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.

H1-2022 Results

Conference Call Transcription

Paris, 28 July 2022

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 30 June 2022. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO, and Phalla Gervais, CFO.

Xavier DURAND, CEO, COFACE

Thank you. Good evening, everyone and thank you for joining this call. We're happy to report our first-half profit for 2022. As you probably saw in the headline Q2 has been another very strong operating quarter for Coface with €144.4m in net profit for the first half and solvency at 192%. I think if you look through the publication – I'll highlight some of the numbers without making necessarily comments on each one of them – but you see a number of items that are actually quite strong and in quite a few instances are records for Coface. Our turnover is up 14.6% and up 16.5% on a reported basis. Underneath that you find trade credits at 16.1%. Retention of clients is at our best ever 93.9%. Pricing continues to be under pressure as we've experienced over the course of the last almost a year. In business information, remember we had an 11% quarter in Q1. In Q2, we saw good momentum with growth slightly above 20% and high double-digit growth in new business from last year. Losses remain really good at 39.4%, so that brings our combined ratio to 66% and, actually, if you exclude the impact of the public schemes that we booked in Q1 which was €33m, it's actually better in Q2 than in Q1. The net cost ratio is down almost four points at 26.6%. I think that's clearly the best performance ever for Coface and we'll talk more about this. When you look at the publication, I think it's a strong quarter no question. €78.2m in Q2. Return on average tangible equity at 15.4%. Solvency well above the target range. I'll talk a little bit more in the presentation about the board changes. One more piece of good news is that we were upgraded in terms of our ESG rating from AA to AAA by MSCI. Finally, just for the record, our NPS which we really measure on a quarterly basis through thousands of clients across the entire globe is up 10 points from last year at 37%. I think that's a pretty good number in this industry if not the best.

We added one page on page 5 to just show some of the changes that have happened from the time we started this transformation of Coface in the first half of 2016 to where we are today. I thought it would be interesting to just reflect a little bit. You can see quite a lot of changes and a very significant deep transformation that's driving related metrics. Premiums are up 33% but if you recall we started off by reducing premiums because we had to clean the book back in 2016. Client retention is up almost four points, solvency is up 37 points, shareholders' equity is up 11% even though we paid out 100% of our net profit last year in terms of the dividend. The net cost ratio is down by almost 8 points. The net loss ratio, obviously supported by a good environment, is down 20% and then our "new-born" information business which we really started to drive back in 2019 is up almost 50%. That translates into a return on average tangible equity story which you can see on the right-hand side of the chart showing steady improvement to 15.4%, obviously with the blip that we had in 2020 as we were going through the COVID crisis and the government discussions that you're all familiar with. So, this is a deep transformation – Coface executes, Coface has got a plan, Coface is focused on that plan while managing whatever the environment's got to offer. So, the story really doesn't change. The operating principles underlying the business don't change, but we are focused on execution and consistency through the different periods.

Moving now to page 6, I wanted to give you two updates. One is on underwriting. You're seeing some significant growth in our total exposures. We're up 9% from the end of last year to our highest ever at €642bn. But what's interesting is if you look back five years you will see that actually the premiums have grown right in line with the with the exposures. Actually, premiums have grown slightly more than the exposures over time and if you look at what's underneath, you'll see that what we call lower quality exposures are actually close to record lows and the average exposure rating is actually close to its record high. So, we are playing the game and supporting our clients through this recovery phase, but we are also attentive to what's going on in the environment and making sure that we remain consistent with our long-term strategy of creating value through the cycle. Another update on Russia. You may recall that we started this whole war with €4.8bn in exposures on Russia. As of today, it stands at €1.4bn. If we used constant FX, because as you know the rouble has appreciated paradoxically through that period, we would be at €1bn. So, it means we reduced our exposure by about 80% excluding FX since the beginning of this event. The bulk of what we do now is related to domestic Russian exposure support for the benefit of large international clients that we work with. We took some reserves as you're aware for what might happen in Russia initially when this started and generally we're seeing claims so far being quite reasonable. Then we are focused on maintaining our capabilities to service our clients and also collect the money that they and we are owed in the country as we are also right sizing operations. We are not writing any new business in Russia. So far so good I would say but we are continuing to actively monitor the situation.

