Conference Call Transcript

Q1-2016 Results
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Operator

Ladies and gentlemen, welcome to the Coface financial results' conference call. At this time, all participants are in a ‘listen-only’ mode. The Q&A session will be conducted afterwards. As a reminder, this conference call is being recorded. Your host for this conference will be Mr Xavier DURAND, CEO of Coface, and Mme Carine PICHON, Group CFO.

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

Xavier DURAND, CEO, Coface

Thank you very much. Good afternoon to all of you and thank you for calling in. We are going to start with a presentation of our results for the first quarter of 2016. Overall, as you can see on the first page, I would characterise this quarter as a tough quarter, within a polarised environment. I will explain why as we go through the presentation.

Starting on page 5, our net income, we are reporting a net income for the group of 22 million euros. Excluding non-recurring items, the net income comes in at 27 million euros. On the turnover side, the reported figure is 365 million euros. It has been a tough quarter, with a 6.3% decrease versus what was a strong Q1-2015. On a comparable basis, we are down by 3.8%, which is pretty much in line with Q4-2015. This reflects contrasting performances in the regions. In the mature markets, particularly in Europe, we are seeing the continuation of soft conditions, with low levels of risk and a fairly high level of competition. In emerging markets, we are observing continued volatility in risk levels. We are also seeing the impact of the actions we’ve taken on risk exposure during the course of 2015.

Our net combined ratio comes in at 87%. Excluding one-offs, it’s 84.3%. This is up 9% on a reported basis versus Q1-2015 – again, pretty much in line with Q4-2015.

Our loss ratio stands at 55%. This has mainly been impacted by an increase in losses in Asia within the commodities and trading sectors, and by two distinct claims in North America. Nevertheless, we are not experiencing an increase in frequencies in North American losses.

Overall, the businesses are continuing to execute well, in a disciplined manner, in terms of costs. Our net cost ratio comes in at 29.3%. This excludes the 2.7% one-offs.

Turning to page 6, we have the key business highlights. The first thing I have to say on operations is, that after taking a series of tough actions on risks in 2015, we are continuing to work on our risk exposure but this time in a much more granular manner – client by client and industry by industry – to adjust to the environment as it evolves. We have also changed our reporting, as you can see on the following pages. We have moved two countries – Spain and Portugal – from Western Europe to the Mediterranean and African Region. We have also moved Russia from Northern Europe to the Central Europe Region. This allows both Western and Northern Europe to focus more on their core markets, with the dual challenge of driving growth and productivity.
On the topic of state guarantees, as you may have seen, we signed the transfer agreement with BPI France on April 18th. The agreement states that the transfer will take place before the end of 2016. The exact date still needs to be confirmed and the decree has to be issued. Until then, we are continuing to run the business as usual and to be remunerated by the state. The transfer will create an exceptional gain of 73 million euros before tax, which will be recorded on the effective transfer date.

As concerns strategy, as you know, we have been working for some time now on an operational efficiency plan. I’m happy to report that we’re making good progress in this respect. We’ve also launched a full strategic review of the business. We want to integrate the results of the cost review into the strategy. We’re planning to unveil these reviews during an investor day that will take place in London, on September 22nd. Prior to that, we intend to communicate the highlights and key themes of the plan during our next quarterly presentation, at the end of July.

Turning now to page 8, we have the slide on revenues. Again it was a tough quarter, with a 3.8% decrease on a comparable basis with Q1-2015, in line with Q4. We are seeing a bifurcated environment with revenues impacted by the continuation of soft conditions in mature markets, particularly in Europe. We are seeing low risk in these parts of the world. The books are highly profitable and we are defending the business in a competitive environment.

In emerging markets, there is continued volatility. The strong actions we took last year, on exposure and risk, are translating into lower growth. There is the one-off adjustment of €2.7 million for public guarantees, coming from 2015, which we have entirely recorded in Q1-2016. This is how we arrive at 365 (268 excluding the one-off figures).

On the fees side, we’re seeing fees pretty much in line with last year. Fees to gross written premium are fairly stable, at 12.9%.

If we turn to page 9, you can see the breakdown of growth by region. In Western Europe, the business is down. The headline number is 11%, but in reality the credit insurance business is down 4.9%. I’ll leave that for the next page, where I have a walk explaining the key elements of the decrease in Western Europe.

