3.1 ECONOMIC ENVIRONMENT (1)

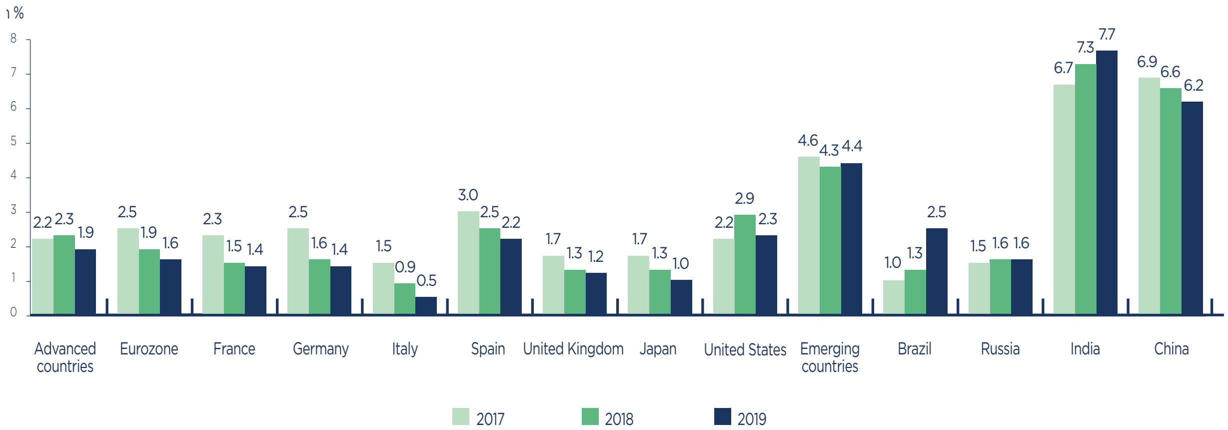
In 2018, the global economy achieved 3.2% growth, according to Coface, a performance slightly lower than that of 2017 (3.3%) and which confirmed that global growth has passed its peak. Advanced economies saw a slight acceleration in growth (2.3%, up 0.1% compared with 2017), in contrast with emerging economies (4.3%, down 0.3% compared with 2017).

Eurozone growth slowed in 2018 (1.9%) after an excellent 2017 (2.5%). Despite a continuing accommodating monetary policy, uncertainties surrounding Brexit, the trade war, heightened sovereign risk in Italy and emerging challenges in the automotive sector weighed on growth at the end of the year. Growth in Germany weakened (1.6%, down 0.9 points compared with 2017), notably due to the downturn in the automotive sector, and suffered from the state of the world economy, and exchange rates, which contributed negatively to growth. Activity in France also slowed (1.5%, down 0.8 point), in the wake of a weaker increase in consumer spending, triggering a rise in company defaults (2.3% in the third quarter of 2018) following a two-year upturn. Trends were similar in Southern Europe: good performances slowed slightly in Spain (2.5%, down 0.5% point) and Portugal (2.0%, down 0.7 point compared with 2017) but remained better than those seen in Italy (0.9%, down 0.6 points), where the economy suffered from the stand-off between its government and the European Commission over the 2019 budget and its consequences on sovereign yields (country downgraded to A4). At the same time, the situation in Greece continued to improve (2.0%, up 0.6% compared with 2017), following the agreement reached with international creditors in June 2017.

Activity faltered in the United Kingdom (1.3%, down 0.4% compared with 2017), due to the major uncertainty surrounding Brexit. US growth accelerated (2.9%, up 0.7% compared with 2017) despite the trade war against China. The latter does not seem to have had an impact on consumer confidence, which is high, thanks also to a historically low unemployment rate (3.8% in May 2018, its lowest point in 18 years). Finally, growth in Japan began to slow (1.3%, down 0.4% compared with 2017).

