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-2023 results

2024 02 27 COFACE SA FY-2023 Results

Paris, 28 February 2024

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Presentation

Xavier DURAND, CEO

Good morning, everyone. Thank you for joining this call. We are very happy to report our full-year 2023 results. Apologies for changing the usual timing of the call due to a personal situation on my side, so I appreciate the flexibility, but that means you had more time to digest our publication. I'm going to take you through the first half of the presentation.

On page 4, you saw that we reported €240.5m in net profit, which is virtually in line with last year, and €50.8m in the fourth quarter of 2023. Some of the same trends you saw at play through the third quarter are continuing. Turnover is up 6% at constant FX and perimeter with trade credit insurance premiums up 5.4%. We've seen a slowdown in the second half as we already highlighted in Q3, largely driven by the global economy. It was a very good year in terms of retention at 93%, which is a clear record. Pricing was down 1.9% but it's closer to historical trends and better than it was in 2022. We're pleased with the business information growth of 17.3% for the year with a good Q4 at 23.4%. Factoring slowed down – clearly this is the quickest of our businesses to react to economic conditions. On the loss side, I think it was another great quarter with a net loss ratio at 37.7%, which is two points better than last year. The net combined ratio ends the year at 64.3%, which is three points better than 2022. As a reminder, we're now presenting all the accounts under the IFRS 17 methodology. We'll talk more later about the normalisation of the risk environment, which is clearly continuing, albeit at a slow pace. It was a very good year in terms of our cost ratio – we're at 26.6%, which is another record for us. This is thanks to our discipline and high reinsurance commissions, and despite all of that we continue to invest. The combined ratio at 59% for Q4 is really strong, and we've had some favourable developments on some large cases that we had to reserve in the past. So, I think this was a strong quarter and another very good year for Coface. We just have one admin situation; we've moved Mexico which was part of Latin America to North America just to reflect the economy and the economic corridor between Mexico and the U.S. which is becoming increasingly important. As you know, a lot of manufacturing is being redirected from Asia into Mexico, which has become the largest trading partner of the U.S. now. So we'll make that change happen. You'll see it in the Q1 reporting, just to align the reporting with the way we run the business.

On the next page, solvency remains very strong at close to 200%. We will propose a €1.30 dividend per share. This has been our best year in terms of return on average tangible equity at 13.4%. Solvency is above the upper end of our target range. We've maintained our reinsurance conditions. The renewals went well and even though the market is still tight, I think we've been able to renew all our treaties at stable conditions. So, €1.30 per share, that's 81%, just slightly above the 80% that we targeted in Build to Lead. I think as importantly, and perhaps even more importantly, we continue to deliver on our key operational milestones. We've transitioned to IFRS 17 and went through one complete reporting cycle in 2023. We've also confirmed that business information continues to grow, and it is a very highly synergistic business that fits very well within our core activity. I'm very happy to report that I've signed up for another four years, and we are excited about presenting our new plan. We've lifted the veil on its name. It's going to be "Power the Core" and we'll explain why we chose that name at our Investor Day on 5th March.

So that's pretty much the story. I'm going to take you through page 6, just to remind everyone about Build to Lead, which is now officially over. We've pretty much beaten every one of the metrics we'd set for ourselves. You can see the combined ratio which three years in a row has been significantly lower, actually for the last four years we were below the 80% target, with a slight increase during Covid in 2020. We've maintained a payout ratio above 80% and in a couple years we were actually at 100%. The solvency ratio has remained very strong and above our target range, and our return on average tangible equity has improved progressively to last year's record level of 13.3%. So clearly, we're happy with what's happened during Build to Lead.

We have one slide on page 7 on the situation in Argentina. It seems like every quarter or every six months we have another one of these volatile situations to manage somewhere around the world. We thought it would be helpful to let you know that we have €1.5bn of exposure to Argentinian debtors. Clearly, we have a strong franchise there. What we do in Argentina matters because this is a part of the world that is difficult and that gives us credibility and great commercial arguments in writing business in other parts of the world. You can see on the left-hand side of the chart that the Argentinian peso's value versus the U.S. dollar was divided by four over the course of the year. Clearly the election in December was also a turning point. This had an effect on us. We changed our functional currency from the Argentinian peso to the U.S. dollar because the majority of what we do over there is actually in U.S. dollars. This also still means that the importers of goods in Argentina have to pay us in U.S. dollars, which are sometimes very hard to find when you're in Argentina. So, we are managing this dynamic situation as we've gained experience of doing so over the past years and decades. We've booked some reserves to reflect the increased level of risk and we're keeping tabs on this much like we have been on all the other topics that have impacted Coface in the past.

