coface

T R A N S C R I P T

Conference Call Transcript

FY 2015 Results

Event Date/Time: Paris, February 9th 2016 / 06:00PM CET

Operator

Ladies and gentlemen, welcome to the Coface Financial Results Conference Call. At this time, all participants are in listen-only mode. Later we will conduct the questions and answers session. As a reminder, this conference call is being recorded. Your hosts for today's conference will be Mr Xavier Durand, CEO of Coface, and Mrs Carine Pichon, Group CFO. I now turn the call over to Mr Xavier Durand. Sir, you may now begin.

Xavier DURAND, CEO, Coface

Thank you very much and good afternoon, or good evening, to all of you. I'm pleased to be here today. I am, as you know, just two hours into the job and there couldn't be a better way to start, than to be on an earnings call.

I just want to say a few words before passing the call over to Carine, who will talk about the 2015 financial results. Firstly, I'd like to say that I'm very proud and very pleased to have been given the opportunity to run Coface. Coface is a great company. It's one of the leaders in its industry and certainly the most global. It's a business with a long history and a beautiful franchise. When I was presented with this opportunity, I thought it was absolutely fantastic, so I'm very pleased to be here.

I would like to say a few words as well about my career and introduce myself a little, as I get into this new role. I have 25-plus years of experience in financial services around the world. I started in 1987, working in consulting. Those four years were spent in insurance consulting, both in P&C and life insurance, on assignments related to strategy and growth on one hand, and on cost management on the other, so I learned a lot during those four years. I was then hired by one of my clients in the insurance sector and then, in 1994, I was offered the opportunity to become the deputy CEO of a mortgage business based in France (owned by Sovac). I did so for two years, until we were purchased by GE at the end of 1995.

This started a 20-year period which I spent with General Electric in multiple locations around the world. I started by moving to the United States, where I became the head of Strategy and Business Development for the Americas, for the auto finance division. I spent a lot of time in Latin and South America and became the Head of Sales for the US market, which was another very interesting experience. I then came back to France, at the beginning of 2000. My assignment then was to improve the performance and turn around our French business, which had been acquired by GE four years previously. What we did there was a combination of core growth and M&A to grow the business, and cost out to improve operational efficiency. That led to a doubling of the balance sheet, over a period of five years.

I was then given the opportunity to run GE Money's Western Europe business, which spanned countries from Portugal to Finland. This was a time of growth, a time of acquisitions, a time of consolidations and of finding a way to accelerate the core growth of the business. That all changed, obviously, in 2008, when the global financial crisis hit. I then expanded my world to

Russia, Latvia and getting on the Board of our business in Turkey. We went from growth mode into more restructuring, risk management and navigating the times of the global financial crisis which, as you know, were not simple. I think we did that successfully.

I was then offered the chance to run GE Capital's Asia Pacific business, based in Japan. This is a very broad business, spanning 11 countries from New Zealand to India, both in consumer and commercial lending businesses. We had a variety of markets, from very mature markets like Japan which we needed to turn around, to new ventures in China and emerging markets. So a lot of experience around the world. I really thoroughly enjoyed this time with GE. I moved back to Europe at the end of 2013, again to lead strategy and growth for the core businesses of GE Capital but, as you know, GE decided to exit these businesses, so I left the group towards the end of 2014.

When I was presented with the opportunity to run Coface, I thought that it was a great fit, and so I'm very pleased and excited to be here. Just to summarise, it's been insurance banking, global assignments, growth and restructuring, and I think this is very consistent with what is at hand here.

So that's all for now and I will turn the call over to Carine Pichon, to take us through the 2015 financial results.

Carine PICHON, Chief Financial Officer, Coface

Thank you, Xavier. Good evening everybody. As usual, we will commence with the business highlights for the year 2015, starting with turnover and premiums. As you can see from slide number seven, growth in turnover was 3.4% for the full year, knowing that we have benefited from favourable exchange rates (because as you can see for the exchange rate basis, we are at 1.2%). That summarises our global growth. Net combined ratio is 83.1%. We have been able to stabilise our loss ratio – and I will come back on this - but as you know, the macro environment is very risky on this side, and specifically on emerging markets. We have been able to stabilise the loss ratio, while for the cost ratio there is a slight increase. Internal costs remain controlled but we have had – and I will also come back to this – some one-off taxes in Q4. That summarises the net combined ratio.

Looking now at the net income, this is stable at €126 million. There is a slight increase when compared to last year, when we were at €125 million, despite a riskier and more volatile macro environment. We still have our pay-out ratio policy which, is as you know, is to pay out 60% of the results, so we will propose a dividend per share of €0.48, which is exactly the same amount as was proposed and voted for last year's results.

So that is the global picture for the results. Let us now go into more detail in each area of performance. Looking first at our commercial performance, we usually comment on performance in insurance starting with new production, which is the capacity to acquire new clients. As you can see, for the full year, we had €133 millions of new production. This is lower than the previous year, mainly because in 2015 we were impacted by fewer large deals than in the previous year.