The increasingly protectionist rhetoric and the US monetary tightening policy, however, led to a deterioration in the economic situation of emerging markets. Initially driven at the beginning of the year by rising oil prices, favouring black gold-exporting economies, growth slowed during the year, suffering from a fall in oil prices, and capital outflows, collateral damage of US policy. The situation in Latin America was not as exuberant (0.8%, down 0.9% compared with 2017). A symbolic example of this was the Argentinean economy (-2.4%, down 5.3% compared with 2017), which paid a high price for the dollarisation of its economy and its twin deficits. The currency crisis plunged the country into recession (downgraded by Coface to C). Despite the risks of contagion from the flight of capital in Brazil, heightened by political uncertainty ahead of the October 2018 elections, macro-economic fundamentals allowed the country to maintain its growth momentum (1.3%, up 0.3% compared with 2017). Growth in the CIS (2.1%) remained stable, as was the case in Russia, supported by favourable commodity prices despite a fall in Russian consumer confidence at the end of 2018. Growth in Sub-Saharan Africa stabilised at 2.6%, unlike the North Africa-Middle East zone (2.4%, up 0.8% compared with 2017), which was more dynamic. Saudi Arabia, in particular, was clearly out of the recession seen in 2017 (2.6%), thanks to higher oil prices. Emerging Asia stood out again with the most vigorous growth (6.1%, down 0.1% compared with 2017). However, China saw its growth wane (6.6%, down 0.3% compared with 2017) against a backdrop of a trade war with the United States and a slowdown in consumer spending. Finally, Turkish growth stalled (3.4%, down 4.0 points compared with 2017), hit hard by new US taxes on metals and the subsequent depreciation of the lira, leading Coface to downgrade the country's risk assessment (C).

▶ GDP growth (as a %): 2017, 2018 and 2019 (source Coface)



(1) Group estimates.

3.2 SIGNIFICANT EVENTS OF 2018

3.2.1 Changes in governance

Appointments to the Board of Directors of Coface

At the meeting of June 15, 2018, the COFACE SA Board of Directors co-opted **François Riahi**, Chief Executive Officer of Natixis, as director, then appointed him Chairman of the Board of Directors. He replaces Laurent Mignon, who left the COFACE SA Board of Directors to focus on his new responsibilities within the BPCE group.

Appointments to the Coface Executive Committee

Since July 16, 2018:

- **Carmina Abad Sanchez** joined Coface as CEO of the Latin America region. She joins the Executive Committee and reports to Xavier Durand, the Group's Chief Executive Officer (CEO).

Furthermore, since November 5, 2018:

- **Keyvan Shamsa** joined the Group as Business Technology Director (see Section 3.2.3). He joins the Executive Committee and reports to Xavier Durand, the Group's Chief Executive Officer (CEO).

3.2.2 Introduction of a new tag line – Coface For Trade

Coface introduced its new tag line during its January 23, 2018 Country Risk Conference: Coface For Trade. This new tag line aims to be clearer and more engaging. It underlines the Group's commitment to trade and commerce, drivers for the creation of wealth and stability. It reflects the Group's purpose, which is to help companies grow.

3.2.3 Reorganisation of the Group Operations Department and creation of a Transformation Office

This reorganisation, which has been in place since May 2018, was in response to recent credit insurance market changes and to meet one of Coface's main strategic challenges: improving operational efficiency to optimise the service provided to customers. Resolutely customer-orientated and focused on business needs, the new structure strengthens the role of the businesses and facilitates better project management.

It is based on three pillars:

- a new Business Technology (BT) Department created from the merging of the IT Services Department (IT) and the Group Operational Department (GO), managed by Keyvan Shamsa;
- the creation of a Transformation Office, which will be responsible for project planning and Lean Management, led by Nicolas de Buttet, who reports to Thibault Surer, Head of Strategy and Development; and
- the creation of the roles of sponsors (at the Management Committee level and for each operational area) and product owner, which will ensure the link between projects and strategic objectives.

With this new structure, Coface has enhanced its method of operating and helped improve the fluidity and accelerate its decision-making process, yielding an impact on corporate life; moreover, it encourages a collaborative approach between the Business Technology teams, the businesses and the Transformation Office.

3.2.4 Implementation of two share buyback programmes

Pursuant to the second pillar of Fit to Win, which aims to improve the capital efficiency of its business model, Coface launched two share buyback programmes in 2018 for a total amount of €45 million. These programmes were as follows:

- the first programme, worth €30 million, ran between February 15 and October 15, with the purchase of 3,348,971 shares. At its October 24, 2018 meeting, the Board of Directors decided to cancel these shares and, correlatively, reduce the Company's share capital;
- the second programme, worth €15 million, was launched on October 25 and ran until January 8, 2019 with the purchase of 1,867,312 additional shares. At December 31, 2018 Coface had bought back 1,708,735 shares at a value of €13,736,491.

3.2.5 Arrangement of a €300 million syndicated loan facility concluded by Coface Poland Factoring

As part of the refinancing of its factoring business, on June 8, 2018, Coface Poland Factoring and a group of partner banks [(1)] agreed to set up a €300 million multi-currency (EUR and PLN) syndicated loan. This loan partially replaces existing bilateral credit lines. The loan was set up for a period of two years with the option of a one-year extension, at the lenders' discretion. This transaction enables the Group to improve its financial flexibility and extend the maturity of its refinancing, while taking advantage of favourable market conditions and strengthening relations with its leading banks, thereby confirming their medium-term commitment to Coface.

