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 results and reports" section.

S1-2021 Results

Conference Call Transcription

Paris, 28 July 2021

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 30 June 2021. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO, and Carine Pichon, CFO.

Xavier DURAND, CEO, COFACE

Good evening, thank you very much and welcome to everybody. Thank you for logging onto this call. We're happy to present our first half 2021 results tonight. As you will have seen from the publication, our second quarter has been very strong. It's probably actually a record quarter in terms of profits so far in the history of the company. There are two underlying trends I want to stress here. Firstly, we continue to live in a low claims environment in almost all areas around the world. Secondly, which is important, is that Coface continues to demonstrate very strong execution in all areas of the business, be it on the growth side in terms of managing costs, in terms of losses, and finally in terms of developing our adjacencies in line with the Build to Lead plan that we had highlighted back in the beginning of 2020.

Just some highlights on page 4. Our turnover is up 7.4% at constant FX and perimeter. Notably the second quarter is up by almost 11% at 10.8%. Trade credit insurance premiums are up 8.5% as our clients' activity is recovering as the economy is rebounding post the acute phase of the Covid crisis. Our client retention remains very strong at 92.4%. We continued to see positive pricing through the first half of the year, but pricing has started to turn negative as obviously competitive pressure is building up in the market. Information services is up 11%. Factoring is up 10.9% and we saw clear accelerations in both business lines in the second quarter. In terms of losses, I would say it's another benign quarter with a 36 points drop from last year to 21.4%. That brings the first-half net combined ratio to 51.9% and 51.0% for the second quarter of 2021. Gross losses are down 29.4 points to 20.5%. This is pretty much the same level as the first quarter and the continuation of the story that you've seen and that we've already discussed in the first quarter in terms of claims. The cost ratio is down 0.8 point to 30.4%. We are continuing to see growing revenues and we are continuing to invest in the business, but the balance is positive in terms of the cost ratio for Coface. And then lastly, the government schemes have lowered our pre-tax profit by EUR 24.9m for the first half of this year, so that's a pretty significant impact on the business. That brings our net income for the Group to EUR 123.2m for the first half of the year, of which EUR 66.9m in the second quarter, bringing our first-half RoATE in line with the first quarter at 13.5%. We continue to have strong solvency. You know we publish that number twice a year. We estimate it at 191% in total for the group, 186% if we exclude the government schemes and that remains well above 155% to 175% target range that we defined in our Build to Lead plan.

With that I'm going to turn it over to page 5 with a few comments on the economy. Clearly the sequence on this top left-hand side as we have highlighted is one of a rebound underway. We expect 5.6% growth in the economy this year. Some of this is catching up from 2020 but we do expect that growth to continue for now in 2022, albeit at a slower pace than this year. As the economy reopens, our clients are in need of support, which leads to the growth in TCI exposures that you can see on the top right-hand side of the chart. We're up 9.8% since the end of last year. We are seeing strong pricing increases in some commodities, as I'm sure you're all aware, so some short-term inflation is materialising. We are supporting our clients with increased covers where they need it. Our exposures are now close to where they were before the Covid crisis. I would just mention some significant rotations in terms of either credit quality, or the companies, sectors or countries to which we are exposed. Something I'm sure that's on everybody's mind is that we do expect the number of bankruptcies to increase in the future as we exit this public health crisis. However, how this will occur is pretty much still unknown. The governments will eventually withdraw their support to the economy. We're starting to see that in the more mature markets with the highest vaccination rates, Israel for example. We still think there's a downside and we're seeing it at play in Europe with the variants coming back strong. Vaccinations are progressing but the variants are continuing to appear and so I think we will be in this race between medicine and variants of the virus for some time still. On the bottom left-hand side, you're all aware of the government schemes. I mentioned the cost for us this year. Overall, these programmes have cost us about EUR 31m pre-tax so far. Most of these schemes have ended as of 30 June but they will continue to play a role in our numbers as, obviously, the vintages are rolling through. Some of the schemes that are still ongoing are not the ones that impact our balance sheet. We're talking about the top-up schemes that have been put in place in France, Slovenia, Israel and Canada and we expect those to last until the end of the year. So, that's really the overall story in terms of the environment.