The retention rate is still at a good level and you can see that this is 88.2% between 2013 and 2014. Considering the actions we have taken on risk, we still have quite a good level of retention. Prices climbed by 2.4%, although we still have competition, specifically on mature markets and on the markets where the contract profitability is quite important. The volume effect (which, as you know, is measured by demand in client activity growth) is in line with the moderate pace of the macroeconomic global recovery.

That covers the overview and components of our commercial performance. Now if we have a look at the geography and where this growth comes from, we still have a turnover where growth is clearly driven by emerging markets. If you look at the regions of Mediterranean Africa, Asia Pacific and Latin America, you can see that their growth is between 9% and 17%, which is quite significant. However we still have continued pressure in Europe, and that is the reason why two regions are showing a decrease in their activities. The US reorganisation of its network of agents, which was put into place at the end of 2014, also has clearly had a negative impact on 2015.

That is the global view for our turnover. Having a look now at what we have done on the risk management side, there are several indicators. I will start by commenting on the left hand side of slide number 11. Here you have our global exposure, which was €508 billion at the end of 2014 and €475 billion at the end of 2015. All of the measures we have taken on risks led to a decrease of around 8 to 9% on exposure. More specifically, when you look at the share between advanced and emerging countries, we have had a greater decrease in exposure in riskier countries, so their share went down from 26% to 22%.

We have given you some examples of the actions we have taken. We already discussed during the last call, on Q3, what we have done in Russia and Brazil. Let me remind you that we have more than halved our exposure. We also have data on China, where you can see that we went down from €16 billion, to around €8 billion of exposure. Having said that, as you know, it takes time to see the positive effects of all the measures we have taken on our net loss ratio in our results, because of local payment terms in each of the countries.

In this context, on page 12, we have the loss ratio evolution. The loss ratio for the last quarter of 2015, before reinsurance, is 51.4%. You can see that this is within the average for the previous two quarters. On an annual basis, you can see that the loss ratio is at 48.8%, compared to 48.6% at the end of September, so the levels are quite similar between September and December.

Per region, the situations are very different. I would not say that we are mirroring what has happened on the macro environment, but it’s clear that we follow a similar path. The group loss ratio is 51%. We have benefited from very positive loss ratios in Western Europe, Northern Europe, Central Europe, and the Mediterranean. We can see that the European world is positive and that profitability is good on this market. This is not the case for Asia Pacific and Latin America (and this is the reason why measures have been taken). You can see that the loss ratios are above 100% for these two regions. Trying to anticipate what 2016 will be like and from a macro point of view: we don’t expect any improvement in the situation.

In terms of costs, which we have on page 14, let us first look at the left hand side of this slide. Expenses grew globally on a constant exchange rate at 0.9%. Acquisition costs increased because, as you know, we have had stronger growth in intermediated countries. As to internal costs we are at -1.2, and if we also exclude the one-off taxes I mentioned at the beginning of the presentation, we are at -1.8. You can see that internal costs have decreased, quarter by quarter, and are now under control. The net cost ratio calculation is 30.5% and if you exclude one-off taxes and FX effects, we are at 29.5%, which is close to the 2014 level of 29.3%.

Just some comments on reinsurance, on page 15. We are continuing to improve reinsurance conditions, as the cost of reinsurance has decreased. You can see this when you look at the underwriting income before reinsurance and after reinsurance. Before reinsurance it shows a decrease of 17% and after reinsurance it is around 14%. So reinsurance has played its role, offsetting part of the decrease in results, specifically when it comes from a higher loss ratio.

On page 16, we have the quarterly combined ratio, which is 85.6%, excluding some one-off taxes. What can be seen is that (as we already reported for the previous quarter), the increase in cost ratio globally of 1.2 points, on a 12-month basis, has come from an increase in external acquisition costs - knowing that we benefited from cost control and a decrease in our global internal costs of one point, in terms of cost ratio.

So these are the features of our underwriting results. If we now take a look at our investment income, the total portfolio amounted to €2.5 billion. With the rise in market volatility, we have taken some measures to reduce our portfolio risk, so we still have a prudent, yet very proactive investment strategy. The result of this strategy in 2015 led to a net investment income of €53.1 million, which means an accounting yield of 2%. This is in line with what we did in the previous year. The economic yield is lower, because of the stock market price decrease at the end of the year, at 1.4% including unrealised gains and losses.

Within our results of €126 million, you can see the evolution on a quarterly basis. This quarter's result is €28 million. Globally, on the full year, our return on average tangible equity is 8.4% for 2015.

Page 19 shows the change in return on equity. From a return on equity of 8.7% in 2014, due to an increase in the combined ratio on a full-year basis, we lost one basis point of return. However we have had a higher financial rate, as well as a better tax rate, so all in all this explains how the gap is split between the 8.7 and the 8.5 return on equity we had, excluding all restated items.

