



T R A N S C R I P T

Conference Call Transcript

9M 2015 Results

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Operator (Audio begins in progress)

Ladies and gentlemen, welcome to the Coface Results Conference Call. I am now handing over to Jean-Marc Pillu, CEO of Coface. Sir, please go ahead.

Jean-Marc PILLU, CEO, Coface

Thank you very much. Good evening everybody. It's my pleasure to welcome you to our Q3 analyst call. I am, as usual, with Carine Pichon, our Group CFO, to whom I shall give the floor within a few minutes. But before that, let me say maybe a few words about our global performance during the past nine months, as well as about the economic background – which, as you know, has an influence on our business.

If you take a glance at page three, a page which I think is quite self-explanatory, you can see that it mentions that global growth is stuck in low gear, although the situation varies from one region to another. If we look more closely at the advanced countries, they are still in a process of a continuing, but weak, recovery. The US is still underpinned by solid fundamentals, but we have the feeling that its growth is levelling out. And in the Eurozone, as we already saw during the last two quarters, there is a positive but sluggish growth, with the situation varying from one country to another.

In emerging markets, recession, or lower growth, can be seen in some countries, especially the big ones belonging to the BRICS category. You can see from the GDP histogram on the right-hand side of this slide that, Brazil and Russia are facing a situation of deep recession with potential improvements next year, but not enough to allow them to exit this recessive situation.

China has been slowing down for two or three years in a row now, but this is now creating some negative consequences for corporates in some sectors. This situation could also affect other emerging countries – in LatAm, in neighbouring Asian countries, or in some African or Middle Eastern countries, whatever the channels of transmission of those potential negative impacts might be.

Now, a word about Coface's performance, on page four. Firstly, our consolidated total turnover has been developing steadily, with nice growth, sustainably driven by emerging markets. This is good growth because we posted 5.1% (or 2.5% at constant FX and perimeter), with higher growth in premiums, at 6.9% (3.6% at constant FX and perimeter). Fees have retained their standard ratio of 12%, as compared to the growth in premiums.

As regards the net combined ratio, it remains in line with the equivalent ratio seen for H1 of this year. This means that the loss ratio has stabilised, as the risk mitigating actions we have taken in loss-making areas are progressively materialising.

On page five, concerning our results, the net income group share is, for the first 9 months, €98 million. €32 million of this is for the third quarter, which is in line (as we can see on the graph) with the average results for Q1 and Q2. Just before giving the floor to Carine, let me remind you that

Fitch and Moody's have, respectively, in late September and October, reaffirmed their AA- and A2 ratings with stable outlook.

So that is the summary of our global results. I now give the floor to Carine, who will go into more detail.

Carine PICHON, Chief Financial Officer, Coface

Good evening everybody and thank you Jean-Marc. For the first 9 months of the year, premiums grew by 3.6% at constant exchange rate. This is driven primarily by new production of €104 million, which represents steady growth considering the one-off large deals we had last year, in 2014. As concerns the retention rate, client loyalty is also quite stable. The retention rate is 88.5% which, as you can see, is in line with the average of the last two years. As concerns prices, we still have competitive pressure and profitability in mature markets, which continue to drive the price effect. As you can see, the price effect is -2.4. Bearing in mind that at the end of H1 2015 it was -2.5, we are at the same level in terms of price pressure as for the first 6 months of the year.

In terms of volume effect - the part of our activity which is driven by our clients - we have registered a growth of 2.7%. This is slightly higher than the 2.1% seen at the end of September 2014. So we have a slow regain of client activity, which is in line with the slow recovery we discussed earlier in the macroeconomic environment.

Now on to turnover per region, on page seven. The turnover shows similar trends as to those seen at the end of H1 2015. Growth is being sustainably driven by emerging markets, starting with Central Europe, the Mediterranean and Africa, Asia and Latin America. You can see that growth ranges between 2% and even up to 17% for Latin America. In more mature markets - such as Northern Europe and Western Europe, where competition is stiff - changes in the commercial strategy will only materialise over time. That's our global picture on turnover.

In terms of loss ratio, on page eight. Loss ratio before reinsurance is at 50.2% for this quarter. This is in line with the average for the first two quarters and an improvement compared to Q2 2015, where loss ratio stood at 52.8. The measures undertaken during the previous quarters are showing their first results, bearing in mind that the weaker emerging markets and trade sectors are being kept under very close scrutiny.

