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-2020 Results

Conference Call Transcription

Paris, 26 October 2020

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface results for the period ending September 30th, 2020. At this time, all participants are in a listen-only mode. Later, we'll be conducting a question-answer session. As a reminder, this conference call is being recorded. Your host for today's call will be Mr Xavier Durand, CEO, and Carine Pichon, CFO. I will now turn the call over to Mr Xavier Durand, sir, you may begin.

Xavier DURAND, CEO, COFACE

Thank you very much and good evening to all. Thank you for joining us tonight. We are happy to report our third quarter results tonight. As you have seen from the headlines, we're reporting 52.4 million of net profits in the first 9 months of the year, of which 28.5 million in the third quarter. We're also activating, and I'll talk more about this, a 15-million-euro buyback program. In terms of the key headlines, our turnover is at 1.082 billion. It's down 0.9% at constant FX and perimeter versus last year. The third quarter itself is down 2.2%. Underlying these trends, you see some of the same forces at play that we've already discussed in the past quarters. New business is at a record. Retention of clients is also at a record level, and that drives a positive net production of 36, almost 37 million. We continue to see momentum in pricing: pricing year to date is up 1%, which is a big change from what we've seen in the prior years at this time of the year. What we also observe, and this is no surprise, is that client activity is decreasing, and that's very much in line with everything we know and hear about and as forecasted in terms of the environment.

In terms of losses, through the first 9 months of the year, our loss ratio is up 10.1 points at 55.2. That brings the net combined ratio up 8.5 points at 85.3. If you look at the third quarter on its own, the net loss ratio is actually better than in the second quarter at 50 percent. It is up 2.8% versus the third quarter of 2019, but it is 7.4 points lower than what we had in the first half of 2020, which reflects a better level of loss activity, i.e. lower. Throughout the first 9 months of the year, our cost ratio has improved by 1.6 point at 30.1%, which reflects our continued focus on controlling costs. This brings the net combined ratio for the third quarter at 77.4%. We obviously benefit from the temporary impact of the higher session rates, including with government programs, which represent in total 6.8 points of impact in the quarter. Actually, in the third quarter, the impact of the government schemes is 1.1 point for the net cost ratio and 5.7 points for the loss ratio. However, you remember that we had a benefit year-to-date at the end of the first half of 8 million from the government programs. In the third quarter, it's actually a negative impact of 1 million as our loss experience has improved significantly.

So that brings our net income to 52.4 million, as I said, 28.5 in the third quarter. That includes the 8.9 million benefit from the purchase of GIEK Kredit in Norway, and we had, as you remember, already announced that amount at the half-year results. It also brings the total annualised return on average tangible equity to 4.1%. So the company continues to execute. I think we're seeing, as we said, an improvement on the loss side, and we continue to have a strong balance sheet. We continue to execute, and as such, we felt that it was good to show a sign of confidence by launching a 15-million-euro share buyback program.

On page 5, you see some of the same charts that we've already seen in prior presentations. On the top, it is the evolution of the global GDP. It's down 4.8%, at least that's what we see for now for 2020. We do expect a rebound in 2021, but as we know and we continue to see actually the impact that today, the crisis is not over. Covid continues to spread through the different economies, and we think this pick-up next year will be slower. It will be differentiated by country, by sector, by type of clients, and so it will take a while before the global economy comes back to the level that we enjoyed in 2019. As a result of this slower and differentiated growth trajectory, which we had forecasted, you can see at the bottom of this chart that our activity in terms of managing limits and running prevention actions on the portfolios of our clients – remember everyone, we manage about 4 million different lines of credit on behalf of our clients. You can see that our level of activity has actually been multiplied by 2.5 this year versus last year, with continued, although lower, activity in the third quarter. Our total exposure, as you can see on the right hand side as a result, are down 9.1% versus where they were at the end of last year. I will say that we haven't stopped writing business. We continue to write new limits for clients on a daily basis, and as I've already said, and you will see in the next pages, we continue to write new business.-

If you go to page 6, you will see that the government schemes now cover about 56.1% of our total balance sheet. I think there's a recognition by the different governments that credit insurance is key to maintaining confidence in between companies and that intercompany credit is a big part of the funding of the economy. So we finalized schemes with 12 countries. There's a couple more that are still being discussed, and they are here in the darker green section, 8.7%. Most of that is actually Italy. It's too early yet to say what these schemes will become in 2021, whether they will be extended and, if they are extended, under which terms, so it's too early to have that discussion at this stage.