That summarises the global view of our results. We have integrated, for the first time, some slides on capital management. As you are aware, since the beginning of this year we are now under the framework of Solvency II, so it is important to explain where we stand in this respect. There are a few slides on which I will now comment.

Let us start just by reminding you of our financial strengths. As you can see, we are rated AA- by Fitch and A2 by Moody's. These ratings were reaffirmed by the two agencies in September and October. Our capital structure, in terms of leverage and coverage ratio, was clearly stable in 2015 when compared to the previous year.

In terms of capital management, I would first like to talk about the tools we are using to ensure a dynamic capital management policy. Here you can see the ranking of management and protection tools. Clearly the first level of protection is our ability to manage risk and specifically to manage our exposure and to reprice contracts. That's what you see at the bottom of the ranking. The second layer is the reinsurance policy. We have a cover in quota share and also in excess, to face severity and frequency increases in claims. We have also decided to add a new protection tool, which is a contingent equity line. You can see it highlighted as "new" on the scheme shown on slide number 22. The outlines of the main parameters of this contingency that we intend to put in place can also be seen. This is clearly to protect our solvency in case of extreme scenarios on a going concern basis. This tool will allow us to benefit from an automated equity increase for tier one funds of up to €100 million in case of one of the trigger events - which would be where ultimate loss ratio exceeds 110%, or where the group solvency ratio falls below 105%. This is clearly a tool which can be used in cases of extreme scenarios and which completes the full set of tools we have to manage our capital. This new tool is also positively viewed by the rating agencies. Then we have hybrid debt that we have issued in 2014 and, in tier one, shareholder's equity.

Page 23 shows the calculation of our own funds according to Solvency II rules. In this graph, we start from the €1.767 billion of IFRS funds and escalate to the Solvency II figure of €1.962 billion. The Solvency II figure includes, firstly, goodwill and all other intangibles which are deducted. We also have a revaluation of all of technical liabilities on a best estimate basis. What is very important, is that we add hybrid debt which is evaluated at its market value and is included as tier two, in our own available funds. That covers the global level of our own funds.

Turning to page 24, we have our coverage ratio, based on the Solvency II standard formula, which is 147%. Prior to the implementation of Solvency II, we communicated on our economic capital level, which was 145% in 2013 and 144% in 2014. We are slightly above with Solvency II and in line with what we previously communicated in terms of coverage ratio over the last two years.

Page 25 sets out the details of our capital requirements, per class of risk. As you are aware, we have four classes of risk — operational, credit risk, market risk and non-life. Here you can see that the largest amount (which is maybe no surprise) is for our capital requirements on non-life and underwriting risks, which is split between risks of underestimating our reserves, risks related to pricing and risks of unexpected losses in extreme scenarios. As you know, diversification effects are taken into account, as well as tax adjustments, and then on top of that the factoring capital requirement based on Basel II and Basel III calculations. Overall, our required capital stands at €1.3 billion and we have 1.9 to €2 billion to meet this. The ratio of coverage is therefore 147%.

We have also integrated in this presentation some stress tests which show that we are robust, in terms of solvency levels, with a basis of 147%. We have shown here two types of shocks. Firstly, on the markets, as you can see, whatever the shock is (either an increase by 100 basis points of interest rate, of 100 points spread, or even a stock market decrease of 25%), the coverage ratio is between 143 and 144. So we have very low sensitivity considering the risk we take in our financial portfolio on this aspect. However we are more sensitive on loss ratio and that is what can be seen here.

We have simulated two kinds of very large crisis, equivalent to 2008/2009, with a coverage ratio down to 112. It is for these cases that we have also added the contingency capital line to our capital management tools. It is shown on this line at 118. This clearly illustrates that the contingency capital line is there to face extreme scenarios. Another crisis, although not as high as the 2008 scenario, is a 'one-in-20-years' crisis. Here we are at a coverage ratio of 126. What we can see here is that the solvency requirement is resistant to cyclical changes and to financial market shocks.

That is the global picture on our capital management. Concerning the specific event we have already had the occasion to discuss together, which is the transfer of the State guarantees management activity, as a reminder, we signed an agreement in principle with the French State on the 29th July of last year. Here we have set out what would have been the results for 2015 without this public guarantees management. This means that we would have had a net result of €104 million rather than €126 million. What has happened since our call last quarter is that the legal framework has been modified. This means that the legislation was adopted before the end of 2015. There is still, however, the need for an implementation decree. This will define the effective date of transfer, knowing that it can be no later than the end of 2016. With this, as well as the fact that the decree and contract have not yet been signed, there is no financial impact to be recorded in the 2015 financial statement. In any event, we will continue to be remunerated by the French State until the transfer is effected.

So these are the main comments on results and events. On page 29 you will find the usual calendar of our financial results and Q1. I suggest, now that the global presentation is closed, that we open the Q&A session.

Operator

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

We have our first question from Mr Guilhem Horvath. Sir, please go ahead.

