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-2021 Results

Conference Call Transcription

Paris, 15 February 2022

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Readers should read the Interim financial report for the for the first half 2021 and complete this information with the Universal Registration Document for the year 2020, which was registered by the Autorité des marchés financiers ("AMF") on 31 March 2021 under the number No. D.21-0233. These documents all together present a detailed description of the Coface Group, its business, financial condition, results of operations and risk factors.

Please refer to chapter 5 "Main risk factors and their management within the Group" of the Coface Group's 2020 Universal Registration Document in order to obtain a description of certain major factors, risks and uncertainties likely to influence the Coface Group's businesses. The Coface Group disclaims any intention or obligation to publish an update of these forecasts, or provide new information on future events or any other circumstance.

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Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 31 December 2021. 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 and good evening, everyone. Thank you for joining this call. We are happy to report our full-year 2021 results.

I think you're aware this has been quite an exceptional year for Coface. Nothing really happened as planned, but it's still a year where we managed to reach all our key objectives. We're reporting total net income of EUR 223.8m, of which EUR 32.9m in the fourth quarter of 2021. I'm most pleased with growth in turnover, which reached EUR 1,568m, which is up 8.3% at constant FX and perimeter for the year. Trade credit insurance is growing by close to 10% at 9.7%. Pricing is still slightly positive but, as I've I highlighted in previous quarters, it has now been negative for the last three quarters. Information Services grew 18% for the year and 30% in the fourth quarter. Factoring is up almost 11%. Debt collection is down 24% but that's really not a surprise as the claims activity has been pretty low and there's a very strong correlation between the two.

In terms of claims, the loss ratio has improved by 14.4 points to 33.3% for the year. The net combined ratio comes in at 64.6%. If you exclude the government schemes, we're at 54.5% for year. That brings the net loss ratio to 50.4% and 10.9% excluding government schemes for the fourth quarter. The net cost ratio has improved from last year by 0.8 points and that brings the net combined ratio for the fourth quarter to 83.0%.

The big news here is what we've done on the government schemes. They lowered our pre-tax profits by EUR 160m in 2021, of which EUR 103m in the fourth quarter, which means that we anticipate that a large majority of the expected cost of the government programmes has now been taken into our accounts. That brings the total net income for the year to EUR 223.8m, which means earnings per share of EUR 1.50 compared to the EUR 0.55 that we had in 2020.

From a balance sheet standpoint, you see on the next page that we're coming out strong at the end of 2021. The solvency ratio comes in at 196%. What's important is we don't expect any further significant impact from government schemes in that ratio. The solvency is way above our target of 155% to 175% as you know. We have renewed our reinsurance cession rate at 23% like prior years. The private reinsurance programme has been renewed under improved conditions despite the fact that the market is generally tighter. That brings the total return on average tangible equity for the year to 12.2%. This strong balance sheet and the profitability of the business allows for a record dividend of EUR 1.50 per share, which is a 100% pay-out ratio. This is right in line with what we've done and what we said we would do in our Build to Lead target. So, we delivered I think a very strong financial year, but we are also completely on track with our Build to Lead strategic objectives. I like to give you a periodic update on where we are on these plans, and this why we put in a page on page 6, which gives you an update on what's happened during the year.

You'll recognise the two pillars. Number one, building leadership in the trade credit insurance space and we've got three points here. One is simplifying and digitising the operating model. If you think of where we are here, about 75% of our products have been migrated to the new product suite, which is a condition to further digitisation of our business, and that's in the mid-market space. We have been investing and we are investing heavily in digitisation. In total through the plan, we will invest about EUR 100m in technology to make our business leaner, faster, and better, and that's well underway. We're moving people into shared data centres where we get more productivity, more standardization, and then the one thing that's very important is client satisfaction. One way that we measure this is through NPS, like many other companies do, and in the second half of 2021 our Net Promoter Score was above 30%. I take that as a sign that we're moving in the right direction and this business is appreciated by its clients.

In terms of information and risk capabilities, I think we've proven through the last two years that we can navigate a pretty volatile and uncertain environment. This is one of the things we had discussed initially when I joined Coface. We're now using the partial internal model for pricing and we are also investing in improving our trove of data. This is one of Coface's assets, and we're continuing to build and enlarge our database from 70m to 130m corporates. We've also increased the number of fields that we track on each one of the companies around ten-fold.

In terms of growth, we've completely realigned our organisations across regions. We've been driving retention for several years in a row through both services and technology, and we've been expanding progressively into new risk segments like excessive loss in the US, bonding in Romania and other things.

The second pillar is really about growing select specialties. Over last three years, we've been turning around our factoring business. I think we've done a great job here, driving better business through higher value segments such as private equity and cross-border. Improving the risk profile of the portfolio, in terms of being self-liquidating, in terms of increasing efficiency and investing in our tools to manage this business and then optimising its capital consumption, which you'll see in the solvency calculations.