Looking at the loss ratio not only for the quarter, but also the cumulative ratio at the end of September, you can see the figure of 48.6% on the left side of the graph, knowing that we have kept more or less the same loss ratio for the current year of 73%, as we don't anticipate a huge improvement in the macro position.

We have shown you some examples of complementary actions taken, in order to illustrate the risk mitigation actions we take on a daily basis. Here we have decided to focus on two main actions, the first of which concerns Russia. What we have done is to use 100 as a basis for global exposure. As you can see, for Russia, based on 100 in Q4 2014, we are now at 48. This means that we have reduced exposure on this country by 52%. However, I will come back to this country, as we have already achieved positive effects on loss ratio for this quarter. For Brazil, the situation is more or less the same. With an exposure basis of 100 as at Q4 2014, we are now at 56. This means that we have decreased exposure on Brazil by 44%.

Something that I would like to insist on is that there is a link between reduction of exposure and improvement in loss ratio. However there is a time lag in this link as, due to local payment terms, we may have varying timelines between the risk monitoring actions (such as those previously described) and the evolution in claims.

The loss ratio per region can be seen on page nine. We still have a globally good loss ratio in Europe. Western Europe is at 30.9%, while Central Europe also has a positively orientated trend, at 47.1%. The Mediterranean and Africa region also shows the positive effects of the monitoring actions we have taken – particularly in Italy. As concerns Northern Europe, which in our organisation includes Russia, we are now at 45.2%, whereas at the end of June we were at around 54%. You can therefore see the improvements in this region, currently coming from Russia. The loss ratio remains high in Asia and Latin America, due to the global macro environment in these countries.

Cost evolution can be seen on page ten. Costs reached €536 million for the first nine months of 2015. The blue part of the graph represents internal costs, which have grown by 0.6%. This can be compared to our growth in premiums, which was 3.6%. We are continuing to monitor and control our internal costs and, for the first time in this presentation, we have set out the quarter-to-quarter trends for expenses. You can see that we have continued to decrease the blue line of internal costs each quarter – from 142 to 138 to 135. This is helping to finance our commercial efforts - particularly in financing external acquisition costs, which are higher in some markets, especially in emerging ones.

All in all, our net cost ratio for the first nine months of the year is 29.3%. If we exclude FX effect, it is 28.3, which is the percentage to be compared to the 27.7% for the same period in 2014. I just explained that we are monitoring internal costs and managing them down to offset the increase in acquisition costs.

Turning to page 11, on reinsurance results, let me first comment on the second part of the slide, where you can see the underwriting income before and after reinsurance. You will note that there is a decline from 16 to 13. This means that reinsurance has offset part of this decline, mainly due to the fact that we ceded less premiums, than in the first nine months of 2014 – down from 24% to 23%. May I remind you that we have decided again, for the second year, to review our cession rate and to reduce it down to 20 so that we can retain more margin.

On page 12 we can see the net combined ratio, from quarter to quarter. The net combined ratio for Q3 2015 is 81.6%, which is within the average of the first two quarters, as well as being an improvement compared to Q2. This is also a growth compared with the first 9 months of 2014. I think we already discussed the loss ratio during the previous quarters, and we just gave you the information on cost ratio evolution: the decrease in internal costs is financing the evolution of external acquisition costs, the latter representing 2.1 points of the growth in cost ratio.

Some comments on page 13, concerning investment income. We still have a prudent, but proactive, investment strategy. Net investment income was €40.5 million, including realised gains on sales of €4 million on a 9 month basis. This led to an increasing accounting yield of 1.6%, but including the change in unrealised gains and losses to a decrease of 0.5%, which takes into consideration the market evolution over the last quarter.

On page 14, on shareholders' equity evolution, we can first take a look at return on average tangible equity. This is 8.7% and, if we restate it from some elements we have posted in the appendix, you see that it is 8.9%, compared to 8.7%. So you can see that the technical result has deteriorated a little because of an increase in the net combined ratio. This is fully offset by our better financial results and also due to the positive effect from the decrease in tax rates compared to last year.