The next page really talks about our CSR strategy. I put it as a background in light grey this slide that we showed you at the end of Q1. You will see overlaid in green the items that are moving. I thought it would be a practical way to just highlight the fact that we're not losing the plot here, we're continuing to move ahead. A few things have changed – we are integrating climate in our risk monitoring. Amongst all the scenarios we look at, we look at the stress that the climate events would create on the company. We have now a formal Diversity and Inclusion policy approved by the board. We have completed a full carbon footprint assessment of the company which will be the basis from which we will build a plan to reduce it and eventually, if we can, become net carbon zero. And then I also already mentioned the upgrade in MSCI rating to AAA. We have put in place a full CSR governance organisation and structure within Coface so we continue to move ahead on that important topic.

And then, finally, one last update on page 8 about the Board. You're aware that we have had quite a few changes over the last year. Bernardo Sanchez is now our Chairman. We have five independent directors, two of which just joined. Laetitia Leonard-Reuter is the CFO for Generali France so really understands in-depth the insurance sector and finance. Laurent Musy leads a global business with Terreal and brings a wealth of international experience. And then some of the metrics are interesting now. We have the three committees led by female independent directors. If you look at our pool of directors, 60% are independent, 50% are female and 50% are non-French, so I think we really have a good mix and the level of expertise and experience here that positions us well.

With that I am going to go to the usual presentations. Starting with page 10, turnover growth is at 14.6%, which is quite a high figure and historically for Coface probably the best I've seen and probably the highest we've had in the business. Trade credit insurance is growing at 16.1% and on a reported basis it's up 18.1%. Other revenues are picking up some speed with 8.5% in the first half. Business information as I mentioned had a good quarter at over 20.2% in the second quarter. We still do not see the kind of collection fees that we would normally see through the cycle because the losses and the claims remain relatively moderate. Factoring is up almost 12% for the first half. Fees are up 5.6%, so I think there's quite a good momentum in the metrics here.

When you look on page 11 across the regions. Actually, I'm not going to comment every one of them because the trends underneath here are pretty much the same which is good retention and good client activity, leading to double-digit growth in every single part of the world. We see some of the metrics that are actually a bit more dynamic here with Central Europe at 18%, North America at 14%, Asia at almost 23%, Latin America almost 24%, and then some of our factoring businesses with almost 50% growth in Eastern Europe as we see opportunities here for us to position ourselves.

On the next page, the makeup of our growth really hasn't changed that much from the prior quarters. You're seeing a little bit less new production. I think we remain committed to disciplined underwriting in an environment that we consider to be skewed towards the downside, and also in a market where competition remains in my view a bit exuberant. The retention rate is the highest we've had. We are obviously seeing some price effect with nothing different from what we've highlighted so far. Then in terms of the volume effect, which is a combination of buoyant client activity plus inflation, you're seeing 8% which is a very strong number.

Moving onto page 13, losses, we had another really good quarter here with a 32.2% loss ratio for the second quarter, with the first half coming in at 30.6% so almost the same as we had in 2021. As I have already said many times, we do see normalisation underway. The frequency has been increasing since the middle of last year. There have been more large losses even though they're still below the average we expect in a cycle. Then there are a relatively contained number of claims related to the crisis in Ukraine which as I said we're monitoring very closely. So, we haven't changed the reserving policy. You see that we opened the new year at a higher level to account for the fact that the environment is riskier in our view. We still get really good releases from the prior years including from the year 2021 which includes some Russian risk and so it has been a very strong quarter on the loss side.

You can see that story split out on page 14 across the different regions with the four large more stable markets that I usually highlight first at the bottom of the page. They are very stable and below historical levels. Central Europe, a little blip here with the reserves we had booked in Russia but that's not new. On the more volatile markets, on the top side it's still a very benign picture. A bit of a pickup in North America and if you look on page 15 you'll see quarterly splits. In North America, what's happening is you have the combination of one larger claim with progressive normalisation which is taking place like in many other places around the world, so there's not much more to add on the losses side.

