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 reporting" section.

# FY-2016 Results

## Call Conference Transcription

Paris, 8 February 2017

## Welcome and Opening Remarks

**Operator**

Ladies and gentlemen, welcome to the Coface Financial Results conference call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. As a reminder, this conference call is being recorded. Your hosts for today's conference will be Mr Xavier Durand, CEO of Coface and Ms Carine Pichon, Group CFO. I would like to turn the call over to Mr Xavier Durand. Sir, you may begin.

## Presentation

**Xavier Durand**

Good evening and thank you for joining us. Today we are announcing the 2016 total-year results for Coface. The main message is that all of our operating metrics for the year are in line with our expectations and the guidance we provided. Turnover is in line with previous trends, at EUR 1,411 million (down 3.6% versus 2015, ex FX). The net loss ratio is 65.5% - which is within the target range for the year that we provided in July, of 63% to 66%. Our net cost ratio comes in at 31.9%, as we continue tight control on expenses.

Our net income for the year came in at EUR 41.5 million. This includes EUR 36.5 million from the French state guarantees and the Fin to Win events. The good news of the quarter is that we have effectively finalised the transfer of the state export guarantees management business, triggering a EUR 75 million one-off gain, before tax, from the State. A team of 250 people and IT systems were transferred on 2 January.

Fit to Win, the three-year plan we launched last year, is progressing in line with expectations. We have initiated the risk and cost actions, as per the schedule we previously outlined and I will give more colour on this during the presentation. The works council consultations in France and Germany are well underway. The first benefits from the implementation of the plan are materialising - both on the risk and on the cost side. We have also taken an important first step in capital optimisation, by increasing our quota-share cession to reinsurers to 26%, up from 20% the year before.

Our solvency ratio at the end of the year came in at 150%, which is right in the target range we highlighted of 140% to 160%. We are proposing a dividend of 13c per share, which comprises 7c corresponding to the normal dividend (62% of adjusted earnings per share, as previously indicated) and 6c corresponding to a special dividend, in line with the announcements we made in July.

Turnover, as highlighted in previous quarters, was driven by soft conditions in mature markets and the risk measures we have taken in emerging markets (where we saw a surge in risks during the year). Other revenues have been impacted by lower state export guarantee management fees. We have put more focus on fees and our fees to gross earned premiums (Fees/GEP) ratio increased by 0.6% during the year.

Going on to the split by regions, some of the same trends are at play as in previous quarters. Western Europe is down 8% from last year. Germany and Northern Europe are down 5% from last year and in both of these areas we continue to see a relatively low-loss environment, which is driving continued pressure on prices. Volume is down 1% in Central Europe, driven by Austria, while the rest of the region is performing well. Within the Mediterranean and Africa, Spain (which has been transferred to this region) is under pressure, being a mature market with a strong on-going economic recovery. Italy and the rest of the region are continuing to grow.

Growth in North America was 4%, again mainly driven by large global accounts. In Asia-Pacific, where you can see the impact of the risk measures we have taken in previous quarters, it was down by 10.9%

for the year.  There is good news from Latin America (where we are starting to see the impact of the actions we have taken, both on risk and pricing) and we are up by 9% for the year.

Looking at the various components of volume, new business came in at EUR 139 million for 2016 – which is similar to the levels seen in previous years.  New business has been fairly flat in all regions except, obviously, in Asia, where we have had a significant focus on portfolio selection, in order to reduce our risk.  Retention rates came in at 88.5%, which is the highest level we have seen in recent years. In the light of the risk actions we have taken, this is a pretty good performance.  Prices are down 1.7% for the year, but although this is negative, it is better than in 2015 - and we are starting to see the impact of the repricing actions we have undertaken, particularly in Latin America.  The volume effect has been much lower than in previous years, driven by lower commodity prices. We were pretty much at zero at the end of Q3, but Q4 seems to have been better, driven by a recovery in commodity prices and some inflation in the global economy.  The news is therefore better than it was at the end of Q3.

