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

FY-2022 Results

Conference Call Transcription

Paris, 16 February 2023

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 31 December 2022. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO, and Phalla Gervais, CFO.

Xavier DURAND, CEO, COFACE

Thank you. Welcome everyone. Thank you for logging in. Good evening. This is our full report for 2022. We're happy to share with you our full-year results. As you can see from the headlines it's been a good year. We're reporting net profit of €283m, of which €54.7m in the fourth quarter. As I go through these slides, you'll see that a lot of the trends that I'll be describing will be similar to some of the things we discussed in the prior quarters. This has been a year of very high risk and volatility and at the same time strong performance by the company. Volume is up 13.4% all things equal. On a reported basis we're close to a 16% increase. Trade credit has had a very strong year by historical standards at 14.5%. This was driven by a client activity in an environment which has seen more inflation than we've had in the past. We broke a few records this year. One is client retention, which had remained really high for the last few years, rose again to 92.9%. We are seeing double-digit growth in our other lines. Business information is up close to 12% and 13% at full scope, and factoring is up 10%. The loss ratio is actually quite similar to last year. The combined ratio is up merely 0.3 points at 64.9%. What happened is in 2020 we had a significant cost from government programmes which created a cost for Coface. We don't have that in 2022 but we do have more claims, which brings us to a similar net loss ratio. The net cost ratio is down 2.5 points to a record 28.8% for the year, and this was due to both operating leverage and efficiency and higher reinsurance commissions. Our combined ratio for the fourth quarter was 68% so it continued to be really good. Total profit for the year was €283m. We acquired a company called Rel8ed in the first few weeks of the year, but this is a deal we signed at the end of last year. It's based in North America and it's an innovative open source data company. It brings us the ability to source data that's complementary to what we have, so it increases the depth and breadth of our data and it also helps us with tools to better manage and take advantage of that data, so I think it's a nice addition to the Coface's skill set on the data side.

If I go to the next page, you'll see that we ended the year with a strong balance sheet and a solvency ratio of 201%. Return on average tangible equity stands at a record 15.6% for the year. Solvency is obviously above our target range. We have been able to maintain our reinsurance commissions versus last year and that's despite the fact that the market was generally much tighter than it was last year. This is happening generally in the private reinsurance market and around the world so we feel good about that. We are therefore proposing a pay-out of 80% corresponding to €1.52 per share, which is in line with our Build to Lead target and leaves some room to finance continued growth. I think the most important thing for me when you look at this year is we've continued to stay focused on operations, delivered on the things we had planned, and handled the things that showed up during the year. We've managed the risk situation in Russia well I think. We've taken advantage of a relatively benign claims environment to introduce a new global collection system spanning 40 plus countries and we'll be happy to have that as things normalise. We've increased our business information venture workforce by almost 200 people and that's both on the distribution side and also to make sure that we build a factory that's able to deliver the products that we're building. We've also completed a full assessment of our carbon footprint and we've committed some capital to green initiatives, which complements our offering. It's been another year where the Coface team has delivered.

On page 6, there are just two highlights. One on exposures on the left-hand side, which we talk about a couple of times a year. You can see that it's grown about 14% during the year to a record €667bn. When you look at it over a longer period of time, since 2017 it’s grown about 6.6% per year. That's very much in line with our premium growth. And, as I've had the chance to explain in the past, we feel good about the quality of that book. The low DRA percentage is at a record low, and the average DRA which is the debtor risk assessment or the average score of the book is close to recent highs, so we feel like we're adequately positioned in the face of an economy which is obviously slowing and more volatile. A bit of an update on the right-hand side on Russia. When the war started in February, we had exposures of about €4.8bn. We brought this down to €0.6bn by the end of the year, which is an 87% reduction despite the appreciation of the rouble. We’ve seen moderate claims activity. We have booked reserves – I explained that before in Q3 – and we haven't added anything in Q4. It's just been redistributed amongst the regions to reflect the actual Russian exposures that we have in each one of the regions. But I think the team has done a good job here again with our clients, mitigating a significant amount of risk exposure while making sure we remain very sensitive to the needs of our clients as they were downscaling or dealing with their own situations as well.

On the next page is an update which we provide on a regular basis on the Build to Lead targets we set for ourselves with our four-year plan. I think it speaks for itself. Our combined ratios are well below the target, our solvency ratio remains way above, and our target pay-out ratio is consistent with what we promised and has actually been higher in the last couple of years. Return on average tangible equity has reached a record over the last four-year period and is well above the 9.5% that we had targeted. So, we feel like we're delivering on plan. Things are happening as we were expecting.

