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.

9M-2022 Results

Conference Call Transcription

Paris, 27 October 2022

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 30 September 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, and welcome everyone to this earnings call.

We're happy today to report our results for the first nine months of 2022. As you will see from the publication, it's been another record quarter for Coface. This is a bit of a paradox at the same time given the risks out there in the economy.

Just going quickly through the key numbers, you see that for the first nine months we're reporting €228m in profit, which is more than all of 2021. €84m of this was generated in the third quarter, which is actually our best quarter ever. Turnover is up 15.2% at constant FX and perimeter and almost 18% on a reported basis. TCI continues to grow nicely at 16.6%. We still see some of the same trends in play that we've already discussed in the prior quarters. I'm not going to repeat these. Client retention is at a record high. Pricing is continuously down at -3% in line with the first half of the year. Business information continues to see nice revenue growth, almost 16% at constant FX. The loss ratio is up but still very good at a 36.9% net ratio. The net combined ratio is up close to 8% at 63.8%. Gross loss ratio at 30% is up 5%. We're seeing continuous normalisation of the environment and I'll speak more to this in the later pages. The cost ratio is still very strong at slightly below 27% and we'll talk about what's involved in this. For Q3 the net combined ratio is just below 60%. The return on average tangible equity stands at 16.4%, and tangible equity per share is at €11.50.

There were a couple of notable events in the quarter. We managed to successfully refinance our Tier 2 debt which was due in 2024, so we've actually de-risked that 2024 deadline, and we replaced the old debt with Solvency 2 compatible debt which is going to help our solvency ratio. Second, Moody's has reaffirmed our rating but this time with a positive outlook, which is notable in the face of the upcoming slowdown and great recognition of where we stand as a company, the consistency of our underwriting procedures and the contribution of the information business to a more stable business model.

The next page really talks about Russia. We've looked at a page like this now for the last few quarters. You can see that our exposure and the trade credit insurance limit has gone down 75% including FX and, if you exclude the FX impact, we would be well over 81% at this stage. 80% of what's left is really domestic exposures which we are actually winding down as the contracts come up for renewal. The claims activity is still quite moderate. We further increased our reserve levels and I'll talk more about this when we get to the reserving pages. We're really adjusting the business as we go, retaining the key risk and debt collection capabilities while at the same time right sizing the front end of the business to reflect our stance on where this is going. So that's really the story on Russia.

Then I go to page 7 which starts the usual pages on growth. I've already mentioned the overall growth numbers. As I said, TCI continues to hold up nicely and is being driven by client activity and very strong retention. You're seeing some FX impact of the strong US dollar versus the euro in particular. Other revenues are up almost 10% and the information business grew close to 16% in the third quarter. We're still seeing lower debt collection fees, which at some point will turn around. Factoring has been pretty good at

13% growth. And then another interesting feature is the nice reversal of growth for fees which has been decreasing now for a couple of years, and it is now up 6.7% at constant FX.

On page 8, you see the split by region and there's really not that much news here. Western Europe, Med & Africa, Asia Pacific, North America and Central Europe are all growing in the 12% to 17% range. It's notable that Central Europe is growing as we are also winding down the Russian business. Northern Europe, which is Germany, is growing at close to 10%, and then Latin America, which is driven by commodities and commodity prices, is still the outlier at close to 30%. So, growth is broad-based and driven by some of the same trends, which you can see on page 9.

What you see on page 9 is a continuation of the story from the last couple of quarters. On one hand, our new business is the lowest that it's been in the last four years. I think we've been consistent with our philosophy, which is to create value through the cycle. So, we've been prudent and thoughtful in terms of underwriting new business in the face of a somewhat exuberant marketplace. We've been very focused on retaining our clients and our 93.5% retention rate is yet another record for the business. That's obviously coming at a price. The price effect is at -3.0%, which means we've given up the gains that we made during Covid in 2020 and 2021. Volume continues to be strong. The rebound from Covid plus inflation are driving 11% volume activity, which obviously benefits our activity as well.