Going to page 8, and you're used to seeing these pages quarter after quarter. You see again, our top line is down 0.9%. Within this, Trade Credit Insurance is down 1.1% at constant FX and perimeter. This is all driven by a lower level of client activity, and that's pretty understandable given where the global economy is. Net production, which is new business, is up 36.9 million. Our service revenues are up almost 7% versus the first 9 months of 2019. And you know, that information is a significant piece of our Build to Lead strategy, and that business itself is up 10% from last year, despite the lower economy. Factoring is down 11.5% year to date. We know that this is a business that's been particularly impacted in the first half of the year, given the lockdowns that we were into. It actually started to recover in Q3. It's down 6.5%, and all of that is due to volume declines. Clients' re-pricing actions and the turnaround of the business, which we've been talking about for now about a year and a half, have actually started and are ongoing. Our fees are up 3.3%, again, growing faster than our total turnover.

And when you go to page 9 and you see the usual breakdown by region, you see that the main factor here, the big headline, is that our client activity is lower. It's true for Western Europe, where basically we're flat from where we were last year. Northern Europe, which is Germany, is down 6%. Part of this is because they are the country where we are actually a factor and where the factoring activity has been hit most. But also it's an industrial country with a big share of automobile and other types of manufacturing, which has already been slowing down even before the Covid crisis. The Central European economy is very much tied to Germany and the shrinking 3.6% is pretty much in line with Germany. Med & Africa, which usually grows at the tune of 5 to 6%, is lower again on client activity at 2%. You see below that North America is about flat, Asia slightly positive. This is a part of the world where actually growth has kept up better than in other places. And Latin America, very low growth at 2%, driven mainly by, as usual, very large client relationships that we have around the world.

So if we go to page 10, you see the usual breakdown of our growth story. New production, and I think that's a notable fact, is the best that we've had in the last 5 years at 114 million up for the first 9 months. Retention is at a record high, 92.7%. Pricing is the best that it's been in 11 years, and you can see 1% up. I remind you that the contracts renew every month, but the bulk of our portfolio actually gets renewed towards the end of the year. And in volume effect, as we anticipated, is down 0.7%, and we do expect that to continue as I don't think the Covid crisis is over.

If you go to page 11 on the losses, you can see the numbers I was mentioning, first 9 months up from 2019, we're at 57.6% loss ratio before reinsurance and including claims handling expenses. You can see the quarterly sequence to the right of this, and you see that the impact of the crisis was pretty clear from the first quarter 2020, actually increasing in the second quarter and doing somewhat better actually in the third quarter at 54.8%. There's a number of things that are being factored here. The fact that during the lockdown, I think there were lower levels of activity, which means that there's fewer receivables coming late today, the impact, obviously, of the very much increased prevention actions that we've had on our portfolio, the impact of the different measures that the governments have taken all over the world. We're talking about 12 trillion euros of cumulative support by all the different governments around the world. And you can see the effect of that in the fact that our recovery on prior years is actually holding up pretty well. And I'll just point out to the bottom right-hand side of that chart, where you see that we've opened the new vintage year at 88.5, which is

15 points higher than we usually would do, like in 2019 at 73.1. The boni that we get from prior vintages is actually at 33.5, so holding up pretty nicely, showing that actually we're still able to collect pretty well.

When we look at the split of risk by region, page 12 gives you the cumulative 9-month story versus the full prior year's. I think you're all familiar with the fact that actually risk is increasing, but I think it's more interesting to look at page 13, which gives you the quarterly breakdown. And as usual, I'll start with the four largest and most stable markets at the bottom of the page, and you can see that it's essentially holding up pretty well. Western Europe had a spike in the first quarter. This is one big event, it's a market event in which we took our normal share, but it is pre-Covid, and since then, the market's been holding up pretty well, around 46%. Northern Europe at 40%, had a good quarter. Central Europe is holding up again around the 50% mark. And Med & Africa is up from where it used to be last year, but the bulk of this, at this stage, is higher reserves, it's not actual claims. And then the three regions which are typically more volatile, you can see that North America usually tanks faster and recovers faster when there's an economic event. So we had a spike in Q2, but the numbers are coming in better in Q3. Asia Pacific had its crisis last year and wasn't as much impacted by Covid, so it's holding up pretty well. And then Latin America has spiked in Q2 at 112% and has come back down to 76,6%. We've been very active in managing the risk in that part of the world. Again, working very closely with our clients to manage some pretty complicated situations over there. So overall, I would say, an improvement in most places.