Going on to the risk side and our loss ratio before reinsurance, our losses spiked during Q2, went down to 67.6% in Q3 and ended at 61.8% for Q4. Clearly this is higher than our long term aim, but it has been improving since Q3. We opened the new underwriting year at a 70% reserve level, which is very much in line with 2015.  Nevertheless, the bonis from the exercises for previous underwriting years were lower, driven by the losses we saw in 2014 and 2015 underwriting years- particularly in emerging markets.

To look at our risk breakdown between the different regions, I will begin with the more mature markets. Our performance in Central Europe was strong, at 50%. Western Europe had another great year, at 38%.  Northern Europe was slightly higher (mainly due to the severity of risks in certain industries), but still performed well.  The Mediterranean and Africa region remained below 50%.  The story has been consistent in these four regions.  Obviously, things were more difficult in some other countries.  North America continued to be higher than expected, although the underlying trends seem to be improving. Asia-Pacific remained at a high spot, with losses at 177% in Q3 and 164% in Q4.  It will take some time for the risk actions we have undertaken to fully materialise.  There was better news in Latin America, with total losses coming in at 60% for the full year. We are also seeing pricing capability in this part of the world.

Costs remain very much under control, down by 0.6% year on year.  This breaks down as a 3.8% reduction in variable external acquisition costs, mainly driven by lower volumes.  We are keeping very tight control on expenses outside the Fit to Win plan. We took EUR 2.1 million of set up costs through the P&L for Fit to Win in Q4, which is in addition to the one-off bookings we made during 2016.  Our cost ratio before reinsurance is up by 1.6% from the 31.5% in 2015, with expenses down by 0.6%, (offsetting lower revenues from the state guarantees business we kept during 2016, but not obviously the total volume of lost business).

**Carine Pichon**

Good evening everybody.  Reinsurance absorbed part of the loss ratio volatility in 2016.  The cost of reinsurance fell from minus EUR 51.4 million in 2015, to around minus EUR 18 million in 2016 - so the cost has decreased, to absorb the loss increase.  Focusing more specifically on each item in the reinsurance results, our premium cession rate rose to 23.1%, up from 22.4% in 2015, as we added more cover in 2016, while the claim cession rate remained stable.

Our combined ratio after reinsurance is stabilising in line with expectations, at 97.4% for the full year 2016.  The increase compared with the previous year came from higher losses in emerging markets, but our loss ratio is fully within the target range we gave in mid-July 2016.  The net combined ratio per quarter declined from 104% in Q2-16 to 100% in Q4-16, to show the first signs of improvement in net loss ratios, particularly in Latin America - although Asia is still high.

As regards financial results, it is no surprise to see that we are being pressured by low market rates. Our net investment income for 2016 was EUR 48 million, down from EUR 53.1 million in 2015. Our total portfolio was around EUR 2.6 billion. We have continued with a diversified and proactive investment strategy, with most of our portfolio in bonds, although we have increased the share of investments in real estate.

Our effective tax rate of 50.1% for 2016 was impacted by unrecognised deferred tax assets in loss-making regions. Our 2015 tax rate, of 28.1%, benefitted from a positive one-off adjustment in Italy, representing 6.4%. We had an unrecognised deferred tax asset of 12.5% and a complementary effect of 3.1%, (which mainly concerned tax on dividend in France, based on the 2015 results distribution). The increase of 12.5% is due to the fact that we made some losses (specifically in emerging markets in Asia) and we haven't recognised the full deferred tax assets on these losses.

Our net income was EUR 41.5 million, with the one-off effect of the state export guarantees transfer; the provision for Fit to Win was EUR 38.6 million – which is exactly in line with our statement of 22 September 2016 when we launched Fit to Win; and we also had some one-off gains of EUR 19.2 million from Fit to Win - which represents a reserve release from some social benefits. Our earnings per share will be 26c, with an adjusted earnings per share of 11c. As previously advised, the basis of the dividend excludes some one-offs. We have therefore calculated a normal dividend of 7c per share (which corresponds to the 62% pay-out ratio on adjusted earnings), to which is added the 6c of special dividends we announced in July 2016.