When I go to the loss page on page 10, it's been another great quarter at 29.5% in Q3. We continue to see normalisation happening. The number of claims has been increasing since the middle of 2021 when we reached the trough, so we're nearing pre-crisis levels in terms of the number of claims. However, we're not seeing the large claims that we would normally see, so the large losses are still below the average. We've taken deliberate action to increase the reserves related to Russia, whatever exposures we still have there, in face of the escalation that's happening over there and the mobilisation, so I think there's an element of prudence here. You can see that in the bottom right-hand chart with the new vintage being written at a reserve level close to 81%. At the same time, you can see that the business continues to perform because we're seeing very strong recoveries on the prior vintages.

On page 11 we go into the regional view, and you can see that the four largest and traditionally more stable markets at the bottom have been fairly stable with relatively benign losses. Western Europe is at 23%, Northern Europe at 30%, Med & Africa at just below 30%. One exception is Central Europe, where we booked some reserves on Russia. The three traditionally more volatile markets are also doing well. North America is below 30%, Latin America and Asia Pacific are at 10% or even lower.

If you go to page 12, you see the same story spelled out by quarter. What you see at the bottom is quite stable and good levels of losses in Western Europe. In Northern Europe you see a peak and in Central Europe, corresponding to what I've mentioned in terms of booking some reserves on Russia. There had been a peak in Q1 already and then we booked these exposures in Central and Eastern Europe, and then the next quarter we moved them to the regions where the losses were actually showing up or the exposures were actually allocated. That's why in Med & Africa you had a peak in Q2 but that did not happen in Q3. There was one file in North America which we booked in Q2 and that did not repeat itself in Q3. Latin America has been pretty benign and in Asia Pacific it's pretty much the reverse. We had a large old claim on which we found a recovery or settlement and that drove the loss for the quarter negative.

On the next page we talk about costs. Overall costs are growing quarter-on-quarter at a similar pace to our premiums, at 16% and there are two components to that. The first one has to do with the external acquisition costs, and you can see they're up 25 points. This is because there are some profit-sharing clauses in our contracts with clients, which when the losses are low means we pay more commissions and that's really playing out. So, part of this of this line is driven by the low losses that we're experiencing in the book. Secondly, in dark blue here are the internal costs which are up 13.4%, and again within that you have a few different things at play. One is the investments that we're making in the business information line. The second one is that given the performance of the business, we anticipate that we're going to have higher costs in terms of incentives and profit shares with employees, so when you take that stuff out, you're down to 9.8% internal cost growth, and that's how I think we're continuing to drive positive operating leverage because our internal core costs are growing less than our premiums. So that has driven the net cost ratio for the first nine months of the year. The gross cost ratio is at 32.2% versus the 33.8% that we had in 2019 and 33% in 2021. Just to note again that given that the claims environment continues to be relatively low, debt collection revenues are also low.

That's the story for the costs, and I'm going to pass it on to Phalla to take us through the next pages as we usually do.

Phalla GERVAIS, Group CFO and Risk Director

Let's go to the reinsurance page, "record low past losses and commissions drive reinsurance result". If you look at the premium cession rate, it is at 27.1%, which is similar to the pre-Covid cession rate, prior to the backed-up period. This is back to a much more normal level. Then, if you look at the cession rate at 11%, I think there are two highlights here. First, if you remember in Q1 we put behind us the impact of the back stop when we released reserves that went back to the government that put in place the public schemes. And then, if you look at Q2 and Q3, the claim cession rate is pretty low as well, which is really linked to the low claims environment. Consequently, the insurance result ended up at €128m and that makes our reinsurers pretty happy.

On the next page, the net combined ratio has increased from 56.1% to 63.8%. Two components here – the net cost ratio is down almost four points. Of course, cost discipline is our DNA, but this is also due to higher commissions from reinsurance thanks to the renewal terms and conditions that we got at the end of 2021. The net loss ratio is up from 25.4% to 36.9%. This is driven by the fact that losses are normalising a little bit and of course all the additional results that were booked to Russia.