In Northern Europe, a competitive market, we’re seeing pressure on the business and we are defending our portfolio in the face of competition. We’re continuing to see moderate growth in Central Europe and the Mediterranean and Africa regions. These regions (with the exception of Spain which was transferred to the Mediterranean and African region this quarter) are continuing to grow. North America, after having a flat period last year, has started to grow again. It’s too early yet to call it a trend but there are some good signs. In Asia Pacific, we are seeing the impact of the actions we took last year on risk. In Latin America, following two years of double-digit growth, we are observing lower growth this year – again, this is in line with some of the actions that we have taken.

On page 10, we have a breakdown of the volume decline for Western Europe. You can see that there are three main components. One is on the single risk activity, where we have tightened up on our risk acceptance and parameters. We are also facing lower demand from the markets, in particular in the energy sector, where there is less demand for project financing, for example. The one-off for state guarantees explains just over 3% of the decline. The credit insurance business is down 4.9%, a significant amount of which is linked to premium refunds. The risk we see in this
part of the world is actually very low and you can see in the chart here, on the right-hand side, the total loss ratio for the quarter in Western Europe is 11%. The clients are, by contract, entitled to some premium refunds. Again, this is a very profitable business for us.

On page 11, we have better news on the growth side. New production for this year is very much in line with 2013, 2014 and 2015. We observed the best retention rates for clients this season that we have had in the last four years, as you can see on the second part of the chart. We're also starting to see the ability to re-price in some of the markets, in particular in the emerging markets. After three years of negative price impacts, the re-pricing actions that we've launched are starting to bite. In terms of the volume effect, we are back to what we have experienced in 2013 and 2014. Globally, the economy is growing - albeit not a high rate.

I'm going to turn the presentation over to Carine, to take us through the risk pages.

Carine PICHON, Chief Financial Officer, Coface

Thank you Xavier. Good evening everybody. I will comment, first of all, the loss ratio evolution. We are at 54% for this quarter, compared to 51.4% for Q4-2015. This increase has mainly been driven by the commodities trading sector, Asia and two specific claims in North America.

When you look at the split of this loss ratio between the current loss ratio and positive run-offs coming from the adjustment of previous years, you can see that they are more or less at the same level as the loss ratio for the current year, at 71.5%. We were at between 70% and 72% last year, but we had a lower positive run-off, at 20%, compared to the average of around 24% for last year. This is clearly the effect of the increase in claims and so there is less positive run-off this quarter.

Page 13 shows very contrasting loss ratios per region. There is a very low loss ratio in Western Europe, at 11.3%. Northern Europe, on the other hand, is at 59.8%. This increase is mainly due to one claim, Abengoa, for which we have booked 7 million euros. This is a good outcome considering the volume of insolvencies that have been related to this specific case. For Central Europe and the Mediterranean and African regions, loss ratios have improved, at a good level of around 30%. In North America, the loss ratio has increased, due to two separate claims in the metals and chemical sectors – although there has been no increase in the number of claims. Asia is at 173%, while Latin America has improved. I will let Xavier comment on these two regions, shown on page 14.

Xavier DURAND, CEO, Coface

I thought it would be helpful to provide some colour on the exposure and loss situations in our emerging markets, given how important they are to the overall equation. On the left-hand side, you can see in Latin America that the business started to reduce its exposure back in 2014. As you can see from the bottom of the chart, this is clearly paying off and the loss line has been coming down steadily since Q3-2015.

In Asia Pacific, the bulk of the actions on risk were actually taken at the end of Q4-2015, so it's too early to actually measure the results. You can see from the bottom of the chart that the losses have stabilised, albeit at a high level. We expect the impact of these measures to come through onto the P&L as the quarters develop.
Carine PICHON, Chief Financial Officer, Coface

As can be seen on page 15, we continue to have a very disciplined approach to costs. On the left part of the slide, it can be seen that, overall, costs have decreased at a constant rate of 0.3%, but that when we specifically focus on internal costs, the figure is -3.2% excluding one-offs. To comment further on these one-offs, the first one is the severance package for the former CEO. On the cost ratio, seen on the right hand side of the slide, we also have the decreasing readjustment for public guarantee fees related to 2015 on cost ratio. We also deduct from the cost all non-insurance turnover.