I added a page on page 6 to talk a little bit about what's been happening in the business as we have been going through this crisis. Clearly on the trade credit side we have been performing well. We have continued to demonstrate agility and resilience in the face of a scenario that's very hard to forecast in much detail. I think we've performed well relative to the rest of the market during that time. But we haven't just been managing the crisis. We have been continuing to work on the core infrastructure of the business, and I'll just give you a few things. We've just launched a single worldwide collection tool in 45 countries. It's been a long, ongoing project. We think the time is right to do this as the level of claims is relatively low. This is part of a significant continued effort to simplify and digitise our business. And I just wanted to highlight that trend by another benchmark that we've hit. We've just passed a milestone for us which is a 30% reduction in our IT complexity, defined as follows: a few years ago, we created an index by taking the number of applications multiplied by their weight in kilobytes, multiplied by the number of interfaces that are in place between these applications. Since we launched our first restructuring efforts, we've reduced the IT complexity of the business by about 30%. This is quite a bit as we have also further expanded the capabilities of those systems. On the right-hand side, I also want to stress that we're not just continuing to invest in trade credit insurance but we're continuing to grow our select specialties as we said we would do during our Build to Lead plan. Last year and this year, we've been investing in our information business line. Year to date we've increased the headcount of that business by about 38%. We're scaling up our IT capabilities in this space. We've launched a bonding product in Romania. We have started to sign reinsurance treaties out of Switzerland in the area of bonding as well, to expand our reach in that business. Our factoring business as you know has been turning around for the last two and a half years. We're starting to see some nice traction here with 31% growth in the second quarter year-on-year, clearly as we rebound from the pandemic. We're also launching other products like a new debt collection offer in Italy, which has been growing nicely for us in the first half of this year.

So those are some of the highlights of the operating story. I want to take some time, which I don't usually do, on page 7 to talk about our initiatives as relates to Coface's ESG strategy. As you know, we really want to be a responsible and sustainable player in the space for the long term and I wanted to highlight some of the things we've been developing over the course of this pandemic in three areas. One as a responsible player in the TCI industry. We're continuing to develop tools and to put in place targets in terms of enhancing our ESG position and the ESG rating of our investment portfolio. We have set a precise target for the improvement of that rating. We are actually a couple of notches better than our investing environment. We are building and we are currently testing a customised tool to assess the environmental impact of our insured buyers. This is a capability that we want to put in place in order to be able to give underwriters a credit risk assessment view of the world but also to build a tool that allows them to assess through another system the ESG value of the companies and sectors that we write. And then finally we're building a specific CSR indicator which will be built into our risk appetite indicators by the end of the year in order to continue to move forward on that very important part of our business. In terms of being a responsible employer, you're aware that last year we spent quite a bit of time working on gender pay equality in France and we've had some really nice results there. This year, we've rolled that out globally in every country where we operate. We've set a target of 34% of women in the top 200 jobs at the company end of 2023 and that's built hard into our collective 2021 LTIP targets. We signed diversity and inclusion charters in France, mainly around LGBT+ and disabilities at work, and we are continuing to roll out a new initiative which is about helping people who are from less favoured environments access superior education in terms of technology, mathematics and science, and our first step in this area was with a foundation called the Potter Foundation in France. We think this is an important way to for us to participate in something that's actually important for the company, which is science, data, technology and the development of the communities in which we participate.

Finally in terms of our own sustainability. We're setting a reduction target of 3 grams of CO_2 on average for our fleet by the middle of the 2022. We're putting electric cars in our catalogue of eligible vehicles for every employee who's allowed to have one. We're using outside resources to really measure precisely what our carbon footprint is and to implement a precise trajectory to improve it. We've upgraded our procurement policy and we're developing new work rules in terms of what we've learned from the crisis. We've learned that we can do a lot of things at a distance. We don't need to be in the office and we're moving ahead in a very resolute and deliberate way to continue with this work from home policy to reduce our real estate consumption, to limit travel, and to reduce our overall carbon footprint. I think that goes alongside increased productivity and enhanced communications with everybody. One last point is how we've been able to continue to train and to communicate, to raise our employees' awareness in terms of many things that we do – strategy, where we are in terms of performance but also training on technical matters and their awareness in terms of CSR and diversity. So, I think a lot's going on in the space. I think the point I want to stress is its important. We're doing things and we haven't just managed the crisis here. We're working on all these agendas which are important for the long-term for the company.