Page 8 contains an update on ESG and CSR. The sections in green highlight what we've focused on and delivered in 2022. We spoke about doubling our exposure to ESG projects in a single risk area by 2025, so we've committed capital there. We have further decreased our investment portfolio’s greenhouse gas emissions – about €3bn that we manage. We've also in the process of joining the NZAOA and the United Nations Principles for Responsible Investing so we are now within a framework that is recognised by the market and we can measure our progress in very specific terms like other players in the world. In terms of being a responsible enterprise, we completed a full carbon footprint assessment of the company. We've developed a plan to get to net zero by 2050 and so we've got the plan, we’re rolling it out, and then we've seriously reinforced both our culture through training – digital training, face to face training – and our governance through the mechanisms we put in place to make sure we involve as many people as we can in this initiative in the company.

On page 10 I go to the more traditional pages here. So, you see the 13.4% growth at constant FX for the year. Trade credit insurance rose 14.4%. Other revenues, which includes both business information and debt collection, is up 8.3% so business info is up roughly 13% at total perimeter. Factoring is up 10% and debt collection fees are down because we've had less activity. I think the good news here on this page is that the fees that we derive from our trade credit insurance business are up 8.6%. It's been a couple years since we've seen some positive growth. We had negative activity here for a number of years, so there's a beginning of a change here.

On the next page you can see the growth by region, and I think the highlight is everybody's pretty much growing in the same ballpark anywhere from 10% to 13-14%, except Latin America for the same reasons we explained in the prior quarters which is the strong price increases we've seen in the commodity space – both hard and soft commodities where Latin America is the biggest producer. But pretty much every other region is growing for largely the same reasons which we'll talk about in a minute. Factoring is growing nicely particularly in Central Europe, a bit less in Germany as we have seen activity slow down there in line with the economy and the pressure that's being put on the energy sector.

If you go to page 12, this is consistent with everything we've said for the last four quarters. New business is a bit lower than in prior years and we've consciously stayed out of the transactions we believe were just not right from a profitability standpoint. The retention rate is at a record 92.9%, which for us is a very good number. The price effect is pretty much in line with prior quarters. We're down at about 3% and the volume effect is very high compared to other years but slower than it was in Q3. We're clearly seeing a slowdown in the economy in Q4 and that's not a surprise. I think you're all aware of the macro environment here which has been leading to a stagflationary environment.

On page 13, on the losses it's been another very good year at 34.2% in Q4 and 31.2% for the full year. We've been saying this for a year and a half so there's really no news. Normalisation is underway. The number of claims has been increasing since the middle of 2021. We're close to pre-crisis levels right now. We're also seeing an increase in the larger losses. Clearly the interest rate hikes, the rising energy prices, the slowdown in the economy following the Covid recovery, and some of the supply chain issues that we've seen with electronics, auto components and other items, are biting. Large losses are increasing but are still below average. We increased the reserves during the year in Q3 related to Russia, but then you see on the bottom here the new year comes in for 2022 at 80% reserves. There are two things in there. There are the Russian reserves and there's also a large Latin American claim that we are facing like the rest of the market, which is built in here and for which we've taken the large majority of the losses. Then there are significant recoveries from prior years. By historical standards, 51.6% is pretty high. That reflects the strong performance of the 2021 and 2020 layers in our book.

On page 14, you'll see a still pretty benign loss picture. The four largest markets at the bottom, which are also the most stable, all performed well during the year at anywhere from 14% to 35-36%. On the most volatile segments on the top, you see that the picture is actually pretty good. There was an increase in Latin America, which reflects this large loss that I was talking about.

If you go to the next page, we've got the quarterly picture. So, what you see immediately is that Latin America took a significant reserve on that claim in Q4. At the same time, Central Europe saw a big drop because we had booked some reserves in Q3, which were then reallocated to where we hold the exposures – Western Europe and Northern Europe – which explains the increase in Q4. Med and Africa is pretty much on a normalisation curve so not much to say there.

If I go to page 16 on the cost side, our total costs are up 12.6% and that's made of two parts. One is the 18% increase in external acquisition costs. This is basically the commissions we pay to intermediaries. That also reflects the strong performance on the loss side because there are some profit-sharing agreements included in those commissions. Internal costs are up 10.9% and include about 1.7 points which are linked to our investments in the business information space, 2.6% which are linked to overall inflation, and then variable costs linked to premiums. These include taxes and things like this which are 3.6%. So overall, clearly internal costs are growing less despite our investments and despite the variable cost growing much less than the premiums, so we are getting operating leverage, which leads to a cost ratio for the year slightly above 2021 on the growth side. From a net standpoint, I think we are at our record at 28.8%.

