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-2020 Results

Conference Call Transcription

Paris, 10 February 2021

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 31 December 2020. As a reminder, this conference call is being recorded. Your hosts for this call will be Xavier Durand, CEO and Carine Pichon, CFO.

Xavier DURAND, CEO, COFACE

Good evening everybody. Thank you for joining this call, which is the report for the full year 2020. As you can see from the headline, we are reporting EUR 82.9 million of net profit, with a strong end of the year. For those of you who have been following the story over the course of 2020, you will know that this has been an extraordinary year by all means. We all went into confinement two weeks after the presentation of our Build to Lead strategic plan. I would say that, since then, nothing has happened as planned but, in the end, we end up delivering on a lot of the targets we set for ourselves.

Looking at the key metrics on page 4, turnover is down 0.6% at constant FX and perimeter with trade credit insurance slightly lower at 0.8%. As you know, we have been working on developing risk-free adjacencies, which is consistent with our Build to Lead plan. I think in the context of the global COVID pandemic we have been through, the business has been performing well from an operating standpoint. Client retention again reached a record level. Our new business is actually the highest that it has been in the last five years. Our client activity is declining, and we knew that was going to be the case. Price is improving for the first time in 11 years. I think it is a pretty strong performance if you contrast the 0.6% drop in turnover versus the 5.5% nominal drop and the outside-of-inflation 7.1% drop in GDP that the world has been going through. Our Factoring and Debt Collection businesses have been slowing, because there is less activity on the delinquency side. At the same time, that is being made up for by higher sales of business information. The loss ratio comes in at 2.7% higher than last year, to reach 47.7%.

The net combined ratio comes in at 79.8% and 84.5% if you exclude the government schemes which, as you know, cover 60% of our book at this stage. We are clearly benefitting here from the unprecedented set of government measures that have supported the economy. Our performance in Q4 is quite exceptional, with a net loss ratio of 18.3%, or 33.1% if you exclude the government schemes that we have engaged in. The claims of the past continue to develop favourably. The 2020 net cost ratio is down 0.6% on last year at 32.1%. This is a trend that is very consistent with what we have seen in the prior quarters. Costs have reduced faster than turnover. The net combined ratio at 58.3% for the fourth quarter, (69.4% if you exclude the government schemes), is an improvement of 22 points on what I would say is a record low level of net loss ratio. I think it is a natural consequence, but worth noting, that the government schemes actually cost us a total of EUR 6 million in 2020. This was particularly significant in the fourth quarter, when the government schemes cost us EUR 13 million.

The net income Group share comes in at EUR 82.9 million, which means that the fourth quarter comes in at EUR 30.5 million. I think this is a very strong performance in the light of what I just said. The earnings per share therefore come in at EUR 0.55, down 43% from last year.

Our solvency ratio, seen on page 5, comes in at 205%. This is better than last year's closing and includes a 100% pay-out proposal on the profit for 2020. The return on average tangible equity is down, at 4.8%. The solvency ratio is 191% if we exclude the benefit of government schemes, and is still very much above our 155% to 175% range. Our retention of reinsurance has been stable, with total reinsurance cessions at 23%. We have renewed half of the programme, as we do every year. I would say that despite the pressure from the reinsurance market to increase rates very significantly, we were able to renew them at conditions which are broadly stable - or at least close to what we had before. In terms of capital management, we completed the EUR 15 million share buyback we agreed to in the third quarter. That allowed us to buy 1.8 million shares, which are destined to be cancelled. We are therefore proposing a EUR 0.55 dividend per share, corresponding to a 100% pay-out ratio. As you will recall, this is in line with the target we set for Build to Lead.

Obviously, there is also an evolution in terms of the governance, with the arrival of Arch Capital into our capital. As you know, the transaction has been completed so Arch now owns 29.5% of the capital of Coface. The Board members from Natixis have resigned and we have elected four new Board members from Arch Capital Group, as well as Bernardo Sanchez Incera as our new Chairman. The other thing I just want to stress is that while we have been going through the crisis in 2020, we have not lost sight of the Build to Lead targets we set for ourselves. They remain completely valid and the business has been continuing to move forward on a number of things, even though we were dealing with an impressive crisis.