The return on average tangible equity (RoATE) stood at 2.7% for the full year 2016. Equity remained relatively stable, at EUR 1,755 billion for 2016, compared to EUR 1,761 million for 2015. The change is mainly due to last year's distribution, the net impact of yearly income and changes in the revaluation reserve (linked to the increase in unrealised gains in the financial portfolio). The return on average tangible equity (RoATE) was 8.4% for 2015 and 2.7% for 2016. The main changes were due to technical results (the increase in the loss ratio), while 1.4% was linked to the increase in the effective tax rate. We had positive one-off items, representing 2.3%, which contributed to our RoATE of 2.7%. We have also calculated this return to exclude one-offs and the state export guarantees activity, as this will form a type of pro forma basis for the years to come. When we deduct the 2.3% in one-off items and the 1.1% margin from state export guarantees, we reach a RoATE of -0.8%.

That summarises the results. I would now like to move on to capital management. We continue to enjoy a very strong financial situation - as reaffirmed by our two financial ratings agencies since the launch of the Fit to Win plan. Fitch reaffirmed the AA- rating in September 2016, and Moody's the A2 in November 2016. Our capital structure has a fairly stable leverage ratio. The coverage ratio is a little lower than last year, mainly due to the fact that the operating results have decreased.

As regards Solvency II and our own funds, at the end of 2015 we stood at EUR 1,956 billion. This increased to close to EUR 2 billion at the end of 2016. The main movements during this time were a change in the IFRS own funds, a re-evaluation reserve of EUR 14 million and a re-evaluation of our hybrid debt (which is updated on the market value at the end of each period) which represented EUR 5.8 million. The dividend had a positive impact, as here it is the difference between the dividend we paid last year and the dividend we plan to pay this year. What is new, is that we have included an adjustment linked to tested availability of our own funds. This means that we are looking at the availability of our equity and checking to see if we can use it for the whole group. We have made an adjustment of EUR 27.4 million, which means that we are close to EUR 2 billion in own funds. That forms the basis of our capital under Solvency II.

The total amount of our required capital is EUR 1,335 billion. We have EUR 1.4 billion in capital requirements, mainly from our non-life underwriting risk activities – i.e. capital need from insurance activity- as well as market risk and counterparty risks. Under Solvency II, diversification effect can be beneficial when there is a shock, and this diversification accounted for EUR 221 million. Tax adjustments can also account for part of this shock absorption as shown on the graph. Then we add factoring required capital leading to a EUR 1,335 billion total solvency required capital. . When we compare our eligible own funds with solvency required capital, we had a coverage ratio of 150% for 2016.

There are several important messages here, the first one being that 150% is exactly in the middle of the range we provided, of between 140% to 160%. Within this comfort scale, we have enough capital to support our business plan and enough for a pay-out ratio of 60%. We still have very low sensitivity to market shocks - and of course we are sensitive to what can happen from a loss point of view. Using the 2008-2009 crisis or a 1/20 crisis as a benchmark, our cover ratio is between 117% and 120%.

The cover ratio at the end of 2015 was 147% and 150% at the end of 2016. The first variation came from an increase in own funds, which contributed 3.1%. The fact that we had lower activity and additional reinsurance capacity added 5.5%, but 4.5% of this was absorbed by lower deferred tax adjustments. As we had losses in emerging markets, when we now simulate a shock, our capacity to absorb it through deferred tax has reduced. There were also other elements, including factoring, which represented 1.3%.

**Xavier Durand**

I will now give you an update on the progress of our Fit to Win plan, within which there are three operational pillars and one capital management pillar. We are really moving quickly on the operational pillars, by strengthening our risk management and information capabilities. We are progressing in our recruitment for enhanced information (particularly in emerging markets) and we are now at 75%. We have updated our underwriting guidelines and processes, and put together a dedicated team of senior experts to help all the different markets. We have completed around 90% on both of these aspects, so we have made a lot of progress on the risk and information management sides. We can already see some of the effects from these starting to take shape and we expect the full pay-off to materialise over the next couple of years.