In terms of the costs on page 16, so you see that our total costs are up 8.7%. That includes obviously double-digit growth in external acquisition costs, which are driven by broker fees essentially. And then continued but lower growth in internal costs. We are getting operating leverage, so we continue to be disciplined on cost execution. Our premiums are growing faster than our internal costs. We are seeing the cost ratio before reinsurance obviously down by three points from last year. You can see the net cost ratio is also being driven by reinsurance benefit. I have to say this cost management does not prevent us from investing in the business, so we are spending money on technology and systems. We haven't lost any of these things in our sight. We also continue to invest in our information business in a very dynamic way. We still don't see much revenue from collections and I think that's tied to the environment. So this is another good scorecard on the cost side. With that, I'm going to turn it over as I usually do to Phalla to take us through the next few pages.

Phalla GERVAIS, Group CFO and Risk Director

Thanks Xavier. So, we are now on page 17 and we're talking about the reinsurance result. I just want to remind you that in H1-2021 all the public schemes were still in force until the end of June 2021. That explains the premium cession rate that was at 48.5%, and then on the claims cession rate side at 62.7%, again which was probably at the top of the reserving period related to COVID last year. Going back to this year, H1 2022 is a completely different story. If you look at the cession rate at 27.4%, we're much closer to a usual cession rate related to the third party reinsurance treaty that we usually have, and then on the claim cession rate side 6.5%. A couple of things here. Remember that in Q1 we took €33m in costs related to the tail end of the public schemes that went back to the government that put in place such schemes. Of course, 6.5% is low and it just illustrates and reflects the low loss environment that we have. On the bottom line, the reinsurance result really reflects these low past losses and the result has decreased from -84.3 to -102.2.

The net combined ratio is at 66%, up from 51.9% in the first half of last year. If we want to compare apples to apples, I would look at the chart of the combined ratio without the impact of the public schemes. Here we're moving from 61.5% to 60.0% with a net cost ratio down almost 4 points as Xavier mentioned. This is really thanks to the cost discipline that was put in place despite the inflationary environment and the higher commissions that we negotiated at renewal. The net loss ratio is up from 31.0% to 33.7%, in which we have embedded the reserve booked on the Russia Ukraine crisis.

Moving onto page 19 on the financial portfolio. The mark-to-market value of our investment portfolio ends up at €2.8bn. There are a couple of things to be highlighted here. On one side, we have been negatively impacted by the turbulent financial markets, higher interest rates, wider spreads and the drop in the equity market. We also paid out almost €225m in dividends at the end of May. On the other hand, our operating and business performance has contributed a lot of cash and we have good cash generation here, which explains why our strategic asset allocation has not changed much. If you look at the fixed income, the bonds would be closer to 70%. We can also see that the liquidity level is still very high thanks to the cash generation from the business. We'll keep it at 18% waiting for progressive deployment to pick up the interest rate that the increasing interest rate environment will benefit in the yield and investment income. Tactically, what we've done as well to make our portfolio even more resilient is shorten the duration gap that we have. We have reduced the duration of our investment portfolio by almost one year and we have equity hedges in place that turned out to be very efficient. As you can see, our net investment income rose from €15.9m to €24.4m.

As a result, net income for the first half was very strong at €144.4m, €78.2m of which came from the second quarter. This is up 17.2% compared to last year with the tax rate almost stable at 25%.

In terms of return on average tangible equity, I will start with the change in equity so let's look at the walk through from full year 2021 at €2.1bn. Of course, we paid out dividends to the shareholders. We accounted for the Q2 net income, and then you have this mark-to-market movement impact of -163 and +29 and this has driven down the mark-to-market investment portfolio. Return on average tangible equity has increased from 12.2% to 15.4%, and is explained by the technical result and the financial result net of tax.

Let's move onto capital management on page 23. Total balance sheet at €8.5bn. Nothing has changed in terms of the structure of our balance sheet. You can see that the hybrid debt remains the same, we just paid the coupons, and the factoring assets are fully backed by factoring liabilities. IFRS 17 – the project is going on as planned and nothing to be added here. In terms of financial strength, something to be highlighted is the fact that AM Best confirmed that our rating is A which is an excellent rating in April 2022. Book value per share is €12.9 just to give you your own appreciation of where we are today. Tangible book value per share is €11.3.

If we move to page 24, the solvency ratio is down 4% from 196% to an estimate of 192%. Here, something to be highlighted is that, given the resilience of our investment portfolio, the Solvency II ratio has not moved much compared to last year. I just want to refer you to the stress test that we did in Q4 that was shown to you guys. At the end of June, we were already at this level of stress, and we have proven to be very resilient.