If you look at page 14, you see that our total costs for the year are down 2.9%. They were already down at the mid-year, and what you see here is the continuation of the same trends. First of all, we benefit from all the work that's been done for the last four or five years in terms of the core infrastructure, the internalisation of the US agents, we're having the full-year benefit of that. We're also obviously, being in Covid and being stranded or barred from traveling, we're getting cost savings from travel and other things like this. So in total, our costs are declining faster than our turnover, which obviously then means that the cost ratio is improving, as I said earlier, by about 1% versus last year. So that's the operating story.

With this I'm going to turn it over to Carine, who will take you through the usual second part of the presentation.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier, good evening, everyone.

So let's continue to look now at our reinsurance results. The reinsurance results, as for the previous quarter, reflect a high loss ratio, a higher one, and also government schemes. On government schemes, you know that they are in force in several countries for the second quarter of this year. The total impact on these 9 months is a positive contribution of 7 million through insurance results. However, to be noticed, is that on the sole quarter of Q3, it was a negative impact of – 1 million euro, considering that the level of provisions has decreased. Premium cession rate is clearly up as a consequence, with government schemes now in force. It represents now a premium cession rate, you may see in the top right, of around 43%, so much higher than what we were used to having in 2019, and also it means that the net earned premiums are down by 21% compared with last year. Also, a last thing to be mentioned is that the high cession rate of claims reflects also the high impending loss ratios. You have seen that we have also kept the same levels as at the end of June 2020.

So all in, cost of reinsurance stands at – 9.4 million euros, so far below the -64.8 we had for 2019, but quite normal when we are entering a crisis in the cycle.

Page 16 is the net combined ratio, so at 85.3%. An increase clearly compared with last year, particularly because of the loss ratio. You may see that the net cost ratio is declining by 1.6 points, so it's clearly a good cost discipline we are able to implement. And then on a quarterly basis, what you may see on the bottom part of the slide, is the decrease of the combined ratio by around 0.7 point versus Q3-19. It stands at 77.4%. To be mentioned is that the net cost ratio at 27.5% is decreasing, benefiting also from more reinsurance commissions applied to a smaller business, and the loss ratio is at 50%, so down by 7.9 points over the previous quarter, which is also reflecting a lower level of claims, but also reinsurance levels coming from the States. And we are anticipating that the positive effect you now see on this ratio is partially reversed in the coming quarters.

On the financial portfolio, still quite a resilient investment income. If you remember, when we entered the crisis, we took some quick decisions on significantly increasing our liquidity level to 22%. We are deciding, looking at what is going on the claims side, so that we can progressively re-deploy liquidity, but clearly keeping a conservative strategy to protect the balance sheet. But having said that, and considering it is not a surprise for anyone here, that in the low-interest-rate environment, our accounting yield is declining, they are round 1.2% in 2019 and around 0.9% in 2020, so resilient revenue, but still declining because of the current environment.

All this leads to a net income, so page 18, at 52.4 million, of which 28.5 million in Q3 2020. What's worth mentioning is that the tax rates, which we haven't yet commented on, a little lower than at the end of June at 44% and 42% for Q3 2020, and the decline in net income without any surprises coming from a current operating income at 98.1 million, down mostly on the higher loss ratio.

In terms of equity, page 19, you see that equity has increased, thanks to the results. Obviously, also to be mentioned, that following what has happened in the financial markets, the negative impact on the revaluation reserve, so our financial instruments, is lower than the previous quarter: it represents –6.8 million euros, so I would say quite a non-material impact on the equity to be compared with the higher impact at the end of June, so we are benefiting from the rebound on some markets. And finally, there is on this equity, and based on the results we have commented. The return on our tangible equity, you know that we are following closely, went down from 8.9% to 4.1%. What is interesting on that chart is that you see that without also any surprise in continuing our activity, the main decline is coming from technical results, meaning loss ratio increase. And financial results and tax and others are declining, but the contribution to the two-thirds decrease is far lower than, clearly, loss-ratio evolution.