As regards operational efficiency and client service initiatives, we have commenced works council consultations in France and Germany and already received opinions in a number of cases, which has allowed us to move ahead with some projects. We have initiated a project to centralise some IT services within a new facility in Romania, where we are in the process of recruiting people and have already found a location. We have started to renegotiate office rentals across Europe and have already achieved some relocations. In France, we have launched an early retirement plan and reviewed social benefits, to be better aligned with market practices. This has already triggered a positive one-off of EUR 14 million, which we have taken into account for 2016.

There has been a lot of work done on implementing differentiated growth strategies by market and, as already mentioned, positive re-pricing actions are starting to bite in Latin America. We have announced new partnerships on the banking side and these are a way for us to expand our distribution and reach a market segment which is particularly focused on SMEs and smaller companies. We had success in this regard last year, with UniCredit in Italy. We have also just announced the signature of a couple of partnerships in France, with the Bank of China and the BPCE group.

The restructuring of our portfolio in Asia is well underway and we are reinforcing our account management teams and processes in mature markets. This helped in the retention process towards the end of 2016 and is continuing to do so at the beginning of 2017. Finally, we have taken significant steps to reduce our capital intensity, by increasing our quota share cession rates to the reinsurance markets, from 20% to 26%. This was very positively received by the markets, both in terms of capacity and pricing, so this has been an important step in the process.

I would like to give you a recap on our organisational structure. We have made a lot of changes throughout the year and I would like to highlight the scope and depth of these changes on the organisational chart which we will have in place from 1 April. We have made hires from outside the company and brought in a number of experts with proven experience and expertise in the credit arena, among others. Positions have also been created and updated. We have significantly enhanced the team and our operating framework, bringing in a total of 12 executives from external companies at very senior level. I therefore feel confident that we have a much stronger team and a much better framework for running the business. We now have a robust matrix organisation that will give us more control over the business and should serve to reduce volatility in our outputs.

We are also forging ahead with the transformation of our business culture, by focussing on the four values highlighted in our plan – client focus, expertise, collaboration (to ensure that all the different pieces work together) and courage (to make the tough calls, whether on price, risk or volume, in different circumstances).

Moving on to the summary, I would just like to reiterate the fact that our operating results are in line with the objectives we set. We are seeing the first signs of an improvement in the loss ratio for Latin America. Asia is still high and will take some time, but it will progressively materialise. The implementation of Fit to Win is progressing as planned. We have strengthened the team and we now have a much tighter management structure. I feel very positive about our ability to move ahead. Our business is now completely focused on the execution of Fit to Win.

Finally, as concerns 2017, we have already highlighted the fact that this will be a transitional year. As a reminder, we earmarked a further EUR 21 million of investments and restructuring expenses linked to Fit to Win that we did not use in 2016 but will do in 2017. We intend to deliver EUR 10 million in cost savings from the various actions that we have already set in motion. It will also be a transitional year in terms of losses and we expect the total net loss ratio for the year to be below 61%.

## Questions and Answers (Q&A)

**Michael Huttner, JP Morgan**

In these numbers, I'm interested to highlight the positives and I know that, as management, you have to produce a balanced view, but if I want to highlight the positive trends, which we can already see, maybe you can help me out a little? One which I thought was significant was the quarterly improvement in the loss ratio - and you might say there were one-offs there. The other trend I liked was the loss ratios in all of the markets, particularly in Latin America.

My second question is, as concerns Asia-Pacific, could you explain what one might call the 'reticence'? Coface started the re-underwriting process in Asia-Pacific at the beginning of Q4 2015 - so it is well over a year ago. I know there is a delay in insurance, but I do not quite understand this.

My third question is just about numbers. Could you provide me with the actual figures for tangible equity in January and December 2016, so I can rework the return on average tangible equity and have it in my model going forward?