With that I'm going to turn it over to Phalla to take us through some other pages.

Phalla GERVAIS, Group CFO and Risk Director

Good evening, everybody. So, if we look at the reinsurance page, page 17, the premium cession rate is at 27%. Of course, we don't have the public schemes anymore in 2022, so we're a little bit back to the pre-Covid period. If we look at the claims cession rates, it is at 15.5%. I just want to remind you that we have drawn a line with the public schemes reserve release and, for the following quarters, of course the fact that we have positive developments is also benefiting the reinsurers in Q2, Q3 and Q4. As Xavier mentioned, we have higher reinsurance commissions to reflect the low loss ratio activity and all in the reinsurance result ends up at -€147m compared to -€314m last year. As regards the renewal of our reinsurance treaties, I would say that it has been very successful, especially if we look at the very hard market in the reinsurance space. Our share remains unchanged at 23% and the terms and conditions were broadly similar to what we got last year.

On the next page, the net combined ratio was slightly below 65%. The loss ratio remained low through the cycle as you can see. If you want to compare apples to apples, I would compare that with 2021, at 54.5% without the public schemes, so on this page you can see that the net loss ratio has increased from 23.2% to 36%. This reflects loss normalisation, the fact that we have booked reserves on Russia and also reserves on very large claims in Q4. On the other side you can see the net cost ratio dropped by 2.5 points thanks to cost discipline but also higher reinsurance commissions.

If we move to the next page on the financial portfolio side, the mark-to-market of our investment portfolio at year-end 2022 ended up slightly below €3 billion. In terms of asset allocation, you can see that we have continued to de-risk with equity now at 3%, bonds at 77% and we are still piling up some cash which is a liquid asset at 12% of the total investment portfolio. This comes from the cash generated by our business and of course we are keeping a high level of cash ahead of the dividend payment. In terms of investment deals, you can see that we have started to really pick up the yield as the accounting yield without the realised gain rose from 1.1% to 1.5% and all the new money that we're investing is above 2%. Something that we mentioned already in Q3 is the application of IAS 29, due to hyperinflation in Turkey and Argentina, which negatively impacted investment income by €13m pre tax.

This leads us to very strong net income for full year 2022 at €283m with operating income up 32% from €330m to €414m. The tax rate was almost unchanged at 26%, with net income up 26% compared to last year.

Return on average tangible equity is on the next page, starting with the change in equity. We started with €2.1 billion of IFRS equity at the end of last year. Of course, we paid our dividend in May 2022. We are accounting for net income for the year and, as we said in previous quarters, equity has been impacted by the rising interest rate environment. This is the -€265m that you see on this chart. This results in total IFRS equity of €1.9 billion. Return on average tangible equity rose from 12.2% to 15.6%, thanks to the very good technical result net of tax.

Now we're moving on to the Capital Management section. I will start with the balance sheet, totalling €8.4bn. Factoring assets and factoring liabilities that are totally matching slightly below €3 billion. We discussed the insurance investments of €3 billion. What is noticeable is the financing liabilities which is our hybrid debt. I think last year it was around slightly above €380m and you can see that here the €534m is in fact made of two tranches – the first one is related to the initial hybrid debt that we paid partially in September and also a new €300m, 10-year, fully-fledged, Solvency 2, Tier 2 that we issued in September.

We have a couple of pages on IFRS 17 later on. In terms of financial strength, the three rating agencies confirmed our ratings with AM Best and Fitch issuing a stable outlook and Moody's issuing a positive outlook in October 2022. Book value per share is €13.2 and tangible book value per share is €11.5.

Moving to the Solvency 2 page which is page 24, our Solvency 2 ratio ended up at 201%. Here, we should highlight the fact that our liability management in September temporarily boosted the Solvency ratio by 10% so, if you really want to compare apples to apples, I would compare 196% to 191%, which again is very strong given the fact that we are increasing our business, we're increasing exposure, but we have stayed very disciplined and rigorous in the underwriting process. On the right-hand side, you can see the usual stress tests. The first part is the financial stress test using interest rate spread and equity shocks. Again, we are way above the upper range of our comfort zone. On the bottom right side, you have the two stress tests related to the one in 50 event and one in 20 event. As a reminder, the one in 50 event is what we got in 2008 with a combined ratio about 110%. Here again, it would be above the upper range of our comfort zone.