On page 8, we have a quick summary update on our CSR. We've set some very clear targets for ourselves, and you can see them at the bottom of each of the columns. The darker green areas are the ones we have been actively focusing on during 2023. I've had several opportunities already to take you through this page, but just to remind you we've continued to expand our commercial exclusion policy progressively as governments become clearer and clearer in defining the taxonomy of what's black and what's green. We are continuing to restrict our intervention in the areas that are there more carbon intensive. We have clearly allocated double the amount of funds to single-risk exposure on ESG projects and that's going extremely well. We have also continued to decrease the emissions of our investment portfolio. Our target is 30% by 2025, and we are on track to deliver. We've improved the company in terms of being an employer. We measure the engagement of our employees three times a year through an external firm, and we've seen that it's been continuously improving to where now we are above the industry benchmark. We have a clear goal of getting to 40% women in the top 200 managers by 2030 and we're making steady progress. And then finally in terms of being a responsible enterprise, we want to reduce our carbon emissions by 11% for our operations, which means a 28% reduction from where we started. We've got a tool to measure this. It's about three main things – usage of cars and transport; office space, heating and air conditioning; and the use of technology and the carbon that goes into making and powering that technology, so we're working on that. Actually, working from home policies help us a lot. And we're driving the culture. There are a lot of communications that are required, be it reporting or making the investing community and all the stakeholders here aware of what we are doing. I think it's very clear we're focused, and we're making it happen.

On the next page, I will go through the usual stack. Those who have followed us for years now will recognise these pages. Page 10 shows our growth at 6% for the year. We've seen as I said a slowdown in Q3, which was very clear in all countries. Inflation is coming down and economic growth has become much slower in the second half. That explains our trade credit insurance premiums growing at 5.4% over the year. Very high retention as I said. Some good news though, other revenues are up more than 10% from 2022, business information sales are up 17% and up 23% in Q4. Third party debt collection is small but it's growing nicely at 42% and it just shows that the risk level in the market is going up. Factoring has slowed down faster starting at the beginning of the year but was still up 2.6% for the year. Then as you know we don't just charge premiums but also fees, so the fees we are getting from the insurance activity continue to grow faster than the premiums at 8.7%, which is important for us.

If you look at page 11, you see how growth is spread among the different parts of the world. Western Europe slowed down but is still growing at 6%. Northern Europe, Germany, the whole industrial base has been hit harder than some of the other parts of the world and is growing at 2%, Central Europe is negative but, if you correct for the rundown of our business in Russia, it would have been 1.3% growth, so on a par with Germany. A bright spot is Med and Africa. Southern European countries have fared better with the recovery of tourism. Those economies performed better last year, and you see that in our numbers as well. Continued growth in North America and Asia Pacific at 5-6%, and in Latin America still 11%, but that's a much lower number than we've seen in the prior couple of years as the commodities surge is coming to an end and they are falling back into more normal growth numbers. So that's the story by region.

On the next page, you see the different components of the way we look at growth. It's interesting to see that after several years of decreases, new business is starting to pick up. We've seen increased demand and, as I've said many times on the call, it's a very competitive and brutal market but we are holding our own. The retention rate is at a record for this company and we're very proud of our partnership and our ability to service clients in ways that convince them to stick with us through the long term. Prices are down but as you've seen they recovered from the lull in 2022 and the two exceptionally positive years that we had in 2020 and 2021. Historically, this business is one where prices come down year after year to the tune of 1% to 1.5%, which is really where we are. In terms of volume effects, after two impressive years in 2021 and 2022, which we hadn't seen in a very long time, it's come back down on the back of lower inflation and lower growth to 2.3% and that really explains the bulk of our slowdown and turnover.