Guilhem HORVATH, Exane BNP Paribas

Yes, good evening. Thanks for taking my questions. Welcome on board Mr Durand. So, my first question would be regarding your targets. You said in your press release that you were dropping your growth and profitability targets. So, what should we expect for the end of 2016? Can we have a bit more colour on what you're planning to achieve?

My second question is regarding loss ratios. If I look at the slides regarding the loss ratio per region, I tend to see that we have deterioration in Latin America, in Asia and in Northern Europe as well. So, can you explain why? Is it a lack of efficiency of your risk action plans? And when are you planning for this to recover or invert? What is basically the ceiling?

Then I have two rapid questions, if I may. My first is on the solvency. Why is your internal model not approved yet? Is there any particular reason for that? And are you planning to stick to negotiating with your regulator to get these approved? Or should we consider the standard formula as the long-term assumption?

The last is on your exposure to oil, gas and basic resources. I think you gave exposures, but it's a bit more vast than that. Could I have exactly what is your exposure to these three commodities of oil, gas and basic resources? Thanks.

Xavier DURAND, CEO, Coface

Okay, thank you for your questions. I'll give you what I can say, given that I'm two hours coming into the role here. I think if we look at what's ahead of us here in 2016, clearly we come at a time where there's a lot of volatility, a lot of questions about growth, subdued growth in emerged economies and more volatility and risk in the emerging markets. Obviously the financial market volatility is pretty clear. So if you think about the mandates that I've been given, the first is to navigate safely through this environment in 2016. The second thing we're going to be looking at – as you know, because it's been clearly explained by the Board – is how we work on our operational efficiency, as well as looking at the transfer of public guarantees, which is due to happen, probably, in the second half of this year. Then, going forward, it will be defining the roadmap for Coface's growth. So it's way too early for me to say more on this, but that's what I'm going to be working on with the leadership team, going forward.

Carine PICHON, Chief Financial Officer, Coface

On the other questions, Guilhem, maybe we can start with solvency. It's true that we have decided not to file the internal model to the French regulatory body, the ACPR. It's our own choice, because we are comfortable with the level of 147% in standard formula. You mentioned just before, that in the press release, we have dropped the guidance on growth and profitability. However, if you look over the other sentences, we have reconfirmed with this level of capital our pay-out ratio policy of 60%, which also shows our financial strengths. The reason why we haven't yet filed this is because we are currently in discussions with the French regulatory body. It was also important for us to have one further year to stabilise the model, and because we are not in a hurry, we do not want to have a model approved which is not in line with the way risk management is monitored at Coface.

In terms of perspective, I can't tell you when we will file it, because we will do it once we are sure that we have arrived at the level which is comfortable both for company and for ACPR. So we are working on it and I will make you an update every quarter. For the moment, in any case, we are comfortable, as you will have seen from all the sensitivity tests we have provided to you with the level we have. This also helps for us also to reconfirm the pay-out ratio of 60%.

On your other question on oil and gas, we can't give you a specific level of exposure, but it's a very, very low level. We already took actions last year in all sectors associated with oil and gas, especially shale and so on, and you can see that we have taken a lot of actions on Russia, which was also dependant on oil prices. We are continuing to act, but at the moment we haven't seen any increase in claims coming from this sector, because it was a small part of our exposure and measures were already taken last year.

In terms of loss ratio per region, you are right and the calculations you made are correct. There is an increase in the loss ratio in Latin America and Asia. This does not mean that actions were taken too late. We know that it takes some time for these actions to be integrated into our loss ratio, because local payment terms, specifically in these countries, are quite long. It is also a fact that the situation has continued to deteriorate in these countries, for example in Brazil and Russia. You know that we are not positive about these countries, which is why the exposure reduction we have implemented was very hard and sharp. 50% is, in our industry, very high, and a significant decrease in exposure.

I think I have answered all your questions.

Guilhem HORVATH, Exane BNP Paribas

Yes, okay, it's pretty clear. Thanks.

Carine PICHON, Chief Financial Officer, Coface

Thank you Guilhem.

Operator

Thank you very much sir. The next question is from Benoit Petrarque. Sir, please go ahead.

Benoit PETRARQUE, Kepler Cheuvreux

Yes, good evening and welcome, Xavier. I've got a couple of questions. The first one will be on Solvency II. I was wondering why you've decided to take a contingent equity line of €100 million? Why have you decided to take this equity line? Was the call coming from rating agencies, regulators or just management? Looking at the sensitivity of the Solvency II ratio, I think clearly the reserve risk is the most, sensitive, let's say, area of potential deterioration. We have seen the loss ratio actually deteriorating this year. How long does it take for this kind of loss ratio to be reflected in the Solvency II ratio? Are we going to see some deterioration in 2016 if loss ratios stay at current levels, or can you explain a bit more how it works? And did you actually set for yourself a minimum Solvency II target? I think most of the insurance companies have minimum levels they want to be in to manage a business. What is your minimum level? What is your management target, let's say?

