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.

H1-2018 Results

Conference Call Transcription

Paris, 26 July 2018

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Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending June 30. All participants are currently in listen only mode. We will open up the call for questions and answers later. As a reminder, this conference call is being recorded. Your hosts for today's conference call will be Mr Xavier Durand, CEO of Coface and Madame Carine Pichon, Group CFO and Risk Director. I would like to turn the call over to Mr Xavier Durand. Sir, you may begin.

Xavier DURAND, CEO, Coface

Good morning and thank you for logging into our conference call this morning. We will be discussing the first semester results for Coface, which were published yesterday evening. I will begin with the highlights for the quarter, on page 4 of the presentation. We registered a robust first semester within a progressively normalising risk environment. The headline is our strong solvency ratio at 163%. Our turnover reached EUR 685 million, year to date. This is up by 2.1% at constant FX and perimeter. Q2 is up by 2.1% year on year, consistent with the first quarter. Our trade credit insurance business is growing again in mature markets. As we have seen in prior releases, emerging markets are continuing to progressively recover. Client retention is still at record levels and insured turnover is continuing to grow. This highlights the underlying growth of our clients' businesses.

At the end of the first half 2018, net loss ratio is down by 15.1points versus the first half of 2017, coming in at 43.2% and bringing a net combined ratio of 77%. Our loss experience is progressively normalising, both in terms of frequency and average size of the claims - as reported in previous quarters. Favourable management of past claims and recoveries is continuing. Our cost ratio is 33.8%, which is slightly below the 34% we reported in the first half of 2017. We are persistently driving strict cost controls and benefitting from higher reinsurance commissions. Finally, we are continuing to make deliberate and selective business investments which are being fully funded by the costs savings that we are making, as discussed in prior quarters.

Our Group net share income was EUR 62.8 million, of which 27.3 was in the second quarter of 2018, with an annualised return on average tangible equity of 7.8%. Our solvency ratio remains solid at 163%. This is above our target range of 140%-160%. We are progressing with the development of our partial internal model and, as discussed during the last call, we are continuing to monitor any potential evolutions in regulations regarding the standard formula. We have started our share buy-back programme. So far we have purchased around EUR 16.5 million of stock, corresponding to 1.7 million shares.

Throughout the quarter we have remained focused on deepening and broadening the implementation of our Fit to Win plan. As at mid-year, we have achieved a total of EUR 18 million in savings. This represents EUR 13 million in addition to that achieved during the first half of last year. As a reminder, our stated target for 2018 is EUR 30 million and at this stage, it looks like we will be slightly exceeding this target. We are continuing to make disciplined investments in the business, with a total of EUR 15 million. This is EUR 11 million more than last year for the first half of 2018, and these investments are translating into growth, risk management, compliance, processes and efficiency for the business. This is very much a continuation of the story that we embarked on in 2016.

Page 5 is an addition to our usual presentation format, just to highlight some of the changes that are taking place in Coface. On the left-hand side of the slide, you will see an organisational chart of the business reporting in to me. I would just like to highlight some of the changes that we have been making over the last six months. As you know, technology is at the heart of our transformation. We have, over the course of the last quarter, completely reorganised our IT and Operations departments into one unit which we call, 'Business Technology' (seen on the bottom-left of the chart).

We have made changes to the organisation to make it much more aligned with functional users. We have also created a Transformation office, which reports into the Strategy and business development department that monitors, pilots and

leads our transformation. Some of its domains include Architecture, Lean management and Process management. We have over 20 ongoing projects at this stage, as well as developments in products and change management leadership.

We have also created an Innovation department, within the same group as Marketing. This new department has the purpose of accelerating our transformation on the digital front - whether in new products, new processes, new technology, driving hackathons, or other innovative ways to improve our business. We have embarked on a significant journey to upgrade our leadership, to enable it to drive this transformation. We have engaged in training programmes for our top 300 managers, to ensure that the transformation we are driving is deeper and broader than we have been able to do so far. All of this, of course, is happening while we continue to maintain a tight focus on day-day-business (recognising that we are in an environment where we have passed the trough or the peak, whichever way you look at it). We see the environment as continuing to be favourable. The economy is still growing at a steady pace, but we are closely monitoring any new risks that may arise - and we are all aware of the news around protectionism, populism and trade wars...

On page 7, we are reporting a growth of 2.1%, at constant FX, for the first half of 2018. Underlying this growth is a growth of 2.6% in trade credit insurance. This positive trend is continuing to be driven by greater client activity and a record high retention rate. The economic environment remains favourable and, as such, is continuing to drive pricing pressure - so I would say there is really no news around the environment. Other revenues, highlighted in previous quarters, are down by 2.1%, driven by lower factoring activity. Finally, fees to gross earned premium ratios remain stable in comparison to last year, at 12.5%.