Having said that, the net cost ratio stands at 29.3% which is a little better than 2015 net cost ratio of 29.5%. This means that we have been able to adjust our cost basis to face the decline in our activity.

If we now go to slide 16, reinsurance cost was 13 million euros for Q1-15 and it is 11 million for this quarter. This decrease is normal when you take into account the fact that losses are increasing, as the role of reinsurance is to absorb part of these losses. We have the same scheme of proportional reinsurance for 2016, with a 20% cession to reinsurers. We have also added non-proportional cover, mainly to optimise the solvency ratio in 2016.

Overall, as seen on page 17, the net combined ratio, at 87%, is stable when compared with Q4-2015. This is the result of the combination of the already-mentioned increase in loss ratio and a decrease in cost ratio, which together lead to a stable net combined ratio.

Page 18 summarises our global investment portfolio of 2.5 billion euros. We are continuing to maintain a prudent and proactive investment strategy, particularly considering the current fall in market activity. Our net investment income reached 10.8 million for this quarter. This includes some losses on sales, as we decided to divest some bond portfolios in order to take a more cautious approach. As you can see, if we exclude these losses and the gain we have had last year on equity and bonds which were positive, we would have exactly the same accounting yield, at 0.4%.

The summary of our global financial results, on page 19, shows a net income of €26.9 million, excluding one-offs. The return on average tangible equity is down from last year’s 8.5%, due to the higher combined ratio and the comparison of the quarter with the full year 2015. The financial result is a little lower. This leads to a return on average tangible equity of 6.7%, on an annual basis.

That is the summary of the key figures. Xavier will now comment key takeaways.

Xavier DURAND, CEO, Coface

Just to summarise and to make some comments on page 21, as I said, it’s been a tough quarter in a polarised environment. In the mature markets, we are seeing significant commercial pressure. There is low growth and a low risk environment, which leads to a very profitable book - but also commercial pressure. In the emerging markets, we’re seeing risk initiatives starting to pay off in Latin America, which is good news. It is still early days in Asia and we expect to see continued volatility as the year develops, which leads us to remaining cautious for 2016.

I can tell you that after three months in the role, we are really focused on our top three priorities. Our number 1 priority is executing and delivering for our customers. Since I came into the
business, I have spent time travelling to 12 of our businesses, in three continents, meeting over 100 clients and brokers, as well as 40% of our employee base. I have clearly been conveying the message that we are a long term player in this industry and energising the troops to focus on clients. We are continuing to closely manage our risk exposure - as I said, in a more granular way than we’ve done in the past, industry by industry and client by client. We are also working hard to continue to improve our operational efficiency. As I said, the cost review we launched last year is progressing well. We are undergoing a full review of our strategy, which we plan to disclose fully during our investor day, on September 22nd. We will give you the highlights of the plan beforehand, during our next quarterly results meeting, at the end of July.

That finalises the presentation. We can now go into the Q&A part of the call.

Operator

Ladies and gentlemen, if you wish to ask a question please press 0 and 1 on your telephone keypad.

We have a question from Michael HUTTNER from JP Morgan. Sir, please go ahead.

Michael HUTTNER, JP Morgan

Thank you. I have a lot of questions. I’m not going to congratulate you on the results, as they are clearly low.

What does this commodities trading concern? It reminds me a little bit of insurers guaranteeing tax in the UK. It’s not a business I understand very well and I just wondered if it’s a business a credit insurer should be in? It’s not a business I had previously heard of in your books. I’m a bit surprised here, so maybe you can explain what it is. It sounds as if you’re insuring Glencore Trading, which is kind of weird.

The other question is on Euler’s fees. Euler explained in their results last week that their fees were up – while your fees were stable. They said their fees were up because there are more recoveries, which is clearly also your case. I was just wondering why you’re different?

On the one-offs, I still don’t understand what is this ‘restatement’. Maybe you could explain it more slowly so that I can understand.

The thing I don’t understand is the pricing. Euler said that their pricing is down 1%. Yours is 1.6%. I don’t understand why, given that you should be looking for a bit more in your margins, particularly as there is more emerging market exposure, so kind of weighted, it should be higher.