On page 9, let's talk about the growth. You can see the growth in our premiums is 7.4%, all things equal. Trade credit insurance is up 8.5%. Service revenues are up 2.5% at constant FX and perimeter. Information sales are up almost 14% in the second quarter, so we're seeing a nice pick up in momentum there. Factoring is up 10.9% for the half year and 31% in the second quarter. Clearly, we're comparing ourselves to the first quarter of the pandemic last year, so that's helping but there is momentum in the business. We're also seeing fees – which had been more challenging last year because the limits were lower – improve and they were flat in Q2 versus negative performance in the last few quarters.

On page 10, you see the growth story detailed by region. I'm not going to go through every one in detail but you can see clearly that Western Europe, Northern Europe, and Mediterranean and Africa are continuing to pick up momentum at 7% to 9% or almost 10% for the German part of the business. On the back of this, Central Europe is continuing to grow. Actually, Central Europe did pretty well through this whole crisis. North America is starting to see some momentum. Asia-Pacific is continuing to grow. It's still the same story in Latin America on the back of international contracts. I think in all these markets you're seeing some of the same phenomena at play – new business that continues to be good, good retention levels, strong activity from the recovery in the economy, better services. At the same time, we're starting to see more pressure on price. You can see that on page 11 where new business at 72% for the first half is about 11% better than it was in 2019. It was a little bit less than last year but last year we had exceptional circumstances. Retention rates are pretty close to our record, but we are starting to see a little bit more pressure in both competition and self-insurance from companies that have probably decided to allocate their costs differently in the face of the pandemic. The price effect remains positive. The market has quickly returned to pre-Covid trends and we're starting to see significant pressures on the price side in Q2. Volume effects are very strong. Clearly the rebound is at play here from the economy. It was expected, it's happening, so I think that's very much in line with what we expected.

On page 12, in terms of losses, for once there's actually not that much news. You can see on the top left-hand side of the chart that the loss ratio is 29.5% for the year so far and, just to the right side of that, it's pretty much the same story in Q1 and Q2, 29.5% and 29.6%. And the same thing that I said last quarter is still true. There are no large losses and a decrease in frequency pretty much around the world. You can see our policies we're opening is pretty much unchanged at 75%. We still think that claims will pick up at some point, but we're also seeing recoveries from prior vintages that are pretty strong at 48%, leading to the 27% loss ratio before reinsurance and excluding claims handling and expenses at the bottom right-hand side of the chart.

If I go to page 13 and 14, these describe our losses by region. I'm not going to spend that much time on it because as you can see from page 13, virtually every region is below 30%. If you move to page 14, you can see that the quarterly sequence is fairly benign as well. Not much to say. Asia was at a record low 1% loss in Q1 so there wasn't much room to go further down. But whether they are big, small or emerging markets, we are seeing absolutely great loss lines here on page 14.

On page 15, we talk about costs. So, we hit a low point in terms of the cost structure last year as the pandemic hit. We stopped travelling, obviously bonuses and compensation were hurt as the business was tougher, and that led to the decrease in costs. You can see that quarter on quarter in Q2 this year we're up 11.5%. Obviously, all those trends that I mentioned before have reversed themselves, so we expect people to get paid this year through much stronger performance, which is positive. And we're continuing to invest. The company is continuing to invest in its technology, its sales force, and growth initiatives. You can see the Q2 cost ratio before reinsurance improved from 34.1% to 33.7%. I also want to highlight on the bottom right-hand side of the chart the difference between 2020 and 2021. You see that starting from 33.9% in 2019 we decreased to 33.2% but the way that happened was that we had fewer premiums, which was a negative, and we had better internal overheads as we saved money on internal costs, and we had slightly better external acquisition costs. So, the reduction was caused by internal savings. This year it's the opposite. Our premiums are better, which is the positive side of the cost ratio. Our internal overheads are up, and we just explained why. External acquisition costs are higher on better volumes. Still, we are seeing a 0.7% decrease in our net cost ratio. Despite all the volatility and the different phases of the crisis, Coface continues to deliver improved productivity and continues to invest in its core operations.