If you move to the next page, this is the breakdown of our capital requirements, i.e. the insurance capital requirements based on our partial internal model, which total €976m. If you add the requirements related to factoring activities, you end up with total capital requirements of €1.2bn compared to €2.4bn in eligible own funds.

Xavier DURAND

So, we've added a couple of pages on IFRS 17 and IFRS 9. As you're aware, we're going to change the way we account for the business due to the introduction of these new regulations. We just wanted to briefly go over how we've done it and what it means for the company.

Page 27 describes how we've gone about implementing this programme. Our state of mind is to try to minimise the disruption to the business, to try to keep it as simple as we can, so we applied what we call a simplified premium allocation approach. This is allowed as our book is short in duration so we're not getting into the more complex contractual service margin discussion that others might have to go into. We want to make sure we continue to provide KPIs that allow everybody to follow the business in the way they are used to, whether it's using premiums, combined ratio, or return on average tangible equity. We want to stay consistent with the current reserving principles. We will apply IFRS 17 for the first time as of 1 January 2022 and then obviously we remain consistent with the Solvency 2 processes which we don't want to change. So when you put all of that into the equation, what we've done is the following. Our reserving philosophy remains broadly unchanged. We are not obviously going to change the strategy for the business. Build to Lead is on. The principles by which we run the business are the same. The metrics we're using for Build to Lead will remain valid – 80% combined ratio, 9.5% RoATE, 80% payout ratio. What is changing is the way we record cash flows over the lifetime of the policy. As you know, they're mainly annual but their life can extend one or two years. The cash flows aren't changed. What the new rules do is they tend to accelerate the recognition of profit and therefore they increase the volatility from quarter to quarter. When we applied the new methodology for the first time as of 1 January 2022, it translates into slightly increased shareholders' equity which means that we would have recognised some of the profits faster under IFRS 17 versus IFRS 4, that's €91m or about €0.6 per share, that's 4.3% of our equity. It's not changing our financial leverage. In April, we will be publishing details on how we apply that first time and also what the 2022 pro forma looks like when you look at it from an IFRS 17 standpoint. We wanted to provide that kind of overview and now Phalla's going to take us through a couple more pages that are a bit more technical.

Phalla GERVAIS, Group CFO and Risk Director

If we move to next page, you can see the opening balance sheet at 1 January 2022 or the end of December 2021 which is basically the same. On the left-hand side, you have what we have published under IFRS 4, so the total assets are at €8bn. What it would look like under IFRS 17 is on the right-hand side. Of course, factoring assets and liabilities won't change because they are not impacted at all by IFRS 17. Neither are insurance investments, goodwill or the hybrid loan. So, what is changing is basically what you see in the middle of the chart, which I think is dark green, so other assets, other liabilities and insurance reserves. It should be noted that in insurance reserves you have not only the claims reserves but also the premium reserves, so this is all together. Here there are a couple of things in IFRS 17. One is as Xavier said we're changing some of the recognition part of timing compared to IFRS 4 and this would be reflected in the change in equity moving from €2.1bn to €2.2bn – almost €91 million net of tax. This is the change, but all those changes that are implied by IFRS 17, all the netting that we have to do on the insurance assets and liabilities that is completely necessary explains the decrease in total balance sheets by almost €700m.

Let's move to IFRS 9 on the next page. You know that under IFRS 9 we don't have to do a first-time application at the end of 2021 because it will be applied from 1 January 2023. I just want to give you an idea of the classification of our year-end investment portfolio under an IFRS 9 accounting view. So, if you look at the chart on the left-hand side, you have the total investment portfolio – the €2.9bn we just talked about – and the outer ring is the asset allocation that we have today. What you have in the inner ring is what it would look like in the accounting classification of these assets. So, the changes here are as follows. Of course, today you know that under IAS 39 which is the current full year 2022 accounting principle, all fair value so the mark-to-market goes into equity and this is what we have reflected in the previous pages. Under IFRS 9, if we put aside the amortised cost which is the 4% that you see here, which is basically the term deposits that we have, we have two classifications – assets that go into fair value through OCI, which is fair value through equity similar to what we have today, but you also have a part of the portfolio that will go into fair value through P&L. So, this will bring obviously some volatility into the P&L and what we have here is basically the 17% of fair value through P&L that is made of monetary funds, infra and real estate funds, and some non-listed equities. So obviously all these liquid assets, the 12% of loans and deposits that we have, will go into fair value through P&L. Down the line volatility will be low. Then you have the long-term investment which is the infra funds that go there as well.