As seen on page 8, growth by region shows many of the trends already discussed in the first quarter. Mature markets are continuing to progress in Western Europe (at 1.5%), driven by record retention, growing client activity and less of the large deals that we previously had last year. Northern Europe is slightly negative, but this is driven by lower factoring activity and we have now stabilised insurance revenues in that part of the world. Central Europe and Mediterranean and Africa have grown significantly, at 7% to 8%. Client retention, client activity and new business are showing positive momentum in these geographic regions. North America has now stabilised its portfolio and is starting to grow again. Asia Pacific is slightly negative, but it is a bit of a paradox. We are actually seeing very good loss results there and we now have to share some of these benefits with our clients. Nevertheless, we are seeing a new level of activity on the sales side. In fact, we expect this part of the world to continue to recover. Latin America, as you will remember, had quite negative numbers in the first quarter. We had predicted that this would normalise and this is apparent now. We remain prudent on risk there, but we can see an improved performance in Q2 versus Q1.

Looking at the breakdown of different growth components on page 9, new production is lower than in the last three years and this was already the case in Q1. Q2 is fairly flat compared to Q2 last year, so we are still behind by about the same amount as we were in Q1. We can see that the level of client retention is at a record high for the last four years. This demonstrates that the business is doing much better in terms of service quality and that some of the efforts that we have been making are starting to pay off.

Price negativity, at -1.7%, is very much in line with last year. This is driven by a continued good loss experience and the favourable economic environment which is driving some price pressure. On the other hand, the volume effect which is the underlying the growth of our client businesses is positive, at 3.4% (so above last year). The volume effect is still high in all markets, highlighting the fact that the economy remains favourable.

On page 10, our total loss ratio for the first half, before reinsurance, is 42.4%. This is down from the 56% that we reported in the first half of 2017. As regards the quarterly breakout for the last five or six quarters and the constant decrease between Q1 2017 and Q1 2018, we can now see a slightly higher level for Q2 2018. As a reminder, the figure for Q4 2017 included 10 points for facultative insurance which is specifically reinsured, so it would have been about 40% without that.

Claims activity around the world is progressively normalising, both in terms of number and average size. We had anticipated this, so there is no surprise here. Looking at the way different years develop, we opened 2018 at 71.8%, so we are very much in line with the mid-cycle. The *bonis* from prior years account for the negative 32.1% - remaining well above the historical average. There is therefore continuing good performance on collections and management of past claims.

On page 11, the breakout by region for losses shows continued stability for the four regions of Central Europe, Western Europe, Northern Europe, the Mediterranean and Africa. Central Europe is just slightly above the 50% mark. Following a spike in 2017, which was driven by the facultative reinsurance phenomenon I just described, Western Europe is back to the mid-30s. Northern Europe has slightly improved, to 54%, while Mediterranean and Africa is slightly higher, at 54%. The three regions that had been creating more volatility in the past are continuing to normalise. North America is now at 12% for the first half, coming back from negative territory. Asia Pacific, at 2.1%, is excellent. Latin America is higher, driven by one particular loss in Argentina for the quarter. Given the size of the region and the small amount of premium that we receive in this part of the world, there is always some volatility here.

We are continuing our meticulous cost control, as seen on page 12. Our costs are up by EUR 2.7 million, if we exclude the EUR 6 million one-off that we registered last year in relation to a tax adjustment in Italy. The total costs for the quarter are EUR 169 million. The cost ratio for the quarter comes in at 35.7%, compared to 38% for the previous quarter and 35.6% if we exclude the one-off tax event - so pretty much in line. As I said in my introduction, we have achieved EUR 18 million year-to-date savings. We have given ourselves a target of EUR 30 million for the whole year and it looks like we will be slightly exceeding this. We are continuing to reinvest very deliberately in the business and to improve the way we are working. It is clear how much investment we have been making in risk and we are continuing these investments in risk, growth management, compliance, process transformation and service improvement.

I would just like to point out the walk (on the graph below) from the first half of 2017 to the first half of 2018, which is consistent with recent quarters. We have a negative impact of FX of EUR 8 million and we have saved an additional EUR 13 million in costs. We have reinvested EUR 11 million of this EUR 13 million into the business. There was EUR 8 million of inflation and we had the EUR 6 million one-off event in Italy (which was not repeated this year). This brings the total to EUR 262 million.

I will now hand over to our CFO Carine Pichon, who will take us through the second half of the presentation.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier. Good morning everybody. On page 13 we have our reinsurance results. This was impacted by the record low loss ratio during the first half of the year, with around minus EUR 34 million and also by the impact of rising accounting cession rates. The premium cession rate now stands at around 29%, up from around 26.5%.