If we move to the next page, which is a view of our financial portfolio, the mark-to-market value is about €2.8bn. There are a couple of things to be noted here. First, you can see that we continue to de-risk our investment portfolio, reducing our equity exposure down to 3% in favour of bonds. The second thing is that we are still maintaining a very high level of liquidity. We're at 18% and this is really coming from the very strong cash generation resulting from the very strong business performance. This is helping us to reinvest at a much higher yield than we used to do in the past. Then, our hedging position is still in place, which also had a P&L impact this quarter. Net investment income has risen from almost €31m last year to €39m this year, with an accounting yield without realised gains up from 0.9% to 1.0%. I just want to highlight the fact that all the new money that we are reinvesting now is above 2%, so over time we're of course seeing investment income going up.

If we move to the next page, I also want to highlight that the €2.8bn doesn't take into account the additional cash that we have received from liability management. This cash totals almost €150m and is sitting in the current account as we speak, and it will be redeployed of course and reinvested at a much higher yield than we see today. We successfully managed our liabilities in September, de-risking the refinancing deadline that we have in 2024. There was a €380m Tier 2 loan that we have maturing in March 2024, so we bought back 40% of it and, at the same time, we issued Solvency 2 fully-fledged Tier 2 debt, a 10-year bullet of €300m at 6% which will mature in September 2032. As a consequence of this transaction, there is a temporary impact on additional Tier 2 debt, with an additional 10 basis point impact on the Solvency 2 ratio until March 2024.

If we move to the next page, we've generated stellar profits in the first nine months of the year. €228m of which €84m was generated in Q3, with operating income up 24% and net income up 20%.

If we move to the next page, the return on average tangible equity stands at 16.4%. If we look at the change in equity, it stood at €2.1bn at the end of December 2021, but of course we paid out dividends. Year-to-date net income is extremely strong, and you can see that we have a still healthy mark-to-market unrealised loss from our investment portfolio even with the increased interest rate, which is mostly impacting the fixed-income portion of our assets. As I already mentioned earlier in the Q2 and Q1 calls, we are in a buy and hold mode, which means that this is really temporary. We have no intention of realising this loss.

Return on average tangible equity has increased from 12.2% to 16.4% due to the technical and financial result net of tax. With this, I'll hand back over to Xavier.

Xavier DURAND

So just to wrap this up, it's been the best quarter in our history in many ways, including double digit revenue growth in TCI and in the business information space at 16.4%, as well as a low loss ratio despite the fact that we've actually increased our reserves on Russia. We're all aware of the risks out there. There are many signs the economy is slowing down, and many clouds on the horizon. We've gone through the list many times – finding policies, political and geopolitical risks, obviously the energy crisis in Europe, and Covid. In the face of this risky environment, we've remained true to our strategy which is to apply continued underwriting discipline, to be consistent in our reserving policy and I think that's being recognised given the positive outlook by Moody's. I think that's one of their arguments. I think we're very focused on our clients. Ultimately, we create long-term value through this real partnership with clients. We have very high retention, actually the best we've ever had, and then when we look at our NPS score, which is something we spend a lot of time on, it's also the best that we've had and it's rising consistently. So, I think the takeaway is that we've got clear operating principles – creating value through the cycle, being disciplined. We're not going to change the stance that you guys have now been accustomed to for the last six and a half years, and we're going to remain true to the values that have supported us so far. I think in this more uncertain environment that this is going to be key in order to continue to perform.

So, with that I'm going to leave it to everyone for questions.

Q & A session

Michael HUTTNER (Berenberg) Thank you very much and well done for the record results. Three questions. Can you give a feel for what your main shareholder is thinking at the moment, whether they want to invest more in trade credit or other activities? The second is can you talk a little bit more about the claims numbers and the background to Q3 and the current situation, just to give us a better feel for how the underlying trends are because we don't have the claims numbers? And then the third one is on business information. Moody's said this is a positive and it stabilises your business model. Can you say, once you stop investing, what would the margin be? A kind of 30% margin on about €70m of revenues at the moment annualised?