In terms of equity, we have classified the equity at fair value through OCI, which means that only the dividend will flow to P&L. All the realised gain or unrealised gain or loss will flow into equity. And as we already discussed we have moved a little bit of the portfolio to refocus on govies. We're reducing the listed equity exposure; we're lowering our real estate funds and real estate exposure and we're growing the allocations to the infra asset class.

Xavier DURAND

So, this was a bit longer presentation than usual but just to wrap it up here before we go into the Q&A. I think we clearly continued to deliver strong performance and operations in 2022. It's exemplified I think by the growth that we've seen in all of our business lines. The return on average tangible equity which is at a record and the fact that we've contained the loss ratio despite the situation in Russia and the large loss situation in Latin America. In terms of the environment, it's clearly pretty volatile. We have seen a slowdown in the economy in Q4. I think we're all aware of the risks, including the Ukraine and Russia conflict, inflation which is back, rising interest rates, QE, reopening or closing of countries based on Covid, and social and political challenges pretty much everywhere. So it's a volatile environment. Not everything went wrong actually because we had a warmer winter than expected. There's been a curb in demand for gas which resulted in lower energy prices than we might have feared. Elections turned out not to disrupt politics as much as we might have feared, etc. Still, I would say the conditions for a volatile environment remain and we're not done with this stuff, so we're watching this carefully. I think everybody in different industries is aware of this. States continue to intervene but their ability to do so is under some stress because they can't spend money forever, and we see clearly a gradual normalisation underway. So, despite the fact that it's likely to be more volatile, we think we've got the right strategy and the right culture. I think we've been able to manage all the challenges that we've had to face so far, and that's why we think we're going to get through the last year of our plan in 2023 and then prepare for the next one which we'll be explaining in about a year. But we've got engaged teams, client feedback is good, and the balance sheet is strong, so that we feel we are well positioned. So that's basically the story. I'm going to turn it over back to the audience here for questions that you might have.

Q & A session

Michael HUTTNER (Berenberg) Thank you so much. Thank you, Phalla, thank you Xavier. Amazing results, amazing, I was speaking to your analyst, and you said it could have been two euros a share which is extraordinary. I have three questions. The first one I didn't quite follow on the reinsurance, so I think you said terms and conditions are largely unchanged, reinsurance commissions largely unchanged, but does this apply to 2022 or is this a renegotiation for 2023? Then on the hybrid, it sounds like part of this €534m is due to be repaid at some stage, but I just wondered if you could remind us when. And then you said on IFRS 17, the reserving philosophy would be broadly unchanged. I was interested that you said it's broadly and not 100% unchanged so I just wondered if you could explain a little bit about what actually is changing. Thank you.

Xavier DURAND (CEO, Coface) On the reinsurance it's pretty simple – 2023 pretty much looks like 2022 so that's all. Maybe we were too complex in explaining this, but we've renewed the contracts pretty much on the same terms, so I hope that clarifies. On the reserving philosophy, I think we'll have more discussions in April but what I'm saying is we have been operating under a certain framework and we're not changing the way we're thinking about reserving for risk and trying to protect for the future.

Phalla GERVAIS (CFO and Risk Director, Coface) Opening the new vintage I put "on the whole" and of course you know the prior development, positive or negative, would flow the same way. That's what we mean.

Xavier DURAND (CEO, Coface) And then in terms of the hybrid, yes, there is a piece that needs to be...

Phalla GERVAIS (CFO and Risk Director, Coface) So there are two tranches, Michael, so remember we had the first tranche which was €380m that would mature in March 2024, for which we managed our liability, so we paid part of that. So, €230m remains in our books and we reissued a new ten-year tranche in September 2022 so it would mature in September 2032 for €300m.

Hadley COHEN (Deutsche Bank) Hi, thanks very much. So just quickly following on from Michael's questions. So I think, Phalla, that means that on a pro forma basis the solvency ratio is around 190% I think you said. And then linked to that, I noticed that the sensitivity to a one in 50-year stress scenario has gone down a lot. I think it was 37 points for the first half and its now 20 points. Can you just explain what's going on there please? Second question is around the expense ratio of 28.8%. How should we think about this going forward? Is it reasonable to assume that costs should continue to be lower than volume growth and therefore there's still room for further margin improvement on the cost ratio? And then my final question is in relation to the information business. Firstly the 11.6% growth year on year, Xavier, that sounds a little bit light in the context of the ambitions that you've got for that business. Is that fair or do you think I'm being overly harsh? And to what extent can the Rel8ed transaction help in that respect? And then also if possible can we get the contribution margin for the information business or the operating margin or whatever you have? Thanks very much.