Then, finally, can you explain when Abengoa was booked? I thought it was booked in Q4 but it sounds as if you booked it in Q1.

Thank you.

Xavier DURAND, CEO, Coface

The first thing I’d say about single risk, is it’s a business that we’ve done for years and years - for decades even - and which has always been extremely profitable for us. That’s not something new. That includes insuring trading companies on their purchases of commodities. The total exposure for the business is less than 2% of our total exposure. It’s not something huge, but it’s a higher proportion of our premiums and it’s historically been a profitable line of business.
We are seeing an increase in losses, as can be expected given the environment.

On the fees, I'll let Carine comment here.

**Carine PICHON, Chief Financial Officer, Coface**

As concerns fees, as you know, we have two segments - debt collection fees and monitoring fees. The monitoring part is decreasing, which is why there is no global increase. This is because it is based on exposure and, as a reminder, we reduced our exposure by around 7% last year (mainly on emerging markets). The impact on the fees is mainly coming from the risk actions we took last year.

Coming back to the one-offs, there are two main components. The first concerns the 2.6 million euros severance package for the former CEO, who left at the beginning of Q1. This internal cost has been booked in Q1. The second relates to an adjustment on the remuneration for the French public management procedure. We have a global contract with them and the margin increased last year due to a diminution of costs, thanks to our increased efficiency. Due to this increased margin, we subsequently needed to negotiate our level of fees with the French state. This adjustment of the 2015 fees was booked in Q1-2016 because these negotiations were finalized in Q1-2016. These two factors have had an impact on the net cost ratio. The 29.3% includes these adjustments.

On Abengoa you are correct; we did put it in Q1. This because we had very low exposure at the end of 2015, of around €15 million. We received the notification from our client in Q1 2016. It is booked in Northern Europe region because actually the policyholder is Dutch.

On pricing, it is a mix between the very mature markets and, as we said, there is tough competition. This is not the first year. Last year, the loss ratio was low, so that is why we are at -1.6%. You can see that the price decline is lower than for the final quarter of last year, as we have had some readjustments on emerging markets. All of this is bearing in mind, that the portfolio share renewing in Q1 is lower for emerging markets than for the European ones. We monitor this and we re-price as needed for each of our clients.

**Michael HUTTNER, JP Morgan**

Regarding Abengoa, I have a big question here, as your competitors reported it in Q4. I don’t understand this. You have to be cautious looking forward but if competitors have put this in Q4, I don’t understand why you have put it in Q1. This is an open question. I am quite surprised, that’s how I would express it.

**Carine PICHON, Chief Financial Officer, Coface**

Michael, I can confirm that we are compliant with the rules - it is just because we were notified in Q1.

**Michael HUTTNER, JP Morgan**

I know, but …

**Carine PICHON, Chief Financial Officer, Coface**

If you want to make a comparison, it should clearly be compared with the volume of claims we have. On this point, we are on a very good track.
Xavier DURAND, CEO, Coface
I would say that, compared with the exposures that were out there in the industry, the business has done very well.

Michael HUTTNER, JP Morgan
How much was the net amount?

Carine PICHON, Chief Financial Officer, Coface
€7 million

Michael HUTTNER, JP Morgan
Ok, thank you.

Operator
The next question is from Guilhem HORVATH from Exane. Sir, please go ahead.

Guilhem HORVATH, Exane BNP Paribas
Thanks for taking my questions. The first one is on risk action plans and your performance in Asia Pacific. It is obviously stable compared to Q4 2015, but one would expect to see an improvement here, particularly on this commodity trading thing. I think, and I quote you here Mr. DURAND, you said that it was not surprising. If it was not surprising, would this be a normal claim you would have had with a perfectly efficient action plan? Should we be scared about the efficiency of this action plan? Are you happy with the way it is going? Are you very confident that in the next quarter we are going to see an improvement here?

My second question is also on profitability and on the lower run-off you have this quarter. Can you tell me where this is coming from?

Then, I have two other questions, the first one is on the strategic plan. You said that you would host an Investors’ Day in September. Correct me if I am wrong, but I understood that you would provide highlights in Q2, is that correct? The second question is, should we expect you to divest from some activities? Is this the type of strategic review you are running, or is the perimeter going to be stable moving forward?