Xavier DURAND (CEO, Coface) As far as our main shareholder is concerned, I think you should go ask him, because I can't speak for them. So, I really cannot answer that question quite frankly. In terms of claims I think we've been clear. We started with a spike in claims during Covid in Q2 2020 and then things reversed themselves as the governments threw a lot of money at the economies in different markets. That triggered a serious drop in claims which reached a trough in June 2021. Now, we're a year and three months later, and since then it's been growing, probably slower than we would have anticipated but still the claims numbers have been rising and we're in an environment where they're continuing to rise. And then I think it's pretty consistent with the environment that you're reading about everywhere – tightening of monetary policy, increasing interest rates, inflation that's pinching the wallets of people – so there's some inertia in this whole thing. But I think it's pretty much what you would expect in a cycle. It's anybody's guess as to where exactly that goes and it will also be driven by the actions of the government, so I think you'll see different situations by market depending on how wealthy they are and how much money they're willing to and constrained to spend by their constituencies.

Michael HUTTNER (Berenberg) Could you just maybe give us a feel, some numbers in terms of either the progression of claims or the trough, just to get a bit of a feel?

Xavier DURAND (CEO, Coface) I mean the only thing I think I mentioned is we are nearing the level of the claims in terms of numbers that we had in 2019, but we're not seeing large claims like we would normally at mid cycle. And then in terms of business information, what was your question, I'm trying to remember?

Michael HUTTNER (Berenberg) How much money could you make when you stop investing?

Xavier DURAND (CEO, Coface) Well, the only time we've given an indication was at the end of last year. It was a 30% margin that we highlighted at the time. What we're doing is we're investing right now, so obviously we're less concerned with the amount of money we make than with building the infrastructure, the back office, the sales capabilities, the value proposition and all this stuff, and the technology that has to go into a more mature and more scalable business. So, I think that's really what we communicated.

Michael HUTTNER (Berenberg) And when do you think you would open the tap?

Xavier DURAND (CEO, Coface) I mean, it's a pretty small business that makes €50m or something. For me, the potential out there is such that it wouldn't make a lot of sense to try to milk it now. It just doesn't make any sense. It's more important to create value and build it up unless we really were under the gun and needed the income, but I don't think that's a priority here.

Hadley COHEN (Deutsche Bank) Hi, thanks very much. Two questions please. Firstly, I'm just wondering Xavier, you are now running at record profits at the nine-month level versus any previous full year. I'm just wondering how you're thinking about that in the context of Q4. Now I think there's always an element of seasonality in the fourth quarter but to what extent are you thinking about being even more conservative in the fourth quarter, assuming claims activity remains on trend as we've seen in the past few quarters and leaving an additional buffer to combat potential volatility going into next year and beyond? Or put another way, if we assume that you have another very strong quarter or claims activity remains in line with what we're seeing at the moment, and you report a normal quarter in that respect, to what extent do you think it still makes sense to be paying out such a high pay-out ratio? Or could you look to keep some additional buffer for potential volatility? And then my second question is a very simple one. Apologies if I'm missing something very obvious from Phalla. The accounting yield ex realised gains, the 1%, that is not annualised, correct? So, on an annualised basis it's slightly higher than that compared to the just over 2% that you're reinvesting currently. Thanks.

Xavier DURAND (CEO, Coface) I'm trying to understand your first question. So, we never make forward looking statements, I'm not going to tell you what's going to happen in Q4. I don't know what's going to happen. But I guess your question is more about the pay-out ratio or something like this or conserving capital.

Hadley COHEN (Deutsche Bank) If you have a similarly strong quarter as we've seen this quarter or in previous quarters, do you need to report that all through to the bottom line or can you keep some of that back in terms of extra provisioning or reserving? Or if not, then does it make sense to reduce the pay-out ratio relative to what we've seen in previous years?

Xavier DURAND **(CEO, Coface)** Look we're going to stay true to everything we do, which is we have some well-defined processes to define the reserve levels and we also have a pay-out ratio based on a comfort scale in terms of solvency so we're going to stay true to this. There's really no change in policy here as we go into the fourth quarter. And I will remind everyone that our comfort scale indicates an 80% pay-out ratio when we get above 175%.

Phalla GERVAIS **(CFO and Risk Director, Coface)** I'll take the last question. You're right, this is the accounting yield for nine months and when I say that we're investing above 2%, it's really above 2%. You can see with the 10-year bond, the 10-year French government bond is at 1.70%, to remind everybody of the level of interest rate that we have today.