Turning to page 14, global net combined ratio stands at 77%, compared to 93.7% last year – so a great improvement. This clearly relates to lower losses compared to last year and to improved reinsurance commissions, as can be seen in the net cost ratio. You can see the quarterly decline which has been taking place ever since the beginning of 2017. As previously said, after reaching a peak in the cycle in Q1 2018, with a loss ratio of just below 40%, we are now at 46.6%. This drives the net combined ratio for this quarter to 81.5%.

Looking at the financial portfolio on page 15, the yield is stabilised, despite the low interest rates environment. The income from the investment portfolio (without gain and sale) is the recurring yield on our EUR 2.7 billion portfolio. At EUR 21.3 million, it was quite similar to the yield of EUR 20.7 million we achieved in 2017. We decided to realise less gain on sales this half year, due to the global environment. We also included the FX effects, which had a negative effect on the first six months of this year. All in all, this explains the net investment income drop from EUR 26 million to around EUR 13 million for this six months.

Page 16 gives a global overview on the net income of EUR 62.8 million. Of this, EUR 27.3 million related to Q2 2018. The current operating income is very robust and has more than doubled compared to last year. We had quite limited restructuring charges for this half year and for other operating income and expenses. I should just mention here the impact of the recent sale of Cofacrédit, which resulted in a loss of approximately EUR 2.2 million to EUR 2.3 million. Nevertheless, this is more than offset by the renegotiation of the lease agreement for our headquarters, which has had a positive impact on this first half year. Operating income after other income and expenses is EUR 100 million - so more than double compared to last year. The tax rate is still improving, now at 32%, compared to 49% in H1 2017.

Page 17 sets out profitability in terms of our return on average tangible equity, which stands at 7.8% and is up from 5.3% for the full year 2017. This is thanks to improvements in technical results, such as the combined ratio and

operating performance improvements; we have benefitted from an increase of 3.4%. The financial result is slightly lower, with the negative effect of minus 1.3% and we have a tax improvement of 0.4%, which leads to an annualised RoATE of 7.8%.

That concludes the global view on the P&L. I will now continue with the overview on capital management which we disclose every six months. This can be seen on page 19. We are facing some changes with the IFRS (International Financial Reporting Standards). IFRS 9 has already been implemented for our factoring activities, but not for our insurance activities. As you are aware, temporary exemptions will be applied to our insurance activities until 2021. IFRS 9 have been applied to our factoring activities in Germany and Poland at the start of this year. It has had a very limited impact on our factoring receivables, which stand at minus EUR 0.7 million.

IFRS 16 will be implemented next year, so detailed assessments of the potential impacts are on the way. We expect the impact on equity to be immaterial. The most significant impact identified relates to the recognition of new assets and liabilities, mainly for office leases. As you are aware, everyone is working on IFRS 17. We have started to develop a roadmap and make an assessment of financial impacts and then make our recommendations. We are progressing as planned.

We have a very robust solvency ratio, as can be seen on page 20. Last year we published a 164% cover ratio and we are now at 163%, which is quite similar. If we look at the evolution between the end of 2017 and the end of June 2018, the insurance solvency capital ratio is quite stable. We have a higher required factoring capital, mainly due to the higher regulatory minimum ratio. As you are aware, the regulator has asked for an increase in the ratio we apply to risk-weighted assets in factoring activities - for the whole market. Last year we had a ratio of 9.25% applied. For 2018, it is 9.875% and next year it will be 10.5%.

Looking at the sensitivity of this ratio to any market shocks or crises scenarios, there is no specific change. We continue to closely monitor market shocks and be cautious in the way that we build our investment portfolio. As you can see, even if we were to replicate the scenario of 2008, we would still have a solvency ratio of 131%. Our solvency is therefore robust and above our target range. As a reminder, we do not exclude any bolt-on acquisitions.

On page 21 we can see the details of solvency required capital. We have a little less than EUR 1 billion of solvency capital requirements for insurance. On top of this, we have factoring required capital, bringing the total amount to EUR 1.270 billion and a little more than EUR 2 billions in eligible own funds (including hybrid debt).

Xavier DURAND

Some of the key takeaways for the first half can be seen on page 23. Our operating income has doubled to over EUR 100 million for the first half. I would qualify this as a strong operating performance, in what is a progressively normalising environment, although some risks are on the rise. We feel positive about the underlying growth of trade credit insurance, which is accelerating at 2.6%. Our net combined ratio stands at 77%, driven by a low net loss ratio of 43%. Our net income is EUR 62.8 million with almost 8% return on tangible equity.

We continue to have strong solvency at 163%, above the comfort range (140% - 160%). On one hand, we are carefully monitoring any developments on the standard formula - but we are also progressing with our partial internal model, just as we expected. If we look ahead to the remainder of 2018, we believe that the economy will remain strong. Clearly we have passed the peak of the economic cycle and the cycle of declining insolvencies that we have been enjoying for the last year has bottomed-out in developing economies. We will continue to consistently drive our agenda for transformation. It is now broader and deeper, touching all areas of the business. At the same time, we remain very focused on risks. For the balance of 2018, what we expect is a progressive reversion of the business through the middle-of-cycle range. This is very consistent with what we have said in prior calls, both at the end of 2017 and at the end of the first quarter 2018.

