

Paris, 8 February 2017 – 17h35

## Coface results at 31 December 2016: Operating performance and progression of *Fit to Win* in line with plan, confirming our ambition to become the most agile global credit insurer in the industry

- **FY 2016 operating performance in line with guidance**
  - Turnover in line with previous quarters trends, at €1,411m down (3.6)% vs. '15 (ex. FX)
  - Net loss ratio in target range at 65.5%
  - Net cost ratio at 31.9% ; supported by tight expense control
- **French State export guarantees management transfer finalised**
  - Teams (~250 FTEs) and IT systems transferred as from Jan. 2nd '17
- ***Fit to Win* launched and progressing in line with expectations**
  - Launched risk and cost actions as per schedule
  - Consultations well underway
  - First benefits materialising
- **Net income (group share) FY 2016 at €41.5m**
  - Includes €36.5m French State guarantees and *Fit to Win* one-offs<sup>1</sup>
- **Solvency ratio in target range at c.150%<sup>2</sup> ; proposed dividend<sup>3</sup>: €0.13 per share, incl. €0.06 special**
- **2017 guidance: net loss ratio below 61%**

*Unless otherwise stated, changes are in comparison with 12M 2015*

### Xavier Durand, CEO of Coface, commented:

*“The second half of 2016 marks the beginning of the transformation of Coface. We delivered a net profit of €41.5m in the year, successfully closed the transfer of our French State export guarantees activity, and launched our 3-year strategic plan, Fit to Win, the implementation of which is now well underway. During the last quarter of 2016 we also finalised the strengthening of our senior leadership team to enable us to drive the rigorous change management necessary to our plan’s success.*

*With Fit to Win, we aim ultimately to position ourselves to deliver a RoATE (return on average tangible equity) of 9% or above across the cycle. The uncertainty dominating the economy is unlikely to lift in 2017, which will be a transition year as we continue to execute on the strategic priorities that guide the plan: to strengthen our risk management and information, drive operational efficiency and enhance client service, and to implement selective growth strategies.”*

<sup>1</sup> €75.0m gain on French State export guarantees management transfer, €38.6m restructuring expenses, €14.1m of social benefits reserves releases and €5.1m linked to actuarial rates change, totalling €55.6m before tax (see Note 30 of the FY 2016 financial statements); After tax (tax rate of 34.43% applied), contribution of these elements to FY-2016 net income (group share) is €36.5m.

<sup>2</sup> Estimated coverage ratio calculated according to Coface’s interpretation of Solvency II standard formula. Non audited.

<sup>3</sup> The €0.13 proposed dividend per share is composed of €0.07 normal dividend and € 0.06 special dividend ; these proposed distributions are subject to the approval of the General Assembly which takes place on May 17th 2017

## Key figures as at December 31<sup>st</sup> 2016

The Board of Directors of Coface SA examined the consolidated financial statements for FY-2016 during its meeting on 8 February 2017. They were subject to review by the Audit Committee. Non-audited financial statements; they are being certified.

<i>Income statement items - in €m</i>	FY-2015	FY-2016	V%	V% ex. FX
<b>Consolidated revenues</b>	<b>1,489.5</b>	<b>1,411.3</b>	<b>(5.3)%</b>	<b>(3.6)%</b>
<i>of which gross earned premiums</i>	1,185.9	1,115.1	(6.0)%	(4.1)%
Underwriting income after reinsurance	143.4	12.8	(91.1)%	
Investment income net of expenses	53.1	48.0	(9.5)%	
Current operating income	196.5	60.9	(69.0)%	
Other operating income and expenses incl. State guarantees mangt. transfer and Fit to Win one-offs in 2016	(4.2)	53.5		
Operating income	192.3	114.4	(40.5)%	
Tax	(48.8)	(48.1)		
<b>Net result (group share)</b>	<b>126.2</b>	<b>41.5</b>	<b>(67.1)%</b>	<b>(65.0)%</b>
<i>Key ratios</i>				
Loss ratio net of reinsurance	52.5%	65.5%	+12.9 ppts.	
Cost ratio net of reinsurance	30.5%	31.9%	+1.4 ppts.	
<b>Combined ratio net of reinsurance</b>	<b>83.1%</b>	<b>97.4%</b>	<b>+14.3 ppts.</b>	
<i>Balance sheet items - in €m</i>				
	31/12/2015	31/12/2016		
<b>Equity (group share)</b>	1,761.0	1,755.2	<b>(0.3)%</b>	

## 1. Turnover

Coface registered a turnover of €1,411m for FY 2016, down (5.3)% against FY-2015 and (3.6)% ex. FX.