On the next page 25, you can see how the 192% is made up. Not much change since last year.

With this, I'll turn it back to Xavier for the key takeaways and outlook.

Xavier DURAND

Thank you. So, as you've seen, I think we had another very strong operating performance in the second quarter. Double-digit revenue growth in most business lines. Return on average tangible equity at 15.4%. Solvency ratio well above the target range despite the growth in the business, because we do have to fund the growth in the business, and some turbulence in the financial markets. We're not losing track of our clients. I've highlighted the NPS because it's the most important thing for us. We think the outlook for the world has deteriorated markedly. You're all aware of the list of geopolitical risks and health risks that goes on and on, including inflation, interest rates, social risks, supply chains, COVID, I mean you name it. So, we're very well aware that the world may be at a turning point and there could be downside risks. The higher interest rates environment does offer some more attractive investment opportunities which we expect to materialise progressively over time. I think we've said that again and again. In this context we remain disciplined. I think that you know the key word for Coface is that we're focused and we're disciplined. We focus on the things we highlighted during the layout of our Build to Lead plan. Clients first. We rely on our culture to make sure that we have the best expertise available, that we are absolutely committed to the clients, that we are collaborating very efficiently, and that we have the courage to address the situations that need to be addressed. We are consistent with our promise to create value through the cycle and not just be looking for volume for volume's sake. We continue to invest in our business for operations, systems, technology and new business development as we have been illustrating with the credit intelligence business. So that's where we are. I am very happy to take questions if you have some which I expect usually going forward.

Q & A ses

sion

Hadley COHEN (Deutsche Bank) Hi, thanks very much everyone. I have four questions if I may. First two on solvency. I was just wondering if you could just talk Phalla a bit more around the walkthrough from the 196% to the 192% at the end of the first half and in particular the extent to which the de-risking of the investment portfolio led to a positive impact on the solvency ratio and how we should think about the potential for more of that positive benefit to come through going forward. And then the second one related to the solvency is, maybe I'm missing something obvious, but I notice that the sensitivities to the stress scenarios have increased quite a lot this time around relative to the previous sensitivities. I'm just wondering if there's anything going on with that. Third question is on costs and cost ratio, and apologies Xavier if I missed this in the discussion, but should we be thinking about this 26.5% to 27% level as a sustainable level going forward? Typically, we've always thought of the 80% normalised as a 50/30 split but do you now see the expense ratio as staying sustainably below 30% in the current environment? And then the final question is around reinsurance and how you're thinking about that and I guess specifically in a scenario where we start to see increased loss activity and more defaults and insolvencies, presumably you will be looking to reduce your net insured exposures and I'm just wondering how you're thinking about the balance of reducing your gross insured exposures and/or increasing your reinsurance protection going forward. Thanks very much.

Phalla GERVAIS (CFO and Risk Director, Coface) I will take the solvency questions. So, there are two things. Let's talk about the walk through related to the investment portfolio. There are a couple of things to be highlighted here. As you can see, the mark-to-market impact of course is impacting our equity so a denominator impact but if you look at page 25, the market risk has decreased since last year. Last year it was at 388, this year it's at 295, which means that what we are losing or the impact on the own funds related to the mark to market is more than compensated by of course in the SCR so the capital consumption. Of course, this is Solvency II. So, if one year is a very depressed market, you're falling from a lower level on the capital consumption. To put it another way, this is really proving the resilience of our investment portfolio. We're going through all the shocks – investments, interest rates, spread widening and equity, and of course you have the impact on your mark-to-market but you're consuming less SCR no there's absolutely no impact on your solvency because your portfolio is really resilient and you can see the stress that we've made this half year which is based on the half-year situation and you know that the spread has been widening quite a lot already. It's still the same kind of outcome which is beyond our comfort zone.

The second thing related to the stress test, related to the 1 in 50 and 1 in 10. The key highlights here are the fact that of course we have increased our exposure by almost 10% from €590bn to €640bn and of course in the stress scenario this costs you more. However, what I also want to highlight is that all this stress testing, the 1 in 20 and 1 in 10 is before any management actions. So, in real life what you do is when you see the loss environment going through the roof, you start to cut, which is exactly what we did in during the COVID period. But the stress test doesn't reflect these management actions.