Some follow-up now, on news we discussed during our last presentation call in Q2. First, on the public guarantees management activity transfer. You will remember that we told you that a change in the law is needed before the transfer can be made. At this stage, the law concerning

the transfer has not yet been voted on. Bpifrance is continuing to work in order to integrate the activities and the effective transfer date has not been specified. In any case, Coface will continue to receive remuneration until the activity is transferred. I can come back in more detail during the Q&A session, but the right hand-side of the slide 15 shows the main figures and information. So there is nothing new but this is just to remind you of the figures and the potential impact.

Secondly, we have follow-up news on the operational efficiency plan. You can see, for the first time, the name of this plan, which is 'Optimize Costs'. Conception phase is ongoing, as announced on July 29th. We have launched a systematic review of our cost structure with a worldwide scope. The main features of this plan will be presented by the end of 2015, prior to its launch phase.

So that is it the conclusion. Maybe we can now go to the questions.

Operator

Ladies and gentlemen, if you wish to ask a question please press 0 and 1 on your phone keypad. The first question is from Guilhem Horvath from Exane BNP Paribas. Please go ahead sir.

Guilhem HORVATH, Exane BNP Paribas

Yes, good evening. I have three questions on my side. The first one is regarding the IPO targets. I would like to know if these targets are still in force, particularly on the combined ratio? If I look at the loss ratio, can you give a bit more detail on LatAm and Asia-Pacific, on the evolution of the loss ratio from H1 to 9 months? You gave the details for Northern Europe but I would like to have a bit more detail on these two other regions. On expense ratio, I'm quite surprised by the difference, quarter on quarter, of 28.1%. Can you explain why Q2 was so much higher? I'm concerned whether the 28% expense ratio is sustainable going forward, if we adjust for the loss of the public procedures, of course.

My second question is on dates. You have announced that you are working on an efficiency plan. We already knew this, but my question basically is: do you plan to launch this plan before year-end? Are you planning to issue a press release about this before year-end? Are we supposed to expect that? The second date is regarding the transfer of public procedures: When do you basically expect Parliament to vote on the transfer to Bpifrance?

The third question, if I may, is regarding North America, for which I think that growth is a bit disappointing compared to H1. Can you explain why? Thanks very much.

Carine PICHON, Chief Financial Officer, Coface

Okay, maybe I can start. You have a lot of questions so maybe I will start with dates, as its maybe the simplest one. You're right; we do plan to issue a press release on the efficiency plan. We are looking at how and when exactly it will be done, what will be the precise date and how we will discuss it with you - but the idea is to have a press release and external communications. This needs to be organised in conjunction with internal communications, with unions and so on. We are just fine-tuning the dates in this respect.

As to the date of the transfer law, it is difficult for us to be sure. We do know that it is normally planned to be for the end of the year, but we are not the Government. Up to now there is no change and no negative news, but it's not in our hands and I prefer to be prudent.

As to when the transfer will be done, it is also out of our hands, as it also concerns the fact that Bpifrance is working to see how they will integrate the public guarantee management into their

own IT system and their own organisation. They are still working on that and we don't know when they will have the capacity to integrate this activity.

I think your first question was on targets?

Guilhem HORVATH, Exane BNP Paribas

It was.

Carine PICHON, Chief Financial Officer, Coface

So in terms of targets for the end of the year, considering the current structural difficulties in some countries we have stated at the beginning of the presentation, we do not anticipate a change in the global macro environment. So we will continue to monitor risks, as we said, and as in the examples given for Russia and Brazil. So what we think is that our performance through to the year-end will be in the range of what we have delivered up till now. That's what I can say, as of today, for guidance for up to the end of the year.

You have pointed out the two loss ratios in Latin America and Asia. On these two regions we are adapting our risk. We have already launched an action plan, as you have seen, for Brazil. We should see a positive and progressive impact on the loss ratio, if there is no further deterioration in these countries.

Guilhem HORVATH, Exane BNP Paribas

Okay. Just on the evolution compared to H1, how big is it?

Carine PICHON, Chief Financial Officer, Coface

For Latin America it is a little worse, in Asia it is the same.

Guilhem HORVATH, Exane BNP Paribas

Okay.

Carine PICHON, Chief Financial Officer, Coface

Concerning North American turnover, which I think it was your last question, last year we announced that we have deeply restructured the agent network. You may remember that we said that we had increased the number of agents by 50%, but in doing this, we also reassessed the individual performance of each agent. This has created some turbulence during 2015. This process of reorganisation has had a negative short-term impact in 2015, so we are still in growth, but not as high as we wanted. But in fact, we can now say that we have paved the way for better performance in the future for this region.