The second question is on loss ratio. You have cut a lot into China in the fourth quarter. I was wondering whether there is a specific reason for this aggressive decrease? And what is going on in Asia? You have downgraded, I think, Japan recently, but is that still only China, or is that a broad-based deterioration in the fourth quarter?

Another question will again be on loss ratio, but this time in Western Europe. So Western Europe is very low in terms of loss ratio. What levels can we assume for 2016 and 2017? What would be a more normalised level of loss ratio in this region? Because it is now very low.

Then, just finally, on oil and gas, it's 14% on €500 billion, so it's a big figure, but could you be a bit more specific on what is the exposure to oil and let's say metal as well, in euros? That would be useful. Thank you.

Carine PICHON, Chief Financial Officer, Coface

Okay, so Benoit, first on Solvency II: it's a management decision to issue a contingency line. It's something we were planning to do at the end of the year. Because we are a listed company, we could not issue it during the blackout period. So that's why it was announced as of today, but it's something we had already decided before the year end. The reason why we are using it is because it's a very nice instrument, just for facing extreme scenarios, which is very cheap. So that is why we intend to put this into place, because in terms of insurance instruments, it's a nice tool.

How does it work? We clearly have sensitivity to loss ratio and it's quite immediate. If you have an increase in your loss ratio, automatically you have an increase in your capital requirements that is clear. You also have some sensitivity on the premium, but it's lower. But in any case, it's immediate. We don't publish a minimum target. I will say that what we have done - and maybe it's better for me to re-confirm it – is that we plan to have a pay-out ratio policy of 60This is important to mention.

For the loss ratio in China, it's aggressive on one hand, but on the other hand you mention that the loss ratio is increasing. So there was a need to review the exposure in China, firstly because the loss ratio has deteriorated and secondly because we are not very positive on China. I'm not sure if you have had the opportunity to read what we have published during the country risk conference which took place at the beginning of the month, but even if the global growth of China is not so bad, we are switching from a case where growth was based on investment, to a growth which is more based on internal consumption. This means that there are bankruptcies of some corporates in some industries. That is why these measures on China were taken at the end of last year. When these measures will have an effect is difficult to say. Clearly it will take some time for the effects of the measures to materialise, especially if the situation continues to deteriorate. This will be clearer towards the end of the year.

You had a last question on what is the rational or sustainable level of loss ratio in Western Europe and in other countries. It's interesting if we come back to page 13, because we can clearly see that in 2012 and 2013, the loss ratio was 51%, because there were very good loss ratios in Asia Pacific, in North America and to some extent in Latin America. Where there was a deteriorating loss ratio at that time was in Europe. This is because we were facing an advanced Eurozone crisis. Now we are facing it in emerging markets. It is a fact that we are much diversified in terms of geography. This means that we have benefited from emerging markets when the situation was deteriorating in Europe in 2012 and 2013, and today we are benefitting from the fact that the Eurozone is actually improving when compared to emerging markets. It is, I would say, our job to be well-diversified and balanced in our exposure, in terms of geography and sectors.

Benoit PETRARQUE, Kepler Cheuvreux

Just a follow-up question, actually. On slide 26, on the right hand side, I see a sensitivity analysis. Could you give us the two loss ratios? So on the first scenario, which is the 2008–2009 crisis equivalent, and for the one on the 20 years' crisis equivalent. What would be the kind of loss ratio you would be thinking of for those two scenarios? Also if you could come back on the oil and gas issue and metal exposure in euros?

Carine PICHON, Chief Financial Officer, Coface

For the 2008–2009 crisis loss ratio we were around 110%. So it's around that. And a 'one-every-20-years' crisis is a little lower than 100%.

Benoit PETRARQUE, Kepler Cheuvreux

Just below 100? Okay.

Carine PICHON, Chief Financial Officer, Coface

Yes.

On oil and gas, it's really a very low percentage of our exposure and no claims at this stage. For the moment, we have taken all measures.

Benoit PETRARQUE, Kepler Cheuvreux

Thank you.

Carine PICHON, Chief Financial Officer, Coface

You're welcome.

Operator

Our next question is from Mr Michel Huttner. Sir, please go ahead.

Michael HUTTNER, JP Morgan

Yes, fantastic, thank you very much. I have two questions. The first one is just to confirm that all the targets you set at the IPO two years ago have disappeared? I must say, I am a bit surprised that they disappeared so quickly, but I suppose markets move as well.

The other one is on the cost of this contingent instrument, I didn't understand exactly what the cost was and how it works, because I'm calling from a mobile, so I am not logged into anything.

Then the final thing is you mentioned a figure for profits excluding the government guarantee programme. I just wondered if you could repeat that figure? I heard €110 million relative to the €126 million you reported, so that would be kind of my base figure going forward. I just want to confirm that.

Then finally on the tax rate, if you could say what it is and what it is likely to be going forward? Thank you.

Carine PICHON, Chief Financial Officer, Coface

Okay Michael, I hope I have correctly understood your questions.