Xavier DURAND (CEO, Coface) On your question around the cost ratio, I would distinguish between the gross cost ratio which we show on the cost page, which really represents the execution in the business of the premium growth and the cost growth, and what we call the net cost ratio, which is impacted by the terms of our reinsurance contracts, which may vary based on the cycle. So, I think what you're seeing here is two things and right now they are working in the in the same direction and you've seen that story develop over the course of the last six years. You see continued search for efficiency and operating leverage while we continue to invest and we're not losing track of the longer-term plot here. Investing in systems and technology and digitisation and information, market development and things like this. And then you see the benefit of a low claims environment translating into better reinsurance terms which also adds the net cost ratio impact. I think that actually answers both of your questions probably.

Hadley COHEN (Deutsche Bank) Yeah thanks very much. Can I just quickly come back on the first solvency question. If we were to assume that interest rates remain where they are at current levels, presumably your own funds don't change, but presumably you're also still reinvesting in higher quality assets so your market risk should continue to reduce, so it's a net positive performance. Is that fair?

Phalla GERVAIS (CFO and Risk Director, Coface) Yeah, I will hire you as my investment director. Yeah, it's fair.

Michael HUTTNER (Berenberg) Thank you so much. I was trying to think of a good question on your core business and I suppose it follows on little bit from what Hadley asked which is if the environment is looking so clouded, why are you not cutting exposures? The second one is, Phalla, could you repeat what you said on liquidity, how much liquidity you have, that would really help out. The third question is on deals. So, I imagine because you're so well managed you've got strong solvency, you've got cash etc. a lot of people are knocking on your door saying, "would you like to buy this?" and I just wondered what the outlook is there. And then you said you're investing in Information Services. I could maybe guess at the figure but maybe you can within those €304m which I think is the internal costs in the first half, what portion of that or just a feel for how much is the investment bit. And then that my last question is on the board members, the new board members, just to get a feel for the composition. Could you distinguish or say how much of your board now represents your 30% shareholder and how much is independent?

Xavier DURAND (CEO, Coface) Thank you, so I'll take three and I'll leave one for Phalla. On the board members, we have four board members from Arch Capital. It hasn't changed since they joined. They replaced the board members we had from Natixis, so there's nothing new in terms of the governance here. In terms of deals, we're open to doing M&A. I think our scope is both on the insurance side and any other things that would add value to our core franchise which we defined in our Build to Lead plan, so the main pillar and the adjacent businesses. So we're looking, but as you know we've always been picky and in a good sense that we want to do the right deal. We're not just looking for growth for growth's sake. We're open. In terms of the environment, you're well aware that we are in an inflationary environment. The economy is recovering from COVID, or it has recovered from COVID. We're talking about obviously the first half of this year. So we're here to support our clients, we're growing our exposures to support our clients. They have legitimate business needs so we monitor the quality of the book. I would just point out that, over the long term, our premiums have grown just in line with our exposures and the quality of our exposures is the highest it's ever been. And then, the last thing I would say is we are in a very competitive market and we need to stand our ground here, and we're absolutely committed to doing this because what makes us good is our long-term client relationships.

Phalla GERVAIS (CFO and Risk Director, Coface) I'll take the question on liquidity. I think on page 19 of the financial portfolio you can see the percentage, so everything is related to loans, deposits and other financial, which is 18% as of June.

Michael HUTTNER (Berenberg) I think you explained how much the cash flow was.

Phalla GERVAIS (CFO and Risk Director, Coface) I said that there's a lot of cash flow coming through despite the fact that we paid almost €225m in dividends by the end of May.

Michael HUTTNER (Berenberg) And on the costs, the Information Services, I'm not sure the €304m.

Xavier DURAND (CEO, Coface) Oh we're not playing that out. So, all I can say is this business has been pretty much self-funding its growth investments but we don't typically disclose cost by product line.

Benoit VALLEAUX (Oddo BHF) Yes, good evening, a few questions from my side. Maybe starting with the activity. You're still recording a very high level of client retention rate but you're also mentioning a bit stronger competition and at the same time we've seen a decrease compared to last year in terms of new production, so I'd just like you to elaborate a little on this. Is it competition from one country, for example in Germany, where you gained some market share during the crisis or is it more across the board and do you believe for example that we might expect some price increase going forward with a normalisation in claims frequency? Second question is also related to Solvency II. Usually at the end of June we've seen in the past that solvency is a bit weak and weaker than at year-end. It is not really the case here. Have you applied any change in methodology just to understand? And can we assume that you have further strengthened your level of reserves in H1 as you did last year, or not which could maybe partly explain the good Solvency II level? And maybe my last question is on IFRS 17. I don't know if you can elaborate a little bit more on the expected impact for you. Thank you.