Guilhem HORVATH, Exane BNP Paribas

Okay. My last question was on the expense ratio.

Carine PICHON, Chief Financial Officer, Coface

On the expense ratio, I think that the problem was a kind of volatility from one quarter to another. Maybe if you come back to the cost evolution, you can see that in Q2 we were at €178 million, then at €175 million. So you can see we have made efforts and decreased by €3 million, which is quite an accomplishment if you compare it with the global amount. So we have decreased our internal cost ratio, which is why we have had an improvement. It's good news, in a sense.

Guilhem HORVATH, Exane BNP Paribas

Yes, but the Q1 was at 27.7, and you had 180 –

Carine PICHON, Chief Financial Officer, Coface

Yes, but for Q1 I need to remind you of something which is very important. Q1 is not only a question of cost evolution, it's also about evolution of revenues that decrease the volume of costs compared to our turnover (not premiums, but specifically fees) and we had already stated that we invoice more fees in Q1. So we have, I would say, a structural positive effect on cost ratio in Q1. If you look at each Q1, the cost ratio is always better than the trend.

Guilhem HORVATH, Exane BNP Paribas

Okay, good, thanks very much.

Operator

We have another question from Michael Huttner from JP Morgan. Please, go ahead sir.

Michael HUTTNER, JP Morgan

Thank you very much. On the numbers, what is the amount of tangible equity? I was looking for it but it's probably hidden somewhere I couldn't see.

Given that you're cutting Brazil and various places, where is the growth coming from? I can't quite reconcile growth and cutting volumes.

On the cost cuts, can you give us maybe a little bit of a flavour on what the thinking is, or on the plan? Anything would be very helpful.

Finally, under what assumptions do you think you could still achieve the 12% return on average tangible equity target for next year?

Oh, and a last one, sorry, but the numbers are quite nice, so it's easier to ask questions. What's the current feeling, view, or feedback on Solvency II? Thank you.

Carine PICHON, Chief Financial Officer, Coface

I hope I understood your first question, so tell me, Michael, if it's incorrect. I think you tried to make the link between the decrease in exposure in Brazil and our turnover?

Michael HUTTNER, JP Morgan

Yes.

Carine PICHON, Chief Financial Officer, Coface

The fact that you reduce exposure doesn't mean that you can't grow in a market. Just to remind you, our premium is based on the turnover of our clients, and we can reduce exposure at any time. So there is no link. The only thing we do by reducing our exposure in Brazil is to make the level of exposure adequate for each €1 of premium the client has given us. So we are assessing and putting profitability at the level we want. So if that was your question, there is really no link. It's true that if in the end you have zero euro exposure then you have zero clients, but we are not at that level.

On Solvency II, I will let Jean-Marc answer.

Jean-Marc PILLU, CEO, Coface

Hello Michael. If you will allow me, I'll take the floor for your questions about SII and about 2016 guidance at 12%. Maybe starting with the guidance, what can we say today? Even if it seems that the economic evolution worldwide (and as I've mentioned especially for emerging countries), will probably not fit with the one underlying our 2016 guidance, it's still too early to answer this question today, as we have to assess the potential impact of some key elements.

Firstly, as I just mentioned, we still need some time to see how the crisis in some emerging countries (like Brazil, Russia, China) will evolve over the coming months. We also need to see what will be, if there is any, the degree of potential contamination in other countries in their perimeter of influence. Secondly, we need to finish the conception phase of our new Optimize Costs plan, in order to assess to what degree we will be able to compensate for the yearly impact of the loss of the public guarantees business next year. Thirdly we don't yet know, as Carine told you, when Bpifrance will be ready to operate the public guarantee business, bearing in mind that until this date we will continue to receive revenues as we now do.

Today these three considerations do not allow me to confirm or review the guidance we gave. We should have a better view on all of these elements – especially the second one concerning the potential impact of the Optimise Costs plan – when we publish the Q4 results in early February next year. I think then we will be able to give a precise answer to this question, taking into consideration the three main components I just cited, namely the economic environment and its impact on corporate situations, the Optimise Costs plan and the precise date of the transfer of public guarantees.