Benoit VALLEAUX **(Oddo BHF)** Yes, good evening. Three questions on my side. One or two will be on pricing. You still have a very low loss ratio, but at the same time the economic outlook is continuing to deteriorate, so what do you expect for next year? I mean do you think that pricing might continue to decrease, or do you expect some rebound in pricing? And similarly, regarding reinsurance, what is your expectation at this stage regarding reinsurance, and might you change your reinsurance coverage for next year? The second question is on capital. I know that you don't disclose Solvency 2 in September, but nevertheless can you provide any view on the trend that you see, excluding what you have made on debt of course. And then also related to debt, you will replace existing debt with new Tier 2 debt of €300m so, at the end of March 2024 there will be a decrease in your leverage ratio. So, I'd just like to understand why you decided to reduce your leverage and why €300m, just to understand these figures a little better. And the third topic is on IFRS 17. We are now at the end of October, so I assume that you have good visibility on the implications of IFRS 17. Can you share with us any view or comment on your expectation and the impact on net income and shareholders' equity? Also, under IFRS 17, do you believe that you will be able to maintain the level of reserving policy or not, or will you have a tighter constraint, which might lead to some additional changes?

Xavier DURAND **(CEO, Coface)** OK let me take number one first of all. In terms of pricing, the way this business works is I know there are risks out there and there's mounting evidence that the economy is slowing everywhere. But clients don't want to hear this until they really see it. On one hand, we see more appetite for clients to stay insured or become insured. On the other hand, those that are insured are showing us the low losses and saying they think it's worth continuing to discuss the price. Plus, I think the market is very aggressive so I do think that the price compression that you've seen this year will take a little bit of time for this to change in terms of cycle. In terms of reinsurance, this is the time of the year when we're in the discussion phase. Usually this gets concluded sometime in January, so I won't make any comment. Again, I would just remind everyone that reinsurance is not something you play with every year to try to outsmart your partners. They're 20-year partners and they are here for the long term, so we're going to be fairly consistent. I'm going to leave the next two questions to Phalla here.

Phalla GERVAIS **(CFO and Risk Director, Coface)** So you know that we don't disclose our solvency in Q3, however, you've seen that in Q2 we disclosed some of the stress tests. So, we look at the financial stress test that we disclosed at the end of Q2. And then in terms of business, we're still underwriting very good business and so there's no reason why we would deviate much in terms of solvency ratio.

In terms of debt refinancing, the liability management is something where first you buyback the existing debt. You know that the bondholders of our existing debt, part of that is really sticking, namely the life insurers, so we're not able to buy back all of it, so it doesn't mean that we intend to deleverage totally. We'll see what happens when we assess the need to come back to the €380m level at the end of March 2024, it's too early to say. For the time being, it was a good de-risking transaction, especially in light of the increased interest rates and increased spread. So, I think the objective here is really to de-risk the refinancing deadline.

Benoit VALLEAUX **(Oddo BHF)** Thank you. And regarding IFRS 17?

Phalla GERVAIS **(CFO and Risk Director, Coface)** So, in terms of IFRS 17, as we have disclosed, we are in a premium allocation approach, which is no CSM as I mentioned. We have finalised our first-time application which is the opening balance sheet as of 1 January 2022. Again, we're not disclosing it because it's still under audit, so you will have all the information once it has been audited. We'll get back to you on this one.

Xavier DURAND **(CEO, Coface)** Just one comment on IFRS 17. We are a relatively short cycle business. When we book a contract, I would say after three years we pretty much know where this is going, so the economic performance of the business is not going to be impacted by the change in accounting methodology. And so, the only thing we're talking about here is really the timing of it and how it plays out in time. But you shouldn't see a change in economic performance of the business, nor would we change our strategy or the way we run the business or our philosophy overall and our attitude towards the market or the opportunity.

Michael HUTTNER (Berenberg) I have two questions. One is new clients versus old clients and the other one is potential deals or deal pipeline. So, I understood you're focusing on the existing clients, high retention, some price flexibility and you're more cautious on new business. Can you give a feel for the profitability of an old client versus a new client so we can understand the mechanics but also the numbers, because you definitely have been growing more slowly than your peers in total but that seems to be very beneficial. And the second is on the deal pipeline. Any indications, any ambitions?

Xavier DURAND (CEO, Coface) Your pipeline, you mean in the core TCI business?