So having said that now, I give the floor back to Xavier for the key take-aways and the outlook.

Xavier DURAND

Right, thanks, Carine. So basically the way we look at this year 2020 so far, clearly it's an unprecedented crisis. It's a sanitary crisis. It's having multiple consequences. We see it's coming back, so we don't think we're done with it. But I think, as we promised during the Build to Lead plan, which we launched, ironically, just two weeks before everybody got into lockdown, we're focused on execution, we're focused on showing resilience. I think Coface has generated so far three quarters of positive net income, totalling 52.4 million for the first 9 months of the year in a quite disrupted economic environment, and we've all been doing this while maintaining prudent reserving. We're seeing a better claims level in Q3. We realise here that the crisis is not over, but we continue to both manage the short term and to deploy our Build to Lead strategy for the longer term. And so, you know, whether it's focusing on commercial performance, pricing, service revenues, which are all developing pretty well.

For the short term, we're also investing, continuing to invest for the medium term. In terms of systems and products, we're working on our information offer. We've just launched a bonding business in Eastern Europe, and we are continuing to enjoy a strong balance sheet. And we think that given the good operating KPIs, it was the right thing to do to launch a share-buyback program. 15 million euros, we all understand this is a limited amount, but it does send, I think, a message of confidence and that's where we are.

So the economic environment remains uncertain. It will depend on the virus. It will depend on how we are able to handle the virus as a society. It will also depend on how governments and central banks react or continue to react. I must say they've done an incredible job so far.

On our side, Coface, we continue to focus on both the short term and implementing our Build to Lead strategy. It's fully valid and we don't see any reason to change our ambitions for the longer term. So with that, I'm happy to now turn it over to the room and to take any questions you guys might have for us.

Q & A session

David BARMA (Exane BNP Paribas) Good evening, thank you for taking my questions. So firstly, can you talk a little bit about the renegotiations of government schemes in Europe, please, and especially in light of your performance year to date: are you actively negotiating with governments to renew those schemes into 2021 more as a safety net, or is it more of an industry discussion? If you can talk a little bit about that, that would be great.

And then, linked to that, around reinsurance, as we're approaching the end of the year, does the potential extension of those government schemes change anything from your perspective when it comes to your quota-share reinsurance agreements?

And then my last question is on capital return. I recognise we're still a quarter away from the end of the year, but I think that the buyback announcements send a strong signal. Could you discuss a little bit what has changed for you to be comfortable to announce this buyback today? Your uncertainty around the business is certainly less present, but still there are also questions around regulatory restrictions, use of government schemes, et cetera. So yeah, what has changed, basically? And should we now expect you to go back to a normal capital-return policy pattern from now on? Thank you.

Xavier DURAND (CEO, Coface) Right. So the first thing I'll say about government schemes is that we're not alone. This is industry-wide discussions and they're country-by-country discussions. And the last thing I will tell you is that it's early days. I mean, just to illustrate this, in a country like Italy, which has announced there would be a scheme put in place, the first one hasn't been signed yet. So it's still early days. It's country-by-country, it is an industry-wide discussion. Of course, we weigh in, you know, one way or another, but we're not the only ones involved here, and obviously, you know, there are considerations when it comes to staying out of a certain scheme or deciding to go in and differentiating ourselves from the rest of the market. So too early to say where this is going. I think this also will be a function of what happens over the next, I would say, couple of months as we see a resurgence of the virus and how we're able to handle this whole thing and what impact it has on the economy.

From a reinsurance standpoint, I mean, again, your question is, what does it mean for the reinsurance market? I think, again, it's too early. I think these discussions are just barely starting, and they will probably carry on until the very last days of 2020.