Premiums followed a continuous trend throughout 2016, impacted by weaker client activity and persisting soft conditions in mature markets, particularly in our Northern and Western Europe regions; the latter was also impacted negatively by the decrease in French State export guarantees management fees.

In Central Europe, turnover was down (1.1)% ex. FX, driven by lower services revenues (debt collection fees), in line with the low claims level in this region.

In the Mediterranean & Africa region, good commercial momentum in Italy was offset by premium refunds in Spain, where the risk environment is favourable. Turnover was down (1.3)% against 2015.

In North America, turnover grew 4.0% (ex. FX), mainly driven by some global clients.

In emerging markets, restoring profitability was the number one priority this year: revenue growth was negatively impacted by portfolio adjustments in Asia ((10.9)% ex. FX), whereas some positive re-pricing helped drive an increase in turnover in Latin America (+9.0% ex. FX).

Business turnover in €m	FY-2015	FY-2016	V%	V% ex. FX
Western Europe	363.3	327.2	(10.0)%	(8.4)%
Northern Europe	324.5	307.3	(5.3)%	(5.3)%
Mediterranean & Africa	340.3	331.9	(2.5)%	(1.3)%
North America	131.3	136.1	+3.7%	+4.0%
Central & Eastern Europe	125.3	121.3	(3.2)%	(1.1)%
Asia-Pacific	121.3	109.8	(9.5)%	(10.9)%
Latin America	83.5	77.7	(6.9)%	+9.0%
<b>Consolidated business turnover</b>	<b>1,489.5</b>	<b>1,411.3</b>	<b>(5.3)%</b>	<b>(3.6)%</b>

New business production, at €139m, was stable vs. 2015 outside of Asia. Coface's client retention rate remains close to record levels at 88.5%, a slight improvement compared with 2015. Driven by some re-pricing actions in Latin America, price erosion slowed down compared to 2015 at (1.7)%.

Client activity, a key driver of premium growth, slowed down this year, affected by strong declines in some sectors (metals, commodities...). However, this trend improved slightly towards the end of the year.

## 2. Results

### - Combined ratio

The Group's net combined ratio stood at 97.4% for FY 2016.

#### (i) Loss ratio

Against the backdrop of a volatile and risky environment, Coface's loss ratio was driven by claims in emerging countries. Measures were taken throughout 2015 and 2016 to reduce our risk exposures in these areas and their effects are expected to materialise gradually.

Quarterly trends over the second half of 2016 pointed to first signs of loss ratio improvement; this trend is mainly driven by Latin America, contrasting with Asia where loss levels remain high. The Group's loss ratio after reinsurance was down (4.4) points in Q4 2016, at 67.9% against 72.4% in Q3 2016 and stood at 65.5% at 31 December 2016, in the target range for 2016.

#### (ii) Cost ratio

Coface is keeping tight control on expenses outside of *Fit to Win* investment areas: total expenses decreased to €699m (including €2.1m *Fit to Win* set-up costs in Q4), compared with €713m at 31 December 2015 ((0.6)% ex. FX).

The Group's cost ratio after reinsurance stood at 31.9% for FY-2016.

### - Financial income

Coface maintains a diversified and proactive investment strategy. However, the current low rate environment is putting pressure on returns. Financial income<sup>4</sup> stood at €48.0m (of which €3.5m gains on sales) at December 2016, against €53.1m (of which €4.5m gains on sales) for FY-2015. The accounting yield<sup>5</sup>, excluding capital gains, was 1.6% for FY-2016, compared with 1.8% for FY-2015.