To summarise, we have robust, strong execution taking place in the business. We can now begin the Q&A session.

Questions and Answers

Moderator

Ladies and gentlemen, the floor is now open for questions.

We have a first question from Guilhem Horvath, Exane BNP Paribas.

Guilhem HORVATH, Exane BNP Paribas

Good morning and thank you for taking my questions. My first one concerns the mid-cycle environment. Can you quantify a little bit on what a mid-cycle loss ratio is for you, as I keep looking at the 2018 consensus and what you had in H1 and it looks like we are already expecting 51.4% in H2? Would this mean that we are more or less in line with a mid-cycle loss ratio? Can you reassure us on this level?

The second question is on factoring. Can you give us a little bit of colour on this business? Unfortunately, every time we speak about factoring (at least in Germany and Poland), it is on the negative side - but I guess it is a very profitable business for you. You have never given us the elements to be able to compute any operating performance - or even return on equity performance. As the capital consumption of this business is increasing over time, I would like to know what the level of return on equity you can get from this business.

I have two other small questions, if I may? The first one is on the standard model. Can you update us on the discussions you had with the IEOPA on this topic? It looks like it will be costly, or potentially negative. Do you understand why they want you to become more capital intense on the standard model? Do you think this will happen and when?

My final question is on tax rates. In Q2 it was very low, something like 26% and this is potentially not sustainable. What would be a sustainable level of tax rate - or at least, what is your scenario there? Thank you.

Xavier DURAND

Let me start with factoring. Our line has not and will not change on this one. We consider this to be an interesting business that is complimentary to what we do in credit insurance, particularly in Germany and actually we have an interesting position there.

As we have pointed out, the standard formula for solvency is changing. This means we also need to continue to ensure that we write business that is returning at the appropriate levels for the books. So these are some of the adjustments that are going on. However, none of what we have said before has actually changed on the factoring side.

When it comes to the standard model, I would just comment that I do not think that this is something that is aimed at us in particular. It is something that comes from a revision of a certain category of insurance lines which is being reviewed by EIOPA. I do not think it was particularly targeting credit insurance. We just happened to get embarked in something that is probably a bigger move by them. I do not think they had necessarily understood the impact that it would have on the credit insurance industry, so we have been making our point to them and to the different constituencies involved. At this stage, the ball is in their court, so I cannot yet comment on where this is going. We are monitoring this carefully, but it probably will take time.

With that, I will hand you over to Carine for some of the other points.

Carine PICHON

Concerning the tax rates, you can see that in the first quarter we were at 35%. We are now at 32%. We can therefore say that we are at around 30%, but on a quarterly basis it can go up and down - depending on the distribution of our profit around the globe.

Xavier DURAND

There was a question concerning the mid-cycle loss.

Carine PICHON

We cannot give you an exact figure on the mid-cycle loss, but it is exactly in line with what we said. We are not surprised by what is happening on the loss side. We can see this progressive normalisation of our loss ratio in H2. That is also what (as you correctly say) was put in the consensus. So I think there is a common view of that.

Guilhem HORVATH

Just a quick follow up on factoring. Should we expect another kind of RWA (*Risk Weighted Assets*) increase in terms of charge going forward, or is it over?

Carine PICHON

The Risk Weighted Assets calculation will not change. What will change is the ratio we apply to it. What is being asked for now by the regulators is for the whole market. It is not only for our activities in Germany. The full market will apply 9.875% for 2018 and in 2019 it will rise to 10.5%. That is the reason why we are really focusing on including that in our business model and one of the reasons why you are asking why the NBI, or net banking income, of factoring has declined. It is because we are focussing on winning and retaining clients that can give us the levels of return on equity that we are targeting.

Guilhem HORVATH

Okay, thank you.

Moderator

The next question comes from Michael HUTTNER, JP Morgan.

Michael HUTTNER, JP Morgan

Thank you. I have a number of questions. The first one is on this standard model change. Can you remind us of the potential impact in terms of a figure? The second is that you sounded quite sad about all of these costs and these investments which are being made. You have a full slide and you explain it, but it does not sound to me that we are seeing a full return on this. I just wondered if you could share with us your view on the return on these investments you are making - the EUR 15 million? I suspect that if you have EUR 30 million of costs saved in mind, the investment in all these projects will probably be of a similar size. It would be interesting to know what the return on this will be and how you will measure it.