Michael HUTTNER, JP Morgan

Okay.

Jean-Marc PILLU, CEO, Coface

Concerning your second question, as Carine told you, by the end of December we will be able to issue a press release and probably organise something with you in order to comment on our Optimise Cost plan.

You had also a question about Solvency II? We will give you additional quantitative information on Solvency II when we publish the Q4 results at the beginning of next year, as we did last year. We will wait for the end of the year, as it is a yearly process. Today, we can confirm what we have already said. Firstly we are confident that we should be Solvency II-compliant next year. Secondly, we should be compliant at a level which will be in accordance with our appetite for risk. Thirdly, the situation should allow us to be compatible with a distribution of up to 60% of our net result.

This is what we can say today, and it confirms what we already said during the publication of last year's results and on the occasion of the IPO. So nothing has changed in this respect.

Michael HUTTNER, JP Morgan

Brilliant. Thank you.

Jean-Marc PILLU, CEO, Coface

Operator, are there other questions?

Operator

Yes, we have a question from Benoit Petrarque from Kepler Cheuvreux. Please go ahead, sir.

Benoit PETRARQUE, Kepler Cheuvreux

Yes, good evening everybody. The first question on my side will be on the quarter-on-quarter trend in the emerging markets. We have seen, the overall combined ratio in Q3 being in line with the average of Q1 and Q2, and I was wondering if we could read anything from that? Q1 was quite low, Q2 was high, and can we conclude that with Q3 the worst is behind and that we might actually stay at current level or even slightly lower? Or do you still think there is some major risk in emerging markets and it's hard to forecast what could happen in the coming quarters there?

The second question will be on the emerging exposure. I think you cut a lot on Brazil and Russia, as you've shown in the slides. I had Brazil at €15 billion end of 2014, so I guess you are probably at around €7–8 billion exposure now. But could you also talk about the exposure to China (I think it was about €18 billion at the end of 2014) as well as the exposure, in euros, to Russia?

Then on the price effect, it's -2.6%. I would expect, actually, positive repricing in emerging markets, offset by a negative out of continental Europe. Or do you see actually, on the price effect, if you will have to split core markets versus emerging markets? Do you see acceleration of lower prices in continental Europe and nice repricing on emerging markets? Thank you.

Jean-Marc PILLU, CEO, Coface

Yes, thank you Benoit. Maybe I will give the floor to Carine for your last question, as well as for Michael's one that unfortunately we forgot to answer about tangible equity. Carine, maybe could you answer these questions, and I will comment on both of them.

Carine PICHON, Chief Financial Officer, Coface

Michael, you were asking what was our average tangible equity? You can find it on page 14, on the notes on the last line. It is €1,542 million.

Benoit, in terms of your question on pricing, there is a price effect of -2.4%. I think you mentioned -2.6%, but it's -2.4% as at the end of September. You are right, we are positive with pricing on some emerging markets, and specifically on loss-making policies, knowing that this is offset by very good profitability in the more mature markets that you mentioned.

In terms of adequation of price to profitability, risk and premium, I would like to insist (and I think the example of Russia and Brazil is the best one) that even though you increase your price in Brazil by, just an example, 10% or 20%, you will never return to very good profitability just with price evolution. It's an important commercial tool to discuss with clients, but the way to return to profitability is by reviewing the exposure, or the risk, we grant for each €1 of premium we receive. The best tool for this is what we call risk monitoring, as we did in Russia and Brazil. So I would really like to insist on this. I am not saying that price is not important on premiums, but I will say that the first and most important tool to recovering profitability is the capacity to renew and to re-adapt our exposure to premiums.

Jean-Marc PILLU, CEO, Coface

You asked a question about the evolution of the loss ratio up to the end of the year, and especially for Q4. I think you now have our vision of what is going on around the world, and secondly of what we are doing in order to tackle the consequences of these evolutions. We are talking about, in some countries, a structural crisis, which are very different in detail but in fact

similar to the one some advanced countries went through in 2011, 2012 and 2013. By experience, these kinds of crises last for some time, and we do not expect that they will be resolved by the end of the year. It will take several quarters to return to normality.