Single risk in bonding is now led by a senior leader. We're reinforcing our business in key markets. We're launching in new places and we're starting to look at it from a reinsurance standpoint as well. Finally, information and services, which is certainly the biggest initiative we've had in terms of adjacencies in this business. We're aggressively developing it as a new core activity for Coface. We're investing in the platform and we're taking the opportunity of a relatively low claims environment to launch a new single worldwide collection tool in 45 countries, which really updates our technologies in the space. So, there is a lot going on, not just managing the crisis, not just managing the performance, but also continuing to change this business at its heart.

If you go to page 7, there are further details on what we're doing in terms of information. This whole thing started with the realisation that we had an underutilised asset in the company, which is the data we use for our own credit insurance business. We have assets in terms of companies' data; we have payment behaviour data; we have underwriting expertise. There are hundreds of people around the world who are focused on managing solvency and scoring companies, and then we have a global network and a global brand which is recognised in the industry. So, when we come with data, it's not just data that is being collected by us, it's data that's being utilised to manage EUR 600bn in exposures, and I think that carries weight with our clients. We also realised there is a need for that kind of service in the markets. People want to make informed decisions. They want better quality, better speed and a one stop shop. They want insights rather than just data, and I think we're well positioned to offer these kinds of products.

So, we've been investing in the platform over the last few years, whether it's in terms of sales or recruiting more people. We've actually almost tripled the FTEs on this business. We've doubled the number of companies that we follow and increased ten-fold the number of fields that we track on each company. We are expanding the range of products that we're offering and then we're investing in the technology to be able to manage this data and make it available in an easy format for our clients. Our total services are up 27% over the last three years, which comprises 48% growth in information and a 29% decrease in debt collection. That will change at some point when the cycle reverses but our information business has performed pretty well. The reported number is EUR 42m. That's what we consolidate. If you add the entities that are not consolidated, we're at EUR 48m. Despite all the investments that we're making, the contribution margin is above 30% and this platform is able to actually self-finance the investments we're putting in it. That's what I wanted to highlight here on the information business.

On page 8, we see the key financial targets we set for Build to Lead. The combined ratio is below 80%. You can see we were actually below that for the last three years. This year is particularly strong at 64.6%. A pay-out ratio which is commensurate with our solvency ratio, so solvency's been way above our target range again this year at 196%. The pay-out ratio has been 100% for the last two years and the return on tangible equity, despite the fact that we have actually probably more equity than we really need, is at 12.2% for the year, so well above the 9.5% that we targeted in Build to Lead.

On page 9, I also wanted to give you an update on our CSR strategy. We're at this point now where we're embedding the strategy into our daily operations and we're setting specific targets. There are three key pillars. One is becoming a responsible insurer. On this, we've done several things in the last couple of years. We've improved the ESG rating of our investment portfolio by 1 notch from C- to C. We built and tested an internal tool to assess the environmental impact of our debtor portfolio, so this is something new. We've also integrated some ESG indicators into our risk appetite statements. Moving forward, we want to continue to work on the investment portfolio ESG rating. We set a clear target of a 20% reduction of investment portfolio emissions by 2025. We want to integrate the environmental policy into our commercial policy. We can do this using the tool that we have and as the taxonomy of green, brown and black investments is developed. Then we want to upgrade our procurement policy.

The second pillar is really being a responsible employer. We've worked hard on diversity and inclusion. The standards that have been made mandatory for French companies are now being applied throughout the world. We've improved our diversity index by three points over 2021. We've been very specific about LGBT+ inclusion. We've increased employee engagement by 24 points and we are driving employee development. We still need to formalise our Diversity & Inclusion policy. We continue to work on digital tools to be able to on-board people as we spend less time in the office and more digitally. We want all these on boarding questions and training issues to be handled in an easier way for people. We've committed to a specific target of 40% women in senior management. What we're talking about here is not the Executive Committee but the top 200 jobs globally in the company, so that goes well beyond the target that companies usually track.

In terms of being a responsible enterprise, which is how much we ourselves consume in terms of carbon, we've launched a full carbon footprint assessment with an outside firm. We've been working on our policies to reduce our carbon consumption whether it's by introducing electric vehicles in our fleet, monitoring travel policies, how much our buildings consume and how much we use buildings. As two areas that we're still working on, one is to develop a reduction plan to achieve net zero. I think that's something we've got in front of us. And then as we move increasingly from brick and mortar to digital, to be able to define a responsible IT roadmap because we're increasingly using digital tools, which transfers some of the burden onto IT. We set a short term target of a 3g CO_2 reduction in our car fleet. We've got to start somewhere and we're continuing to work on this.

