just two additional questions. The first one will be on the pricing environment. You commented on the -1% through 2014. I just wanted to get a better feel of how you are expecting 2015 to develop. Are you expecting the same magnitude of pressure in 2015, or would it be reasonable to expect some - not a significant but some - acceleration on the competition on the pricing front? The second question is related. I'm scanning through the full year financial accounts but I'm not sure in fact that you're providing this table at this stage. Could you tell us how your risk limits have changed or increased in 2014 compared to last year, in absolute billion euro amount and in terms of percentage? Thank you.

Carine PICHON, CFO, Coface

Thomas, I will answer on price pressure. I think that was already a question earlier. We, the market, say that there is price pressure and the fact that the loss ratio has improved is also pressure coming from our clients. We know that we have this pressure, but we will continue to maintain the profitability of our global portfolio. To explain how, first it is by acquiring new clients, which are not insured and also by continuing to use our unique pricing tool called PEPS. So we will continue to work on it. And when the loss ratio improves, it also means that the activity is improving. That's what happened in 2014, so we will continue. But it's also true that there is a price pressure on the market. I would say more on the historical markets than on the other ones. On the full year accounts, the amount of global exposure is €508 billion, that was your question. So you have an increase, when comparing with last year. This is normal, because you know when the market is improving, the economic situation is improving and when the loss ratio is improving, you have an increase in

exposure. It doesn't mean that we take more risk. It's more a question that clients have more credit limit. But what is important as an indicator of the exposure is the split -that we can see at the beginning of the presentation - per sector, which is well diversified, and also per country.

Jean-Marc PILLU, CEO, Coface

Maybe a word coming back to the first question about the price pressure. I have two additional remarks to make. The first one is in line with what Carine just said. It's not just because I have white hair that I'm going to tell you the story of credit insurance, but you all know because you are professionals and you know us well and you know the business well, that all along the cycle you have a permanent scissor effect between activities of our clients and price. And you know that when the loss ratio is deteriorating, you are more in the context of increasing prices - but unfortunately you see the contribution of our clients with their activity decreasing. And it's the contrary when the situation is improving in terms of economic background, when you see more pressure on the market compensated fully by a higher contribution from our clients. It's what we see when we look at the components of our turnover, as presented by Carine in slide number 11. It's exactly what you see. So it would be unreasonable to consider that prices suddenly stay totally flat for the present year. But it will be, and it should be, overcompensated by the increase in the activity of our clients. That's the way it goes. And, as Carine said, it will be much more than compensated for by the growth of the net production - which is new clients minus (unfortunately for them) the ones who are leaving us. But it creates a nice transition to the other remark that I would like to make.

We are not a general insurer. We are a credit insurer. A general insurer is most of the time in a kind of closed-shop market. The market is already equipped at the very beginning of the story. I remind you that we are very happy to be in a very open market, where only 5% is equipped. So that is core to our strategy and that's the reason for our innovation, our expansion into new geographies and our expansion within existing geographies - such as our expansion with agents in the U.S.. We want to do more than taking our share in the already equipped market. We want also to always have a higher share than the one we had before. But today we want to grow the business to the non-insured corporates and companies. So we must have this in mind and it's another way to maintain prices at adequate levels. Because when you consider price decreases, you only consider the price of the existing portfolio. You don't take into consideration the price of the newcomers for the year that we are talking about and taking into consideration. So, really you must have a global view of how things are going and how we want to move the business, taking into account those two components of the reasoning, if I may say so.

Thomas FOSSARD

And just one last question, maybe for Carine. On the pension costs, obviously it seems that you have lowered the discount rate to adapt to the new environment. Could you remind us if additional costs on pensions are flowing through into your shareholders' equity, or if this is impacting somewhere else on your balance sheet?

Carine PICHON, CFO, Coface

No, you're right, we have an amount of around €95 million of pension reserves in liabilities and you're right that this discount has decreased, so it has led to a negative impact on shareholders' equity of around €6 million.

Thomas FOSSARD

Six million?

Carine PICHON, CFO, Coface

Yes. If you look at the consolidated financial statement, it is in the first page. You have the change in shareholder funds and you can see a line, which is "change in actuarial gains and losses". And that the change negative, it's exclusively the change in discount rate.

Thomas FOSSARD

Okay, thank you.