On page 6, I just want to spend a bit of time on the new governance for Coface, with our new Chairman Bernardo Sanchez Incera. He has very broad experience in banking and in retail. As you know, retail is a significant part of what we do in terms of credit insurance. The five independent directors have been with us for quite a time and know the business very well. We are happy to welcome four new Board members from Arch with a wide variety of experiences in risk, operations, legal and the broader financial space. We now have a total of 10 directors. The Chairman and five directors are independent, so we have 60% independents, 40% female and 40% non-French. It is a very experienced and very diverse group to lead Coface and we are excited about writing the next page in Coface's history with this new Board and shareholder.

I will talk a bit about the environment on page 7. I mentioned that this has been an extraordinary year, with GDP dropping by 7.1% in 2020 from 2019 in terms of volume and 5.1% in terms of nominal. We are expecting a rebound in 2021. As you know, this is a health crisis and we now have a line of sight to vaccination, but while this is giving us some hope the virus is clearly attempting to circumvent this new tool by mutating. I think it is going to be a cat and mouse game here, but we do expect the effects of the vaccine to take hold by the middle of the year. We also expect a gradual recovery, most likely in the second half of the year. We do see that when people are allowed out again there is pent up demand and a strong propensity to spend money. It is noteworthy that this has been a very unequal crisis by sector. Some sectors have actually fared very well during this crisis, obviously pharma, but also agro, electronics and electronic distribution. At the same time, travel, leisure, hotels, and tourism have been doing very poorly. More importantly, I think COVID-19 has accelerated a number of shifts and we can see that in our own business. We all went into work from home mode in the space of a day and none of us would have thought about doing that before. The COVID crisis showed us that not only could we do it, but also that it was also effective and we could do it without impacting client service levels. In fact our productivity has increased. In addition, the engagement of our staff is actually 24 points better than it was last year.

Digitalisation is obviously accelerating, as is the zombification of the economy – in other words the fringe of companies that have been given support and will be facing difficulties paying that money back. There is also a temptation among a number of countries to pull back and to try to protect themselves, so regionalisation and protectionism are on the rise. The decarbonisation of the economy is also going to become a much bigger theme as a result of this crisis. There is still a lot at stake and a lot of uncertainty in the environment.

The US and Europe are expected to rebound. China has actually benefitted from the crisis, in relative terms, to the rest of the world. Emerging markets will continue to be volatile. I think what is new here is that the governments have supported the economy like never before and this has created a disconnect between the macroeconomic impact and what we have seen in terms of delinquencies. In a lot of countries, company insolvencies have actually been lower in 2020, which is completely counterintuitive but is the result of the unprecedented actions of governments. We know that this will not last forever, that the virus crisis will abate and at some point, the governments will have to pull back their support. Clearly, we do expect things to normalise and that insolvencies will rise at some point in time. We believe that monetary policies will remain highly expansionary and the world has shifted to something new. As you are aware, most of the credit insurance schemes put together by governments have been extended for the first half of the year, or are being expanded as we speak.

We have been extremely active, more than doubling the number of prevention actions we have taken on the portfolio. The bulk of that actually took place in Q2 and Q3. This somewhat reduced in Q4, but it is still higher than it was historically. Our total exposure is down 9.5% year-to-date, again more than two-thirds of that happened in the first half, with the drop from the end of June being only 3.3%. Some momentum is actually starting in the industry as we speak. The reductions are very different by markets. They are much more limited in Western and Northern Europe, and as we get into riskier parts of the world, they have been much more impacted. Latin America is probably the extreme example, at almost 28%.

On page 9, we wanted to highlight a bit more about the government schemes. They cover 64.2% of our balance sheet in terms of 2020 underwriting. In terms of 2021, we are just below at 63%. The terms are slightly different - a little better in Germany and northern Europe and better still in France where our quota share is down from 75% to 20%. These schemes have mostly been extended for the first half of 2021, but it remains to be seen what will happen later. We believe that these schemes have been helpful in terms of transitioning the world from 2019 to the crisis world, but we also believe that at some point things have to get back to normal. We have never counted on governments to perform the underwriting of our business. As I mentioned, our reinsurance programmes really have not changed and Carine will say more about this. We have been able to renew them at reasonable rates, so we have kept the retention stable.

Page 11, gives a bit more detail on turnover, which is down 0.6%. Notably, we were actually up by 0.4% in Q4. Trade credit is down by 0.8%, but we had a strong new business flow which means that the net reduction is actually positive. Service revenues were up 7%, which I think is a pretty good number. Information sales were up 11%, so in double digits in line with our Build to Lead plan. Factoring is down 8.3% but the team we hired is actually doing a really good job in turning this business around and working the profitability versus risk equation as we go through this crisis. I would expect this business to rebound at some point as the economy starts to pick up again. Fees are up by 3.3%, so I think the business has been executing well in terms of managing this downturn.

