



Please note that the conference call was accompanied by a complementary presentation in PDF format available on the Group's website: <http://www.coface.com/Investors>, under the "Financial reporting" section.

State export guarantees management activity transfer

Call Conference Transcription

Paris January 2nd, 2017

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Welcome and Opening Remarks

Operator

Ladies and gentlemen, welcome to the Coface conference call regarding the transfer of the state guarantees management that was announced today. At this time, all participants are in listen-only mode. We will then conduct a questions and answers session. As a reminder, this conference call is being recorded. Your host for today's conference will be Madame Carine Pichon, Group CFO. Madame, you may begin.

Presentation

Carine Pichon, Chief Executive Officer

Good morning everybody. First of all, let me take this opportunity to wish you a happy New Year for 2017. Thank you for joining the call today. I expect that you will have seen the press release we distributed this morning, regarding the transfer of the State export guarantees activity to BPI, the French public investment bank. The aim of this call is to give you some further information on this announcement and to answer any questions you may have.

The first slide of the presentation sets out the scope of this transfer. This activity was a service activity, carried out by COFACE on behalf of the French state. In 2015, this activity represented 4% of consolidated turnover. From a financial impact point of view, we will receive an indemnity estimated at €75 million before tax. This will be fully booked into Q4 2016 and fully taxed in France, meaning that it will have an impact, after tax, of €49 million on Coface's net income for 2016.

The end of this activity, as from the 1st January 2017, implies that in 2017 we will have a mechanical decrease in our top line: the figure for 2015 was €57.3million. We will also have a 3.7% decrease in expenses, representing €26 million of costs, which will be transferred. These costs correspond to a dedicated team of around 250 full time employees, as well as dedicated IT systems, which were transferred to BPI France at the beginning of this year.

Moving on to the next slide, page 3 details the impact on recurring numbers. What you can see here are the figures for 2015. The first column shows the figures that we published last year. We then have a pro forma, which excludes the state guarantees activity which has been transferred. As you can see on the first line, on consolidated revenues, or turnover, we will have a decrease of €57.3 million, which represents the service activity for the French state. We will also have a decrease in general expenses of €26 million. All in all, this represents an impact on the net result of €21.3 million, based on the French tax rate of 34%. As a reminder, this is not the tax rate for the group, which is higher in 2016 (as we have higher gains on higher tax countries such as France and Germany and lower results and even some losses in other countries - specifically in emerging markets where the tax rates are lower). In summary, the net result will decrease by €21.3 million, based on 2015 figures.

Taking a specific look at our key ratios, there is no impact on the loss ratio because it was purely a service activity, so there was no risk for this activity. However, there is an impact on the cost ratio. In 2015 we published a cost ratio of 30.5%. If we exclude the effect of the guarantees, we would have published a cost ratio of 34.2% (in other words, 3.7 points more than for the figures which include this activity).

In terms of the return on average tangible equity, we published 8.5% for 2015. Without this activity, it would have been 7.1%, which represents a decrease of 1.4 percentage points.



As you are aware, in order to offset the impact of the transfer of the State export guarantees management activity, we have launched several operational efficiency initiatives, included our *Fit to Win* plan. This means that in 2018, we will be able to offset the 30 million euros of margin loss or shortfall (before tax) which is related to the transfer.

This brings us back to our *Fit to Win* plan, on slide number 4. As a reminder, when we introduced this plan, our aim was to deliver a 9% return on average tangible equity through the cycle - first of all by positioning us as the most agile and global trade credit partner in the industry. Our three priorities are to strengthen our risk management and information, to improve our operational efficiency and client service (which will allow us to offset the 30 million euros shortfall in 2018, by reinvesting the 75 million euros gain on the State guarantees transfer) and to implement a differentiated global strategy which takes into account the specificities of each of our markets. We expect to benefit from the full pay-off from each of these priorities in our plan after two years. I would like to reiterate, therefore, that 2017 will be a transition year.

The second pillar of our *Fit to Win* plan includes the fact that we want to steer our business towards a more efficient capital model, using different tools – particularly by leveraging reinsurance to optimise our risk and capital management. The effects of this are expected to begin in 2018. I am taking the opportunity of this conference call to also inform you that we renewed our reinsurance treaty last week. This will allow us to cede, from a quota share point of view, 26% of our premiums. This is exactly in line with our *Fit to Win* plan.

In summary, now that the transfer of State guarantees is behind us, we will continue to develop our core credit insurance business. We are fully focused on the execution of our *Fit to Win* plan and its implementation is progressing in line with our expectations. These are the main comments that I wanted to make this morning. I am now ready to answer all your questions.

Questions and Answers (Q&A)

Operator: Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. We have a first question from Guilhem Horvath, from Exane BNP Paribas. Sir, please go ahead.

Guilhem Horvath, Exane BNP Paribas: Yes, good morning and happy New Year to everyone. My first question is on dividends. Can you remind us please, how the compensation will be taken into consideration regarding dividends? I think that you did already explain that earlier but could you just clarify?

My second question concerns the reinsurance treaty which is being renewed. So 26% is the new cession rate – is that correct? Was it 22% last year and now 26? That's what I understood.

My final question is, if you could just update us quickly on the risk action plans for Latin America and Asia Pacific and on how are these plans evolving? Thanks.

Carine Pichon: As concerns the dividends for 2016, we have said that we will pay them based on normalised net income. By normalised we mean that we will exclude the gain of €75 million linked to the



transfer, as it will be fully used in our *Fit to Win* plan (to reinvest in and strengthen our information, upgrade our IT tools and the skills of our teams).