On page 13, you see our loss story continues to be a very strong story with Q4 2023 at 26% loss ratio before reinsurance. I've been talking about normalisation for two and a half, almost three years now. It's happening but it's happening slowly, and the number of claims has been increasing during that period. It's now about 8% lower than in 2019, but the claims amount in 2023 has been broadly similar to what we had in 2019. Severity is still below the historic average. You can see on the bottom right-hand side that we've opened the new vintage quite high at close to 84% to reflect the political and economic uncertainty that we are seeing in the world. At the same time, the releases from prior years have been quite strong compared to historic levels. As I said, we've had some significant reserve releases on some files that we had, particularly in Brazil.

If you look at page 14, you see a pretty benign story. This is the yearly view of risk for the different parts of the world where we operate. The four largest, more stable economies are at the bottom. Almost everything is at 40% or lower with very stable results. The three smaller and traditionally more volatile markets are on the top and are still benign. We know that we had one situation to manage in Latin America last year and I think we've pretty much got that under control.

On page 15 is the quarterly story, with pretty much nothing to report on the bottom four regions. When you look at the top, it's been incredibly well controlled environments with North America at 22%, Latin America now in the low teens again, and then Asia-Pacific with negative losses again in Q4. So, this is very good, we feel good on the risk side.

In terms of the cost ratio on page 16, you see that our total costs went up about 7% for the year. The costs for the fourth quarter were up about 4% and the cost ratio on the right-hand side, that was in Q3 2023, was below what we had seen last year by about 0.3 point. Our total internal costs were up 8.4%. This includes wage inflation which accounts for 2.5 points and investments that we've made in the business information space for another 2.5 points. So, we haven't stopped investing. We continue to put money in the things we think are important, whether it's technology or information or growth and our sales forces, and you can see on the bottom right-hand side of the chart that we ended the year under the IFRS 17 methodology at 31.5%, which is lower than 2022. So, despite the slowdown in growth, we're still making some gains in cost ratio and continuing to invest more than ever in our business, which I think is very consistent with the story that we've been telling all of you for several years now. With that I'm going to turn it over to Phalla to take us to the next pages.

Phalla GERVAIS, Group CFO and Risk Director

Thanks, Xavier. So, let's move to the reinsurance page on page 17. The premium cession rate stands at 27%, and the claims cession rate at 23%. I must say that we're going back to the pre-Covid strict application of our third-party reinsurance treaty. What's important to notice here is that we renewed all our treaties, proportional and non-proportional, successfully in the sense that all the terms and conditions that we had last year were renewed at the same level. What needs to be highlighted as well is that in Q1 we had this large loss in Latin America where, for the first time in Coface's history, we reached the first excessive loss level. With the release that we got, the recovery that we got in the first quarter, we reverted to the initial situation, meaning that Coface has never reached the first level of its excess of loss treaty.

Moving to the next page, the net combined ratio was 64.3%. Couple of things to be highlighted. The net loss ratio decreased by two points, which is mainly related to some reserve releases, even though we booked some reserves related to Argentina and other spaces. The net cost ratio was down 1.4 points to the lowest level in Coface's history. I would want to highlight here, among many things, our cost discipline but also the commissions received from the reinsurers that helped our net cost ratio in 2023.

If we move to page 19, the financial portfolio, the mark-to-market value stands at €3.3bn. Couple of things to highlight. In November last year we issued a new €300m tranche of Tier 2 debt and, of course, this is in advance of the repayment of the first tranche of Tier 2 debt that will happen in couple of weeks now. By the end of March, we have to repay €230m, so the mark-to-market value that you see here will go down to our historical level of €3bn, which is our run rate. In terms of asset allocation, we have not changed anything. We have already derisked our investment portfolio and will continue to divest our real estate investment funds. If we move to the right-hand side which is the investment income, there are couple of things to highlight. The recurring income has now reached €65m on an annual basis, which is probably double what we had in 2021, with the new money invested at 3.9%. We are still enjoying the fact that the interest rates are still high, and the yield curve is still inverted. Realised gains and losses are -€3.7m. We took some realised gains that only partially offset the negative mark-to-market on the real estate investment funds, which we commented on a lot in 2023. Total negative impact is -€29m. We believe that we have put behind us a big chunk of this devaluation in investment funds. Of course, we expect some devaluation to occur in Q1 and Q2 but not at the same level that we had in 2023. In terms of FX, we explained that the impact is mostly from Argentina, and we also booked hyperinflation in Turkey and the Argentina service entity. I will finish with the insurance finance expense at €40m. This is completely in line with what we saw in Q3. I think in Q3 it was €30m, so now we're just adding another quarter. This leads us to a very good net income of €240.5m, which is in line with what we had last year with a similar tax rate.