When it comes to the splits by region, on page 12, I would say that Western and Northern Europe are down. In Northern Europe it is a bit more because there are more industrials. Also, this is where we have our factoring business, which as I mentioned before is down 8%. There is a similar situation in central Europe where we have a factoring business in Poland and these economies are very much tied to the German economy. Although modest, we did have some growth in Med & Africa, of 1.6%. North America is slightly positive. Asia Pacific has been less impacted, at 2.7% and Latin America, despite the hardships there, is still growing somewhat, at 3.7%.

Moving to the operating performance of the business, on page 13, new production at EUR 138 million is actually the best it has been in the last five years. Kudos to our sales teams who did not let things down during these tough times. Retention is again slightly better and is probably at our historical record. Pricing is up by 1.4% and I think this is the first time in 11 years we are able to show positive pricing. The volume effect is negative, so no surprises here. This will rebound at some point, but it will be very much linked to what I said earlier about the pickup in the economy.

On page 14, we can see that the most surprising numbers are for the full year loss ratio of 51.8% before reinsurance and including claims handling expenses, versus 43.4% last year. The quarterly sequence shows that Q1 was impacted by a couple of one-off losses, which we explained. Q2 saw the arrival of the crisis and hence we had to write the new 2020 vintage at a higher inception rate. We decreased this in Q3, as we were seeing lower claims than we expected and again in Q4, so the figure for Q4 comes in at 34.9%. On the same topic, overall the year 2020 was incepted at 78.4%. This is around five points higher than the average of the last two years. The collections on past years have actually continued to be strong. I think this is good news as it shows that companies have the liquidity to face their obligations, as in the past. We got 29.3% of boni on the past years, bringing the net loss ratio, excluding claims handling costs, to 49%.

On page 15, you can see the same numbers divided by region and it has been a quite benign year overall for the four largest regions. Western Europe ended the year at 47%, so well below the 50% mark. Northern Europe is continuing to come down from last year, at 37%. Central Europe at 46% is very stable and Med & Africa, slightly higher, are mainly reserves. North America, Asia Pacific and Latin America are the smallest and most volatile markets, so clearly on the rise in North America and in Asia it is still very good. Latin America at 69% if we exclude the impact of exchange rates, is higher than prior years. However, it is worth looking at the quarterly sequence on page 16 which actually shows that the claims are dropping in every geography in Q4. Western Europe at 20% is extremely low, Northern Europe is at 17%, Central Europe is below 40% and Med & Africa is down sharply from the 62% in Q2. In other markets, it is due to the actions that Coface has been driving, as there was much less government support in these parts of the world - or much less was needed in the case of Asia. We come in at 41% for Asia and 41.8% for North America. Latin America was a difficult market and is now at 27%. I think this is a strong testimony to the work that has been done there.

Our costs for the year, on page 17, are down 1.6%. We are continuing to invest in the core business but at the same time we continue to be thrifty where we can. Costs have decreased more than the revenues, which means that our expense ratio is down from 34.4% to 33.7%. We are still benefitting from some of the structural changes that have been initiated over the last few years. In addition, we obviously had some cost avoidance linked to COVID. For example, we stopped travelling. We had to spend more money on IT, technology and things like that and we postponed some plans to grow in some of the riskier markets that we had earmarked in Build to Lead. We just thought that the timing was not right in terms of, for example, going very aggressive in North America.

That is the story and with this I am going to turn it over to Carine.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier. As usual, I will start by commenting on the reinsurance results, which reflect government schemes. We ceded almost 50% of our premiums and claims. This is quite different from 2019 and previous years, where we were under 30%. As already mentioned, the impact of government schemes is negative, pre-tax, by minus EUR 5.9 million and particularly on the last quarter by minus EUR 13 million. However, if we exclude that minus EUR 5.9 million from the total cost of reinsurance of EUR 44 million, we see a decline in the cost of reinsurance. This is normal because the reinsurance result is also there to absorb part of the increasing loss.