In terms of capital return, I think what we're saying here is, if you remember, we haven't paid a dividend in this year on the profits that we made last year in 2019, and if you recall, it was 150 million. We were actually proactive in deciding not to pay a dividend because we felt we were, back in March, in a zone of uncertainty, and prudence was the right thing to do, beefing up our resources and balance sheet and building up the trust with everybody in the market that's the constituency with Coface. What we're doing here, as we were saying, we're nine months later, things, operationally, have been so far pretty good. I mean, in relation to, obviously, the crisis, they're not as good as they were last year, that's pretty clear. And we just wanted to show a token of confidence and remind everyone that our… I think our mission is not to just accumulate capital, but also to allocate capital smartly when it's possible. So that's what we're doing. I can't comment on the future, and obviously none of what we do would be done without close coordination or creating surprise with any regulator anywhere.

Hadley COHEN (Deutsche Bank) Hi guys, thanks very much. A couple of questions. I think you've answered my first one around whether or not you have to get regulatory approval, but it seems from your last question, Xavier, that the answer is yes to that. But a couple of operational questions, please.

So firstly, on slide 16, I think, Carine, you said that, or it says in the presentation, that the effect of the improved loss ratio is expected to partially reverse in the coming quarters. Can you just give a bit more detail of what you mean by that, please? Are you saying that the reversal is due to an anticipation of a pickup in claims activity? And implicitly by saying you expect it to partially reverse, that would suggest that it's not going to, you're not expecting it to get back to the level it was in the second quarter? And so I just want to check that I'm reading that correctly.

And then secondly, on the costs side, can you talk a little bit about how much of these short-term benefits you're seeing from a travel or communication perspective and what have you, how much of that you expect to be a permanent saving going forward? Thanks.

Xavier DURAND (CEO, Coface) Maybe, Carine, if you're OK I'll start with the cost piece, and then I'll turn it over to you to talk about the loss-ratio question. Look, on the cost side, clearly, the way I look at this crisis is that it's an incredible accelerator of change. None of us, quite frankly, would have even thought of working remotely from home or, you know, stopping travel altogether. None of us would probably have imagined it was possible to do it, and despite that, we've actually done it. I think you're seeing an accelerated transformation of the world retail going from traditional to e-commerce. You're seeing also an acceleration of actually the energy transition. That being said, I don't think what we're going through right now is the permanent state. So there will be… We will be going back to some travelling. We will be going back to meeting people. We will be going back to, you know, a number of these things. So I don't think you can say that these gains are going to be there forever, and I hope they won't, actually, because it means the economy will have to pick up again, and I think we all aspire to that. So I don't know if I'm answering your question. I think that where exactly, how much we go back to what was before and how much of what we do today stays permanent is still something that we have to figure out.

Carine PICHON (CFO, Coface) So I can take the other question. So if we come back on page 16, that is your question, Hadley. When I was mentioning that the effect is expected to partially reverse in the coming quarters, it was in fact relating to reinsurance only, not at all on the level of global claims. I'm not saying that claims will increase, it's more the effect of reinsurance. What is happening is that… I mean all recoveries we have from the past are ceded to our external reinsurance to a level of around 23%, that's the quota share, and the new ones let's say which will come for the further underwriting year will go to the States and to cession rates which will be more around 90% of them. So that's just the technical effect, which is explaining that more and more, we are going to the time where the effects of the government schemes will be important to be compared to the situation as of today, so that was just a comment.

Thomas FOSSARD (HSBC) Yes, good evening, all. A quick question to start with on your solvency position. I see you are not quoting any numbers, also you collected our estimate for Q3, so I was just wondering if you could comment, what is the level of solvency 2 ratio for the Q3 including the 15-million-euro share buyback, so could you say what was the numbers and also as will be without the government scheme.

The second question relates to the 15 million. I think that this is one of the most striking elements of your release tonight, especially as we understand the regulators, especially the French regulator, is probably pretty cautious regarding giving more capital-management freedom to the industry. So could you tell us a bit more, potentially, what is the state of mind of your French regulator and how they perceive your 15-million share buyback?

A third question would really be related to your exposure, so it's down 9% year to date, maybe you could shed some light on where you've taken the highest or the most drastic reduction in exposure, and if you really believe that you are where you wanted to be or if there is much more to be done in the coming quarters, potentially preparing your balance sheet to gradual reduction of government support in the coming quarters. Thank you.

Xavier DURAND (CEO, Coface) Thomas, I will start with the last two questions, and then again, Carine, if you want to take the solvency question, after me, that'll be maybe the best way.