Michael HUTTNER (Berenberg) Anything, I mean if you want to buy anything bigger, I'd be interested as well, but core TCI is the main one.

Xavier DURAND (CEO, Coface) Well, we don't look at old versus new, we look at client quality and portfolio quality. The way we underwrite a deal is we try to understand first why the client would want to get insured and whether we're going to be able to have a long-term partnership or not. That's the criteria. If we're going to be in that situation where we build a true partnership, then yes, we're interested, and then it's a client-by-client decision based on the quality of their portfolios, the volatility of their business, etc. So that's really how we look at it, but I can't really give you a profitability outlook for a new versus an old client because in the end we're going to live together for 20 years. And if we live together for 20 years, the price point we're at on one day doesn't mean much. It's really what we get out of a 20-year relationship with all the ups and downs and the cycle and all this stuff that we're going to go through together. That's how we look at it. In terms of the deal pipeline, all I can say is that in a time when there are no claims there's less appetite in the market to get insured. In times when things look a little bit dicier or claims start going up, usually you see more demand.

Michael HUTTNER (Berenberg) I meant deals, acquisitions.

Xavier DURAND (CEO, Coface) Acquisitions, well the line on this one is always the same. This is not an infinite market, there are a limited number of opportunities. I think we look at them, and if and when we see one that is available, a good opportunity and at a price that we like, then we go for it. There are a few conditions here.

Michael HUTTNER (Berenberg) And then just a little bit of the third question, which I think you or Hadley were discussing before, is basically on the pay-out ratio. So, 80% is the minimum. In the past sometimes you paid 100% or even more using other tools like buybacks. Given how you see the market at the moment, where would you be in that scale?

Xavier DURAND (CEO, Coface) Well, two things, we've always had more capital and you have reminded us regularly that we had more capital than we needed, and we always said we are going to use that capital for three things. Number one was core growth, and that was at a time when the business was growing 3% 4% 5% a year. Number two was going to be non-organic acquisitions, and number three was going to be capital management with shareholders and returning what we don't need. Well, it so happens that this year we are actually seeing a lot of core growth, so we have to take that into account. It's a good way for us to employ capital if we believe in what we do. For the rest, I think it's a board decision in terms of how they want to play at the end of the year.

Benoit VALLEAUX (Oddo BHF) Good evening again. Just a question regarding client activity which has been at a record level, because you said you benefited from the fast rebound in the economy plus inflation. How do you see the outlook on this line? Do you think there could be some adjustments given the decrease in growth and the more negative economic outlook, but at the same time we are still above normal in terms of inflation. So, what is your view on that?

Xavier DURAND (CEO, Coface) I wish I had a crystal ball, I don't. It's anybody's guess where the economy is headed but I think everybody would at this stage agree that there's some kind of a slowdown happening and actually it's being driven by central bank policy. They're trying to tame inflation and in trying to tame inflation they're going to slow down the economy. So, the result of this is either they get stagflation, or they get a recession, and the margin between the two is tenuous. If we get stagflation, we get lower growth, and you get more inflation than you would like. If you get a recession, you get lower growth and lower inflation than you would like, and it's anybody's guess as to where this is going. It's really a policy navigation question here, which I don't know the answer to. But in any case, we get impacted by this.

Benoit VALLEAUX (Oddo BHF) Ok but is it fair to assume that client activity should increase thanks to inflation next year, should be positive?

Xavier DURAND (CEO, Coface) I'm not going to tell you where the number is. We don't make forward looking statements, but I can tell you that what we've had this year is both the rebound and the inflation. Now if inflation is 30%, you'll see that, but if inflation is zero, you'll see that too.