On page 19, you can see the net combined ratio was 79.8% and we had a very strong end of the year. There was only a 2.1 percentage point increase and the cost ratio declined. So very strong costs discipline and a loss ratio up by 2.7 points, but this is a positive achievement in the context of the crisis. On a quarterly basis you can see the decline in the combined ratio after a peak in Q2. Q3 was already down, at 77.4% and further decreased to 58.3% for Q4, which is very low and far below the average cycle target. That brought us to just under 80% for the year.

Page 20 is a new slide that we have decided to add to the presentation. I think it is important to have a good picture of the underlying economic situations and the impact of government schemes on our ratios. As a whole, the full year impact is a bit less than five points, so we have a combined ratio of 84.5% without government schemes. When you look at the data by quarters, there was obviously no impact on the first quarter, knowing that no schemes were in force. However, the following three quarters show impacts of 6.6%, 6.8% and even 11.1 points respectively. This higher impact in the fourth quarter is because we included the Italian scheme in Q4. Italy, as you know, is one of our largest countries. Having said all that, if you excluded this, then the underlying combined ratio is 69.4% for Q4, which is very good, particularly with a very low loss ratio at 33.1%.

I will just say a few words about our financial portfolio, on page 21. You remember that at the start of the crisis we decided to increase the level of liquidity because we did not know exactly where we were going (and I do not think anyone knew). It was before all of the inflow of liquidity from the European Central Bank and other central banks. We did it quite quickly but it is clear that the yield on liquidity is very low, so we are progressively redeploying this liquidity. Globally, on the accounting yield on average investment portfolio, there is a decline from 1.6% in 2019, down to 1.2%.

Knowing that we have a very short duration in our financial portfolio, the realized yield is decreasing. However, it is quite a stable and robust financial portfolio over the year. In the last quarter, we decided to anticipate and put an impairment charge on one real estate fund to take into account current uncertainties on revenues and, of course, the crisis. This represents a loss of EUR 4.6 million.

Net income, shown on page 22, was EUR 82.9 million and, current operating income decreased by 30%, but it should be noted that 2019 was at a record level. We have had some one-off investment and restructuring expenses in the last quarter. Tax rates seemed to normalise a bit more at 37% after being far higher the previous quarter, but lower in the fourth quarter at 25%. Finally, net income at 82.9% and as Xavier said, we propose EUR 0.55 per share as a dividend.

On page 23, the return on tangible equity at 4.8%, which considering the impact of the crisis even if it is less than we could have anticipated a year ago, is still negative at 2.7%. Also, financial result 0.4 and tax and other 1.1. However, it is very important to mention that equity has increased so I think that globally our solidity has improved. We went from 1.9 billion of IFRS equity to not far from 2 billion. The result is there. It is clear that revaluation reserves were positive, which means that we have unrealised gains on the financial portfolio which have increased compared with last year. We clearly have a stronger balance sheet at the end of 2020 than at the end of 2019.

On page 25, that makes a good transition to our usual capital management section. On financial strength you will remember that we kept our rating, which I think is proof that the rating agencies believe in our capacity to be agile and resilient. We have AA- from Fitch, A2 from Moody's and they have put us on negative outlook, but I am hoping that with all our good results we can have some positive expectations on that. However, let us say that it also shows that the ratings agencies recognise what we are doing within the company.

There are a lot of figures relating to solvency on page 26, but I would like to highlight the estimated solvency ratio of 205%, which includes the proposal of a 100% of pay-out ratio. The effect of the government schemes is around 14 points. However, even with retreating size, we are far above the target range. We have also been able to correctly monitor Factoring required capital, which has decreased – and I will come back to this point. You may now be wondering - what comes next? -, as times are clearly uncertain. However, even if we tried to estimate what would have happened in a 1/50 crisis, the equivalent of the 2008 crisis, we would have been at 189%. I would say that we have really robust solvency over time, due to the way that we manage capital. This is proven by what has happened in this unprecedented crisis.

Looking at required capital on page 27, total eligible own funds amounted to EUR 2.2 billion. This is higher than the equity I mentioned before but that is because we included the hybrid debt and solvency capital requirement of just over EUR 1 billion. I mentioned that Factoring required capital has been managed correctly and has been reduced. Globally, as I said, there is an estimated 205% solvency ratio for the end of the year.

Having said that, I leave the floor to Xavier for key takeaways and outlook.