Operator

A question from Hadley Cohen, Deutsche Bank. Please go ahead.

Hadley COHEN

Hi. Good evening, everyone. Thanks very much. I think most of my questions have already been asked. So just a couple of follow-ups. Sorry to come back to the fourth quarter expenses, but I noticed that the fourth quarter in 2013 had a high expense ratio as well. I mean, should we expect that the fourth quarter typically, as I think was one of the earlier questions, has a seasonality issue? Should we expect fourth quarter expenses to be higher on an ongoing basis versus the previous nine months and can you just give us a couple of examples of why you would expect it to be higher? I'm not quite sure I fully understand why that's the case. And then secondly, just on the economic solvency ratio, I appreciate 144%. You know, optically, that looks quite low, especially if we look at it – I know that you're a credit insurer, you're not a general insurer and we're happy with it but optically it looks quite low if we look at it in the context of other European insurers. How comfortable are you with this level? I mean, how low would it need to go before you would start getting concerned? Are there any sensitivities you can give us to, for example, a credit shock environment or what-have-you? Thanks.

Carine PICHON, CFO, Coface

Okay. On Q4, the level of the cost ratio is not a trend. We are not changing what we said, which is that our costs should grow lower than the premium, which is the same. In the case of Q4, there were some management decisions to move some people, who are mainly executives, so that has presented costs. I don't know if you can say that these are not recurring costs, as it's also the way of managing, but globally speaking it's that. For what you asked concerning Solvency II, we are comfortable with the level of coverage we have as at today. It is difficult for me to comment on results of other P&C's or general insurers, knowing that we have a coverage ratio but we also apply a shock to ensure that in any case we have enough capital. So we have also included in this coverage ratio our capacity to face some scenarios of shock.

Jean-Marc PILLU, CEO, Coface

Okay. Your question is interesting. You really should not compare us (when I say us it's not only Coface but all credit insurance players) to general insurers. You know very well that in comparison to commercial and price underwriting, we have more means to monitor our loss ratio through risk monitoring. So it changes the level of capital and in addition to that you must bear in mind that the duration of our risk at stake is much shorter than the risk we could have in mind compared to other kinds of general insurance. So I think we belong to a special category, which at least for those two reasons is different from the one you refer. However as I do not know the other categories well, apart from what I just said, I am no better placed than Carine to make mathematical or quantitative comparisons between the two percentages for those who are general insurers and those who are credit insurers.

Hadley COHEN

Okay. Thank you very much. And just as a quick additional question, sorry, just to clarify in the reconciliation from the net income excluding restated items, you've adjusted for the €12.1 million hybrid interest charge. Is that now, sorry, just to clarify, is that now going through shareholders' equity rather than through earnings? Is that how we should think about that?

Carine PICHON, CFO, Coface

No.

Hadley COHEN

No, so how about why are you adjusting for it?

Carine PICHON, CFO, Coface

Just to understand your question, you just want to know how we go from net result to net result without restated items—

Hadley COHEN

Yeah. Sure, yeah.

Carine PICHON, CFO, Coface

Okay. We have non-recurring items of around €9 million and if you want you have the split of it, it is in the financial statement we posted at the end of the appendix. Most of the costs are related to IPO costs as you will see. It's on page 66 where you will find the details of these costs.

Jean-Marc PILLU, CEO, Coface

To make it short, it's exactly the same list of costs as the ones we referred to on the occasion of the IPO. Plus the setup costs of Coface Re.

Hadley COHEN

Okay. Thank you very much.

Operator

We have no more questions.

Jean-Marc PILLU, CEO, Coface

Okay. No more questions?

Operator

No more questions.

Jean-Marc PILLU, CEO, Coface

Okay. So I suggest we stop here. It has been a very interesting and proactive session of exchange. So thank you very much to all of you for challenging our results, as always every quarter. Talking about quarters, we look forward to talking to you again at the occasion of the Q1 2015 results, which should be the 5th of May. So thank you again to all of you and have a nice evening.

Operator

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

(End of Conference Call)

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FINANCIAL SCHEDULE 2015

5 May 2015 : publication of Q1 2015 results

18 May 2015 : General Assembly

FINANCIAL INFORMATION

This press release as well as the integral regulatory information of Coface SA are available on the Group's website <http://www.coface.com/Investors>

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 2014, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 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 350 underwriters located close to clients and their debtors.

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