### - Operating income and net income

Operating income stood at €114.4m at 31 December 2016, including a €75.0m gain on French State export guarantees transfer, €38.6m *Fit to Win* restructuring expenses, €14.1 of reserve releases linked to social benefits and €5.1m actuarial rate change totalling €55.6m before tax.

Net income (group share) stood at €41.5m, to which the above mentioned non-recurring elements contribute for €36.5m<sup>6</sup>.

<sup>4</sup> Investment income net of expenses, excluding cost of debt. o/w gains (losses), exclude investments in non-consolidated subsidiaries and derivatives.

<sup>5</sup> Accounting profitability ratio calculated on average investment portfolio

<sup>6</sup> €75.0m gain on French State export guarantees management transfer, €38.6m restructuring expenses, €14.1m of social benefits reserves releases and €5.1m linked to actuarial rates change, totalling €55.6m before tax (see Note 30 of the FY 2016 financial statements); After tax (tax rate of 34.43% applied), contribution of these elements to FY-2016 net income (group share) is €36.5m.

A distribution of €0.13 per share<sup>7</sup> will be proposed for 2016. In line with previous communication, this distribution comprises €0.07 per share, corresponding to 62% pay-out ratio on adjusted earnings<sup>8</sup> (€0.11 per share) and €0.06 special dividend.

### 3. Financial strength

At 31 December 2016, IFRS equity (group share) was €1,755.2m (flat vs 2015). The change in equity is mainly the result of positive net income of €41.5m offset by the distribution of €75.3m to shareholders linked to the FY 2015 dividend and an increase in re-evaluation reserves of financial assets available for sale.

The new regulatory framework Solvency II came into force on 1<sup>st</sup> January 2016. On the basis of the standard formula, the coverage ratio of required capital to insurance and factoring risk coverage remains strong at c.150%<sup>9</sup> as at 31 December 2016. This level is consistent with the Group's targeted comfort level and allows Coface to confirm its long term pay-out policy of above 60% of adjusted earnings, as proposed this year.

Ratings agencies Fitch and Moody's reconfirmed the Group's ratings (IFS) at respectively AA- and A2 (stable outlook), on 29 September and 28 November 2016.

### 4. *Fit to Win* update

The Group launched in September 2016 its new strategic plan called *Fit to Win*, which aims at positioning Coface as the most agile global trade-credit partner in the industry, while evolving to a more capital efficient business model.

The implementation of *Fit to Win* is currently progressing as planned.

- Strengthen risk management & information

Actions undertaken to strengthen risk management and information are well underway, particularly in emerging markets, including recruitments in the domain of enhanced information, updating of underwriting guidelines and processes, and the setting up of a dedicated senior expert support team. Their effects are expected to fully materialise over the next two years after implementation.

- Improve operational efficiency and client service

Under this second strategic priority, Coface set out several initiatives in fields such as sourcing and real estate optimisation, rationalising the organisation and reviewing social benefits. Work Councils consultations have been launched and are progressing as planned.

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<sup>7</sup> The proposed distributions are subject to the approval of the General Assembly that takes place on May 17th 2017

<sup>8</sup> To calculate adjusted earnings, the following elements have been excluded: €75.0m gain on State export guarantees management transfer and €38.6m restructuring expenses, totaling 36.3m€ before tax (see Note 30 of the FY 2016 financial statements);

After tax (tax rate of 34.43% applied), the contribution of these elements to FY-2016 net income (group share) amounts €23.8m

<sup>9</sup> Estimated coverage ratio calculated according to Coface's interpretation of Solvency II standard formula. Non audited.

Transforming the Group's technology and processes in order to improve client service and productivity requires restructuring costs and investments that are fully financed by the non-recurring gain subsequent to the transfer of the French State export guarantees activity. In line with previous communications, €38.6m restructuring costs and €2.1m set-up costs were accounted for in 2016; in 2017 and years following, Coface expects these expenses to amount respectively to €21m, €6m and €3m.

As a result of these actions, Coface is targeting to achieve €10m cost savings in 2017 and €30m in 2018, thus entirely offsetting the loss of margin resulting from the transfer of the French State export guarantees activity.