Xavier DURAND

I will just end this presentation with a few quick remarks. I think we are showing our resilience in what is an extraordinary environment. Clearly, the intervention of governments is changing the way the economy reacts and the claims experience is decorrelated from GDP numbers. Nevertheless, we have been very strict in our underwriting processes. We have worked very closely with our clients and stayed true to our promise to always look at risk on a case-by-case basis and not to trigger any automated moves. We have been continuing to grow our client portfolio and we have been able to adjust pricing on a case-by-case basis, to reflect the higher level of uncertainty. We were not expecting to have to test our agility as quickly as that in our Build to Lead plan, but we do not decide these things. I think that so far, the business has been performing well and it is coming out of this first phase of the crisis strongly in terms of capital and solvency. We are not done with this crisis. The environment remains volatile and there will obviously be many more things happening. We have to tame the virus, get the economy started again and then deal with all the debt that has been accumulated and find a way to withdraw the government support that has been provided. There is still a lot to go through but I think what this tells us so far is that our strategy works and the culture we have been put in place is right. The things we wanted to prove, like agility and resilience, have so far been there. As you know, we welcome Arch Capital among our shareholders, along with four new Board members and a new Chairman. They have reaffirmed their confidence in the management and in the strategy. I think we are showing our confidence by proposing a 100% pay-out of the profits of 2020 and we are confirming our targets for Build to Lead.

That is what I have to say, and I am now going to turn it over to the group for questions.

Q & A session

Hadley COHEN (Deutsche Bank) Thanks very much everybody; a very good set of results. I only have one area of questioning and that is on the solvency ratio of 205%. If we think about that relative to your 155% to 175% target zone, you have 30 points of excess, which is roughly equivalent to more than 20% of the current market cap. I am just wondering about how you are thinking about that capital buffer at the moment. Are you seeing it as an additional buffer given the ongoing volatility in the market? At what point should we be thinking about you potentially looking to deploy that capital - be it directly to shareholders or to fund growth? Then, can you confirm that the dividend proposal of EUR 0.55 has been approved by the French regulator?

Xavier DURAND (CEO, Coface) On the second point, we would not propose this dividend if we did not think we would be allowed to do it. This brings me back to the first point, on our 30 points of excess capital. As Carine said, we need to take into account that 14 points of this are linked to the extraordinary government schemes that have been put in place and that we have subscribed to. We at least get some benefit from them from that standpoint. I would add a few further points. Yes, we are subject to authorisation in terms of dividends. Yes, there is still some uncertainty out there and we are still also looking at ways to deploy this capital. I did not mention this but during 2020 we completed the acquisition of GIEK in Norway. We have integrated this business and it is performing well. We remain open to ideas in terms of deploying this capital, if we can find ways to do that.

Carine, do you have any other comments?

Carine PICHON (CFO, Coface) I agree. I think that considering the economic context, the 100% pay-out is a good proposal and a good balance for investors. Even if our capital management policy remains the same, I think at the end of the year we will see what needs to be adjusted.

Hadley COHEN (Deutsche Bank) If I can just ask a quick follow-up question. With regards to returning capital to shareholders going forward, with Arch now at 29.5% does that effectively rule out buybacks from you guys going forward - given that this in theory, could take them passively to above 30%.

Xavier DURAND (CEO, Coface) I think the answer is probably not, but I think we will leave that question to the Board to decide.

Ashik MUSADDI (JP Morgan) Thank you and good afternoon. This is a very good set of numbers so congratulations for that in such a tough environment. I was trying to understand how you are thinking about 2021. Clearly, the loss ratios in the third quarter improved quite a lot in the majority of the geographies and improved further in the fourth quarter. How do you think about 2021? Is there is a big wave of risk coming with a lot of bankruptcies that were supposed to come in 2020? They did not come then, and we might now see that happening in 2021. Can you give us some ground level comments on that? Second, if I look at the growth in premiums that was delivered in the fourth quarter, as well as throughout the year 2020, it looks as if you are taking a bet on LATAM as well as on Asia. What gives you the confidence to start growing in these markets? If I remember correctly, Asia has been a bit of a pain in the past for credit insurers. What gives you enough confidence to go out on the growth curve in Asia and LATAM specifically? Third, on the government schemes, what is the visibility of that being renewed for another six months? I can see it has been renewed until June this year but where are we on that? Will it solely depend on how the vaccines work, or are there any other discussions on that part?