Thomas FOSSARD (HSBC) OK. First question will be on the TCI exposure. I can remember that at the end of H2 you provided some numbers, and now the economic environment is clearer, the path towards recession is maybe clearer it was a couple of months ago. So, have you changed anything about the TCI exposure or is there any update? Second question is related to IFRS 17. Actually, your PYDs remained pretty strong year to date but also specifically in Q3 so you indicated some good recoveries notably in Asia. Is that something coming from a couple of quarters ahead of IFRS 17 and maybe the need for you to exteriorise some of these PYDs, otherwise you run the risk of maybe losing part of it into IFRS 17 and then that will impact your shareholders' equity. So, I was wondering if there was a bit of pre-IFRS 17 engineering in your Q3 numbers or if we should expect a bit of this in the Q4 numbers. And the last question was related to solvency and the solvency ratio. I think that in the Moody's press release, they are specifically quoting the 180% Solvency 2 ratio as a level they would like you to keep in order to maintain their view or their rating. How is this becoming a new constraint for you in terms of solvency and how potentially could it affect your pay-out policy?

Xavier DURAND (CEO, Coface) Let me start with this one. Yes, they do mention 180%. I mean we're not here to satisfy every request or criteria that such and such agency or whoever else is putting on us. We have a clear comfort scale; we have a clear policy for capital management and then we go through the cycle like everybody else. So, we're going to stay true, and we have a dividend policy or pay-out policy that is consistent with this. We're not going to change that. By the way, I think their 180 is a kind of milestone for improving the rating, not for maintaining it. It'll be discussed with them, but we're not going to change our strategy just because somebody says we'd like you to have this or that. In terms of the TCI exposures, we're continuing to adjust our exposures in terms of quality and sectors, to reflect the environment, so these are actively managed. In terms of their overall scale, I think they usually go along with our turnover. Last time, we showed that the premiums grow somewhat in line with the exposures. I don't see anything different here. In terms of IFRS 17, what was the question again?

Thomas FOSSARD (HSBC) Reserves and PYDs and the need to take some actions to keep some of the fat...

Xavier DURAND (CEO, Coface) The thing is the methods might be different. In any case, nothing's lost, nothing's gained, so if it comes through it's still in the balance sheet and it will still be in the balance sheet. The question of how and when it gets recognised, that's the key in IFRS 17, but it's not something that we can discuss now.

Thomas FOSSARD (HSBC) My point Phalla was more on the fact that under IFRS 17 you need to be at best estimates but looking at the Solvency 2 disclosure, you have buffer above your best estimates which is potentially putting you in a comfort zone, but would you be able to recycle these reserves under IFRS 17, or does that mean that you stick to best estimates and clearly you lose part of the smoothing capability you've got currently.

Phalla GERVAIS (CFO and Risk Director, Coface) Listen we are on the IFRS for principle so we're just applying the principle as we say. Then of course we move into IFRS 17, there will be a new principle that we'll apply at that time. As I said, we have just done our first-time application as of 1 January. This is being reviewed by the auditors so it's not something that I can disclose now before the audit. Then of course, keep in mind that our business cycle is two years, three years, three and a half max, and I think that's probably one way to look at that, and in two years' time say, IFRS 17 will be the same thing.

Thomas FOSSARD (HSBC) So nothing abnormal in PYDs in Q3. No accounting engineering, purely operational.

Phalla GERVAIS (CFO and Risk Director, Coface) I cannot say that I'm doing any accounting engineering.

Xavier DURAND (CEO, Coface) I mean the two methods are different and that's going to be part of the disclosures when we launch IFRS 17. I don't think we're in a position to talk about this right now.

Michael HUTTNER (Berenberg) Very quick question, when's your Investor Day next year? Is it beginning of the year, end of the year, when would it be?

Xavier DURAND (CEO, Coface) Investor Day, no. We have our earnings call. I was just going to say our earnings call is going to be on 16 February.

Michael HUTTNER (Berenberg) In 2020 you had an Investor Day. It's every three years, no?

Xavier DURAND (CEO, Coface) It's every four years.

Michael HUTTNER (Berenberg) My mistake, thank you.

Xavier DURAND (CEO, Coface) You have to wait one more year, sorry. They go by pretty quickly though.

Michael HUTTNER (Berenberg) Thank you very much. Sorry about that.

Xavier DURAND (CEO, Coface) Alright, thanks everyone, thanks for logging in and, as I said, 16 February is when we when we have our next call for the full year. Thank you, everyone.

End of transcript)

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FINANCIAL CALENDAR 2022/2023
(subject to change)
FY-2022 results: 16 February 2023 (after market close)
Annual General Shareholders' Meeting 2022: 16 May 2023

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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