Regarding LATAM, you mention the Argentinian claim. I just wondered if you could give us a figure and explain a little bit of the background to see if there is a risk of this recurring. Is it this claim that is driving your point about normalising of ratios going forward?

The final question is more fundamental. If we think about your 2019 plan and compare it with the tone of the presentation today - which appears to me to be quite negative - you are warning about things worsening. We have got losses here and more capital required in factoring. So things are not quite as good maybe as you might have anticipated when you set up the plan originally. What does it mean in terms of the impact on the return on average tangible equity, this target of somewhere around 8%-9%? The feeling I have is that we are near the peak of the cycle. We are just below 8% and I cannot see how this would be bettered going forward. I just wondered if you could explain where the positive sensitivities might come from?

Then I have a final numbers question. What is the figure for the tangible equity? Thank you.

Xavier DURAND

Thank you, Michael. A couple of comments. First of all, there are a lot of 'feeling' factors in your questions that I cannot comment too much on. Looking at the first factual question, on the standard model, if we strictly applied the numbers that they had computed, the impact would be about 15 points on the solvency margin. But again, this is all preliminary and based on ongoing discussions.

Your comment on return on investments is interesting, as I do not think I am particularly sad about them. Maybe that is how you read it, but I think we have highlighted a deep transformation of Coface. I think it is ongoing and that it is actually happening quite fast. When you live and work in Coface you can see changes coming from everywhere and I think that is a good thing for the business.

Concerning the investments that we are making, we are taking money out of things that are, in my view, less productive. These include things such as manual tasks and process work. We are reinvesting this money into three very clear areas. One of these is risk. I have often highlighted on these calls what we are doing on the risk side. We are buying more and better information, we are reinforcing our teams in the emerging markets, we have completely overhauled our structure, we are hiring more experienced people, we have changed our underwriting guidelines and so on. So the return on this is, in my view, less volatility and better outcomes in terms of risk numbers. I have no doubt in my mind that this is absolutely a good trade-off for Coface.

The second thing is process and service. First of all, driving efficiency and driving digitalisation. The reason I showed this chart here is to highlight just how deep it is. The areas that we are highlighting on this chart probably represent 600 people that we have completely realigned. For us this is a big number in terms of people, so we are making deep and broad changes. That is what I am trying to say. When you think of the investments we have made in service and processes, outside of the fact that we are going to deliver on our EUR 30 million costs savings, that is substantial.

I would just like to mention the retention rate. Having come up by 4%-5% over the course of the couple of past years, this is huge value creation for Coface, so there is no question in my mind that this is absolutely well-spent money and absolutely the right thing to do.

Finally, on the growth side, I have always said that this would take more time. However, I think you are seeing the impact of a few things - better structure, better alignment in some places and a more consistent way of following up on leads and renewals of contracts. I think you are seeing the output of this in the fact that after five years of losing market share in Western Europe and in Northern Europe, we are now growing in Western Europe and we have stabilised the portfolio in Northern Europe. You are seeing that, after cleaning the portfolios in the emerging markets, we are now starting to see some momentum again in terms of growth. I think you are seeing the growth rate of the business and the underlying growth rate for trade credit insurance, which was 2.6% this quarter. I think this is a high figure and it is at least the best that we have had in the last two and a half years. So I would absolutely stand by everything I have said so far. This is the right strategy. We are executing and we are delivering and you can see that the numbers are going in the right direction.

Regarding LATAM, yes, there was one Argentinian claim. I think everybody is aware of what has been happening in Argentina over the course of the last few months, with the very strong devaluation in the Peso. There was one claim that was unexpected. These kinds of things happen, but there is nothing here that I see as systemic. It is one of these one-off events. Given the small size of this region and how little premium there is in one quarter, there will always be some volatilities. That is not something systemic.

In terms of the outlook, nothing here is actually a surprise or different from anything I would have anticipated. So we have no reason to change our guidance, or to think differently about the plan. The economy is continuing to grow and I am clear about this. There is some volatility, but we highlighted towards the end of last year that we had reached the peak of the cycle and what we have seen as declining insolvencies is now not the case anymore. However, I think that is normal and there is nothing here that we are surprised about. There is nothing here that is any different from what we anticipated.

Michael HUTTNER

And the figure for tangible equity, please?

Carine PICHON

I can take that question, Michael. The tangible equity at the end of June 2018 stands at EUR 1.571 billion.

Michael HUTTNER

Thank you very much.

Moderator

The next question comes from Hadley Cohen, Deutsche Bank.

Hadley COHEN, Deutsche Bank

Good morning everyone, I have some questions. I think Michael has asked most of them, but just a couple of follow-ups please. Firstly, on the cost savings targets, the EUR 30 million, you are saying, Xavier, that you expect to slightly exceed that. How should we think about cost savings more generally going forward? Are you saying that once you have executed on the Fit to Win plan, that is it - or do you think that there is still more efficiencies that you can push through to increase that EUR 30 million number further?