I am now going to turn it over to Carine as we usually do at that page and she's going to take us through the rest of this presentation.

Carine PICHON, Group CFO and Risk Director

Thank you very much, Xavier, and good evening everyone. So, as usual I will start by commenting on reinsurance. Reinsurance reflects low loss activity and public schemes. The government schemes that have been in effect since last year have had a negative impact of around EUR 25m for the first six months of the year. Even though these schemes, mainly the proportional ones, ended at the end of June of this year, we are expecting a significant impact on future reserve movements because the claims cession rate is around 62.7%, which is significantly higher than the premium cession rate, because we have high cession of statistical reserves attached to the current underwriting year. Having said that, the cost of reinsurance is also high because of low loss activity globally. This is one of the effects of the public schemes, which is unsurprising because it impacts how our reinsurance is working.

Continuing on slide 17, Coface posted a record net combined ratio at 51.9% for the first six months of the year with an improvement in cost ratio by 0.8 point. The net loss ratio also improved. On a quarterly basis, Q2 2021 is at 51% so quite similar to Q1 2021. The cost ratio has decreased compared to last year and the loss ratio is also very low. So, all in performance was very good from a combined ratio point of view.

On page 18, as usual we are showing you what the combined ratio would have been without these schemes. Once they are completely over in the operational statements, we will have a pro forma which would be 51.5%, which is still good because the net loss ratio stands at 31% and the net cost ratio at 30.4%, which will be the basis of comparison for the year to come. In terms of the financial portfolio, which is slide 19, our aim is clearly to stabilise investment income as much as possible. Last year, we decided to increase the cash share because we were anticipating an increase in claims, which ultimately didn't happen, so we decided to reinvest this excess of cash in our financial portfolio. Having said that, we are still in a very low yield environment as most of our assets are located in Europe. However, we have been able to maintain the same accounting yield and average investment portfolio without realised gains, which is the last line on the right chart and stands at 0.66%.

Page 20 covers net income, which stands at EUR 123.2m. It is clearly higher than last year, five times higher, but I think what is most important is to compare with the pre-Covid crisis result in H1 2019. There, you can see that we have increased by 57%, which is a huge increase in net income compared to 2019. Our tax rate is still good at 21% in Q2 and 24% in H1, mainly linked to the fact that we have also been able to use some deferred tax losses thanks to our good results.

On page 21, our equity is quite stable at a little less than EUR 2bn. We distributed a dividend to shareholders and thanks to the net income for the period we are stable. The return on average tangible equity is at 13.5%, which is well above the average return we were targeting as part of Build to Lead. And the improvement of 8.4% unsurprisingly comes from improvements in the combined ratio, cost, loss plus turnover, so clearly from operational performance.

So that's it for the P&L. At this point, we usually update you on our capital position at the end of June. Firstly, on page 23, just to remind you that we came back with the same rating from Fitch, Moody's and AM Best as before the crisis with the same stable outlook so that's also confirmation that we entered and exited the first stage of the crisis in a very good position. Our Solvency II position is also very solid and robust.

On page 24, on the left you can see in green our position at the end of H1 2021. So, 191%, a ratio which is far above our comfort scale which, as a reminder, is between 155% and 175%. If we exclude government schemes because they will disappear, we are at 186% and so quite similar to the same period of H1 2020, and a little lower than the end of 2020, mainly due to the fact that we have increased our exposure to support our clients as the economy rebounds. Overall, however, our ratio is very good and you can also see on the right that even if this ratio is shocked by some sort of crisis scenario, we will be in a very good position from a solvency point of view.

On page 25, you have more information about how this ratio is calculated. Eligible own funds, meaning the capital we have, amounted to EUR 2.264bn, which is quite high, and the solvency required capital stands at EUR 1.2bn. We mainly increased the non-life underwriting risk because this is where capital is assessed to calculate the exposure we are granted.

So, our solvency position is very good, and now I will let Xavier talk about the key takeaways and outlook.