Return on average tangible equity, starting with the change in IFRS equity opening at €2.019bn, this is the consequence of payment of dividends and, of course, we record our net income for the year, leading to ending IFRS equity at €2.051bn. Return on average tangible equity opened at 12.7%, to which we apply the technical result, financial result and tax, for closing RoATE of 13.4%, which is again the highest level that Coface has seen for a long time.

Moving now to the Capital Management side, the balance sheet is solid with €7.9bn in total assets and total liabilities. We discussed insurance investments at €3.3bn. Factoring assets at €2.9bn backed by factoring liabilities. What needs to be highlighted is the €832m of hybrid debt. Here, as I said, we have the three tranches and €230m will be repaid at the end of March 2024, in a couple of weeks. So, we're going back to the usual situation of Tier 2 debt at €600m for ten years now. We remain financially strong. You can see the upgrades from Moody's in September and the stable outlook from Fitch and AM Best. Tangible book value per share stands at €12.2 and book value per share at €13.8. Moving to solvency, which moved from 201% last year to almost 199% this year. You can see that the own funds variation, which is the 28.7-point contribution to the solvency ratio, more than offsets the capital consumption from our business growth, either in insurance or in factoring. And of course, we have allowed for the dividend payment that will happen in May 2024. On the right-hand side, we have the usual financial shocks and economic shocks. I will start with the financial market shocks, which are the interest rate increase, spread increase and equity market shock. Given that we have already derisked our investment portfolio, you can see that the shock has a very minimal impact on our solvency. In terms of economic crisis, you have the usual 1/20 event and 1/50 event. I used to say that the 1/50 event was like the 2008 crisis. And here again we would be around the upper range of our comfort zone, so the balance sheet and solvency ratio are strong and healthy.

If we move to page 25, this is where you have the breakdown of your SCR, which is the solvency capital requirement and the eligible own funds. Nothing particular to be added except the fact that if you look at the eligible own funds, the Tier 2 debt that is allowed to be taken in account in our solvency calculation stands at €626m, compared to the €832m on our balance sheet. This is because in solvency you have this threshold and we're already taking the haircut related to this threshold. In a nutshell, this means that the 199% solvency ratio as of end of December, all being equal after the repayment of the first tranche of Tier 2 debt, will fall to 198%, so the impact on the strength of our balance sheet is minimal. With this, I will turn back to Xavier for final remarks.

Xavier DURAND, CEO

So just to wrap this up. This has been another very good year. We've come in just symbolically above last year in terms of net profits. The economy is slowing. We've got a very good net combined ratio at 64.3%. Return on average tangible equity at 13.4% is clearly our record. You see that some of the initiatives that we've taken are paying off. Business information, debt collection are great opportunities for us. We've managed the volatility that continues in the market. Nobody knows what's next but, clearly, we continue to demonstrate that we're able to manage these situations. We're at the end of Build to Lead. I think we had a good run. We've met or exceeded all our targets and we're excited about what we're going to talk about next. That's on 5th March so that's coming up very soon. We're going to build on Build to Lead – I think that's an interesting way to look at it – and highlight what we're going to do in the next chapter of our growth story. So that's the wrap up and we're very happy to take questions now as we usually do.