3.2.6 Disposal of Cofacrédit

On June 27, 2018 Coface announced that it had sold to Factofrance (Groupe Crédit Mutuel – CM11) its 36% stake in Cofacrédit, a factoring company which until then had been jointly-owned by the two groups. This minority stake was not part of the factoring business' growth strategy. Moreover, this disposal was in line with the second pillar of the Fit to Win plan, which aims to improve capital management.

The deal had a negative impact of -€2.2 million on net income for the second quarter of 2018 and a positive impact of some 3 percentage points on the solvency ratio [(2)].

3.2.7 Agreement to acquire PKZ (Slovenia)

On September 6, 2018, Coface announced it had entered into an agreement with Slovenian public bank SID Bank, covering the acquisition of the entire share capital of PKZ, SID Bank's credit insurance subsidiary. Founded by SID Bank in 2005, PKZ is the market leader in credit insurance in Slovenia and enjoys a large market share. In 2017, the company recorded €15.1 million in gross written premiums on a mainly export portfolio. After obtaining approval from the Slovenian competition authority on October 19, 2018, finalisation of the acquisition is now subject to approval by the Slovenian insurance regulator.

3.2.8 Announcement of a strategic partnership with Tradeshift

On October 10, 2018, Coface announced a strategic partnership with Tradeshift, the leader in supply chain payments and marketplaces, to help businesses in its network make decisions with confidence and greater financial transparency between buyers and suppliers. Coface thus offers risk indicators to a network of 1.5 million businesses in 190 countries. By combining their business ecosystems and expertise, Coface and Tradeshift are co-developing innovative solutions to guide companies through the complexity of global trade and to protect them against the risk of non-payment.

3.2.9 Impact of Brexit on Coface's business in the United Kingdom

In 2018, the negative effects related to Brexit exacerbated the broader trends of the UK economy: fall in business and consumer confidence and pressure on evolving business models (non-food retail). Against this backdrop, Coface continued to apply its strict underwriting policy. Our overall exposure to the United Kingdom therefore fell by 12%, mainly in the agri-food, retail and construction sectors. Uncertainty surrounding withdrawal conditions remain high (no deal, second referendum) and additional measures may be undertaken in 2019. To ensure this monitoring, a steering committee, chaired by the Group's General Secretary, was formed and meets regularly to decide on priority actions: regulatory changes to the branch's Articles of Association, adjustments to underwriting policy, communication with our customers and brokers, etc.

(1) Seven relationship banks: Crédit Agricole CIB, HSBC, ING Bank Śląski and Natixis acting as Mandated Lead Arrangers and Bookrunners, Banco Santander, Commerzbank and Société Générale CIB acting as mandated arrangers. Natixis acts as documentation agent and Crédit Agricole CIB as an agent of the facility.

(2) Unaudited data.

3.2.10 Coface South Africa new partnership

Coface South Africa, the South African subsidiary of Compagnie française d'assurance pour le commerce extérieur, signed a strategic partnership on November 16, 2018 which should lead to the opening of its capital to a leading South African investment fund (B-BBEE Investment Holding Company, Identity Capital Partners (Pty) Ltd). This transaction will strengthen Coface South Africa's local footprint and brand as well as its desire to take greater account of B-BBEE law (Broad-Based Black Economic Empowerment). This deal remains subject to the approval of the South African regulatory authorities (which had not yet been obtained at the reporting date); it will lead to the opening of up to 25% of Coface South Africa's capital over ten years.

3.3 COMMENTS ON INCOME AS OF DECEMBER 31, 2018

3.3.1 Performance of the Group

Coface performed well in 2018, demonstrating the relevance of its Fit to Win strategic plan. Reported consolidated revenue, at €1,384.7 million, was up 4.6% at constant scope and exchange rate compared with 2017. The net loss ratio improved by 6.2 percentage points, to 45.1%, and the net cost ratio was down 0.7 percentage points to 34.5%. The Group ended 2018 with net income for the year (attributable to owners of the parent) up 47% at €122.3 million (*versus* €83.2 million in 2017) an estimated solvency of ~ 169% [(1)], above the target comfort zone (140% - 160%).

The Group is confident in the strength of its balance sheet and intends to continue to activate the capital management lever built into the Fit to Win plan and is committed to fully-distributing its 2018 net income in dividend form [(2)].