As a reminder, during the Investor Day we said that we anticipated, from a P&L point of view, having 40 million euros of provision booked into 2016, 21 million euros in 2017, 6 million in 2018 and 3 million in 2019. We will use this to reinvest in our core business of credit insurance. This means that the basis of the dividend calculation will be the net income, excluding firstly this gain and also the 40 million euros of provision that we will book in Q4 2016.

As concerns reinsurance, up to 2016 we had 20% cession rate with the Quota Share reinsurance representing around 22% cession indeed, with the Excess of Loss reinsurance. You are correct. So that 20% of Quota Share will be increased to 26% for the 2017 underwriting year. This is exactly in line with the fact that we want to buy reinsurance to optimise our capital structure and our risk model.

On our risk action plans, I will give you more precise updates during the Q4 call at the beginning of February. However, we can reconfirm that we began most risk actions plans in Latin America at the beginning of 2015 and, as you know, we consider that we need two years to see the full effects of all of these action plans. In Q3 we started to have some positive signals. For Asia it's far too early to say. We took actions at the end of 2015 for China, when we cut 50% of our exposure, and we took some additional measures in Q1 2016 (specifically on some sectors such as commodities). As I said before, we need around two years to see the full effects. I think it will be more progressive, but all action plans have been taken. We are on good track and I will give you more precise updates at the beginning of February.

Guilhem Horvath: Okay, thanks very much.

Operator: We have a question from Thomas Fossard, from HSBC. Sir, please go ahead.

Thomas Fossard, HSBC: Good morning, Carine. Happy New Year. I just wanted to come back on reinsurance and the new cession rate you mentioned this morning. So, regarding the additional business that you're ceding to the reinsurers, as of 1st January 2017, is that what you had in mind when you presented the plan last September, and the actions to improve capital efficiency? Is that all that you wanted to do, or is it just the first step? Should we expect more in order to reach the 100 basis points improvement on return on equity, maybe towards the end of the year – and starting in 2018? Thank you.

Carine Pichon: To answer your question, we are in line with what we anticipated. It is now more a question of trajectory. You are correct – it is the first step. We have plans to make further changes in 2018 and 2019, but it is too early for me to comment on it at this stage. We are very happy with the renewal of our reinsurance treaty because of the quality of reinsurers we have in our panel – and this increase has been well accepted by all of them. So, for the moment, we are fully on track with what we said during the Investor Day.

Thomas Fossard: Just a follow-up on that, on the structure of your reinsurance programme. Are there any significant changes, compared to last year, in terms of the level at which you would say the protections are starting to kick in? For example, could you remind us of the protection, on a net basis, for a significant or a major loss? What would be the amount of net loss that you are trying to avoid to be exposed to?



Carine Pichon: In fact we have two main treaties. The first one is the quota share of 26%, which means that we retain the remaining 74% for all claims. In addition to that, we have an excess treaty which means that for one single claim, on one single buyer (meaning one single corporate), we cannot have a loss of more than 3% of our shareholders' funds. So we have kept the same reinsurance policy as last year, in this respect.

Thomas Fossard: Okay, thank you.

Operator: We have no other questions for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, you can press 0 then 1 on your telephone keypad. We have another question from Guilhem Horvath. Sir, please go ahead.

Guilhem Horvath: Yes, thank you. Just coming back on the public procedures, you showed the 2015 numbers. Is there any reason to believe that the 2016 costs related to this business are different, or should we expect that 2016 will be in the same range as for 2015 - given the fact that you had some kind of a transfer process in place during the year?

The second question is (I'm being a little bit picky here, but I'm doing the maths), if I compute the calculation of the public procedures topline, minus transferrable costs, minus non-transferable costs, which you say are 20 million, I get to 11.3 - and not the 10 that you mention on the bottom of the slide. Is there any reason why - is this a recurring thing compared to 2015? Can you explain the difference? Thanks.

Carine Pichon: Okay, on the first question concerning the 2016 revenues and costs for this activity, it should be more or less in line with 2015. We will update it in one month - but it's not very far from the figure we published in 2015.

On the maths, could you please repeat that question?

Guilhem Horvath: Okay, so I'm very picky here, but on slide 3, you have 57.3 of top line and 26 of general expenses, which are, I think, the transferrable ones, right? Then below you say that the shortfall is 10 million of gross margin and 20 million of retained fixed costs. So the 26 plus 20 are the total costs, right? When you take these off the 57.3, you get to 11.3, not 10. We can discuss that later. It's not important.

Carine Pichon: The 30 million that we published in 2015 was an estimation for 2015, but without Q1 2016, so we have made an adjustment. Your point is correct. An adjustment was made to the revenues for this activity and we have used this readjustment for 2015 here in the figures on the table - but not on the comments. I think this is the main reason, but you can call Thomas or Cécile and they will give you the precise figures.

Guilhem Horvath: Okay, thanks.

Operator: We have no other questions for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, you can press 0 and 1 on your telephone keypad.

We have no further questions.



Carine Pichon: Thank you very much for having attended this call on the second day of this year, and once again, happy New Year. We will keep you informed of the next session, which will be at the beginning of February, for the Q4 results. Thank you very much and have a good day.

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

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FINANCIAL CALENDAR 2017 (subject to change)

FY-2016 results: 8 February 2017, after market close

Q1-2017 results: 26 April 2017, after market close

Annual General Meeting: 17 May 2017

H1-2017 results: 28 July 2017, before market opening

9M-2017 results: 25 October 2017, after market close

FINANCIAL INFORMATION

This transcript, as well as Coface SA's integral regulatory information, can be found on the Group's website:

<http://www.coface.com/Investors>

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim half year financial report

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 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 50,000 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 660 underwriters and credit analysts located close to clients and their debtors.

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