Xavier DURAND (CEO, Coface) On the pro forma you're right it's 191% if we had repaid the entirety and had the same level of external debt.

Phalla GERVAIS (CFO and Risk Director, Coface) With the 1 in 50, basically I think what we have to take into account here is the fact that we are underwriting. I would say we have been very disciplined in underwriting so that the quality of the portfolio is helping to amortise the solvency stress test. This is one thing. The other thing as you may have noticed, we have a best estimate which is we have opened a year at a very high new vintage level at 80% and of course when you go to the stress test you're falling from a lower level.

Xavier DURAND (CEO, Coface) On the expenses, we've been striving for the last seven years to deliver operating leverage, which means growing costs less than we are growing revenues, so there's no reason we're going to change that, however, we've been helped clearly in 2022 by very strong growth in premiums. We've also been helped by the fact that low claims ratios means that the reinsurance programmes are delivering superior returns which impacts the cost ratio down. Plus we are striving to continue to get operating leverage. Those other elements are more based on the environment. In terms of the information business, as you know this is like an internal startup so we're learning, we're building, we're exploring, we're doing all sorts of things at the same time. We had double-digit growth for a few years in a row. We are seeing Q4 with comparable that are higher from last year so there's some volatility. I think we already had that discussion a year ago, where we do have volatility quarter on quarter. I don't think it changes our opinion that there's something to be done there but clearly as with any start up, there are going to be things that we do well, things we learn and there's going to be some volatility but overall I'm not changing my stance that I think at this stage this is something that we should pursue and that is interesting. In terms of the margin, it more or less pays for itself in terms of growth so you don't see this business line impacting our bottom line at this stage, but I don't think that's really what we're striving for. We're looking to develop use cases that are innovative and different from what we did before. We are learning a lot about data actually as we do this, and it has a positive impact on the base credit insurance business because we're improving the quality of the data, we're improving the breadth and depth of what we have and we're able to feed back some technology into the core credit insurance business. I would just point to the acquisition that we made, which we may not have done if we didn't have this information business opportunity. So that's where we are. I think that that's a long answer to your question.

Thomas FOSSARD (HSBC) The first question will be related to the new debt collection systems that you've rolled out. I think that in the press release or in the slides you're calling it "state-of-the-art" or "leading". Can you explain to us why you changed and why it could be an advantage for you compared to the competition just to better understand the benefits. The second question would be related to your press release, you're talking about a level of recoveries of 51.6% which I think is a pretty high number compared to what you probably expect on average over or across the cycle and I'm taking the opportunity to ask about this number to maybe get a bit more of granularity around it and why this was the case this year, how it compared to previous cycles, or if you have a medium to long term average in terms of recoveries. Thank you.

Xavier DURAND (CEO, Coface) Starting with that one, I think on our page, you actually see that number that you're mentioning. Page 13, if you go to the presentation. We highlight the sequence over last two years of recoveries, so you see that the dark blue is the opening year, so in 2018 it was 75, 73, 78, 66 and 80, and then the brighter blue is the recovery, so the 51.6% that you just mentioned.

Thomas FOSSARD (HSBC) Sorry, OK that's PYDs. OK I was wrong-footed with what you call recovery and so it was average recoveries on the losses…

Xavier DURAND (CEO, Coface) It's prior year development. In terms of the new debt collection system, basically we had a slew of systems that came from different horizons that had been developed over the years. We're an old company. We operate in 100 countries. We have old systems that have been tailored to the needs of each one of those countries over the years but the issue is they're all different and they don't communicate and it's hard for us to put out an offer to say we're going to do one product in terms of debt collection around the world and this is how it's going to work and you're going to have transparency through it. But we didn't have this. It took us years; I mean it's hard to do quite frankly but now we have everybody working on one system mainly. There are still a few out there but most of it is that way, which provides transparency into what's going on, allows us to do multi-country client contracts, and basically puts us on a better technology which is shared and allows us to get rid of the old system, so it reduces the complexity of our information technology stack. So there are a number of benefits here and as you know the environment is normalising. I think it provides a better platform to talk about this product and more proactively to our clients, internally and externally, as well because we don't necessarily do collections just for ourselves. We do collections for clients that are not credit insurance clients but might want to use that system and our capabilities to just go and collect in almost 200 countries if we want.