**Xavier Durand**

I will take the first two questions on losses and then let Carine look for those numbers on actual tangible equity. As regards the trends, the numbers are pretty clear. The Q4 loss ratio of 61.8%, before reinsurance, is an improvement - although I would still say it is high compared to the long-term target we have set for ourselves. When it comes to the trends per region, at 60% Latin America is actually much better than it was in 2015, so we are seeing the impact of the actions we have taken on risk. We have already discussed at length the fact that actions in Latin America began in 2014 and there have been different layers on this.

As concerns Asia, the first wave of actions began in the final two weeks of 2015 (so we are talking a year and a month ago), with a reduction of almost 50% in our exposure. We then continued to work on our Asian risk levels, particularly during the first half of the year, by taking a series of measures which were much more focused on individual markets, segments and countries. It will therefore take some time for the full effect of these measures to materialise – particularly given the fact that, in Asia, delays in payments, terms and conditions are traditionally longer than in mature markets. So there is therefore nothing new here.

**Carine Pichon**

Coming back to your question on tangible equity, there was no major change between 2015 and 2016. The average was EUR 1,538 billion – or to be more precise, EUR 1,536 billion in December 2015 and EUR 1,539 billion in December 2016.

**Benoit Pétrarque, Kepler Cheuvreux**

I have a couple of questions, the first one being on the Solvency II ratio. The quota share cession increased to 26%. What impact will this have on Solvency II on 1 January, and how much improvement do you expect from reinsurance later this year? Do you plan to move to partial internal model? Is this something you have in mind at the moment?

Secondly, as concerns the DTAs in Asia, I am a little surprised that you do not recognise anything here. Do you have any issues regarding your capacity to recover from losses with future profit? Is there anything special here? I also have a question on the cost ratio. Do you have the cost ratio, excluding the state export guarantee business, on a pro forma basis for 2016?

Finally, I understand that it does take time in Asia. However, could you tell me when we could see the first significant recovery in loss ratio in 2017 - or do you only expect this to happen in 2018? This is just a timing question.

**Carine Pichon**

If I understand correctly, your question on the Solvency II ratio was on the impact of the increase in quota share. It is always progressive, because you need to wait the full effects of the quota share to be integrated. But we can say that - it is very simplified - as a rough estimate: on a normalised run, 1% of the quota share would be equal to 1% of the cover ratio. This is a rough estimation, and having said that, the solvency ratio is not only dependent on reinsurance but also on our capacity to deliver operational improvements – as is our plan with Fit to Win..

Regarding partial internal model there is nothing new to add since our discussions of September. It is an option and the objectives we have set with our plan do not factor any possible move to a partial internal model. It does not mean that we are not working on it, but we consider that it is too early at this stage to integrate this into any capital optimisation - although we are working on it.

As regards your question on the cost ratio, we have given a pro forma of the main metrics without this activity on page 30 of the slideshow. This is important, as it will form the basis on which we will compare the 2017 results with those of the following years. The cost ratio is 31.9% - or 35% without the state guarantees management activity. This represents an increase of 3%.

You also had a question on DTAs in Asia. DTAs should be recognised depending on our capacity to absorb losses in the future; and in our accounting framework we have decided to apply a cautious calculation, along with the timeframe of recovery and so on. Having said that, it is clear that the losses in Asia were quite significant in some countries. This means that even when there is a recovery, meaning a return to benefit, it will be a long time before they are able to absorb the severe losses we have seen over the last two years.

**Benoit Pétrarque, Kepler Cheuvreux**

Can we assume anyway, that there will be no tax on Asian profits going forwards? It will take time, but can we assume this for 2019 or 2020?

**Carine Pichon**

What will in fact happen is that, when we return to profit in these markets we will not pay tax. This means that it will have a very progressive positive impact, as you said.

**Xavier Durand**

Your comment is correct. It will take time, as the losses were concentrated in certain locations and it will take time for these locations to be able to produce enough earnings to offset the accumulated losses.

**Benoit Pétrarque**

What might be the timing of the recovery in Asia?