Xavier DURAND (CEO, Coface) OK well let me talk about the market here. It's a very dynamic market. There's a lot of competition. Basically the COVID crisis back in 2020 created a spike in insolvencies and quite frankly quite some concern across the economy. I think we gained share throughout those last couple of years. We're taking a more prudent or conservative or consistent stance as we are we think in a world where the risk is towards the downside and remaining completely consistent with our strategy of long-term value creation, but the competition level is not abating at all. We're very focused on our client base and doing the right thing and staying very close and helpful to our clients. I would just point one thing on the solvency – we make money so we are creating capital so that helps. And then IFRS is something which is to come, which will introduce a number of changes in our accounting. I think we'll have to take you guys through what that means and how that's going to work. Obviously, there will be some changes but it's I think a bit too early to talk about how that's going to work.

Phalla GERVAIS (CFO and Risk Director, Coface) On your questions on Solvency II, we have not changed any methodology. This is for sure. On IFRS 17, we're not disclosing an impact because we're still going through this, however, what I can tell you is that we are using the premium allocation approach and this has been approved by the regulator.

Benoit VALLEAUX (Oddo BHF) And on the level of reserves, is it fair to assume that you have strengthened a bit your reserves in H1, or not?

Xavier DURAND (CEO, Coface) We haven't changed our methodology so we're always using the same.

Phalla GERVAIS (CFO and Risk Director, Coface) Same reserving policy, no change.

Thomas FOSSARD (HSBC) Good evening, everyone. Two questions from my side which will be related to the economic environment. Could you please indicate if you've seen in the Q2 close any change in momentum in the economy? It seems to be that for the last couple of weeks the environment seems to be deteriorating pretty fast leading to significant GDP cuts for H2 and 2023 so I was wondering if you've noticed yourself any kind of change in velocity in terms of the recessionary environment beginning in Europe. Second question would be related to your view regarding Germany, especially as Germany is a big market for all the credit insurers. The outlook seems to be bit tricky regarding gas supply. Could you maybe put a focus on how big Germany is for you in terms of geographical exposure and potentially what other kind of industries your books are exposed to.

Xavier DURAND (CEO, Coface) You know how our business works. If there's going to be a change within our clients, we can see it through obviously the discussions we have with them or we can see it through their requests for limits or we can see it through the claims. But that takes a little bit of time. It doesn't happen within a time frame of a couple of weeks, so I would say what we focus our attention on more is how we see the economic environment, what our team of economists and our analysts forecast. And it's really our job, it's our value add to look at the different countries in the different sectors and to monitor the level of risk in each one of these components. If you follow what we did, you're aware that we publish both country risk assessments and sector risk assessments and you've seen that the latest batch is clearly skewed towards the downside. So no mystery here, we manage our exposures as a result of that anticipation and we focus the attention of our analysts on the sectors where we believe there's the most either downside or upside and where things need to be monitored closely. So there's nothing new for us. That's what we do. It's not something that's just suddenly starting at the onset of Q3. It's something we've been doing now for a very long time and there's a continuum here in terms of Coface.

In terms of Germany, it's obviously a huge market for credit insurance. I think it's our largest market, close with others. It's one where we've been operating now for the longest time. I'll just remind you that next year we will have been in Germany for 100 years, so Coface is going to celebrate our century there in 2023. We've gone through a few crises over there. You know clearly in Germany the big question right now is gas and energy and how that affects their industries. It's something that's been on the agenda that seems to be more likely to materialise probably now than it did a few months back, but still it's something we're very attentive to. So that's about as much as I can say. Nothing surprising in terms of the developments that could happen there. We just have to take that into account.