Q & A session

Hadley COHEN (Deutsche Bank) Morning everyone. Thank you very much. Hopefully you can hear me well. I was wondering if you could give us a little bit of insight into your thought process around the dividend proposal, please. I understand it's an 80% payout ratio and it implies a 10% cash dividend yield at current price levels, so I'm certainly not complaining, but objectively your earnings are pretty much flat year-on-year, your solvency is pretty much flat year-on-year, and it sounds like your outlook is at least in line if not slightly better than 12 months ago, so I'm just wondering why the dividend proposal is lower year-on-year. The second question is linked to that. Is 155% to 175% still the right target range for solvency? The reason I ask that is that solvency is obviously well above that range, and I think Phalla as you mentioned even after adjusting for the debt repayment it remains at that level. Even after a 1/50 stress scenario it's still above the upper end of the target range, so just wondering if that is still the right range and, if it is, at what point can we start thinking about deployment or usage of some of that excess capital? And then my final question, a very quick one and apologies if I've missed this, but I think in the fourth quarter the combined ratio was obviously benefiting from the release in Brazil, but my understanding is that there is at least some offset coming from more conservatism in your initial loss pick in relation to Brazil and Argentina, so I'm just wondering if you could give us what the net positive effect on the net combined ratio was in the fourth quarter.

Xavier DURAND (CEO, Coface) You're right relative to the reserves, I mentioned that on the call. I'll let Phalla talk about this. I just want to address your first question about the capital allocation and capital management policy. I think we've been very consistent, actually that consistency is what I'm trying to do here in general, but on that topic, we've also been very consistent with having a strong balance sheet and proving to the market that we are resilient and that this company will continue to perform and can manage the environment. And then the second thing is that we are ready to seize the opportunity that the market might offer us, and we've said that I think several times over the course of the last few years.

First, on the range. The range is a discussion that we have with the regulator about where we should be as an institution. That's not something we change unilaterally, and I think that's a level that we agreed with them when we launched our internal model, and it was approved and that's really the range that I think matches the needs of this company.

Now in terms of capital allocation, we are pursuing three goals. One is core growth, and we want to be able to fund core growth. Nobody thought in 2021/2022 or even in 2023 that we would have that kind of growth in this industry because this is an industry that used to grow as nominal GDP grows, so our ability to feel very comfortable even if inflation picks up, for example, is important. The second thing is we do want to remain open to opportunities. We've done a few acquisitions. They weren't very big, but I think that's something we'd like to be able to do. Not necessarily very big ones but ones that matter for the business. And third, I think we've consistently been returning capital at or higher than the targets that we've set. I understand that 1% is not much, that 81% is not much higher than 80%, so it's more symbolic, but still, we were one of the first companies to be authorised after Covid to redistribute some equity or some capital by the regulators to the markets and that's part of our story. So, this is what we do. I think the company is performing and I think we'll talk about this kind of stuff during the plan, but that's really our position here.

Phalla GERVAIS (CFO and Risk Director, Coface) I'll take the second question related to the reserve release that we have on the large claim in Q4. That will count for seven to eight points.

Michael HUTTNER (Berenberg) I'm hesitating to ask questions because a) the results are so good, but b) 5th March is almost upon us. So, I only had two. The first one is that reserving figure you just said, the seven to eight points, is that the net of the slightly higher than normal initial loss take and the release in Brazil or it is just the release of Brazil? And then the other question, on reinsurance you said that in Q1 due to the Brazil large loss you had impacted the excess of loss treaty, but now because of the reimbursement this has receded. I just wondered; can you remind us of what the level of this loss treaty is? I always have a figure in mind of €50m but I'm hopeless on this. And then the last one, you said deals and there's been many smaller deals. I just wonder if you can give us the total figure for the period, whether there was €50m or €100m or whatever, just to get a feel of it. And I did have one last one but is not particularly relevant, just to try and gauge the €1.5bn exposure to Argentina. What's the exposure to Russia now after all the dust has settled?

Phalla GERVAIS (CFO and Risk Director, Coface) So, in terms of reserving when we talk about the 8 points, it's really the release on the large claims that we had in Q4 that I was referring to when answering Hadley's questions. In terms of the excessive loss, I think this is the first tranche of excess of loss and I think we disclosed that this is €54m.

Xavier DURAND (CEO, Coface) It increased last year as we reflected inflation in our treaties. And your question on the deals, the deals were quite small.