My last question is on solvency. It’s probably less of an important question, but in Q4, you structured a contingent capital instrument. Now, you are buying non-proportional reinsurance. Is it really a solvency issue - I mean either you are expecting to have very tough negotiations with the regulators and you want to be very strong before this, or this type of reinsurance looks like you may be scared about something going forward. Can you reassure us that these are purely solvency instruments? Thanks.

Xavier DURAND, CEO, Coface
OK, let me start with the risk action plans. I think that we have shown in the past (and it is the same story here as in prior cases), the actions you take at a certain point in time, given the cycle in this industry, take time to materialise. This is linked to both the payable cycle and also to the terms of contracts, the time it takes for a client to bring claims and the time they have to claim. Putting it into perspective, in Latin America you can see that the business started doing this a
year earlier than it was started in Asia Pacific. I don’t see anything surprising here, that we do not yet see the effects of the risk action plan on the losses after literally just three months – and actually, on average, it’s just been just a month and a half since this was done. So that is why I am saying it is still early days and I don’t think there is anything surprising here.

I will hand over to Carine for the solvency question.

**Guilhem HORVATH, Exane BNP Paribas**

Sorry, if I can just come back on the risk action plan. So, this commodities trading is something new for you? I mean you have had issues in China for quite a long time as well. It did not start as early as in Latin America, but it has been there for a while. So on this commodities trading, I just want to be sure that this is a new problem and not something which is part of the larger Asia problems that you had.

**Xavier DURAND, CEO, Coface**

No, as I said, this business has been conducted for years and years. There is nothing new here. It is just like other parts of our business, where sector performance is very much based on the environment. In this case, as you know, there has been a slump in commodities so we are seeing increased claims compared to what we have seen in the past. Again, this has been, historically, a very profitable business for us. It just happens that the cycle is changing. That’s what I mean by saying that this is something that can be expected in this type of environment. We have taken measures before on this part of the business, as part of the risk action plan.

**Carine PICHON, Chief Financial Officer, Coface**

On run-off, your question was “Where is it coming from, the fact that we have less run-off than in the past?”. It is mainly, as previously discussed, coming from Asia. We made an assessment of the current year and then we compared the figures with what actually happened. So we have a low run-off for Asia and also for Latin America, but very good levels from other regions.

In terms of solvency, I can confirm that we are not scared at all. In fact, non-proportional reinsurance is a tool which already existed on the market. We considered buying it a year ago and it is something which is also used by our two main competitors. We took it because it is clear that we are always looking for tools to optimise Solvency II. This is normal but it has nothing to do with any fear about the level of our capital. It was exactly the same for contingent equity line. It is only for extreme scenarios and we are not the only one to use it. Very well rated companies use it and we have no problem of solvency. This tool is being used for proactive capital management, nothing else.

As regards your point related to what happened on the internal model. We are continuing our discussion with the regulator and I don’t expect to have any updates before the end of the year but we will take the time we need to discuss with them. To remind you, the solvency II ratio cover is 147% and maybe even more important than the cover ratio itself is the sensitivity tests – we disclosed them last quarter. You may remember that even when we simulate with the 2008 crisis, where the loss ratio was over 100 % (the loss ratio is one of the main drivers of sensitivity for our cover ratio), we were at 119 %. So there are really no worries about our cover ratio. Our rating is still good and stable with our two rating agencies, so there is no concern at all.

**Xavier DURAND, CEO, Coface**

I think you had a question on the strategy. While, it is still too early to talk about the strategic plan,
this should not be construed as a major M&A effort or something that would significantly modify the way the company is configured today. We are talking about growth versus productivity, versus segments, versus all these kinds of things that we have to align around.

Guilhem HORVATH, Exane BNP Paribas
Ok, thank you.

Operator
The next question is from Thomas FOSSARD from HSBC. Sir, please go ahead.

Thomas FOSSARD, HSBC
Good evening to all of you. I have several questions. The first one is (sorry to come back on the single risk commodity trading exposure), could you tell us if there is a specific issue in this business line, or if this is exposure with non-cancellable business that you may have written in the past and that potentially makes your exposure a bit longer to exhaust than we see in the more traditional traded credit business?