Nevertheless, as you have seen, we have taken actions. As I already mentioned during the Q1, Q2 and even Q4 2014 results, we have taken a number of actions in some economic sectors and in some countries - and not only in Brazil and Russia. We continually implement and adapt actions, as necessary and we are always ready to accelerate or strengthen actions when and where necessary. We have seen that this was the case for Brazil. As you can see, Brazil is entering more and more into the core of what we would qualify as a recession.

Whatever the world will be over the coming quarters, we will continue to implement risk monitoring – which is really our field of expertise. This will have a progressive impact. To be straightforward, as concerns the end of the year, I really think that our performance will remain within the range of what we have delivered - maybe a little less, maybe a little more, but that's really where we see the evolution. We are talking about two months from now, so it's a very short period.

Your second question gives me the opportunity to comment on the two histograms. As you know, we don't like to publish on our exposure but exceptionally we have shown you how reactive we are when it is necessary in some countries. Why don't we like to publish on our exposure? Because it's really the tip of the iceberg, in a way. Risk monitoring actions are much more substantial and take into account many more parameters than rough exposure decreases. Nevertheless, we did that in order for you to see that whatever happens in those countries, actions taken will progressively (as Carine said, because the DSO [Days Sales Outstanding] in those countries are much longer than the ones in advanced countries) produce results. And if there is a kind of worsening somewhere in Brazil and Russia, we will take additional actions without any hesitation.

For China it's exactly the same. We didn't publish exposure on China as we considered that Brazil and Russia were sufficient to give you a flavour of what we are doing every day and every quarter. We are doing the same in China but the way we are acting is different from in Brazil, as it is different from what we are doing in Russia. For China, we are looking at the evolutions very thoroughly, and we will not hesitate to intensify our actions if we see that it is entering into a deeper structural crisis.

Benoit PETRARQUE, Kepler Cheuvreux

If I may, just a follow-up question on LatAm. Brazil is actually a small part of your total exposure to Latin America (that was the case at the end of 2014). What do you see in the rest of LatAm? We are talking a lot about Brazil, but do you see any kind of deterioration outside Brazil? Or is the rest of LatAm still strong?

Jean-Marc PILLU, CEO, Coface

It really depends. I'm sorry, because I am not able to answer this question in a short period of time. It varies from one country to another, and within each country it varies from one industrial sector to another. We already launched some action plans at the end of last year and the beginning of this year in some LatAm sectors and countries. For example, in Mexico in some sectors; and other sectors in Colombia and Chile. These countries are affected by the same impacts as Brazil, for example oil price falls, decreases in imports and notably imports of raw materials from China. So depending on by how much they are affected by these impacts, we reduce exposure. We are monitoring the risks as we are doing in Brazil.

Brazil is going through a very deep crisis, which is not the case for other countries. However we are not waiting for deep crises in order to monitor our risks, as €1 of claims has the same impact for us, wherever it comes from.

Benoit PETRARQUE, Kepler Cheuvreux

Very clear, thank you very much.

Operator

We have a question from Frank Kopfinger from Commerzbank. Please, you have the floor sir.

Frank KOPFINGER, Commerzbank

Yes, good evening. Thank you for taking my questions. I have three. Sorry, but I would like to come back to your Latin American business. If I did the maths right, then your loss ratio on a stand-alone basis for Q3 was 170%. Out of the answers you gave, it wasn't really clear what level, going forward, we should expect. Is there an expectation that you come back to the 70% level that you had in H1, or given the deterioration of the economy is a 70% loss ratio out of reach?

The second question is on North America. What strikes me there is that, when you compare Q1 to Q3 this year versus the last year and 2013 for the same period, the loss ratio is significantly higher - or the operational result is significantly lower. Is there some structural issue there in North America in terms of profitability?

My third question is on the visibility that you have on this whole process of the transfer of the public guarantee programme. How far in advance will you know when the law will come into Parliament and be voted on? Also, how far in advance will you know when Bpifrance is ready to take over the business?

Carine PICHON, Chief Financial Officer, Coface

I will maybe comment on the first two questions. On LatAm business you can see there is deterioration, you're right, in this quarter for Latin America. You can see the situation is not only in Brazil, but in Brazil the situation is structurally deepening. When I say that there is a progressive impact on the loss ratio, it means it is still progressing at this time, so it's difficult to say if an improvement will be seen in Q1, Q2 or Q3 2016, because this will also depend on whether the situation continues to worsen. Clearly it's not something we'll take to a huge increment, at least on the upcoming quarters.