**Xavier Durand**

As we have always said, we are on a two-year cycle. We are now one year into a course of actions which began at the end of 2015. We expect to see the effects of the risk actions we took during the first six months of 2016 to come in progressively. That is what we have always said, and it remains true.

**Thomas Fossard, HSBC**

My first question is on the level of premium growth from the Western Europe segment, which was -10%. Could you just explain a little what is going on here? This is still the group's major profit centre, for the time being, but revenues seem to be under significant pressure.

The second question concerns revenue evolutions in 2017. Can you help us to better understand what we should expect in terms of revenue growth for 2017 - bearing in mind your action plans on risk exposure? Business is flat and prices are probably still under pressure. Looking at the accounts, I have seen that premiums increased by 15% year on year, so your clients in low combined ratio countries are clearly asking for more rebates. Putting all this together, any guidance you could provide regarding premium and revenue growth would be interesting.

Finally, there are obviously a lot of political risks on the radar screen, such as Article 50 and Brexit in the UK, the Trump administration (with potential shockwaves in countries such as Mexico) and India's demonetisation, which is creating a significant slowdown. How are you manoeuvring through this tricky environment, and how do think things could evolve for your business on the risk landscape side?

**Xavier Durand**

These are very good questions. I will start with the environment, just to give you a bit of a framework in terms of how we think of things and then we will talk about business. In 2016, world growth was around 2.5%. Basically, in terms of how we think about it, we see this growth continuing and maybe accelerating a little, driven by a recovery in emerging markets. We think that the places that were hit hard in recent years, such as Russia and Brazil, have probably reached a trough. We also think that China is looking like it will experience lower growth, but that it will have a soft landing. India has obviously experienced a level of shock following its monetary exercise. However, we see this as being temporary and a lot of the policies they are putting in place are actually pro-growth.

As concerns the US, we are probably a little less bullish than the markets have suggested since the elections. It will take more time and it will not be easy to forecast as some of these policies come through. Obviously there is the whole question of protectionism that is getting in the way. Regarding hotspots to watch, we are cautious about Mexico, as 24% of its business is done with the US - so that is clearly the number one spot. Just to put this into perspective, Mexico represents around 1.5% of our exposure - so although it's not a huge part, it's one that we are watching. This is what we do as a business in general and how we look at things. There is always something going on and we are always watching somewhere in the world.

There are elections coming up in France and Germany. Europe's exposure to the US is important but not huge, so we think that we will continue to see moderate growth in this part of the world. It is anybody's guess what will happen after the elections - and we will not take a view on that - but clearly we are watching this very carefully.

When it comes to our business, as you have seen, it was down in Western Europe. New volumes have not been able to replace the loss of clients and, more importantly, there has been a reduction in prices and activity from our existing clients, within the context of an inflationary environment, with commodity prices under pressure. Last year was the first time that we saw no increase in our clients' own activities. Our premiums are based on their turnover, so this has been a key driver of what has been going on for us in Western Europe - combined with pricing pressures in a relatively benign loss environment. As you will have seen from the presentation, their total losses for the year were 38.5%.

We are working on making sure we do not lose customers and that we do a good job of retaining all the contracts we have. We are boosting our sales forces and our approach to new markets. The partnerships we have announced support this impetus. We hope to slow down this attrition and eventually reverse it. Simultaneously, we are endeavouring to drive prices in emerging markets, while focussing on business that does not carry too much risk. We have therefore avoided giving guidance on growth and, as I said during the Fit to Win plan, we want to focus on driving value for the company, not growth for growth. We will steer clear of giving growth guidance or committing ourselves to growth numbers, because we will have to play it according to what the market allows us to do. Sorry for this long answer.

**Guilhem Horvath, Exane BNP Paribas**

I have three questions. Firstly, I would like to better understand the underlying assumption you make here and how conservative you actually are. Basically, you spoke about Asia-Pacific and the improvements which will come in 2017. We are halfway through the plan. Are you factoring in half of the recovery there, or a little less - and what level of deterioration in mature markets are you putting into these targets?