Xavier DURAND

Ok, thank you Carine. I think we are at a record year in Q2 2021, on the back of two key things. One is there are low bankruptcies at this stage, as we start to exit this crisis. And the company is demonstrating strong operational performance. I've been trying to convey that we're focused on risk, we're focused on operations, but we're also focused on growth, we're also focused on adjacencies. We're continuing to invest to make our business better and enhance our technology. We're very focused on clients and we're making sure that we're helpful as they too get out of this crisis. Our exposures at Q2 are up 7.2%. We're close to where we were pre-Covid, but again two things are different. One, we have higher premiums. Our premiums are about 6.8% higher than they were in 2019 and, second, we have significant sectorial shifts that have taken place. The government schemes are weighing on our profits even though they're high, by EUR 24m. Obviously if we didn't have these schemes, it's pretty easy to see that our profitability would be much higher. We do expect bankruptcies to rise. Clearly, we are going to exit this public health crisis. We are going to see governments retrench. We are going to see withdrawal of support actions to the economy. We just don't know when, where, or how quickly this will occur. Again, this is our game, this is what we do. We need agility, we need to follow this next phase of the story as it develops. So, we're aware of the risks that remain in the economy, but as we continue to move through this crisis, we are confident that our culture, the values we've put in place, the systems and the operating mechanism that we have will allow us to adapt to whatever the world has to offer for us. And if we are not able to bank 100% on one given scenario, I think we stand ready to manage what the world will offer us.

With that I'm going to turn it over to the operator for questions as we usually do at this stage in the presentation. Thanks, everyone.

Q & A session

Michael Huttner (Berenberg) I have three questions. First one, is prior year development at 48%, which seems amazing. Which years does it relate to? In other words, how much fat is there from last year, or have you started using up what was reserved in 2020? The second is that Europe seems to have a slightly higher loss ratio, Northern Europe is at 34% in Q2, whereas Q1 was 19 point something. I just wondered if there was anything there. And then the real question is, you're running at such a high level of profitability. How are you going to manage it when you're going to have to say, 'results were not quite as good this quarter'. I suppose what I'm really asking is, how do you expect this to normalise? Is it a glide path where every quarter reduces a bit, the quarters trend to this 9.5% target figure? Or will there be a kind of really bad quarter and then the average is 9.5%? That's it! Thank you.

Xavier DURAND (CEO, Coface) Thanks, Michael. I'm going to let Carine prepare the answer for question number 1 and number 2, By the way on number 2, I don't think there's anything to read into in those numbers, they're low numbers. But on question number three, if I had a crystal ball and I knew what the answer was, I guess I'd be rich right? And unfortunately, Michael, we're not going to break our rule which is we're not going to make any forward-looking statements, but more generally I would say that we are all conscious that a loss ratio at 25% is not where this business will be in the long term. I think the competitive pressures, pressures from brokers and clients or from the industry will just normalise that pretty quickly to something new. So, I think, nothing that we've said in our Build to Lead plan or anything like this has changed by the fact that we are where we are, and I think this 'through the cycle' notion is very well understood by the market. Carine, do you want to answer the first two questions?

Carine PICHON (CFO, Coface) So, as Xavier was already saying, there is nothing to look at on a quarterly basis. Sometimes you may have statistical methods and some changes, but globally, when you look at the trend on page 13, H1 2021 is 27% for Northern Europe, it was 37% last year. The year before it was 41% and even the year before 49%, so clearly you have a very good trend. The group is at 29.5% and Northern Europe at 27%. So, I will say there is nothing specific and no change in the underlying trend. On the recovery level, I agree with you that at 48.1 it's clear it's a level we have never seen. If you look at page 12 at what we had before, there's not a lot to say. The situation is still very good in terms of loss ratio, so we have to see how it evolves. The 2021 open underwriting year is at 75.1% so it's quite similar to the year before, but we will see. It's a question of looking forward, but really it will depend on how much claims increase, and when. We don't know what the pattern will be in the future but that's something we'll see in the next quarter.

Michael Huttner (Berenberg) But the 48%, does it come from the reserves that relate to the 2020 underwriting year?