- Implement differentiated growth strategies

Prioritising value creation over growth, Coface is adapting its commercial approach to each specific market/sector/customer profile. This translated into some re-pricing actions in Latin America and portfolio restructuring in Asia. In mature markets, where priority is given to efficiency and innovation, Coface is reinforcing account management teams and processes. New partnerships were recently signed with Bank of China, Unicredit and BPCE.

- Reduce capital intensity

Coface is committed to maintaining a strong capital position, illustrated by a targeted solvency ratio towards the upper end of the 140-160% range, and a minimum single A financial strength rating.

Without compromising these fundamentals, *Fit to Win* has identified ways to further improve Coface's capital efficiency, in particular, through the increased use of reinsurance. A first step has been achieved with the increase of the quota-share reinsurance cession to 26% as from 1 January 2017 (vs. 20% in 2016).

The reinsurance cession increase is expected to impact capital needs gradually so as to contribute to *Fit to Win*'s ambition to achieve 9% or above RoATE across the cycle.

## 5. Outlook

Coface is totally focused on the execution of *Fit to Win* and the impacts of the initiatives we have now started to implement are expected to materialise gradually.

In 2017, our priority remains to execute our strategic plan while monitoring closely the development of the risk landscape. In line with the first signs of improvement observed at this stage, we anticipate a net loss ratio below 61% in 2017. We expect to begin to benefit from the *Fit to Win* operational efficiency measures already taken and have planned to achieve €10m costs savings in 2017, while investments and restructuring charges for the year should amount to €21m.

A conference call to discuss Coface FY 2016 results will be held on 8 February 2016 at 6.00 pm Paris time.  
 Dial in numbers: +33(0)1 70 77 09 41 (France), +44 (0)20 3367 9456 (UK), +1 855 402 77 63 (US).  
 The presentation will be available at the following address: <http://www.coface.com/Investors/Financial-reporting>

### Appendix

Income statement items - in €m	2015				2016				% Q4-2016 vs. Q4-2015	% ex. FX
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Consolidated revenues</b>	<b>389.6</b>	<b>370.7</b>	<b>366.0</b>	<b>363.2</b>	<b>365.0</b>	<b>351.7</b>	<b>348.7</b>	<b>345.9</b>	<b>(4.8)%</b>	<b>(4.0)%</b>
<i>of which gross earned premiums</i>	306.9	296.1	291.1	291.8	288.5	277.2	275.8	273.6	(6.2)%	(5.4)%
Underwriting income after reinsurance	49.7	27.9	38.5	27.4	26.5	2.4	(13.5)	-2.6	(109.5)%	
Investment income net of expenses	13.0	15.2	12.3	12.6	10.8	13.8	18.5	4.9	(60.8)%	
<b>Operating income</b>	<b>60.5</b>	<b>42.1</b>	<b>49.9</b>	<b>39.8</b>	<b>36.3</b>	<b>15.5</b>	<b>4.5</b>	<b>58.1</b>	<b>+46.0%</b>	
<b>Net result (group share)</b>	<b>40.3</b>	<b>25.8</b>	<b>32.2</b>	<b>28.0</b>	<b>22.3</b>	<b>3.3</b>	<b>(11.2)</b>	<b>27.1</b>	<b>(2.9)%</b>	<b>+0.4%</b>
<i>of which minority interest one-off</i>							(7.8)			
<b>Key ratios - in %</b>									<b>Q4-2016 vs. Q4-2015</b>	
Loss ratio net of reinsurance	49.8%	54.3%	53.5%	52.6%	55.0%	66.9%	72.4%	68.0%	+15.3 ppts.	
Cost ratio net of reinsurance	27.7%	32.1%	28.1%	34.4%	32.0%	30.8%	33.0%	32.0%	(2.4) ppts.	
<b>Combined ratio net of reinsurance</b>	<b>77.5%</b>	<b>86.4%</b>	<b>81.6%</b>	<b>87.0%</b>	<b>87.0%</b>	<b>97.7%</b>	<b>105.4%</b>	<b>100.0%</b>	<b>+12.9 ppts.</b>	



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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 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 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.

[www.coface.com](http://www.coface.com)

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