And then the last pillar is about driving the culture inside the company and making sure everybody is involved. We've got some grassroots movements that have been initiated by our employees, called the Green to Lead initiative. We're supporting that. We want to make sure that we have all our employees formally trained by the end of 2022. We're revamping our governance. The goal here is to make it an enterprise endeavour, not just something that's managed from the top or dictated to people in the company.

With that, I'm going to take you now to the usual pages that we review during these calls. There's a lot of stability as you know in our presentations from here on.

So, again on page 11, we had a very strong growth year. Total revenue was up 8.3% and TCI was up 9.7%. Business information increased 18% in 2021 and 30% in the fourth quarter. Factoring was up almost 11%, third party collections were down. The fees ratio to premiums is down and that's really driven by the fact that for our insured clients the collection fees have been lower and that's correlated to lower claims.

On page 12, we look at the geographies. Growth has been pretty much spread out and the underlying reasons are pretty consistent across the regions so I'm not going to comment on them individually. We see that Western Europe, Northern Europe, Central Europe, and Med & Africa were all in the 8% to 9% range. North America is lower but it's starting to pick up a little bit of momentum. Asia Pacific is at 5%. Latin America is quite high at almost 15% and that's driven by commodity and agro-food prices.

If we go to page 13, you can see the usual way we look at growth. It was still a pretty good year for new business at EUR 129m although not quite as good as 2020 and 2019. Retention is almost at a record, and it's been very stable for the last three years. The price effect is still positive, but the market has become very competitive and pricing was down during Q4, as it was Q2 and Q3 as well. And then the big driver here of our rebound is activity, which is up by 8.4%, which is a very strong performance after the drop in 2020.

On page 14, talking about the loss ratio, you can see that it comes in at 21.4% for the full year 2021. The quarterly sequence here shows that we reached a very low point at 10.5% for Q4. Some of the same trends that I've highlighted before are still pretty much in play here – continued limited large loss activity, low claims frequency across all the regions since Q3-2020. A high of level reserves are still being released. I think we've reached the trough in the claims, which happened at the end of the first half of last year and since then we have been seeing a normalisation. There's been no change in our reserving policy. You can see on the bottom right-hand side that we're opening the new year at 66.3%, which really reflects our expectation that claims are normalising, but this is happening progressively, and then you're seeing the 47.7% recoveries on prior years, which is actually exceptionally high.

Moving to page 15, you can see the loss numbers for the year by region, which are quite low pretty much across the board with Western Europe, Northern Europe, Central Europe, and Med & Africa all in the 20s or lower, and then the most volatile markets that we're usually more concerned with – North America, Latin America, Asia Pacific – all in the teens or below. So, it has been a really very strong year in terms of losses and, if you look at page 16, which gives you the quarterly story, six of our southern regions are in the single digits loss ratio for the quarter, and one, Med & Africa, is at 15% which is quite benign for the business that we're in. So clearly very strong performance across the board.

On page 17, you can see our costs during the year have grown by 7.1%, and they're growing mainly due to employment costs. We had low bonuses in 2020, on the back of lower performance. That has been reversed obviously in 2021, however, the growth in the costs is lower than the growth in the premiums so we get operating leverage during the year. Our cost ratio before reinsurance dropped from 36% in Q4 2020 to 33.2% in Q4 2021, and the net cost ratio at the bottom right-hand side of the chart fell from 33.7% to 33.1%, which gives us about 1.4 points of positive operating leverage. The investments that we've made in business information had a negative impact of 0.2 point and then lower collection fees, which I've already commented on, had a negative impact of 0.6 point. The message here on costs is that we're disciplined, we're thoughtful, and we continue to invest. Every year, whether we're growing or not, you can see that we are actually improving the cost ratio of the business.

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

Phalla GERVAIS, Group CFO and Risk Director

Thanks, Xavier. Our reinsurance result reflects the low loss activity and impact of the public schemes. The premium cession rate dropped from 46.4% to 39%. As a reminder, the public schemes ended on 30 June last year. The cession rate drop was very sharp indeed, from 50.7% to 5.0%. The reserve releases resulting from positive developments in prior years and especially in 2020, as mentioned by Xavier, go back to the reinsurers and in particular to the government that put in place the public schemes. The reinsurance result on the bottom line, which is a cost for Coface went from EUR (44.1)m pre-tax to EUR (314.3)m. The private reinsurance treaties were successfully renewed with the same quota share and improved terms and conditions in a tighter market.