Xavier DURAND, CEO, Coface

Sorry, the line is pretty bad.

Michael HUTTNER, JP Morgan

My question was really to know if you have abandoned all the targets set two years ago at the IPO?

Carine PICHON, Chief Financial Officer, Coface

To remind us of the targets which were put in place during the IPO, these were based on an underlining macroeconomic rebound, and also on the fact that we will keep public guarantee procedure. So now, based on our assumption of the economic situation, it is clear that the growth targets for turnover and return on equity will not be achieved. But there was also a target in terms of pay-out ratio, and what we are saying is that our business model, our financial strength and our solvency allow us to continue to have a dividend policy with a pay-out ratio of 60%. So that answers your first question.

As concerns contingent capital, we intend to sign it after this call, so you will see it, but the price is very, very low, because it is for extreme scenarios. That is the reason why it is very interesting in terms of capital management tools, because we have this ability to have tier one, if these extreme scenarios arise, at a very low price. That is the reason why we have decided to put this into place.

I think you had a question on public guarantee procedure? What we said is that the total impact on 2015 of public guarantee results was a little more than €20 million. You mentioned 10, but maybe you are assuming the fact that next year there will be only six months, I don't know. Anyway, the full year impact on 2015 is around €20 million.

As to tax rates, we had a tax rate which was a little better in Q4. In any case, we had a tax rate level which was quite stable during the year. It was improving, but we do not anticipate any specific movements at this stage.

Michael HUTTNER, JP Morgan

Can I just ask, on the tax rate, I think the figure is around 27%? Also on the contingent capital tier one, I am confused. Do you mean debt, or do you mean equity? And if it's equity, at what price does it convert?

Carine PICHON, Chief Financial Officer, Coface

It's neither equity, nor debt. So you are right, it is not included. It is not included in the 147% of coverage ratio – it's important - because it's neither equity, nor debt - so neither tier one or tier two. It will just arise if one of the triggers I mentioned happens (so either loss ratio after reinsurance exceeds 110%, or group solvency ratio falls below 105%). It is only taken into account when we make some sensitivity tests on loss ratio, so just in that case we will have tier one. But it is not at all included in the picture you have of our available own funds at the end of 2015.

Michael HUTTNER, JP Morgan

I understand, but when it arrives, does it arrive in the form of shares – equity shares on which you will pay a dividend and which would increase the number of shares – or does it arrive in the form of a soft debt?

Carine PICHON, Chief Financial Officer, Coface

No, it would be shares. It would be shares issued by a well-rated counterparty

Michael HUTTNER, JP Morgan

What is the issue price for these shares?

Carine PICHON, Chief Financial Officer, Coface

I would say very low. We have a slight decrease in the share price of around 7%.

Michael HUTTNER, JP Morgan

So, 7% lower than the market level now?

Carine PICHON, Chief Financial Officer, Coface

No, at the market when it will be issued.

Michael HUTTNER, JP Morgan

Okay, so there's potential dilution here, that's where the cost is. Okay I understand that.

Carine PICHON, Chief Financial Officer, Coface

The intention is to sign it just after the blackout period is finalised, and so in that case we will issue a press release and give you all the details you are asking for, Michael.

Michael HUTTNER, JP Morgan

Okay. And the tax, is it 27 or 28%?

Carine PICHON, Chief Financial Officer, Coface

The tax rate is 28.5%.

Michael HUTTNER, JP Morgan

28.5%. Thank you so much.

Carine PICHON, Chief Financial Officer, Coface

Thank you Michael.

Operator

Thank you, sir. Our next question is from Mr Thomas Fossard. Sir, please go ahead.

Thomas FOSSARD, HSBC

I've got several questions. The first one will be on the macro environment. Clearly the financial and equity markets are trying to price in a global recession scenario at the moment. I don't know if financial markets are right in doing so, but as Coface is usually a very early bird on the economic environment – on the real economy, if I may say so. Could you tell us what you're currently seeing from the ground? Are you expecting a global recession scenario to come in, including Europe and the US? Or are you more relaxed at the present time, which fully implies some disconnection with the current evolution of the financial markets? That will be the first question.

The second question will be on the restructuring plan. I missed the start of the call, but I can't see anything coming. You previously indicated that this would be presented before year end, and then it was postponed to the presentation of the full year numbers, so today. There is still nothing coming in, in terms of restructuring plans to cover the loss of margin from the transferral of the State guarantees, so could you update us on that and potentially tell us when you should be in a position to present this plan?

On the dividend of 60%, thanks for reiterating the guidance here, but, when will the Board start to reconsider the 60%? I mean, is that in place forever? Is there a kind of threshold below which the Board will start, not to completely cancel any dividend, but to decrease the 60% pay-out ratio?

The last question would be, if I take the normalised or the pro forma earnings of the Coface group, so the €104m, and compare that with the adjusted equity average, tangible equity adjusted for the positives and negative coming from the transfer of the State guarantees, then I am calculating a return on tangible equity of 6.4%. I would have been interested to have a comment from Xavier on this 6.4% return on equity, which I guess for a former General Electric guy will look very, very low in the current context? Thank you.