Thomas FOSSARD (HSBC) And in terms of admin costs, do we have to think about system decommissioning expense savings? That would be the one additional question. And the second will be on the information business. I think that you mentioned 200 additional FTEs this year. What's the kind of critical size you're aiming in terms of FTEs and do you think that actually you're close to reaching the critical size or will you have to hire further?

Xavier DURAND (CEO, Coface) In terms of the debt collection system costs, or for that matter other systems that we might change, when you upgrade to a new technology it's usually more expensive than the old one which has been amortised and everybody is comfortable with, but is unsustainable because you're just going to get rid of it. At some point nobody wants to actually support it, so it's a risk. It also slows you down because when you want to launch something, you lack the ability to implement quickly and then your interfaces become incredibly complex because you have to interface every new system with multiple existing systems, so I think the saving is more about simplicity and speed than it is just a pure cost play. And you see that across almost all industries but in financial services this is pretty much true. On FTEs, we added 200 people. Basically what we're doing is we're trying to build a franchise that would span a considerable part of the world and we're adding people both in the front end and the back end and the data space and there are many things that we need to do. So, we're investing for the future. To tell you where that ends, I don't know. We don't make forward looking statements but I think, on the one hand, 200 people looks like it's significant, but on the other hand, when you look at the scope of what we're dealing with in terms of the clients and geographies, it's still a relatively modest number. But we'll see. As things develop, we will adjust our plans.

Michael HUTTNER (Berenberg) Thank you for the opportunity. Lots of questions on numbers. You were talking about the quality of the portfolio, the exposure for €660bn I think. Could you give us some numbers both on the low-quality exposure and the average exposure, what those numbers are? Business information, what's the total FTEs now? And I keep asking on bonding – I'm not sure it's so relevant anymore but it was a topic a few years ago. Can you give us an update on how big it is or is this growing? And finally, maybe a business update not forward-looking but maybe through to the 16 February in the evening. Thank you.

Xavier DURAND (CEO, Coface) There's nothing in particular to report as of mid-February. I mean you know the trends we've described continue and that's where we are. So really not that much to say. In terms of bonding, yes, we have had an initiative to grow our bonding business. We've introduced bonding in Romania, we've started in Spain, so we're expanding that franchise but at a pace …

Phalla GERVAIS (CFO and Risk Director, Coface) So the premium growth in bonding is slightly below 10% so it's really close to double digits as well.

Xavier DURAND (CEO, Coface) It remains on our radar. We're focusing on bonds that are more medium and smaller size versus the large tranches we could subscribe to at a central level because we think that's where the franchise would be most valuable. In BI, we have about 300 people in this business right now. A lot of the FTEs I'm talking about are very new. They just joined and so we're really in the infancy here. Then in terms of the quality of the portfolio, I don't have the metrics handy, but we have reduced the proportion of what we call the low-quality DRAs which is zero to four. It's below 5%.

Phalla GERVAIS (CFO and Risk Director, Coface) It's at 5%. If you look at through the cycle, the zero to four portion of our portfolio, which is very low quality, used to be 8% so we really reducing it.

Xavier DURAND (CEO, Coface) So we reduced it. I don't remember the average but the average …

Phalla GERVAIS (CFO and Risk Director, Coface) We are probably the lowest …

Xavier DURAND (CEO, Coface) Now, you realise that when the economy is good, companies have been infused with a lot of public money, it's like consumers, everybody's been saving over the course of the last couple of years and obviously that's going to change with the cycle so we know that.

Benoit VALLEAUX (Oddo BHF) Yes good evening, a few questions on my side. The first one just for confirmation. Is it fair to assume that under IFRS 17, your 2022 earnings will be broadly similar to the €283m you reported. Second question regarding the acquisition, you mentioned that it was a small acquisition, but nevertheless could you give us some figures in terms of price? What could be the impact, what is the expected return of this kind of acquisition, and do you see any other opportunities for acquisition of information, data, and artificial intelligence and so on? And the third question is regarding your risk appetite. When you look at your loss ratio trend and if you do some restatements in Q4, it seems like the Q4 loss ratio is lower than Q3, which was lower than Q2. And at the same time, you mentioned obviously a kind of normalisation in claims frequency, and so you have some excess capital. So my point is could you generate capital going forward because you have this excess capital, even if there's some uncertainty that we said that the position is lower than it was a few months ago.