For North America, as I just mentioned, you are right. Historically the loss ratio of North America (which you can see on page nine) was very good, at 19.3% in 2013 and 24.1% in 2014. So we have had an increase, not because of the domestic situation, or because the situation in the US does not look good, but mainly due to one or two claims that we have faced, specifically in Canada. That is the reason we have this increase. But I would say, historically – and even now, that we consider the situation to be quite good in this region, excluding one or two claims that we have seen since the beginning of the year.

Jean-Marc PILLU, CEO, Coface

For your third question Frank, I will take the floor. We have been following what the Government is doing, in order to implement the decision in principle for the transfer of public guarantees from Coface to Bpi. Although we do not share the secret of their timing, we think that this subject will be voted on during the new Finance Law this year - known as '*La loi de finances rectificative*'.

This should happen right at the end of the year, but we don't yet precisely know. It looks likely to be presented and adopted by Parliament, as the left-wing Government has a majority. So yes, we are following that and yes we think there is a high level of chance that this transfer will be voted on, but that's all at this stage.

I don't know if that was your question? About the transfer itself, we are discussing with Bpi teams working on the integration, especially those working on the integration of the specialised IT software, into their systems. They are in the conception phase and studying the case but, as of today, they do not seem totally ready to give a precise date for the launch of their IT tools after the usual tests and the transfer of the teams.

Frank KOPFINGER, Commerzbank

Okay, thanks.

Operator

We have a question from Michael Huttner, from JP Morgan. Please go ahead, sir.

Michael HUTTNER, JP Morgan

Fantastic. Thank you very much. I think you've partly answered one, so the question was -when do we see the success of these measures? If I remember, at Q2 you said we wouldn't see them before the year-end, which to me implies we would see them right at the start of 2016, with the various measures in LatAm and other countries.

The other question is that I'm a bit surprised by the pricing. Catalana said flat, Euler said -2, you're effectively saying -3. I know you don't consider price to be very important, but I suppose it gives us a view of what the competition is like. I just wondered where it's coming from - I mean, it's not as if anybody is making huge amounts of money at the moment. Thank you.

Carine PICHON, Chief Financial Officer, Coface

Sorry Michael, I didn't say that price was not important; I just said that there was another tool which was very important to return to profitability - which was to review risk adequate to the levels of premiums we see. So I will rephrase this.

Pricing is not very far from what we have seen before. In Q1 it was -2.5% and in Q2 -2.5/-2.4. We are in line with what we have seen since the beginning of the year. This is not forgetting the high level of profitability we have in very competitive markets - the mature markets - in Northern Europe and Western Europe, including but not limited to France and Germany. The most competitive market in Europe is maybe Spain. Don't forget that we are in line with what we were expecting and not very different from the last two quarters.

I am not sure I understood the first question.

Michael HUTTNER, JP Morgan

It was just a follow-up question. I think you discussed it a bit on Brazil. Concerning these claims actions, or management actions, to reduce claims, at the first half you said 'Don't expect anything before the end of the year' and now I get the feeling that we shouldn't expect much before Q2. Is that a fair assumption? It seems to be drifting a bit.

Carine PICHON, Chief Financial Officer, Coface

If I may Michael, it's another way to ask me about our guidance for next year. It is clearly linked to what we take as management actions, but also to the evolution of the macro environment,

specifically in some countries. As Jean-Marc said just before, we will come back on Q4 results on the 9th February, and we'll give you a global update on that.

Michael HUTTNER, JP Morgan

Thank you.

Operator

We have one more question from Thomas Fossard from HSBC. Please go ahead, sir.

Thomas FOSSARD, HSBC

Yes, good evening. I have three quick questions. The first one is to come back on the Brazilian, or LatAm, situation. Obviously you've been shrinking exposure quite significantly since the start of the year. Nevertheless, the combined ratio, or the loss ratio, shot up in Q3. Would you say that you've taken enough measures to prevent further deterioration of the LatAm book in Q4/Q1, or that obviously you've been a bit surprised by the depth of the deterioration or additional deterioration we see in the LatAm market, which potentially needs some additional corrections?

The second question relates to the situation in China, which was, I would say, probably the big question on the Q2 results. Are you able to qualify the type of claims situation you are seeing there? Are there cash claims? Are there really bankruptcies, or you are just reacting with more caution in the reserving approach to your Chinese book, due to increases in overdues? Is it something like that, but not noticeable cash claims up to now?