Xavier DURAND, CEO, Coface

You know how to talk to CEOs. I will start with the first question because there is a lot here. On the world economy, we actually just had our country risk conference here in Paris, and we had many, many people attend actually almost 1,000 people. Our view of the world is one of subdued growth in the emerged or advanced countries, including increasing political tensions, but not one of a recession, rather of subdued, soft global growth. So the recovery is under pressure in advanced countries and in the emerging markets, clearly there is some volatility. I don't think we have forecast a major crash, but clearly we have taken measures, as you have seen, in a number of countries including China, and prior to that in Russia and Brazil, to protect against what we foresee. We are experiencing increasing risks in these countries, and they are reflected in the numbers of the business. So now, is it a doomsday scenario? That is not the plan, and that is not the way it is billed. And so that is all I can say at this stage.

What is the second question?

Carine PICHON, Chief Financial Officer, Coface

"Optimize costs" plan.

Xavier DURAND, CEO, Coface

"Optimize costs". As I previously mentioned, it is part of my mandate to firstly navigate this volatile environment, and secondly to define the necessary structural adjustments that we need to make to the business, knowing that we will be losing the state guarantees, and thirdly to define the ways we can grow the business going forward. We are just at the onset of this work, and I am ill-placed here to comment much further but we are going to be updating you as we progress. I am going to sit down with the team and get started on that. We will leverage the work that's been done, but it's too early for me to give you specifics.

Carine PICHON, Chief Financial Officer, Coface

Maybe I can take the question on dividend policy. On dividend price policy, we are reconfirming the 60% based on the scenario we have built for the years to come. The financial strength is there. I understand that you are saying that maybe we need more communication on it. We will see, but in any case, I confirm that we are at 60%. Based on the assumptions and what we expect for the coming months, there is no reason for the moment to come back on that target.

Xavier DURAND, CEO, Coface

And as to your last comment on GE assumptions about return on equity, I would just say that you also need to take into account the market in which we operate and what the industry looks like. So we obviously always strive to do our best and improve things as we go forward. But I clearly would just refer to the market in which we operate.

Thomas FOSSARD, HSBC

Thank you.

Operator

Okay, thank you, sir. Our next and last question is from Hadley Cohen. Sir, please go ahead.

Hadley COHEN, DEUTSCHE BANK

Hi, thank you very much. Most of my questions have actually already been asked, but I have a couple remaining. Firstly, on the solvency ratio, I guess I am slightly confused with the sensitivity that you are providing to a repeat of the 2008 crisis. So you're saying that that's based on the loss ratio you experienced back in 2008, but my understanding is that your underwriting processes are a lot more sophisticated now and your book business should generally be in much better shape than it was back then. So can you give us a sense of if the sensitivity is based on your experience back in 2008? And based on your portfolio as of now, what would have happened to this portfolio back in 2008?

If it is the former, can you tell me what it would be on the latter basis, because I think that's more relevant? And then just on that sensitivity, I mean, if you go down to 112% and then maybe you get the six points benefit from this contingent equity, you have 118%. If any other insurance company in Europe had a stress scenario where their solvency, in not a wholly unrealistic stress scenario, could get down to this level, the market would be very, very concerned about this capital position. So how can we be reassured that if you get down to this position, that we should comfortable with this capital position? That is my first question.

Secondly, can you give us a sense (and I think you've done it in the past), on whether from a financial markets perspective, sentiment has deteriorated substantially? You might not necessarily have seen the pick-up in default rates but can you give us a sense of how trading has been so far this year (apologies if I've missed that) and what you are doing from a pricing perspective so far in 2016? Thank you.

Carine PICHON, Chief Financial Officer, Coface

On Solvency II, we have taken the decision to show you what would have been the cover in 2008 under the risk management we had before 2010. This is just to illustrate the cover ratio obtained with a simulation of the 2008 loss ratio and without the risk management tools we have today which, as you point out, are more sophisticated than at that time. So the cover ratio is really an extreme scenario and just there to give you an example. In any case, our solidity and financial strength is there, so there is no concern in terms of the level of capital and no concerns for the market on that basis. The choice we have taken is only to show you the worst scenario. I don't know what has been done by other insurers, and it is not my place to comment on them. In our case, we have made the choice in terms of financial communication to give you information on the worst that could happen, knowing that we now have better risk management tools in place than in the past.

Hadley COHEN, DEUTSCHE BANK

Can I just come back on that then?

Carine PICHON, Chief Financial Officer, Coface

Yes.

Hadley COHEN, DEUTSCHE BANK

If we had a repeat of 2008 (I recognise that it is probably still an unlikely scenario, but there is a lot of fear that we're having a repeat of that, given the way markets are behaving at the moment) and if you got down to a position of 118%, let's say, post the contingent equity, would you still be comfortable with a 60% pay-out ratio? If not, then what would be the level where you would still be comfortable with it?