Xavier DURAND (CEO, Coface) Just on this one because I mentioned that in my presentation, yes, I think governments are under pressure to show that they are supporting the economy. There is a lot of political pressure and a lot of pressure from trade unions and different industries looking for extensions in the first half. I think that what happens beyond that is still a question and I do not have all the answers here. We will have to see. As I said, we want to stand on our own two feet, and we believe that we are completely capable of doing our own underwriting. At the same time, we want to be good corporate citizens and there are some elements of pressure that we cannot escape when the government comes with certain requirements. It is a very fluid situation and I do not think I can predict exactly what is going to happen.

In terms of the economy, I believe that the governments have supported this crisis like never before, at least if you compare it to 2007. Clearly, there was no moral hazard this time because the culprit is a virus not a banker. They have learned from the past crisis that, if you drop the ball, the consequences will be dire. However, at some point this will have to end so I think you have two levels of uncertainty. One is how we get this virus under control and when - and then there is will we ever get it under complete control, or is there going to be some remnant? I believe that is probably the likely course. Then the second thing is how we withdraw all the support that has been out there and at what rhythm. I do not think losses will remain extremely low forever, so I think we will see some medium-sized companies facing difficulties. We are continuing to see a trickle of them and at some point, losses will normalise or there will be a progressive increase. I think that it is very much a function of the other things I mentioned, how we get the virus under control, how we get the economy growing again and when the government pulls the support back. I think you have just as much info as I do at this stage on this subject.

I would not overemphasise the growth in Asia or Latin America. These are small regions, so we do have some growth. In Latin America it is mainly very large contracts, as I have explained throughout, that we have with large multinationals. Frankly, Asia has been less impacted by COVID and I think that over time we do want to grow in Asia. We have to be able to underwrite appropriately but I think Asia is a huge growth area for the world and we do have the ambition to be present and to continue to grow our business there. I do not think there is anything surprising here in terms of numbers. I hope that answers your question.

Ashik MUSADDI (JP Morgan) Absolutely, that is very clear. Thank you.

Benoit VALLEAUX (ODDO BHF) It seems that prices have increased by roughly 2.5% in Q4. I know that you are also taking a case-by-case approach, but can you give us some views on what you expect in terms of trends for Q1, or the beginning of the year? Do you expect a more or less similar price increase, or maybe even an acceleration in price increases? My second question is on solvency and the sensitivity of solvency to further economic crisis. Can you please give the figures excluding state schemes? If I look at your sensitivity to a crisis, which may occur every 20 years, the negative impact showed as minus 4 percentage points this time, compared to 8 percentage points at the end of June. I would just like to understand what lies behind this lower sensitivity to any potential further crisis. My third question concerns the recovery rate. You mentioned there was an improvement in your recovery rates. I know that it is partly linked to the specificity of this crisis, but do you expect some structural improvements in recovery rates?

Xavier DURAND (CEO, Coface) I will take question one and three and let Carine think about question two while I respond. We are reviewing pricing on a case-by-case basis because there is such a huge variety of cases. As I just mentioned, if you are in e-commerce today you are doing great; if you are in the cruise business you are not. Depending on who the client is, which industry and which parts of the world you are talking about, there are huge differences, so it is a case-by-case basis. The second thing I would say is that given that the losses are so low, it is probably harder in these circumstances to continue to drive prices up - but I think the market will become more competitive at some point.

In terms of recovery rates, I think what we were concerned about in the crisis was companies being strapped for cash which would mean we would not be able to recover as much money on past vintages' claims. We have seen that happen in crises before, but this has not happened this time, so recoveries have not floundered. They have been good and stayed that way. I do not expect them to get better.

Carine PICHON (CFO, Coface) I will centre on the solvency question. The 189% and 209% were impacted by the schemes on more or less the same magnitude. I will make a rough assumption of around minus 14%. When you compare the sensitivity between June and now, the reason is that in June or September we only anticipated that the government schemes would continue throughout 2020 and we now find that we have six more months. I think if you exclude the effect of government schemes in the figures you were looking at in June and ones now, you will have between three and four points of gap, which is a differential in sensitivity. I hope that answers your question

Thomas FOSSARD (HSBC) I have several questions and the first is about your risk exposure adjustment. It is interesting to see that you have actually taken a lot of differentiated actions by countries or regions. Looking at the slide 36 it seems to be that there are obviously no big changes on a sector basis and it is very flat. You do not appear to have taken a directional bet or directional view in terms of sectors to prepare your book for 2021 and beyond. Could you comment on that?