If we move to the next page, page 19, let's focus on the government schemes and impacts. We think that that we have recognised a large majority of the costs related to these schemes. The chart on the top left-hand side has two bars – dark blue and green. Dark blue represents the published combined ratio and green is the combined ratio including the impact of the public schemes. As we said, last quarter was a turning point in Q3 where the public schemes started to benefit from our reserve releases. It started to increase in Q3. We said that it would accelerate and indeed it has accelerated in Q4. As you can see, in Q4 the loss ratio without the public schemes is really low at 10.5%. The pre-tax impact in Q3 was EUR 32m. We had this discussion and now we have recognised EUR 103m in Q4. We think that a vast majority of these schemes are behind us as we recognised EUR 160m in costs related to the public schemes in FY - 2021.

On page 20, all these components translate into a net combined ratio of 64.6%, which is a record low for Coface and down from 79.8% on a year-to-date basis. The net cost ratio decreased by 0.8 ppt and the loss ratio by 14.4 ppts. This is all related to what we did with the reserve releases that go back to the public schemes.

Moving on to financial income on page 21. First of all, Coface's total investment portfolio is now above €3 billion. We maintain a well-diversified strategy in terms of other asset allocation. We continue to deploy the excess cash, which was boosted by operating cash flows, as well as our financial performance and the low loss environment. In terms of yield, the accounting yield, without realized gain and FX impact ended up at 1.1% which is pretty stabilised now, and if we include the realised gain that we made on some real estate from last year and the FX impact, the accounting yield of the investment portfolio came out to 1.2%.

On page 22, all this helped generate record earnings in full-year 2021 with operating income that has more than doubled compared to previous years, a tax rate that is fairly stable at 23%, I think it was at 24% in Q3, record net income of EUR 224m, and EPS at EUR 1.50. I hope that you will enjoy the 100% pay-out ratio.

On page 23, return on average tangible equity increased from 4.8% to 12.2%. The drivers are the technical result and, to a lesser extent, the financial result. The movement in terms of IFRS equity is pretty straightforward and is only comprised of EUR 83m in dividends paid in 2021 and the 2021 net income of EUR 224m.

Moving on to capital management on page 25, I will start with the balance sheet side. The balance sheet is very solid and ended the year at EUR 8bn. It has increased from EUR 7.5bn last year to EUR 8bn this year and here it just reflects two things. The increase in the investment portfolio that we mentioned a little bit earlier and increase in factoring assets as we are growing our factoring business. The IFRS 17 project is going as planned and what really needs to be highlighted again is the fact that the three rating agencies have acknowledged the strength of our balance sheet. Fitch, Moody's and AM Best put Coface on stable watch last year. Tangible book value per share was EUR 12.80.

Moving on to the solvency ratio on page 26 and 27. I will start with the chart on the left-hand side where you can see the solvency ratio for each half-year period. The ratio is well above our comfort zone and well above the upper bound of our comfort zone at 175%. If you look at the middle chart which is the work done between year-end 2020 and year-end 2021, if we compare apples to apples which is without the impact of the public schemes we've moved from 191% to 194%. The published ratio was at 205% and has dropped from 205% to 196%. What are the drivers here? First is of course the SCR, so the capital requirement has increased. On insurance side, the increase in capital requirements reflects the growth of exposure and business growth and the low loss environment. On factoring side, the capital requirement increase reflects the business growth. The increase in the SCR has an impact of approximately 30 points on the solvency ratio. But all of that has been more than offset by the increase in own funds that reflects our commercial performance, our business performance and our financial performance. So, if you look at the own funds, the increase and impact on solvency ratio is 39 points. This allows us to propose a 100% pay-out ratio leading to a year end solvency ratio of 196%. On the right-hand side, I just want to go through the sensitivity of the solvency ratio. Where there are financial market shocks and stresses through business shocks, with the one in 20 and one in 50 events, all cases will be within our comfort zone or above our comfort zone.

The next page shows how the solvency ratio is translated in terms of euro amounts. So, two components here, if you look at the insurance SCR, it ended up at EUR 1,055bn. This is a EUR 146m increase compared to last year, reflecting increased exposure as you see on the bottom left-hand side. The factoring SCR increased by EUR 40m and total SCR came out at EUR 1,264bn. Meanwhile, eligible own funds totalled EUR 2,472bn for a 196% solvency ratio. So again, the solvency ratio is very strong and the balance sheet is robust. Now I'll give the floor back to Xavier.

Xavier DURAND

So just a few words to wrap this up and then we'll move over to the Q&A session. I think it's been a great year clearly from a financial standpoint. I think the salient points for me is that we've put the government schemes, a large majority of it at least, behind us. We have delivered strong growth and strong operating metrics across our different product lines. Growth in factoring was 11%, and growth in premiums was close to 10%. We're continuing to invest in the business to make it better, whether it's digitisation or the investments that we've made in the information business line, which is starting to pick up some speed. And then we've taken advantage of a low claims environment to continue to upgrade our technology with the claims system, a collection system which is globally implemented in 45 different countries. So, I think we're demonstrating our ability to grow through the cycle. We're continuing with an attractive capital management policy. We're going to pay out 100% of our earnings, which means EUR 1.50 per share. I'll let you compute the percentage of share price that means. And so, that's pretty much the story for 2021. With that I'm going to open it up for questions.