Carine PICHON, Chief Financial Officer, Coface

Hadley, it is difficult for me to tell you what would have been our loss ratio in 2008 if we would have had the current risk management tools.

Hadley COHEN, DEUTSCHE BANK

Sure.

Carine PICHON, Chief Financial Officer, Coface

That's why we gave you another scenario which is a ‘one-in20-years’ crisis, which is also an extreme one in itself. So maybe you have part of your answer by comparing with these two cover ratios.

Hadley COHEN, DEUTSCHE BANK

Would you still be comfortable with a 60% pay-out at 126% then?

Carine PICHON, Chief Financial Officer, Coface

That is a question on our minimum target. I can say that for the moment the 60% matches our expectations and what we see in terms of business. We will see later if we come back on target capital, but at the moment, clearly we are at the level where we want to be and the 60% pay-out ratio is based on our expectations. I come back here to the point that the pay-out ratio is also based on our ratings and comments from rating agencies – AA- and A2. I do not want to comment on other insurers and you see how low our sensitivity is on financial markets. I think that this is not the case for all insurers, and specifically for life insurers or reinsurers. We are short-term. We have the capacity, as you are asking, to cut our exposure very quickly. It is always difficult to compare credit insurance to other lines of insurers, because their risk is not the same and the length of the risk is not the same. What I can tell you concerning Coface is that we are aligned with our risk appetite and our dividend pay-out ratio of 60%.

Hadley COHEN, DEUTSCHE BANK

Okay. Thank you.

Operator

Thank you very much.

Hadley COHEN, DEUTSCHE BANK

Sorry, just the final question on year to date trading, and in your experience so far this year, if you have noticed a pickup in claims trends? I mean, there has been a lot of fear in the market and the financial markets have reacted, but have you noticed a pickup in claims or trends so far this year in 2016, versus what we saw in the second half of 2015?

Carine PICHON, Chief Financial Officer, Coface

No, we are in the same trend. No specifics.

Operator

Thank you very much, sir. That was our last question. Ladies and gentlemen, if you would like to conclude now.

Xavier DURAND, CEO, Coface

Thank you very much for these questions and for participating in the call. We will continue to update you on these calls about the progress we are making in the business. Again, this is a very interesting time for me, as the environment is more volatile than any of us probably would have thought a few months ago. As I said, we will be focusing on managing this well and defining the next chapter for Coface. Thank you very much for your participation.

Carine PICHON, Chief Financial Officer, Coface

Goodbye.

Operator

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

(End of Conference Call)

T R A N S C R I P T

IMPORTANT INFORMATION– *In the conference call upon which this transcript is based, Coface made certain forward-looking statements. Such forward looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results could differ materially from those expressed in, or implied or projected by, forward-looking information and statements. The Coface Group is under no obligation and does not undertake to provide updates of these forward-looking statements and information to reflect events that occur or circumstances that arise after the date of the said conference call.*

Readers should read the consolidated financial statements for the period FY-2015 and complete this information with the Registration Document for the year 2014, which was registered by the Autorité des marchés financiers ("AMF") on April 13th, 2015 under the No. R.15-019. The Registration Document for 2015 shall be registered and approved according to French Regulation. These documents all together present a detailed description of the Coface Group, its business, strategy, financial condition, results of operations and risk factors.

Please refer to the section 2.4 "Report from the Chairman of the Board of Directors on corporate governance, internal control and risk management procedures" as well as chapter 5 "Main risk factors and their management within the Group" of the Coface Group's 2014 Registration Document in order to obtain a description of certain major factors, risks and uncertainties likely to influence the Coface Group's businesses. The Coface Group disclaims any intention or obligation to publish an update of these forecasts, or provide new information on future events or any other circumstance.

The information contained in the transcript is a textual representation of the applicable company's conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. In no way does Coface assume any responsibility for any investment or other decisions made based upon the information provided on this transcript.

T R A N S C R I P T

CONTACTS

MEDIA

Monica COULL
T. +33 (0)1 49 02 25 01
monica.coull@coface.com

Maria KRELLENSTEIN
T. +33 (0)1 49 02 16 29
maria.krellenstein@coface.com

ANALYSTS / INVESTORS

Nicolas ANDRIOPOULOS
Cécile COMBEAU
T. +33 (0)1 49 02 22 94
investors@coface.com

FINANCIAL CALENDAR 2016

May 4 2016: publication of Q1-2016 results
May 19 2016: general shareholders' meeting
July 27 2016: publication of H1-2016 results
November 3 2016: publication of 9M-2016 results

FINANCIAL INFORMATION

This press release, as well as Coface SA's integral regulatory information, consolidated accounts and FY-2015 analyst presentation, can be found on the Group's website: http://www.coface.com/Investors

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 99 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 340 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

www.coface.com

Coface SA. is listed on Euronext Paris – Compartment A
ISIN: FR0010667147 / Ticker: COFA