Thomas FOSSARD (HSBC) One last question for you because I think that, in the past, Coface has been less reactive to cut exposure or it's been late to cut exposure, but since you came you've used your risk analysis and risk framework maybe in order to take more timely decisions and also maybe more commercially driven decisions. So, yes it's going in both directions but what is striking to me is that you've downgraded the rating so much for a number of country risks and also industries and so it's a bit surprising to see you ending Q2 at historic high levels in terms of risk exposure. I fully understand that you know the risk quality is strong and you have a better monitoring tool than you had in the past, what you inherited from when you took over, but have you already started to reduce or are you still happy to go into H2 with the same level of risk exposure overall?

Xavier DURAND (CEO, Coface) One thing Thomas you have to keep in mind is the economy, the underlying activity of our clients is growing. I mean you're aware of the headlines on inflation around the world. So our clients are growing, we are growing not just the exposures, we're growing the premiums. I think if you tracked our premiums to our exposures, you would see that they perfectly match. So we've got a bigger business in nominal terms, no question, but the exposure level per amount of premium is actually very consistent and it's higher quality, so it's all based on real stuff going on in the real economy here. It's not like we have changed or suddenly changed our risk appetite or something.

Michael HUTTNER (Berenberg) I'll try to keep them short. Thank you very much. The first one is maybe could you talk about the trading conditions here now in July. What do you see in terms of any particularly large claims? Second, you've got these lovely charts with the curve, the low loss ratio across most regions both in Q1 and H1, so using that and excuse my math, Central Europe ex Russia feels as if it's below 30%, will that be roughly the right level? The reason I ask is if Russia puts a big lump of provisions in Q1 that it'll tend to normalise over the year so just give me a feel. And then the last question is you did mention the large claim in North America, and I just wondered if you could say a few words more because again I missed it, thank you.

Xavier DURAND (CEO, Coface) About the credit environment, there's nothing that I would say that I haven't said already. We reached a low point a year ago. We're seeing normalisation happening. It's probably been slower than anybody was anticipating a year ago, but frequency has been rising. Large claims are still below the cycle, but they are rising and they are happening across the industries you would expect. Obviously there's a lot of tension on raw materials, there's a squeeze in supply chains and you've seen some of the insolvencies. The most high-profile insolvencies lately have been Marelli in the auto space, it's been Geoxia in France in the construction industry. So all these guys are impacted by costs of materials and inflation and supply chains and all that good stuff. You also have some pressure on the retail space – nothing new actually but stuff that was already going on before the crisis which eased a little bit during COVID because a lot of stimulus was put in place and then now it's kind of catching up with people. So, nothing I'm really surprised with, or we can claim that we would be surprised with. In terms of North America, there is one large file. We don't typically discuss them but it's one where we have reduced our exposures quite significantly in time and there's some residual stuff out there that we need to take into account and we're being conservative. In terms of Central Europe, I don't know what the number is and we don't typically disclose partial sub-numbers because I think we'd go crazy, but we did point out that we had booked some reserves in Central Europe relative to the Russian crisis and then as you know the claims will happen in a kind of random distribution in terms of geography. We can never forecast where the claims are going to come from because we don't know which client is going to be impacted and which one of his tens of thousands of buyers is going to be the one that creates the issue. So, we had to book it somewhere and we put it in Central Europe.

Benoit VALLEAUX (Oddo BHF) Yes, good evening. Two quick follow-up questions on my side. First one is on client activity. As you mentioned, it has been very strong in H1. Can you please share with us what your expectations are for H2? Do you start to see some slowdown and expect some slowdown in the second part of the year? And the second question is related to information. Is it fair to assume that during a crisis there should be an increase in demand? I mean with the crisis to come, should we assume that there should be some additional growth on top of your already strong revenue growth? Thank you.

Xavier DURAND (CEO, Coface) Well, two things, on client activity typically there's a delay between what goes on in the economy and the activity that is reported to us because the activity has to first happen and then it has to be reported and we take that into account in our premium calculation booking, so it's always going to be a somewhat backward looking indicator. But I think your guess is as good as mine. It's a macro play, we finance literally every sector and every country in the world, so we're very much linked to what happens in the global economy. Are we headed for a stagflation or recession? That's a debate that's open and we will have the answer in a year, so from that standpoint I don't have much more to say.

Your second question was about the information business. If there's risk, there's going to be demand for risk monitoring, so I would expect that, like anything, if there's more turbulence, people will be more curious. Now as you know this is a business which is really new for us in a way. It's not new but it's something that we put the focus on recently and so we still have to go through it. It's literally a start-up within a broader organisation and so there are many things that are going to affect the growth of that business including the investments, the ramping up and of course the level of demand, but I don't think that the level of demand is the main constraint today.