Q & A session

Michael HUTTNER (Berenberg) Thank you very much. Congratulations, these are amazing numbers, everything is amazing. There's still questions and I have three please. The first one is the initial loss pick. It is 66.3%, it used to be 72% or 73% and you said it's still very conservative, so maybe you can give some colour here. The other is the extraordinary growth of Information Services of 30% in Q4. I know you don't give guidance, but which number should I consider to be sustainable – the 18% for the year or that 30% in Q4? And then the last question is the government schemes. Can you give a bit of colour or explain how I compute how much is left? Thank you.

Xavier DURAND (CEO, Coface) On the loss rates, I don't think we've said what you said. What we said is that normally we open the years as a factor of what we see during that year, and you know it takes about 18 months after that for the year to completely roll off or mostly roll off. So, what we're saying here is that given what we've seen in 2021, we opened the total year 2021 at 66%, which is typically lower than what we would do on a normal year because of what we observed in 2021. In terms of the information business, there's some seasonality. I mean it's still a small business so some of the deals are chunky. There's some seasonality so you'll see that quarterly number move a little bit from time to time. The important thing for me is that you're seeing this business start to accelerate. We used to be a 3% growth business and then we went to 5%, then we went to 11%. This year we delivered 18%, and so I think we're starting to see some growth. That's encouraging for me in terms of the efforts that we've been putting into this and the response in the marketplace. In terms of the government schemes, I think what we're saying here is, if you look at these schemes, they've been going on in 2020 and 2021. We have about nine months' worth of reinsurance in 2020, and about six months in 2021 with slightly improved conditions, so in 2020 I think we pretty much see where this is going and we've pretty much put that behind us. In 2021, we've taken a bite at it and obviously there's always going to be the question of how that shakes out, but I think that's what we mean when we say the vast majority or a large majority of the cost has been taken into account.

David BARMA (Exane BNP PARIBAS) Thank you and good evening. I have three questions please. One on capital and two on the top line. On capital first, could you help us understand the different moving parts in the solvency ratio in the fourth quarter please? You can see the negatives coming from the front loading of the government schemes, the growth in the total exposure, the higher dividend but maybe if you could help us bridge the gap in the second half. My second question is on pricing and trade credits. Do you think what we're seeing in the fourth quarter is a good indication of what you're seeing so far in 2022 or do you think some of the growing tensions or worries in the credit markets could mean a bit more pricing power for the insurers? And my last question is on services. Thanks a lot for this additional disclosure, because you talked a little bit about where that growth is coming from in terms of types of clients or geographies. Any colour you could give us on what's been the key driver of that growth in Information Services. Thank you.

Xavier DURAND (CEO, Coface) Thanks, David, I'm probably going to take it in reverse order and let Phalla take the question on capital. I guess you're referring to the work provided so she will take you through this.

In terms of services, so you understand, we've launched a global initiative in services. We're at very different stages of maturity. We're seeing clients that range from the very small to the very large so it's too early to differentiate but we're seeing a very nice response both from small clients and from very large and very reputable clients. And obviously it's different channels, it's different products, it's different salespeople, it's different technology in terms of what we're doing but we're seeing people that are interested in just data to further to run their operations, to assess credit, to assess their supply chains or to validate their models. There's a whole bunch of things that are going on here and it's pretty broad based. In terms of regions, I think it's too early to really see trends, but I think we're pretty much growing in every region in the world.

In terms of pricing, this industry has seen diminishing pricing trends over the last 20 years and that's something I highlighted before the crisis. Things changed at the beginning of the crisis because there was clearly a surge in risk levels and I think the numbers are pretty clear. You've seen lower claims activity which means there's more pressure. I think that's just the natural level of competition you see in this market. It is a competitive market, there's no question about it. Where it goes from here will depend on the scenario that plays out. We've seen a very strong recovery in the economy in 2021. We anticipate growth in 2022, but less growth, and expect the normalisation of claims, which started in the middle last year, but we expect that to be progressive. So, I think things are pretty clear in this business. When there are low claims there's more pressure, when there's a lot of claims and there's a lot of risks there is less pressure and that's just going to continue.