Carine PICHON (CFO, Coface) Part of it is from 2020 and part of it is from the other one but 2020 is clearly the one where we are setting them off based on the very low loss ratio, so yes.

Benoit VALLEAUX (ODDO BHF) Firstly, regarding business information, you have still very strong revenue growth of almost 13% in Q2. I know that you have major ambitions for this business line. Can you share with us what you see in terms of potential growth for the next few years and do you believe that you will be able to maintain this kind of growth? And what could be the earnings contributions in a few years from this business line?

Second question is regarding competition. You're mentioning stronger competition in Q2, that you can see it in terms of pricing and new production. I could assume also that maybe there could be lower demand for coverage from your customers and at the same time you have had strong growth in your exposure. So, do you believe that your growth and exposures should reduce going forward due to this stronger competitive environment?

And then third question is related to solvency. I know that there has been some strong growth in exposure which could explain the decrease in the solvency margin excluding government schemes, but I would also assume that you may have benefited from the very low loss ratio in Q2. So, can you just comment on this? Was there some positive impact from this or are you only being impacted from the growth in exposure?

Xavier DURAND (CEO, Coface) Ok, Benoit, on this last question and Carine can probably complement this. The major impact or the one that matters is the exposures, because the five-point drop in solvency is exactly what we have grown in terms of exposures and that's really how we measure risk. So, there's really not that much more to understand but Carine will be able to comment a bit later on this.

In terms of business information, yes, it's something we've mentioned in Build to Lead so what you're saying here is just what we said we would do. We do not make forward-looking statements so, unfortunately, I'm going to be frustrating here in terms of giving you the forecast here. First of all, I don't know the number. Second, we do not make forward looking statements, but we said during the Build to Lead plan that we expected our adjacencies to grow faster than credit insurance. So, it should not be a surprise that you're actually seeing some momentum and some pick up in these business lines, particularly in information where we've been spending quite a bit of time. So, yes, we are seeing momentum. I think it's a good business line that's very complementary to what we do and it's very much in line with everything we've said so far and the expectations we've set in the markets for growth in this space. In terms of competition, clearly, as you expect, losses are better, the environment is more benign. You see increased demand from brokers and from clients, and you see more competition from different types of players in the industry, so there's nothing here that I would call abnormal. This is the game; this is what happens in this industry. It moves quickly from one stance to another, and I think at Coface we're quite agile and that's really what matters. I'm not sure if I've answered your question. Carine, do you want to say a word more on solvency?

Carine PICHON **(CFO, Coface)** Yes, maybe just, you're right Benoit normally we have two phenomena, increasing exposure which requires capital, which is obvious because we're growing. But you can also benefit from a lower loss ratio, but this was already the case in the previous quarter. The speed of the increase in exposure compared to the decrease in the loss ratio meant that all in we have an increase in the solvency capital requirement, so you have the two effects but the effect of the exposure part of the business is most important.

Michael Huttner **(Berenberg)** Just on two numbers. The tax loss, what is there left to use up? I know it's maybe not an obvious one because it probably doesn't sit exactly where the profits are. And then given that the reinsurers are making so much money. I know you showed a figure of EUR 88m. So, I suppose the question is how much of that is actually the government's and then if all the EUR 88m is reinsurers, how much do you think you can cut your reinsurance cost going forward?

Carine PICHON **(CFO, Coface)** OK I can answer about the tax losses you were mentioning Michael. You know that in some parts of the world we had some tax losses in the past, and we have a quite prudent way of activating them. Some of them were not activated, and now that we are profitable everywhere we can use them. So, that's what I was mentioning in some parts of the globe.

For reinsurance, so you have EUR 84.3m which is the cost, and of that EUR 24.9m precisely is for the government. So, if you calculate the difference then you have the cost, the margin from the reinsurance. I think we will have an interesting discussion in the virtual Monte Carlo, Michael!

Michael Huttner **(Berenberg)** And this tax ratio of below 25% how long can it continue?

Carine PICHON **(CFO, Coface)** You're asking me once again for a forward-looking statement. Usually, it's true that when we have high profit, the tax rate is lower than when we have lower profit, which can seem bizarre. I'm saying that because if the profitability spread everywhere in the world, then we can use these tax losses as I was mentioning which helps. That's the kind of pattern we may have. Now it will depend clearly on where the profit is located.