Phalla GERVAIS (CFO and Risk Director, Coface) And your last question on Russia, the total exposure at the end of the 2023 was around €430m before reinsurance.

Benoit VALLEAUX (Oddo BHF) Yes, hello, good morning. A few questions on my side. The first one on the business. You said last year that prices decreased by 1.9%, and over the long term the decrease is between 1% and 1.5%. How do you see the trend at the beginning of the year, because we see that economy is clearly slowing down, but your combined ratio and loss ratio remained very good last year, so should we expect similar price decreases this year or not? And linked to this, do you intend to change your risk appetite at all, or do you plan to remain as conservative as you were last year? The second question is related to solvency. When I look at your sensitivity to an economic crisis, this sensitivity has reduced at your end compared to what it was at the end of June, so I don't know if there is any specific explanation for this, just to check whether you have changed your attachment points regarding your reinsurance coverage and first loss. The third point is related to IFE, so it was €40m in FY 2023 and €10m in Q4, but there has been some volatility over the year depending on the quarter. Do you have any view what the amount of IFE could be for this year?

Xavier DURAND (CEO, Coface) So let me talk about the price first. I said this industry makes productivity gains. These gains are passed onto clients through time. The price decrease at -1.9% is just a little more than we see on average, it probably went down about 1.5% over the last 10 years. You're right to say we have strong results and, despite the environment being riskier, we see more demand in the market. However, the competition remains very strong, so I would say that trend is likely to continue, because of the level of competition we see in the market. Everybody is aware that our combined ratio is something that is just the aggregation of what our clients see, so clearly there's continued pressure on price. In terms of the sensitivity to the shocks, there's an element of cyclicality, which means that when things are good the shocks also look better and when things are bad the shocks also look worse, but I'll let Phalla talk about whether there are any changes in what we've done and then also let her answer the question on the IFE.

Phalla GERVAIS (CFO and Risk Director, Coface) So we have not changed the model so there are no big changes. We have lowered the attachment point, but this has always been taken into account in Q2 so there's not much change on this side either. If you look at the sensitivity and why in the 1/50 we're at this level, that's exactly what Xavier said, which is the procyclical nature of the model, and if we are open at the level that we have opened the new vintage, of course when you have a shock it hits you less than if you have opened at a lower level. But no, we're not changing, there are no big changes in our model.

In terms of IFE, so the sensitivity of course all depends on the interest rate. If the interest rate is not fluctuating that much, the levels in 2024 would be pretty like what we have in 2023, barring a big swing in interest rate.

Philip ROSS (BNP Paribas) Hi there, thanks for taking questions. First one on reserve releases or the reserving approach. You gave us the figures for the Q4 net change related to Brazil, which is helpful, thank you. I guess that was related to the timing of the change. There was an event on a specific client in Q4 in December so that makes sense, but I'm just wondering is there any seasonality we should expect going forward on reserve releases or your reserve review? Should we be thinking about Q4 as the time every year when you make some changes or does IFRS 17 give you less control over when you might make some notable reserve releases and hence when that might affect the numbers? Second question, just a quick update if I can on business information. You highlighted in Q3 that a big share of that business was from Israel, albeit that was relatively low growth and I think last week we started to see some GDP headlines for Q4 from Israel, so I just wondered whether there was any update or change to that situation. It doesn't look like it's been much of a drag on growth, but any update would be helpful.

Phalla GERVAIS (CFO and Risk Director, Coface) I'll take the first one on the reserve release, so the reserve release that we had on Brazil in Q4 is not coming from the IFRS 17 model, it's coming from the fact that we have some recoveries coming through. These are actual recoveries that lead to this reserve release.

Philip ROSS (BNP Paribas) Yes, I understand its related to the actual, just wondering if there any steer you can give us on the timing or process of releases, when you might do a reserve review. Is that going to be a Q4 thing, or could that happen anytime?

Phalla GERVAIS (CFO and Risk Director, Coface) It happens anytime because we are a short-term business so, as I said, after two years cash being cash, the reality is that your developments will finish in two years and if you have put some reserve at the beginning and you're not using it, after two years you release this reserve. By vintage, so there's nothing particular in the model that tells you that in any quarter you will have more releases than the others, it really depends on the vintage of your reserving.