The second question is on the loss ratio and particularly the Argentinian losses. Is it possible to give more specifics around that? Can you quantify that loss? Do you think it would be fair for us to strip that out of the reported combined ratio, given you are considering it as a one-off? How should we think about that?

The final question is it is very difficult to ignore the share price reaction today. I just wanted to get a sense of how you are thinking about it. I know you are saying that there is no change of view from your perspective, but if I look beyond the second half of 2018, if I look at consensus expectations for 2019/2020, consensus are effectively looking for an 80% combined ratio. Now you have guided us to around 83% over the cycle. So how are you thinking about these numbers for consensus? If you are effectively saying that the consensus is wrong and we should be thinking about 83% (giving your guiding to mid-range levels), then the share price reaction is probably justified today. But is that too harsh? I just want to get a sense of how you are thinking about that. I was hoping for more reassuring comments on the call. Thank you.

Xavier DURAND

Relative to the EUR 30 million target, when we did the Fit to Win plan, we wanted to give out a costs target because, as you will remember, we had lost the public guarantees business. We had to offset part of these costs and we knew we had to reinvest in the business. We therefore wanted to give a point in time measurement that would be close enough to be accountable - and you can see some of the dynamics that took place. That is why we chose 2018 as a point in time where we could demonstrate the actions that were going on and show that they were being driven with pace and with determination.

That does not mean the business is going to stop here. I do not think the business transformation stops after 2018 or even, for that matter, at the Fit to Win plan. We will continue relentlessly looking for ways to improve the business. This means transferring costs from areas that are less efficient or less useful in the mid-term, to areas where they are more useful going forward. The story does not stop there, but we have not given ourselves a specific quantified public metric to reflect this. We thought that 2018 was a good point in time to measure what we have been doing.

Carine, do you want to take the question relative to the one-off?

Carine PICHON

On the loss ratio, I think the question in relation to the Argentinian case was if we consider this as a one-off. It is one case but, as you know, this kind of case can occur. I would therefore be quite reluctant to say that you should extract it. It is something that happens in Latin America, where we have less than EUR 80 million in premiums on a yearly basis. If you divide this amount by four quarters, just one claim can have an impact. This was just one and we are not saying that there is a huge surge in the frequency of claims for this region. But these kinds of claims can happen. They can happen in Argentina, just as they can happen in other places throughout the world. We are monitoring them. In any case, we are not at a double-digit millions of Euros figure. I just want to be clear on that.

Xavier DURAND

I think the third question was around consensus. We have no reason to change and I think we have been pretty clear in terms of what the guidance is and what the outlook is for the balance of 2018. Beyond that, our targets have not changed from anything we have said so far. So it would be hard for me to comment any further on this.

Hadley COHEN

Sure, but management from other companies will often say to what extent they feel relaxed with consensus or not. So I was just wondering if you were prepared to give any comments on that?

Xavier DURAND

I don't think we do. I think at this stage, we do not see anything in the outlook that looks unreasonable.

Hadley COHEN

Thank you

Moderator

The next question comes from Benoit PETRARQUE, Kepler Cheuvreux.

Benoit PETRARQUE, Kepler Cheuvreux

Yes, good morning. A few questions from my side. The first one is on the return on tangible equity. In the plan, you have said that you were especially planning to optimise the equity base. Given what is happening now with the standard formula, or likely to happen with the standard formula, what is your view on that? Can we still expect some optimisation of the shareholders' equity somewhere maybe in 2020? Is that something you still have in mind?

The second question is on the Solvency II ratio. You have a page on Solvency II in the pack. I was hoping for a little bit more capital generation from the pretty good underwriting in the first half, but I do not see any increase in own funds coming from that. What I would like to understand is why the Solvency II ratio is flat in H1, if you strip out the factoring impact?

The third question is on the costs. The costs ratio is 35%. Thinking about H2, are we going to see a little bit more impact from cost savings versus the amount of investment you make? Is that a bit of a turning point to be expected in H2, with costs probably coming down? I know you have been investing a lot. Will we have a small turning point on that in H2?

Finally, on other revenues, we have seen two quarters where other revenues are down by 2%. I just want to understand what is going on there and what to expect going forward - i.e. in 2019? Thank you very much.

Xavier DURAND

Yes, just starting with other revenues. The other revenues line is driven by factoring. There is nothing else in there that really changes the number and the factoring story we have already discussed.

In terms of the costs ratio, these are more long-term trends. We are continuing to deepen and broaden for the better, as I have explained with our transformation efforts. There are costs associated with this. For that matter, there are costs associated with putting in place a partial internal model. We are making these "investments" which run through the P&L which are capabilities or features that we didn't have before - which I think will be essential in driving the business forward. So I think it is the right thing to do for the business, even if it means that the costs may not change dramatically.