So managing exposures. I think last time we presented to you, we showed the exposure changes by region. And if you remember, there were some pretty significant differences. I think, at the half-year, I'm just talking off the top of my mind, we were something like down 27% in Latin America, whereas there had been a much smaller impact in what we perceived to be better, more stable markets. That's one dimension. I think if you were to look at sectors or if you were to look at, say, company strength, you would see some similar differences. And they're pretty obvious because you read the papers like we do, and you understand clearly which sectors are more exposed and more difficult than others.

We've committed to a few things. When we started on the Fit to Win journey, number 1 was that we would be staying very close to our clients and that we would not do sweeping movements, computer-generated cuts without any discern, which was something that people had been complaining about when it came to Coface when I joined. So we haven't done any of this. We are looking at each individual situation very carefully. We're working with our clients to understand what they know, what we know, what makes sense, how far we can push it. And that's really our value added, this is really what Coface does. And I think one of the explanations of why, relatively speaking, we're actually doing okay, is because people realise that this is the real value, that this is something that is hard to do, and you need a lot of knowledge and a lot of expertise, and that's actually what we do. So I'm not giving you a quantitative answer here, but I'm giving you a qualitative answer, explaining what we're doing, and clearly, there are differences.

When it comes to the share buyback, I mean, I'm not going to speak on behalf of the regulator, I'm not the regulator and I don't know their thinking. I just think that we felt that we had a strong balance sheet and that we had good operating performance. Carine was talking about the solvency, we had the wherewithal to make a gesture. We know, as I just reminded you, that 15 million has to be compared to the 150 million that we did not distribute from last year and the 50-something million that we made already this year, and we thought it was an amount that was very reasonable, and I think the regulator approved.

With that, Carine, do you want to talk about the solvency?

Carine PICHON (CFO, Coface) Yeah. So on the solvency position, Thomas, I mean we didn't disclose it because we were estimating on a quarterly basis, but it's quite similar to what we are at the end of June. So you remember we had a solvency at 191% and then 8 points below without government schemes, so what I think is important to be mentioned and worth mentioning is our solvency ratio and position is far above our target range. Remember, I mean the upper range of this comfort scale is 175% or so, we are still above that. And the 15-million buyback, just to give you a sense of what it represented in our solvency is a little less than 1.3 point. So you see that, globally, we have the capacity to do this buyback and that's one of the reasons why we decided to do it.

Edward MORRIS **(JP Morgan)** Hi, everyone. Thank you for taking my questions. Two questions, please.

The first, I wonder if you can just talk about the differences in what you've experienced between Q2 and Q3. Obviously, there's quite a sharp improvement in the loss ratio. I'm trying to understand, is that because the loss experience has been that much better in Q3, or is this you taking a slightly different view and maybe feeling you don't have to be quite so conservative with your opening loss ratio or provisions, et cetera. And I think if you could sort of go on to talk about how you think the shape of this might evolve, or at least just the next few quarters, do you think we're at a point at the moment where we haven't really seen many credit events but are likely to going into early next year? Or, you know, is this a level that you sort of feel slightly more comfortable with? I realise that's quite a difficult view to give precisely, but any kind of thoughts you have there would be helpful.

And then secondly, just coming back again on the capital return, the way you were talking about this in the context of not having paid out anything from last year's earnings, and I was interested that you phrased it that way. Should we therefore think of you making another capital-management decision at the end of the year that is based around this year's earnings, i.e. the 15 million as a sort of token gesture because of what you couldn't do last year? And then what really will be the binding constraints on capital return when it comes to the end of the year? Will it be a decision purely around your solvency, or is it more likely to be governed by the regulators' view again? Thank you.

Xavier DURAND **(CEO, Coface)** Well, to stay on that topic, we can never ignore the regulator. As you know, we are a regulated business, so I don't know what much more to say other than any move we make, it will never be at the expense of surprising a regulator anywhere, and I think that's just normal. So we're subject to market forces here, which makes a ton of sense. When I was mentioning 2019, I was just trying to put in perspective the amount we are allocating to this share buyback versus some of the dimension of the company or its profitability last year. I am just trying to give you a sense of perspective for what it is.