Phalla GERVAIS (CFO and Risk Director, Coface) In terms of capital, the work is really a year-end to year-end because that is what we published and so the drivers are pretty much what you describe. On the insurance side, the drivers are the growth that we are seeing, the increase in exposure and the low loss ratio that will cost us some SCR and this is where you can see the SCR mounting and the impact on the insurance side at 24.8 points. On the factoring side, again it's growth and you can see the growth in 2021 is double digit growth. Of course, this will drive capital consumption, but on the other hand because we are really seeing profitable business performance, the own funds more than offset these factors and we have an increase in net income. This is a result of our risk management, our cost discipline, our commercial performance and of course we also benefiting from the low loss environment. These are the key drivers and you have the own funds and performance more than offsetting the capital consumption. You end up with a very strong solvency ratio.

Hadley COHEN (Deutsche Bank) Just following on from David's question, perhaps I could ask it in another way please, Phalla. Just looking at the growth in own funds in 2021, it's grown by over EUR 200m but very simplistically you're paying out 100% of earnings. I can understand what's driving the SCR movements but it would be useful to understand why the own funds has grown as much as it has given that you're paying out 100% of the earnings. My second question, hopefully a very simple one, the tax rate is obviously lower than the normal for this year. Are you still guiding to around the 30% level going forward? And then the final question is can you talk a little bit about the geopolitical risks at the moment with regards Russia, Ukraine, how you're adjusting your exposures to those markets and potentially the energy industries etc.

Phalla GERVAIS (CFO and Risk Director, Coface) Regarding the own funds, you can see the work on the page that we have shown. The increase in own funds is made of the net earnings for the year but it's solvency own funds, so you also have the impact on the best estimate, and the premium best estimate, which is benefiting from the low loss ratio, this one will normalise. At the same time, the best estimate impact is also coming through on the SCR increase. So, both are increasing. Of course, one is a numerator, and one is a denominator.

On the tax rate, I think it is 23%. The tax rate depends on various components. One is the deferred tax impact. This year I think we have been able to reduce it. I'm not going to give any forward guidance, but if you look at the past, the tax rate last year was 37% so you can figure out where we're going a little bit. At 23%, yes, it's probably a low tax rate and we will be navigating somewhere in between.

Xavier DURAND (CEO, Coface) Talking about geopolitical risk, if I think of 2022, what's in front of us? It looks like Covid is kind of behind us, but it has not hit every part of the world equally so there still we're never completely sure that we're going to be out in the woods. There is clearly a tightening of interest rates going on and QE is going away. There's clearly some inflation, there's supply chain constraints and there are geopolitical and social risks, so that's what we're watching in general. When it comes to geopolitics, clearly there are tensions around Ukraine. We're very well aware of that. It concerns not just Ukraine but the countries around it, starting with Russia, and then other countries that might be impacted. What we do is we just look at what it means by sector. We look at the different scenarios that can play out. You could have a prolonged standoff and some related volatility. The Ukrainian economy is going to take a hit if that happens. We have very limited exposures in Ukraine. Then you could have some kind of military action that starts, be it limited or more extensive. I think we're looking at all these scenarios and what they mean for different countries and what they mean for different industries. Not everybody is going to be impacted the same. If there's conflict going on, oil prices are going to go up, gas prices are going to go up, there's going to be a recession in some places. There's going to be other areas that are much less impacted so we're looking at all of this. I think that the company is doing its job in terms of thinking through what it means and standing ready to handle whatever happens, as we do usually.

Benoît VALLEAUX (Oddo BHF) Yes, good evening, a few questions on my side. First one regarding pricing. You mentioned the 0.9% price decrease in Q4 and you enjoyed a very low level of claims last year, a level in H2, so can you please give us some colour on the trend you are enjoying year-to-date. Do you see some more significant price decreases and do you feel there could be some much more negative impact on the pricing going forward or not? The second question is related to reserve releases and, just to come back on the first question, related to the opening combined ratio. When I look at what happened with the government schemes from March 2020 to the end of June 2021, a significant part of the reserve releases from this period should belong to the government schemes and you put the last part of the cost in Q4 last year. Nevertheless, I assume that you will not be able to book significant reserve releases on this underwriting quarter and therefore most of your reserve releases this year will come from H2 last year, maybe something before Q2 2020, and for the business which is a big concern about government schemes. So, my question is do you believe that you will be able to achieve roughly 30 percentage points of reserve releases in 2022 as you made 27 points in 2018 and 2019 or should we expect a much lower level of reserve releases? And the third question is related to information. You are still investing in this fast-growing business. When do you expect this business to generate some profit?

Xavier DURAND (CEO, Coface) Let me start with the last one, because I think we've disclosed what we call the contributing margin of that business, so I don't think I need to say much more. It's a business that is in its infancy. We're going to have to continue to invest and I think the trade-off is for me, there's no question we need to invest in this business. It is a multi-form, multi geography, multi type of clients kind of endeavour and so I think we are just getting started.