The second question is on the gross loss ratio in Western Europe, which is actually very, very low, at 11.3%. Is that the current year loss ratio, you know reserve releases, which if it is the case, is very low. How sustainable is that? - Because clearly it was more around the 30 % level and it is now very low. The third and last question would be maybe to reassure us on the back of the previous question on your solvency and the outlook. Is the pay-out ratio at 60 % still a valid target, or guidance? Thank you.

Carine PICHON, Chief Financial Officer, Coface
For solvency, we reconfirm that it is a value of 60 % of the pay-out ratio. There is no change on that.

Thomas FOSSARD, HSBC
Sorry, 50 or 60 %?

Carine PICHON, Chief Financial Officer, Coface
60 % of the pay-out ratio.
I think you also had a question on the loss ratio in Western Europe and if it was sustainable ?

Xavier DURAND, CEO, Coface
I think that the way to look at the losses is, as I said, knowing that it is polarised environment. There are losses in the mature markets that have come down and are at a low point in the cycle and we have losses in emerging markets which are high. Clearly, as you know, this industry works with ratios that are more in line with what you have seen in the past. At some point, yes, we do expect to see things normalised, where you will see loss ratios in the mature markets come back up to historic medians and where you see as a result of the actions taken, the risks in emerging markets come back down, again to these medians. What is harder to predict is exactly the tempo of all this and that is why we are remaining cautious on the year. But we do expect to see these trends at play, as time goes forward.

Thomas FOSSARD, HSBC
Sorry, just to be clear on the 11.3 %, is it your current year loss ratio or does it also take into account some reserve releases you may have booked in Q1?
Carine PICHON, Chief Financial Officer, Coface
It is accounting loss ratio.

Thomas FOSSARD, HSBC
It's all year. Ok.

Carine PICHON, Chief Financial Officer, Coface
It is all year, but it is clear that within that level, you have a significant part of releases.

Thomas FOSSARD, HSBC
That is what I wanted to check, thank you.

Xavier DURAND, CEO, Coface
And then, when it comes to single risk, as I have said this is something that has traditionally been a small part of what we do, but historically this business has always performed well. As part of the actions that we have taken, we have tightened up and reinforced our rules. We have restricted our risk appetite for this business and increased the diversification of the types of risks that are being underwritten. This is what I would say about single risk.

Thomas FOSSARD, HSBC
Sorry to insist on this, because this is a critical question in this type of environment – but are you able to confirm that there is no major non-cancellable exposure in your single risk book?

Carine PICHON, Chief Financial Officer, Coface
On single risk, you may remember that at the beginning of our presentation we commented on the turnover evolution for the Western Europe region. We said that we have a decrease coming from single risk because in recent years we had already reviewed our risk appetite on this activity in order to be more cautious. The reason why turnover has also decreased is because we are no longer accepting volumes in terms of new contracts. So you see the effect of our risk action plan, or risk appetite, in this sector.

Thomas FOSSARD, HSBC
Ok, thank you.

Operator
The next question is from Hadley COHEN from Deutsche Bank. Please, go ahead.

Hadley COHEN, DEUTSCHE BANK
Thanks. A lot of my questions have already been asked, but I have still a few more. On the Asia Pacific loss ratio of 173.4%, can you tell us what that would have been excluding the single risk commodity trading losses? If I look at exposures, you have reduced your exposure in LATAM by 30 % year on year, and you are starting to see the effects of that on the loss ratio. You have actually reduced your exposure by 20 % in Asia Pacific year on year, so I am just wondering why we have not started seeing those effects coming through. You say that a lot of it is from the end of last year - but still it is 20 % down year on year.
On the LATAM’s reduced loss ratio, can you explain how much of that is down to luck - or is it purely just because of your reduced exposures that the loss ratio has improved over the past few quarters?

Then, just a couple of questions on the investment results. Can you please explain what the 4.6 million ‘other positive’ was within the investment income?

Then, on the losses, I think that you said that these were from realised losses on fixed income. If I heard that correctly, I don’t understand why this is the case, given where outspread and risk-free rates have moved recently. I’m not sure why losses are coming through there.

Finally, again I apologise if I missed this, but please could you explain what the two large claims were in North America. Thank you.