In terms of the capital release, I think this all depends on the outcome of the partial internal model development. The big question here is whether we will be able to become more capital efficient. Only if we are steadily more capital efficient will that question be on the table. We have been working hard on developing a tool, which is a partial internal model, to be able to become more competitive in that space. That is what we are focusing on.

Carine, do you want to talk about the capital generation for the first half?

Carine PICHON

For solvency ratio, the cover ratio is more or less stable. Just to highlight some more detail, as you know, we also have a variation in own funds. You can see, if you look at page 20, that this is negative by 0.5%. The reason for this slight decrease comes from the fact that we have a little lower unrealised gain on our investment portfolio which is following a slight increase in interest rates on parts of our portfolio. There is also the fact that we have included in our own funds, an

estimate of the best estimate of the year that has very slightly changed. However, all in all, as you can see, it is only 0.5 of percentage change and we are above the target range. So just some specific events.

Benoit PETRARQUE

Thank you very much.

Moderator

The next question comes from Thomas Fossard, HSBC.

Thomas FOSSARD, HSBC

Yes, good afternoon. A couple of questions from my side. Could you comment a bit on the cession ratio? I was a bit surprised to see that it is almost reaching 29% which I think is a pretty high number. Is there any specific accounting trick or noise in H1 because I sense that, in fact, it was more around 26% plus the cost of the excess? I was not expecting it to be as high as 29%.

The second question for Xavier is how do you feel about the top line growth of Coface at the present time? Especially looking at the chart you are presenting on new business production on slide 9. I know this is only H1 numbers compared to the H1s of the previous years, but if you are taking them at least optically, the trend is quite negative at 92, 74 and 62. So how do you feel about the new business growth of Coface at the present time? Just coming back to what you mentioned before about the investments you are making in several areas, but it is included in growth, should we expect this to turn in the coming quarters? Is it also potentially driving a higher cost ratio compared to what we had in mind maybe at the start of the year? Could you give some additional granularity on that front? Thank you.

Xavier DURAND

Carine, you want to start…?

Carine PICHON

Yes, on cession rates and reinsurance in fact, you are quite right, it was expected. It is clearly the 26% of quota share more or less full impact we have now, because it was for the last two underwriting years, plus the excess and the stop loss costs. As, you know, we also have facultative business which can impact it. So that is where we are and we are quite in line with what we expected.

Thomas FOSSARD, HSBC

Sorry, just going forward and just to be sure on that. So, on an accounting basis, not on an underwriting basis, on an accounting basis going forward a full year into 2019, there is no change in your reinsurance structure and actually it should remain at around 29%. 29% is now the stable and recurring cession level?

Carine PICHON

I would say based on the current reinsurance structure and I do not see why there should be a huge change in it. But we should just bear in mind that sometimes we may decide on some facultative business. There can be an impact on one quarter based on one decision. Just to be clear, it is not a huge amount in any case.

Thomas FOSSARD, HSBC

Okay, but that is presumably when we have got the full impact of the reinsurance structure you have implemented in the past?

Carine PICHON

Yes.

Thomas FOSSARD, HSBC

Okay. So, this is more or less stable now?

Carine PICHON

Yes, this is correct.

Thomas FOSSARD, HSBC

Okay, thank you.

Xavier DURAND

When it comes to the top line, that is an important discussion. As you know when we started Fit to Win, we started by focusing on risk, then we focused on service and then we focused on growth - in that order, for obvious reasons. As I highlighted before, the first thing we focused on was client retention. First of all, portfolio cleaning and then, client retention. I think we are done with the cleaning. In terms of client retention, I think the results speak for themselves and I would just remind you that the attrition rate change from 88% to 93% means that we are losing 50% less clients a year than before. This means our underlying growth rate will be much higher.

I think this number is actually more important than driving new production. When it comes to new production, two things happen. First of all, since we have changed our underwriting criteria, we are more selective in the new business that we are willing to take - particularly at a time when the cycle is good and there is pressure and intense competition out there. So we are being thoughtful about what business we want to write and what business we do not want to write. We have always said we would not be focusing on growth for growth's sake, but much more on value creation through the cycle. That is exactly what we are doing.

The second thing I would point to, is that the underlying trend of growth in the business continues to improve bit by bit. If you look at the history of the underlying growth rate for trade insurance in our business, you are seeing the business pick up some speed.

So, is the new business production where I would like to see it? Where I would like to grow it? I think you are seeing a second quarter which is better than the first quarter. There is always going to be some volatility, because it revolves around a few large deals that you are going to do, or not do. It is a binary event here. We are now focusing a lot more than we were probably a year ago on driving sales, execution, targeting, approaches and things like this. So without giving you a quantitative number, that is the colour I can give you on the growth effort that is going on at Coface.