Secondly, coming back to the cession rates for the group and the impact of the higher cession linked to the quota share, how rapidly will this impact the cession rate for the group and what cession rates should we expect for 2017?

Finally, maybe I have forgotten what they are, but you spoke about some Fit to Win gains. I cannot remember where they come from, so maybe you could elaborate a little on this.

**Xavier Durand**

The Fit to Win gain is a one-off item, linked to the fact that we cancelled some benefits that employees in the French business were entitled to and for which we had reserves on the balance sheet, because they were future liabilities the company carried. When we adjusted the benefits to a standard closer to the market, we were able to reverse these reserves – and this is how the accounting works. This is a one-off item which will also translate into annual gains going forward – although not close to this order of magnitude.

**Carine Pichon**

As regards the guidance on the loss ratio of 61% and how it has been evaluated and assessed, we hope that Asia will improve, but we could still receive some notifications over the next six to nine months, or even during the year. It is an improvement from a loss ratio point of view, and we anticipate this to occur more towards the second part of the year. That does not mean we anticipate a huge increase in loss ratios in mature markets, but just that the improvement in Asia will be progressive (we more or less retained the same high loss ratio in the last quarter). We could still receive some claims notifications in this region over the coming months, so that is the rationale behind the 61%.

I think you had a question on cession rates. Our cession rates have risen from 20% to 26%, and part of the effect has already been put into the solvency ratio that we published for 2016, as we always include a forward-looking plan. A little less than two-thirds of the effect of this increase has been included, and we now have a global plan in terms of capital optimisation which we are fine-tuning (which could include an additional share for reinsurance). We are working on all these modelling, and as these are ongoing, it is too early for me to say. We will come back to you later on, but at least you have seen part of this in 2016.

**Guilhem Horvath**

Regarding IFRS earnings and risk transfer, along with the GEP issue, can you explain how quickly the quota share will impact these?

**Carine Pichon**

My answer was in terms of the Solvency II standard, as IFRS is very different. IFRS is for underwriting in 2017. We do not have anything in the IFRS balance sheets and P&L for 2016. We will have two-thirds of the effect in 2017 and a third in 2018.

**Hadley Cohen, Deutsche Bank**

There is just one question remaining - hopefully it is a relatively straightforward one. I am just trying to understand the movement in the solvency ratio in the second half of the year. It was 155 at the end of the first half and went down to 150. You are relatively immune to market movements anyway and you had positive earnings in the quarter. Is it just the lower deferred tax adjustments, or what am I missing? Can you just explain the movements on the solvency ratio in the second half of the year?

**Carine Pichon**

The main one is tax, as it happened during the second half of the year – and I think this is important. The second movement is that we adjusted our tests on eligible funds within Coface in H2. So these are the two effects.

**Hadley Cohen**

It is only a small number, I think about 1.5%, but have you deducted the 13c dividend from the 150, or is that still to come out when you pay it?

**Carine Pichon**

No, the dividend payment has already been included. The future dividend payment is always included.

**Michael Huttner**

I was listening to the CEO earlier about the one-offs and adjustments which could affect 2017. The easiest number you have given us is return on tangible equity, excluding one-offs, of minus 0.8% and EUR 1.5 billion, which is roughly minus EUR 13 million. There was a mention of EUR 10 million in cost cuts and EUR 21 million in restructuring costs, so that is minus EUR 25 million. Then the improvement in loss ratio of 5% from 65.5% to below 61% is worse – call it EUR 50 million before tax and EUR 40 million net of tax. Then I read EUR 25 million, which would imply a profit consistent with what you gave for the transition year, but, funnily enough, lower than you report in 2016. This, to my mind, is worse than a transition year and more like a difficult year. Is that the way you are thinking about it? Could you actually see lower earnings this year, coming into 2017?

I am listing all the factors you have given us. I am probably missing something quite simple. It would be lovely if you could help me out.