On your two first questions, clearly, if I could forecast the loss, the industry losses or the credit losses in the world in the next 9 months, I could probably monetise this for a huge amount. This is just a joke. But the way we looked at it is, beginning in Q2, we knew clearly the world was changing, there was a crisis. Everything we thought to be true at the end of last year was not going to be true anymore. And as we expected, when you see such a reduction in GDP all over the world, we've seen a number of companies starting to face difficulties and we've seen a number of bankruptcies, particularly large bankruptcies, take place. I mean I can just mention the endless list of US retailers that went bust in the course of just the first few months.

So I would say the companies that were weakest or in a more difficult position, already with business models that were tense or under pressure, obviously fell the first and were the first ones to show difficulties in this crisis, and so we had a wave of insolvencies that that showed up. The governments were, as we said, very quick and very determined, very thorough in their approach to supporting the different economies around the world, and I think that's paying out. And as such, we have seen a better trend in the third quarter, and that's basically what we're showing here. That's basically what I can say about this.

Edward MORRIS **(JP Morgan)** OK, thank you, that's helpful.

Thomas FOSSARD **(HSBC)** Yes, sorry for coming back, I'd just like two additional questions.

The first one would be related to the ownership of Natixis and the deal with Arch. I think that you're still waiting for the regulatory approval, it's been quite a long time. So I was wondering if you had any update on the process and were anything different from what you were expecting, and also related to this question and coming back to your solvency II ratio.

As far as Coface is concerned, does that make anything different, being owned by a bank or by a Bermudian insurer, when thinking about the right level of solvency II ratio, you need to hold on your own. Thank you.

Xavier DURAND **(CEO, Coface)** On the transactions, I mean, there's really no news, so I'm not going to make any further comments on anything we've said so far. The transaction's been announced, it's going through its normal regulatory approval process. And as I remind every time, we are the target, we are the object, we are not the transactor here, so for that, you will have to turn back to the participants in the transaction.

In terms of solvency rules, we are subject to solvency rules as a regulated insurance company in Europe. That's got nothing to do with who owns us. You know, we're subject to the regulation, and also we apply a risk appetite framework or, what we believe is right for the business, which is approved by the board, and I don't expect this to change just because of ownership. So at this stage, I would say to us, it's not going to change the way we look at solvency.

Benoit VALLEAUX **(ODDO BHF)** Good evening. Just one question on my side. When I look at the price-effect trend, it suggests that you add roughly on average, a 3% price increase in Q3. So I just wanted to know if you're happy with this trend and if it's what you expect for the next quarters to come and if you see some competition in some areas or not. Thank you.

Xavier DURAND **(CEO, Coface)** Yeah. I can tell you, this is a client-by-client discussion. This is a situation-by-situation thing. There's no over-arching rule here. I mean, we're not applying something again across the board. So we're here to build long-term, profitable relationships with clients that are willing to partner with us over the long haul and through the cycles, and this is very much a one-by-one discussion. I'm not going to make any forward-looking statements relative to where pricing ends. I think there's multiple factors that are involved here, one of which is where the crisis goes and where the economy goes.

OK, well, what time is it now? We're a little earlier than usual, but if there are no other questions, I would just suggest that we close the call. I just want to thank everybody for spending the time, being with us tonight.

Our next call will be, what is it, the beginning of February, the 10th of February, and that will be for the full-year results for Coface. I think we'll all remember 2020, but we've still got a couple of months to go through, so we're focused on the task and I look forward to speaking with you at the beginning of next year. Thank you very much.

(End of transcript)

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FINANCIAL CALENDAR 2020/2021 (subject to change)
FY-2020 results: 10 February 2021 (after market close)
Q1-2021 results: 27 April 2021 (after market close)
Annual General Shareholders' Meeting 2020: 12 May 2021
H1-2021 results: 27 July 2021 (after market close)
9M-2021 results: 28 October 2021 (after market close)

FINANCIAL INFORMATION
This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:
http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim Financial Report for S1-2020 and our 2019 Universal Registration Document.

Coface: for trade

With over 70 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Single Risk insurance, Bonding and Information services. Coface's experts work to the beat of the global economy, helping ~50,000 clients build successful, growing, and dynamic businesses across the world. Coface helps companies in their credit decisions. The Group's services and solutions strengthen their ability to sell by protecting them against the risks of non-payment in their domestic and export markets. In 2019, Coface employed ~4,250 people and registered a turnover of €1.5 billion.

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