Benoit PETRARQUE (Kepler Cheuvreux) Yes, good afternoon actually. So, the first question is just to come back on the cost ratio because the gross cost ratio is clearly low and lower than it was before, I think we were at 30.6% in H1. So, considering you are running currently at a low level speaking about the normalised combined ratio of 80%. Will the normalised level of combined ratio be below the 80% level or are you still keeping your 80% normalised cost of combined ratio through the cycle? The second one is on the normalisation of the combined ratio towards the 80%. I think you have been talking about normalisation for quite some time but you're still running below 70%. I was wondering if you could talk about the normalisation speed for the rest of the year. Would that be an acceleration or are you still saying it's going to be well below the normalised level for this year? On your theoretical maximum exposure so the gross exposure, I think in the past you said that the actual usage of this exposure is around 30/40%. Would that still be the case currently? And do you have a bit of granularity on your internal ratings. How much in percentage will be below investment grade currently on your total gross exposure? Could you guide us a bit on the on the underlying exposure on this total exposure? The last question is just to think about Russia and the gas cut potentially. Are you already in discussion with European States and probably Germany around support in this next potential crisis of gas cuts into the winter? Because we had this with COVID, do you think the state will be asking you to support the economy again or is that something you are talking about. Just wondering about that side. Thank you.

Xavier DURAND (CEO, Coface) Well I mean maybe I'll start with this one. I can tell you so far there's been no discussion whatsoever. What the governments are going to do I think is a question of what they can, what they want to do, what they can afford to do, how they're going to agree between the different countries on who bears the weight of such and such item, and it's not just going to be gas, I think it's also going to be debt. How will the governments in Europe agree to support Italy if there's some fragmentation in Italy? I think it's all up in the air and, quite frankly, I think first credit insurance is probably very far away from their core considerations right now. But I'm sure that if there were a crisis the governments would obviously start paying attention, but it usually happens during the downturns. In terms of the cost ratio, we've got the gross cost ratio which is really more geared towards the core operating performance of the business, but there is also and I think I've said this for years now, there's some permeability between cost and loss and the reason is some of the costs get offset by reinsurance commissions, which explains the difference between the gross and the net, and those conditions could vary during the crisis. And the second thing is some fees change during upturns or downturns and the most obvious one is the collection fees which have been extremely low and at a record low for the last couple of years. And if claims go up, we have more losses, we also have more fees from the collection fees, which also plays into the cost ratio. So, I'm not going to change the guidance that we've given, obviously since we have a four-year plan. We have a clearer guidance that we've given in terms of what we want to achieve. There's some permeability. I think I'm just saying this business is focused on executing as best we can and that we don't miss a beat in the sense that we don't slack, we don't slack off because things could be good and suddenly we just relax. No, we don't relax. We continue to execute, we invest, we spend money, we save where we can, we allocate our resources where we think they're the best and we try to improve the profile of the business in terms of its resilience and its ability to navigate whatever the environment is going to have to offer. And I said your guess on that front is just as good as mine. The one thing I would say for everybody here is I think it's become harder and harder to forecast the global economy. What an individual in his office decides to do with the gas faucet that he has is anybody's guess and it's not in an economic model. The reaction of governments to a certain crisis is not in anybody's economic model, so I think political risk has probably risen and that's something quite new for the world. And it pertains to energy, it pertains to armed conflict, it pertains to food, it pertains to elections, and so I think that makes the world a bit harder to forecast. As such, I think what matters more is your ability to deal with whatever is handed to you versus your ability to focus on one scenario and then try to outsmart everybody else, which I think over the medium term is going to be harder.

Alright, well I think we've gone past for once, we've gone a little bit past the hour. So, thank you for your interest. We appreciate you guys following the company and probing and that keeps us on our toes and it's a good dialogue so we appreciate it. Thank you for joining. I think we're going to leave it here. You will be able to follow up individually if there are questions and we will all see you for our Q3 when the story continues and then we'll be able to talk about whatever the scenario is that develops. Thank you, everyone.

End of transcript)

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FINANCIAL CALENDAR 2021/2022
(subject to change)
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 H1-2022 and our 2021 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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