Thomas FOSSARD, HSBC

Thank you Xavier. Maybe one last question in relation to slide 27, on the interim basis, on the evolution in risk exposure. Actually it has grown in H1 2018 to EUR 524 billion. With the environment was starting to worsen, should we expect some stabilisation in your risk exposure, or you are comfortable to keep that growing despite the maybe more difficult environment?

Xavier DURAND

What I would tell you is that the growth you are seeing in the total exposure is consistent with the underlying trends of our clients' activities. So it is consistent with our turnover. You are seeing 2% growth here, you are not seeing something completely surprising.

The other thing I would tell you is that what matters to me more than the headline number, is what makes up this headline number. So how these exposures are split between quality of exposures, sectors, countries and so on. Within this mass of exposures that we have, we are working very actively on every 'hot spot' that we can identify or that potentially exist out there. The usual suspects that you might think of are driven by the news, or by the economy, or places where we have teams focused on making sure that these individual spots are very carefully monitored. The quality of exposure matters just as much - and probably more - than just the headline number.

Thomas FOSSARD, HSBC

One last question, just to understand what is currently happening on the loss side. I can understand that potentially we have some deterioration in the frequency of the losses, but what now at this point of the cycle should we expect? Why are we seeing deterioration in the severity of the losses? I am not sure why now and what is driving this?

Xavier DURAND

I don't think we should see a deterioration but more of a reversion to normality. Again, this is all relative and I think maybe this is a point that we need to highlight. As we know, the economy ebbs and flows and there are cycles. We were in an environment last year where delinquencies had been coming down both in amounts and in numbers but I think we are now in a part of the cycle where that is not the case anymore. That does not mean that we see the economy with a negative view, or that things are going south. So it is just a matter relative to the prior period. I hope that clarifies it.

Thomas FOSSARD, HSBC

Okay, thank you, Xavier.

Monitor

The next question comes from Hadley Cohen, Deutsche Bank.

Hadley COHEN

Just a quick follow-up, please. Regarding all the trade tensions that are going on at the moment, can you just talk a bit more about the sectors and areas which you think could be potentially most impacted by all of this? Then, secondly, on IFRS17, you have touched upon it briefly, given you have got just a short tail duration portfolio, should we expect much impact for you from this new accounting measure? Thank you.

Xavier DURAND

On trade tensions clearly this is something we are watching carefully. I would say so far there has been much more noise than has actually been actioned. That is a good thing, I think. So there is a lot of fear, a lot of volatility and a lot of noise being created by Tweets and other means and obviously a lot of concern within companies and trade sectors. But, at this stage, it has not really bitten very significantly when you look at it from a global standpoint. Where it goes is not for any of us here on this call to decide. So we have been talking about an all-out trade war. It does not look like this is the way it is shaping up. There are some negotiations and gives and takes going on. As concerns the sectors that would be impacted, it very much depends where they take it. It seems hard to think that you would construct global supply chains on a massive scale and that there would be a favourable outcome for anybody. You never know, we are not the decision makers, but I think there is some bartering and trading going on. But in terms of a real bite on the economy, so far, we have not seen a major impact. Some local things, steel for example, but certainly not at the level of noise that has been created in the papers.

Carine PICHON

On IFRS17, you are right to say that it should not have a huge impact. In fact for the moment we are trying to assess it. There is a lot of debate which is not related to Coface, but is rather related to the whole industry - for instance on how reinsurance will be calculated. It seems that even for something like quota share, there is a lot of discussion on that. Clearly, we are in the short term and it is too early for me to give you an assessment of the financial impact. But we are on it and we are clearly monitoring it.

Hadley COHEN

Okay, thank you.

Moderator

The next question comes from Guilhem HORVATH, Exane BNP Paribas.

Guilhem HORVATH

Yes, thank you. One quick follow-up, please on the Solvency II and the best estimate. You mention that you have a small negative at this time. Is this really taking into account what the outlook looks like already, or should we expect a

larger reversion from that - because I remember at full year, you had a quite large positive from the improvements. So should we expect the negative to be larger as well? Thank you.

Carine PICHON

It is calculated on a one-year basis. So this is the estimation as of today and we will see at the end of the year what it will be. Let's say that for the moment, this is our estimation.

Guilhem HORVATH

Okay.

Monitor

Thank you. We currently have no further questions.

Xavier DURAND

Okay, I think we have reached our time limit here, so I would like again to thank you for calling in. There have been a lot of questions today. I would just reiterate that we have not changed our plans. We see no change to the way we operate the business, or to the targets that we are trying to reach.

Thank you again for calling and we will speak again on 24 October. Thank you everyone.

(End of transcript)

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FINANCIAL CALENDAR 2018 (subject to change)

9M-2018 results: October 24th 2018, 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 H1-2018 and our 2017 Registration Document.

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