Xavier DURAND (CEO, Coface) On the acquisition, it's a small deal so you're not going to see an impact on our metrics. It's more for me symbolic of the fact that we're moving from being an old traditional business to something that is a lot more modern, a lot more digital, a lot more technical. And to the question should we want to do more, yes, we would want to do more but we're looking for things that add value where the combination of that acquisition with our scale and scope brings value. You know that's what we're trying to build here. So this is a company that we have actually been working with for a couple of years which significantly enhances our ability to manipulate and to collect data and we think that just adding it to our infrastructure here gives them an opportunity to use what they're doing on a larger scale, and gives us a critical skill that we didn't have before, so it makes a ton of sense for us. Phalla is going to talk about IFRS 17 …

Phalla GERVAIS (CFO and Risk Director, Coface) Benoit, what we're showing here is the first-time application which is 1 January 2022. What you're asking for is a full year 2022 in IFRS 17. Bear with me – you will know a little bit more in April because we're still going through it.

Xavier DURAND (CEO, Coface) In terms of your point on the risk appetite, yes, we had a large claim. I don't know if you can always exclude the large claims by saying that they are outliers. As I said, normalisation is underway in the sense that the low point was reached in June 2021 and since then it's been increasing. It did not normalise as fast as we thought it would but it is normalising. I think it's a good thing for our industry because without claims I don't think we have a whole lot of legitimacy, but the numbers are growing and we're seeing more of what we call severity or more of the larger claims. Do we have the right risk appetite? We think we do in that some of the deals that you would have to write to significantly accelerate the growth rate of the business would be in my view not deals we like that much, so we're having that conversation with ourselves on a regular basis. I think it positions us to seize opportunity if something happens – nothing may happen but if you got a shock in the system, it would help us, but we're continuing to be very conscious. We certainly have the desire to grow the franchises.

Thomas FOSSARD **(HSBC)** Just another question on the new production at €110m. You mentioned about being disciplined in the market but if I relate this to the -3% in terms of price decline, it doesn't seem to be a super competitive market yet, so can you help me understand what keeps you on the brake in terms of new business?

Xavier DURAND **(CEO, Coface)** I'm not sure I get your point. Are you saying that -3% is not a huge decline?

Thomas FOSSARD **(HSBC)** Yes I think -3%, it's a change that does not lead me to believe that the market is in a super competitive environment and I'm trying to relate my understanding of the competition in the market currently with your new production.

Xavier DURAND **(CEO, Coface)** But I think for a client to change provider is a big deal and that it's not just price. It's not like you're just trading on a desk and somebody puts in a lower price and boom you're off. It involves technology and people, it involves trust and a lot of data exchanges and a lot of IT developments that have to be put in or disassembled, as well as a lot of contractual negotiations and a lot of ruptures. So I don't think that the market is as simple as just saying somebody's got a better price so we're going to move that account. That's not the way it works.

Thomas FOSSARD **(HSBC)** OK but I was just trying to relate to the €110m compared to the three previous years when you had very strong figures.

Xavier DURAND **(CEO, Coface)** What I was pointing to is over the long term this business has seen significant price reductions. I think it's several fold price cuts in 20 years. I think the prices this industry charged 20 years ago were probably three or four times what they are today. So there are productivity gains being made and passed onto our clients on an annual basis. In a crisis year like 2020 when everybody thinks the sky's going to fall, you saw a rare increase in prices, and what you see here is that over the course of the next 12 months, basically that increase has been erased and passed back onto the clients. So, you're going to see that kind of trend play out. As long as I've been around we've had price decreases, but the slope at which this happens is based on the level of competitiveness and this is a year where I think there is more competition. No question for me.

Xavier DURAND **(CEO, Coface)** Well it's four minutes past seven, it's the usual time allocation we have for this. Thank you for your questions and for logging in. We appreciate you being part of this. Our next meeting on the agenda will be 16 May which is the Annual General Shareholders' Meeting, and then on 22 May we have the ex-dividend date, 24 May the payment of the dividend, on 25 May we will publish our first quarter 2023 results, 10 August the results for the first half, and 14 November the results for first nine months of the year. So that's our calendar. And then of course we'll talk about IFRS 17 sometime in April. So, thank you for joining and we'll speak to you soon.

Thank you.

End of transcript

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FINANCIAL CALENDAR 2023
(subject to change)
Annual General Shareholders' Meeting 2022: 16 May 2023
Q1-2023 results: 25 May 2023 (after market close)
H1-2023 results: 10 August 2023 (after market close)
9M-2023 results: 14 November 2023 (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 H1-2022 and our 2021 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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