The second question is that I am a bit surprised that you are not actually using part of your excess capital to retain more of your risk on your balance sheet for 2021, especially since you benefitted from the government schemes which provided you with the time to shape-up the risk exposure to the new situation for 2021. It could also have been a very strong sign of confidence on the profitability of your book if you had decided to repay more risk and use a bit of your economic capital to retain this risk.

My third question is not a philosophical one, but it is close to it. It seems that you are closing the account on a very different basis than some of the other players in the industry. Your main competitor looks as if they are going to close the year on a very cautious basis and they are probably keeping their powder dry in terms of reserves, maybe in case of a worse economic scenario for 2021. It seems to be the case too looking at the reinsurers, as they are all further strengthening their IBNR reserves for credit losses in 2021.

It appears that there are two very different approaches among the different players in the credit industry, so I would be interested to have your view on that?

Xavier DURAND (CEO, Coface) Let me start with the risk exposure. We do not actually do it by country or sector, we do it by client and by company. We have 3.5 million exposures on 3.5 million different companies, and we link them to 50 000 corporate clients, so the work that goes on is much more detailed than this. The other thing is that we were not traditionally exposed to the worst hit sectors. Typically, we do not do much with hotels or airlines, etc., so we started the crisis with an exposure that was not particularly focused on the bad sectors and more on the ones that have been doing better. This probably explains your last question. The other thing I would say is that our granularity in terms of sector on the space you are describing is not very strong. There is a lot of aggregation of different things within one sector. I do not think you can really derive a conclusion from just looking at the base.

In terms of the retention of capital, I think our view of the relationship with reinsurers is a long-term one and I think that is their view as well. We were ready to arbitrage some of the volume against some of the price and we will do that provided we think that the price is not right. However, we also realise that this is a long-term deal, and these moves cannot be made innocuously for the long-term. To the extent that we believe the price is right or right enough, we wanted to show a sign of continuity, knowing that there is still quite a bit of uncertainty in front of us and that this is a multi-year exercise.

On your last question, I cannot comment on what other people are doing. I will just tell you that we have not changed our reserving methodology or anything like this. We remain extraordinary coherent with what we have done in the past, so the methodologies, the assessments, the risk evaluations are done in exactly the same way as before. We are just recognising the reality here that we cannot escape at some point, which is that the delinquencies are lower.

Carine, do you want to add anything.

Carine PICHON (CFO, Coface) Thomas, you mentioned our view on keeping more risk. Just to give you an example, in our negotiations with the French state, we have decided to renew and keep more risk. We were receiving 75% and it is now 20% for the next six months. It is also related to our capacity to adjust during this crisis period.

Xavier DURAND (CEO, Coface) We refused to go into the Spanish government scheme, and we lowered the French one from 75% to 20%, so I think we are conscious of what you mentioned.

Thomas FOSSARD (HSBC) One last question, as far as 2021 is concerned, can you help us to understand how the premium cession rate and the claims cession rate are going to trend compared to the 2020 full year number? Given the changes in the schemes you just highlighted, should we expect big changes in terms of the numbers on a full year basis?

Carine PICHON (CFO, Coface) I think it will really depend on the renewal of these government schemes for the second part of the year and we will get a feeling based on that.

Benoit VALLEAUX (ODDO BHF) Just a follow-up question. You booked some restructuring charges in Q4, can you share with us what you expect in terms of cost savings for this year and next year?

Carine PICHON (CFO, Coface) Not all of this is savings. There are one-off costs which were actually linked to this relative transaction. Another part is linked to our global operations and efficiency programme. We are not disclosing the details on that but it is a continuation of what we did with Fit to Win. Build to Lead also includes a cost efficiency programme for operational efficiencies, so some of that produces savings. I can tell you that we are doing it because we are savings.

It sounds as if there are no more questions and it happens that we are right on the hour. Unless somebody wants to ask something, I will close this discussion. Thank you again, everybody, for joining us. We will now be continuing our journey and look forward to updating you on 27 April after the market closes. That is my birthday so that is perfect.

(End of transcript)

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FINANCIAL CALENDAR 2020/2021 (subject to change)
Q1-2021 results: 27 April 2021 (after market close)
Annual General Shareholders' Meeting 2020: 12 May 2021
H1-2021 results: 27 July 2021 (after market close)
9M-2021 results: 28 October 2021 (after market close)

FINANCIAL INFORMATION
This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:
http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim Financial Report for S1-2020 and our 2019 Universal Registration Document.

Coface: for trade

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