The third and last question relates to the top line growth we should expect from you for next year. So starting with 2.5% on a constant FX basis for the nine months of this year, you have already started to implement energetic measures in terms of your risk exposure. Also you are expecting global economic growth to be less buoyant than you were previously expecting. So what is going to be the effect on your top line growth next year? Should we expect some growth, or will the risk measures you are taking in your book prevent any growth in 2016? Thank you.

Jean-Marc PILLU, CEO, Coface

I'll take your questions Thomas. First, concerning your question on LatAm and how things will go on in terms of loss ratio for the quarters to come, it will really depend on how the crisis in Brazil evolves. If Brazil stays, in terms of deterioration, at the level where it is today (which is already a strong dip recession), then the measures we have taken and are still taking will produce their effects with the usual time lag for those countries. As you know, the DSO is quite long. I would say in two or three quarters, we should progressively see the results of the actions we have implemented during the past two or three quarters. It will come progressively. If the situation in Brazil deteriorates further, we will have to take additional actions - and the effects of those actions will take a little longer.

You have seen the example for Russia. Even if the situation in Russia is not at all a nice one – and structurally I already commented last time on the situation in Russia – it seems that the measures we have taken up to now, looking at the parameters in the histogram, have been sufficient to return to a better situation than the one we saw some quarters ago.

So will the Brazilian situation be a copy and paste of the Russian one we see today or not? Will maybe the Russian situation deteriorate further for reasons we cannot imagine yet today? Depending on the situation we will see, the answer to your question will be different. One thing which will not be different is that – and I ask you to trust us – we will react and not lose any time or procrastinate in any case.

We have already described the situation in China during previous calls. It's a pure cash claim situation. This comes from the fact that the economic policies in China are moving from less export and less investment, towards more internal consumption. This is nice for some corporates, but less so for some others. I don't want to enter into the details as it's quite late now, but what we are seeing in China is equivalent to what we saw in some other countries at the beginning of the crisis. Then again the evolution may be different from one country to the other. So we have taken measures in China and these measures will have a progressive impact, as is the case everywhere. We will not hesitate to take additional measures if we see that the situation in China is not under the control of the Chinese government. And if this is the case, we will take action, as it's really part of our job. We really have an advantage with regards to these countries, as we know them well. We are actors in these countries and we are close to the cases we are struggling against, so we know what we are talking about. It does make it difficult to make any forecast, as we are not the only masters of our future. Part of it depends on the evolutions in the situations in these countries. We consider that we did what we had to do, that we will see the results progressively and that things are not deteriorating.

As for growth next year, I shall not be able to answer your question today. We'll apply the same commercial business model everywhere and we'll try to grow by adding more new business. We hope that in some countries our existing clients will help us more than they did recently, through their own growth. And as regards the price impact, as Carine told you, I think we will go on suffering from some very competitive challenges in mature markets, because of the profitability of the contracts and the competition. However, in some others, we will not hesitate to increase the rates of some policies. Will it be enough to stabilise prices? I'm personally not so sure, as the volumes at stake are not at all the same, but we'll do the maximum to increase prices when and where it's necessary and possible.

Thomas FOSSARD, HSBC

Okay, thank you.

Operator

We have no other questions.

Jean-Marc PILLU, CEO, Coface

Okay, so it's time to close the call. I'd like to thank you for attending, as well as for the quality of your questions and the interest you are showing in Coface. We will see you again on the next call for Q4, which is scheduled on February 9th next year. Before then we will be in contact with you one way or another, to give you further information on our Optimize Costs plan. So bye-bye to all of you and good evening.

Carine PICHON, Chief Financial Officer, Coface

Good evening.

Operator

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

(End of Conference Call)

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FINANCIAL CALENDAR 2016

February 9 2016: publication of 2015 results
May 4 2016: publication of Q1-2016 results
May 26 2016: general shareholders' meeting
July 27 2016: publication of H1-2016 results
November 3 2016: publication of 9M-2016 results

FINANCIAL INFORMATION

This press release, as well as Coface SA's integral regulatory information, consolidated accounts and analyst presentation, can be found on the Group's website: <http://www.coface.com/Investors>

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