Xavier DURAND, CEO, Coface

I will start with the timing question, because I think that is important. Again, this is not something new at all in this industry. You write a contract with a client covering claims that come from their payables and clearly there is a cycle involved with the time these payables come to maturity and the time the client has to claim on these. So as we have cut our exposures in Asia Pacific in December 2015, I would not expect this to have an impact in the first quarter. It would be surprising if it did. It is consistent with the stories that you have seen in prior years, in prior cycles, in other parts of the world. When it comes to saying on Latin America that this is luck, the reality is that we have reduced our exposures. The reality is that the level of risk that this business is exposed to, is lower. It is actually expected and not the result of an event here, that the losses have been lower.

Hadley COHEN, DEUTSCHE BANK

Sorry, if I can come back and apologies if I worded the question poorly, but you had a 170.4 % loss ratio in Q3 last year. It is now 83.2. Are you saying that all of this improvement is because you have reduced your exposures?

Xavier DURAND, CEO, Coface

I wonder what else it could be linked to...

Carine PICHON, Chief Financial Officer, Coface

No, in fact, we haven’t answered your question on large claims in Latin America. Over the past year, frequencies have decreased, so this is a trend we are seeing here. Clearly, when you see a decrease in the number of claims, its because our actions have worked. It is not because of chance, because you have a large claim one year and none the year after. It also the result of our risk action plan. As you know, the macro environment ratio has not improved and you cannot say that the cycle has improved in Latin America – it’s even worse when you look at Brazil, for instance.

Xavier DURAND, CEO, Coface

This is clearly the result of the actions we have taken.
Hadley COHEN, DEUTSCHE BANK
And are there impacts on the 173.4 % from this single risk commodity trading loss?

Carine PICHON, Chief Financial Officer, Coface
Not in LATAM.

Hadley COHEN, DEUTSCHE BANK
Sorry, in the Asia Pacific loss ratio, the 173.4 %?

Carine PICHON, Chief Financial Officer, Coface
We cannot disclose that. It is a part of it, but not all.

Hadley COHEN, DEUTSCHE BANK
Ok.

Carine PICHON, Chief Financial Officer, Coface
On investment results you had a question on ‘others’, on the 4.6 million. You are right. This quarter has benefitted from the positive FX effect, so we have a 4.6 million positive result from that.

Concerning the losses, if I understood your question correctly, the 2.6 million losses on the financial portfolio are because we decided to divest some high yield bonds and we have realised a loss. We preferred to cut our exposure and limit our portfolio risk.

On the two large claims in the US…

Xavier DURAND, CEO, Coface
We had two claims in the US - one in the metals sector and one in the chemical sector. They are unrelated and we see them more as one-off events than a trend in frequencies in North America.

Hadley COHEN, DEUTSCHE BANK
Thank you very much.

Operator
We have a new question from Thomas FOSSARD from HSBC. Sir, please go ahead.

Thomas FOSSARD, HSBC
I just wanted to check with you what are your views on the pricing environment? In Q1 it is -1.6%. What trend do you see for the end of the year? Should we expect some form of improvement, or you are pretty bearish and you believe with the rebates and the pressure in Western Europe that we should not expect too much of a positive pricing effect before year-end? Thank you.

Carine PICHON, Chief Financial Officer, Coface
I should just remind you that this industry is pretty much on a yearly cycle, in terms of the renewals of contracts. We are seeing on the renewals that happen, that pricing effects are starting to bite, particularly in emerging markets, but I don’t expect to see a major change throughout the rest of the year.
Operator
We have no other questions for the moment.

Xavier DURAND, CEO, Coface
Ok. Thanks again for calling in. I just want to remind you about the next calendar events. We will have the General Assembly on May 19th. Our next quarterly report will be on July 27th and again we expect to present the highlights of the key themes of the strategic plan on that occasion and we will be disclosing our plan in London on September 22nd. So, thank you for calling in. We will speak next time.

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

May 19 2016: general shareholders’ meeting
July 27 2016: publication of H1-2016 results
September 22 2016: Investors’ Day (London)
November 3 2016: publication of 9M-2016 results

FINANCIAL INFORMATION

This document, as well as Coface SA’s integral regulated information, can be found on the Group’s website: http://www.coface.com/investors

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The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2015, the Group, supported by its ~4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies’ payment behaviour and on the expertise of its 340 underwriters located close to clients and their debtors. In France, Coface manages export public guarantees on behalf of the French State.

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