In terms of reserve releases, I think you described it perfectly. There are a number of countries where we were reinsured quite heavily by the governments for a period of five quarters and, in these countries, we're protected from the downside, but we're also protected from the upside so that's pretty clear. The outcome is pretty well known. Anything we do comes out of the other parts of the world or the periods of time when we were not reinsured. I'm not going to give you forward guidance on these things. We never do so I'm going to stick to my guns on this one, I've been doing it for six years.

In terms of pricing, I've really said it all. I don't have too much more to add. You know that a good chunk of our contracts renew towards the end of the year. There's some more seasonality in renewals at the end of the year, and then some others are spread throughout the year. You've seen in the past we had a number of years where the price decrease was around 1.5%, so I think the numbers I'm mentioning here are not completely out of range, but it's hard to say. I think it will depend on what the future holds for us in terms of in terms of risk, but the one thing I would say is if this crisis has taught us anything, it's that we had multiple things happening during the crisis. We had a lot of stress at the beginning, in March, April and May 2020, before the governments started to intervene, then we had a complete reversal of the situation and now we're seeing a normalisation. So, we've gone through three different cycles in the in the course of a year and a half and I think we've proven that, so far, we've been able to handle these different situations. It just validates the agility of the business and the fact that the business model seems to be working.

Thomas FOSSARD (HSBC) Yes, good evening, a couple of questions from my side. Just to come back on the remaining cost of the public guarantees. If I were to run the math on the Solvency II basis so running the 196% compared to 194%, this looks like I'm getting EUR 20m, which doesn't seem to be the right calculation to do, otherwise I'm not sure that you would have called it the majority. We'd probably have to word it as almost full cost, so maybe you can help me to understand what the two points of solvency represent in the 196%. The second question is related to your credit exposure, so we're back to EUR 588bn at the end of the year. I just wanted to understand what your risk appetite was at this stage of the cycle, if there is any at this stage of the macroeconomic environment. Should we expect you to stabilise? You believe that the environment is pretty good to grow from this basis. Third question would be related to the normalisation of the loss ratio. I think that when we last met around Christmas season, you indicated at that time that the trend, the normalisation of the loss ratios were different by country. At that time, you highlighted that France and Germany were still running at low levels, but already in December Italy and Spain were back to more normal levels. So, can you just update on where we are for the main European countries? And the last question is regarding growth coming from your clients. I think at nine months you were at 5%, for the full year you're at 8%, implying very strong growth coming from your clients in Q4. Does it mean that at the end of the day you're a clear beneficiary in terms of your top line of inflation pressure building everywhere in all industries? Should we expect very strong top line growth for 2022?

Xavier DURAND (CEO, Coface) So, again, I'm not going to make forward looking statements, but the fact is that when our clients' business grows, we grow, because our premiums are expressed as a percentage of their turnover. If there is inflation, their turnover tends to grow if they can pass on their prices to their clients, and our turnover grows, so I think that's a true statement. When there's inflation and high rates, this business tends to grow faster, and then we also get better returns on an investment portfolio.

In terms of the normalisation, I don't think I have much more to say. As I said, we reached the trough I think around June last year and since then things have been creeping up. I would say nothing has really changed. Italy and Spain have been the countries that have normalised quickest with a few others. France and Germany have been low, and the governments are gradually withdrawing their support, so I think we are seeing a normalisation. I'm not going to make any forward-looking statements, again.

In terms of credit exposures, you're right to say we had a decrease in Q2-2020. After that, we kind of changed course as the government programmes were kicking in, and we have been supporting our clients with growth in our exposures of about 21% last year, which I think is probably the fastest that we've seen. What's driving this is really the demand from our clients for legitimate business needs so commodities trading has been growing. I can't comment on an overall risk appetite because that's not the way we look at it. We look at it country by country, segment by segment, industry by industry, company by company. So, it's a detailed work. What comes out of it is what comes out of it, and as I said when we talked about the geopolitical risk, we are very attentive to where we put our money. That's the value of what we do – a detailed, one by one analysis of the value of the counterparts that we're insuring.

Phalla GERVAIS (CFO and Risk Director, Coface) On public guarantees, the way that you should look at it is that the public guarantees are basically a reinsurance scheme, so when you buy reinsurance of course it helps your capital position and as you know it ended at the end of the first half of last year. So, I think the impact at year end will be really minor, not only due to the fact that we have put the large majority of this behind us, but also because this reinsurance has ended. And you should look at it as reinsurance. It's the same way that we're doing our private reinsurance. And it helps the solvency.

Thomas FOSSARD (**HSBC**) OK, so if I'm right EUR 20m is what you still expect the cost to be in 2022.

Phalla GERVAIS (CFO and Risk Director, Coface) No, it's not what we're saying. I think you're mixing up the costs and the capital consumption and the capital position.