Xavier DURAND (CEO, Coface) Then on Israel, we did highlight that we have this historic business in Israel which is one of the two places where Coface started. We've been working that business, which is not the same model as what we're developing, which is more elaborate risk services here, but it has been performing fine throughout this crisis. As usual in a crisis, there's some stress but there are also opportunities too because our services tend to be in demand, so Israel has been OK through this period.

Michael HUTTNER (Berenberg) I had four but they're very little ones. One is Mexico, so you're moving that to North America, just wondered how big that is, what impact? The second is on discounting. I'm sure there's a number somewhere but I couldn't find it. I just wondered if you could say how much the impact was on the combined ratio. Thirdly, I think in the past you've had three-year plans, and this sounds like it'll be a four-year plan. Can one infer anything from that, meaning the future is bright or anything? And then in the final numbers I estimated, and I'm not quite sure how I did the math so apologies, I think you had an initial loss take in Q3 or nine months of about 77% or something and now you're at 83% and I tried to estimate but that's 83% for the year so the change may be about 20 points on the last quarter. I estimated from that that you added €90m to reserves but a) I'm not sure if that's the right number but b) also you traditionally add to reserves in the last quarter, so I wondered if you could explain what the relevant moving part is here.

Xavier DURAND (CEO, Coface) I'll take the three versus four year and Mexico and then you can talk about the rest, Phalla. Build to Lead was a four-year plan. The only three-year plan we did was when I joined. We had Fit to Win, which was really a restructuring and 'get your basics right' kind of thing, and that was a three-year plan. Then we moved to four-year plans. I think this business is really trying to write a long-term value creation story and I think four years is a good period to show significant progress on some of these fundamentals, so that's why we are, and we've stayed on, four years since then.

In terms of Mexico, it's a Tier 2 country for us but it's so imbricated with the U.S. You have all the *maquiladoras*, which pretty much subcontract work for the large industrials and services in the U.S. We were running the Latin American region from Mexico a few years back and now I think our centre of gravity has moved back to South America over there, and it made more sense for us to run Mexico with North America. We have started to put servicing centres for the U.S. in Mexico so there's also an element of productivity here, and that's why we made the move. I think it's more convenient, more logical, more intertwined, closer etc. You want to take the rest, Phalla?

Phalla GERVAIS (CFO and Risk Director, Coface) Yes, so in terms of discounting rates and the impact on solvency, we're talking about around 3 points in net combined ratio, which has not changed much. Then the last question is related to the Q4 reserving and you're right we've released some reserves, but we've also booked some reserves as Xavier said on Argentina and we booked it in a region where the risk has been underwritten.

Michael HUTTNER (Berenberg) My guess was €90m. Is that excessive or should I do a comparison year-on-year?

Phalla GERVAIS (CFO and Risk Director, Coface) We booked some reserves in Q4 so if you look at Q4 only, the new vintage has been opened at a very high level.

Xavier DURAND (CEO, Coface) Well, thank you. It's a bit of an awkward situation because literally in a week we're going to be talking about the next four years. Hopefully you'll find that interesting and it'll give you a broader perspective on our journey to date and going forward. I look forward to that discussion. I just want to thank you for calling in and obviously the next meeting is going to be a lot longer. We'll have a lot to talk about. So, thank you very much and see you soon.

End of transcript

CONTACTS

ANALYSTS / INVESTORS

Thomas JACQUET: +33 1 49 02 12 58 – thomas.jacquet@coface.com
Benoît CHASTEL: +33 1 49 02 22 28 – benoit.chastel@coface.com

MEDIA RELATIONS

Saphia GAOUAOUI: +33 1 49 02 14 91 – saphia.gaouaoui@coface.com
Adrien BILLET: +33 1 49 02 23 6394 – adrien.billet@coface.com

FINANCIAL CALENDAR 2023/2024
(subject to change)
Q1-2024 results: 6 May 2024 (after market close)
Annual General Shareholders' Meeting 2023: 16 May 2024
H1-2024 results: 5 August 2024 (after market close)
9M-2024 results: 5 November 2024 (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 H1-2023 and our 2022 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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