Hadley Cohen **(Deutsche Bank)** Just wondering how you're thinking about these new Chinese regulations on tech companies and how and if that could impact the business at all, thanks.

Xavier DURAND **(CEO, Coface)** Two things. In terms of direct impact on us, I don't expect any quite frankly. In terms of impact on our clients or our counterparties, that's something that we need to watch closely. Right now, what we're seeing is a crackdown on some sectors, education and things like this, which we're typically not very exposed to. It's creating a pretty intense reaction in the stock market. Some of this stuff might be healthy in the long term. Having a proper education offering, making sure that the quality is there for the money that people spend on it is probably healthy. But I think the impact for us at this stage seems very much indirect and quite limited.

Benoit Petrarque **(Kepler Chevreux)** Just to come back to the ESG part of the presentation. I was wondering how you take the ESG of your own clients into account. Are you concerned by ESG ratings of your own clients and the turnover those clients might be generating for Coface, or is that not yet or not a focus for Coface? I'm asking because we're seeing more and more banks limit exposure to certain sectors and I was wondering if this is a subject for you at Coface. And then just to come back to the end of the government support in Q3. You mentioned some future reserve movements. Are we going to see any accounting/P&L impacts of the end of the public schemes in the third quarter or is there anything special to be expected there?

Xavier DURAND **(CEO, Coface)** Well, I'll start with that last question. As you know, it's a reinsurance scheme, pretty much. So, it works like the rest of our business. Once the vintage is booked, part of the premiums and part of the losses are ceded to government, so that carries through as the vintage rolls off, but there's no specific accounting thing happening at any time in particular. It's just the natural roll off of the vintage. In this case it's a public reinsurer versus the private market that we usually go to. In terms of the ESG question, it's interesting. As you know, we pretty much follow the banking trend – because we're regulated as well, and we've been living in that world for quite some time – of progressively reviewing some of our underwriting policies. So, things we don't do today, clearly, offensive weaponry, landmines, coal, certain coal industries where they're developing new projects that are very carbon intensive, tobacco companies that would have more than X% of their business in that line of business. These are things that we won't do and that's also true for our clients. In terms of our counterparties, so the clients of our clients, that's the tool that we're building. So actually, our ESG approach really encompasses the whole spectrum if you will, looking progressively first at our clients and then the clients of our clients.

Michael Huttner **(Berenberg)** Thank you, last question. On inflation, so the impression I have is that inflation in broad terms, inflation of goods and stuff, is positive for you?

Xavier DURAND **(CEO, Coface)** Well, I would say that inflation, it immediately erases the turnover of our clients. So, it's a positive on the top line. Obviously if that translates into wage inflation and cost inflation, then that translates into our cost line as well. And then it ultimately translates into bigger claims. So, I would say it's a progressive impact that impacts our business with a bit of a timing difference. It also depends which parts of the economy it concerns, so that's hard to say.

Moderator

Thank you, sir. We have no other questions.

Xavier DURAND **(CEO, Coface)** Ok, well, what time is it, it's like 18:52. It's been a brief but intense call now that Michael's back with us. He's had three goes at the questions.
Thank you. If there are no other questions, I suggest we leave it here. We'll be reporting our Q3 numbers in October. I don't know the date by heart but story to be continued at that date. Thank you everyone and thank you for being with us tonight.

Moderator

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

(End of transcript)

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FINANCIAL CALENDAR 2021 (subject to change)

9M-2021 results: 28 October 2021 (after market close)

FINANCIAL INFORMATION

This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:

http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM),

please refer to our Interim Financial Report for S1-2021 and our 2020 Universal Registration Document.

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With 75 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Single Risk insurance, Bonding and Information services. Coface's experts work to the beat of the global economy, helping ~50,000 clients build successful, growing, and dynamic businesses across the world. Coface helps companies in their credit decisions. The Group's services and solutions strengthen their ability to sell by protecting them against the risks of non-payment in their domestic and export markets. In 2020, Coface employed ~4,450 people and registered a turnover of €1.45 billion.

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