Michael HUTTNER (Berenberg) Thank you very much. Two follow up questions. One is can you say what your reinsurance limit is on an excessive loss? In other words, if you had a single large claim, what is the maximum that you would have as a net retained loss and with the rest going to the reinsurers. And the second is on Romania and bonding. I don't know much about them. I've never been there but I used to follow Vienna insurance and also Unica and I don't think they ever made money in Romania. It's a lovely, wonderful country but the claims always seemed to be higher than expected and I just wondered how much comfort you have that the trends in credit insurance and all bonding in Romania would be better than the insurance on cars, which has been an issue for your peers.

Xavier DURAND (CEO, Coface) Well, first of all it's a venture. We've been expanding our bonding business across markets. Each market in bonding is different and that's probably what you mean, but the range of what we insure varies by market. It could be tax bonds, it could be performance bonds, it could be guarantees. There are a number of things I'm not describing in detail in terms of what we do in Romania here. In any case, it's not a huge venture, but we feel that this market is primed for what we typically do well and where we make money in the long term, which is retail-based small tickets instead of doing very large transactions. I'm going to turn it to Phalla for insurance.

Phalla GERVAIS (CFO and Risk Director, Coface) The limit per excess loss, the highest limit is EUR 1.7bn per claim for excess loss.

Michael HUTTNER (Berenberg) How much?

Phalla GERVAIS (CFO and Risk Director, Coface) EUR 1.7bn.

Xavier DURAND (CEO, Coface) But I'm not sure, what was your question?

Michael HUTTNER (Berenberg) If an event happens, what would be your maximum single loss exposure?

Xavier DURAND (CEO, Coface) It's 2% of our capital base so it's about 50 something million.

Benoît VALLEAUX (Oddo BHF) Just a follow-up question again regarding reinsurance. As you have still excess capital, why haven't you decided to reduce your quota share, the part that goes to renewals, and increase your retention?

Xavier DURAND (CEO, Coface) Well, I mean that's a that's a tricky question in that you're happy you're not reinsured when things are great and you're less happy when things are bad. It's a long-term partnership here with the reinsurers. We feel that we work both the quota share and the excess and the stop loss and all these things together, so it's a decision that involves multi-year long-term partnerships and the mix of the different products we buy from the reinsurers.

Thomas FOSSARD (HSBC) I just wanted to come back on the 194% and 196% Solvency II ratio, because if I'm right all the public schemes have gone now, so why is there still a difference in the number you're computing at your end? The second question will be: so you're sitting on excess capital, you're leaving your quota share or your cession rate unchanged. You probably have very limited ability to return capital through share buybacks because you're often in the position of Arch capital. So, what are you going to do, what do you intend to do with such excess capital, which is also putting pressure on the return on tangible equity?

Xavier DURAND (CEO, Coface) A few things, and I've said this for five years so I'll just repeat it. Core growth is number one; external growth if we can find opportunities; and last, we will return the money. So, this really hasn't changed in terms of our capital allocation here. Phalla, do you want to talk about the 194% / 196%?

Phalla GERVAIS (CFO and Risk Director, Coface) I think that we would take it offline with Thomas.

Xavier DURAND (CEO, Coface) Thomas, offering to call here for more in-depth discussion on the 2%. I mean the government schemes are kind of behind us but they're not completely because…

Phalla GERVAIS (CFO and Risk Director, Coface) You still have the end tail of what's going on.

Xavier DURAND (CEO, Coface) The end tail of the roll off of the vintages, right now it takes about 18 months for these things…

Phalla GERVAIS (CFO and Risk Director, Coface) And it has not fully developed yet on 2021.

Thomas FOSSARD (HSBC) OK so you're underwriting again, thank you, understood.

Michael HUTTNER (Berenberg) You mentioned external growth if you can find opportunities, is there anything else you can say here?

Xavier DURAND (CEO, Coface) Really there isn't, sorry Michael. We look at deals. We like to make acquisitions if they're good ones. I've already said that there are two things that work for us. We either acquire some skills that we don't have, or we get some scale and some business that we like. And the price has got to be right. So nothing's changed. We've done a couple, I wish they'd been bigger, but we've done a couple and they've been nice acquisitions and will keep looking.

Xavier DURAND (CEO, Coface) Thank you. Well, actually, we've had more questions at one time than most other results calls. So, thank you for joining us. The next call is going to be on 28 April for Q1 so, in the meantime, just want to thank everybody for joining and wish you a great evening.

(End of transcript)

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FINANCIAL CALENDAR 2022 (subject to change)

Q1-2022 results: 28 April 2022 (after market close)
Annual General Shareholders' Meeting 2021: 17 May 2022
H1-2022 results: 28 July 2022 (after market close)
9M-2022 results: 27 October 2022 (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 S1-2021 and our 2020 Universal Registration Document.

Coface: for trade

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