**Xavier Durand**

Let me try to see if we understood your question correctly. What I heard was a question about what our income will be in 2017 versus 2016, and there is a question as to the underlying trend of the business. You will see that on page 18 we have stripped out of our 2016 numbers anything that relates to the state guarantees and anything that relates to one-off items, including the benefits and the charges we took on Fit to Win during the year. Our return is minus 0.8% when you strip all that out for the year, which means a loss of EUR 12 million for 2016. That is our starting-point when it comes to turning the business around. I do not know if that was your point, but that is the point I want to make.

**Michael Huttner**

If that is the answer, that is the answer. If all we should expect you to do in a transition year is to do better than minus 12, that is a clear answer. I was hoping that the base number that you reported on, the EUR 40 million, was your ambition rather than a negative number. I guess I would be happier if you said the latter, but if your decision is that you just need to beat -12, that is fine. Are there any one-offs with which you could offset the EUR 21 million in restructuring costs still to come?

**Carine Pichon**

I will tell you if we find a way to do it.

**Michael Huttner**

Yes, I know, but it seems odd that you would take a gain on the Fit to Win versus the State guarantee, when you still know you have EUR 21 million coming. You are much more sensible people than I will ever be, but it seems odd, that is all.

**Carine Pichon**

It is not a choice. As you are a CPA, you know that there are rules for booking provisions for restructuring – in fact it is the IAS17 and then you have to check if there are any facts to be taken into account. For instance, if it is related to employees, you need to have started discussions with the works councils, you need a detailed plan, and so on. It is therefore not a question of how Fit to Win is progressing. We already carried out the bulk of it in 2016, having put in place around EUR 40 million in provisioning, and we plan EUR 21 million this year. That is exactly what we said on 22 September. It is the full plan and it is in line with the timetable we provided to you.

**Xavier Durand**

We are getting a gain of EUR 75 million on the transfer of the state guarantees, and we always said that we would take EUR 70 million in charges around that. It just so happens that these charges are split over two years, because that is just the way it works. We got the money on 31 December and took it in 2016, and that is just the way it works.

**Michael Huttner**

I just have one question. How big is the unrecognised tax loss in Asia?

**Carine Pichon**

Looking at the financial statements, the total loss in Asia is EUR 80 million. If you look at the tax, the rough calculation is that we have an unrecognised tax loss of EUR 20 million.

**Thomas Fossard**

Could you please tell us if the net loss ratio of 61% will imply a zero reinsurance result?

The second question is, looking at the income from your investment portfolio, adjusted for gains, I work out that the running investment income was down by 11% year on year. Should we expect the same kind of trend, or an acceleration or moderation in 2017?

**Carine Pichon**

Income from the investment portfolio depends on how much the rate increases. Our scenario is that we will have a progressive, slow increase in rates for the year to come. We will reinvest to benefit from this recovery, but it will be partial. We should still have some negative effects from the historical portfolio, but we should start to benefit from improvements, maybe from the end of this year.

On the question of reinsurance, the 61% does not mean 0 reinsurance result. It is merely that the loss ratio before reinsurance will improve, so the costs of reinsurance will follow. Reinsurance is a kind of mathematical exercise, where we cede 20% of premium on quota share. We also cede excess and complementary premiums for non-proportional reinsurance, so we are at around 23 to 24% of premium cession rate. And we cede 20% of claims..

**Xavier Durand**

I just want to thank everyone for joining and for all of their questions. We will speak next during our first quarter earnings call. Thank you everybody.

**Operator**

Ladies and gentlemen, this concludes the conference call. Thank you for your participation, you may now disconnect

**(End of transcript)**

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**FINANCIAL CALENDAR 2017 (subject to change)**

Q1-2017 results: 26 April 2017, after market close

Annual General Meeting: 17 May 2017

H1-2017 results: 28 July 2017, before market opening

9M-2017 results: 25 October 2017, after market close

**FINANCIAL INFORMATION**

This transcript, 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 half year financial report

**About Coface**

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2016, the Group posted a consolidated turnover of €1.411 billion. Supported by its 4,200 staff, Coface is present directly or indirectly in 100 countries and secures transactions of 50,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.

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