3.3.2 Revenue

The Group's consolidated revenue grew by 4.6% at constant scope (up 2.2% at current scope) and exchange rate to €1,384.7 million at December 31, 2018.

The negative exchange rate effect of 2.4 percentage points can be explained by a stronger euro against the US dollar (the portfolio's largest foreign currency), which was particularly sensitive during the first half of the year, as well as significant depreciation in the Argentinean peso and, to a lesser extent, the Brazilian real and the Turkish lira.

The table below shows the changes in the Group's consolidated revenue by business line as of December 31, 2017 and 2018:

	As of Dec. 31		Change		
Change in consolidated revenue by business line *(in millions of euros)*	**2018**	**2017**	*(in €m)*	*(as a %)*	*(as a %: at constant scope and exchange rate)*
Insurance	1,318.0	1,282.9	35.1	2.7%	5.3%
Gross earned premiums*	1,142.6	1,109.7	32.9	3.0%	5.7%
Services**	175.4	173.2	2.2	1.3%	2.5%
Factoring	66.7	72.0	(5.3)	(7.4)%	(7.1)%
CONSOLIDATED REVENUE	**1,384.7**	**1,354.9**	**29.8**	**2.2%**	**4.6%**

* *Gross earned premiums – Credit, Single Risk and Surety Bond.*

** *Sum of revenue from services related to credit insurance ("Fees and commission income" and "Other insurance-related services") and services provided to customers without credit insurance (access to information on corporate solvency and marketing information – "Information and other services", and debt collection services – "Receivables management") – See Note 21 of the notes to the consolidated financial statements.*

(1) *This estimated solvency ratio is a preliminary calculation made according to Coface's interpretation of the Solvency II Regulation. The result of the final calculation could be different from this preliminary calculation. The estimated Solvency ratio is not audited.*

(2) *The proposed dividend is subject to the approval of the Shareholders' Meeting of May 16, 2019.*

Insurance

Revenue from the insurance business (including surety bond and Single Risk) was up by 5.3% at constant scope and exchange rate (up 2.7% at current scope and exchange rate), rising from €1,282.9 million in 2017 to €1,318.0 million in 2018.

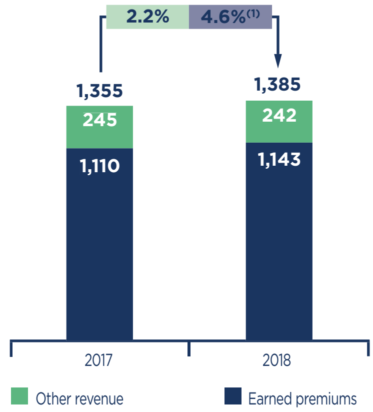
Gross earned premiums were up 5.7% at constant scope and exchange rate (up 3.0% at current scope and exchange rate), from €1,109.7 million in 2017 to €1,142.6 million in 2018. The return to growth in mature markets continued, including in Northern Europe, with the latter enjoying the growth of customer businesses and a decrease in cancellations. Sales momentum in the Mediterranean & Africa and Central Europe regions remains strong and emerging market portfolios are improving again. Premium refunds, nevertheless, continued to be given due to the low level of claims.

The annual production of new contracts, totalling €116.2 million in 2018, is down compared with 2017 (€128.9 million), following a modest first half year in an increasingly competitive environment. Emerging markets are, nonetheless, improving again following the stricter application of underwriting rules, with tangible improvement in Asia-Pacific in particular.

The contract retention rate (ratio between the annual value of renewed policies and the value of policies to be renewed during the year) has improved in all regions, except for North America. The highest level reached: 91.1% at December 31, 2018 (*versus* 89.7% at December 31, 2017) was not achieved at the expense of prices. The latter were down by a controlled -1.4% in 2018, *versus* -1.5% in 2017 in a risk environment which remained favourable in 2018. Prices improved again in Latin America, thanks to the return of economic stability in Brazil.

Premium volumes continued to benefit from sustained growth of 6.1% in the policyholder business at December 31, 2018, compared with 4.9% at December 31, 2017.

Revenue from the services business was up by 2.5% at constant scope and exchange rate (up 1.3% at current scope and exchange rate), rising from €173.2 million in 2017 to €175.4 million in 2018.



(1) At constant exchange rate.

Factoring

Revenue from factoring (exclusively in Germany and Poland) was down 7.1% at constant scope and exchange rate (down 7.4% at current scope and exchange rate), from €72.0 million in 2017 to €66.7 million in 2018.

In line with the Fit to Win strategic plan, which favours selective, profitable growth, Germany has carried out a review of its portfolio. The 9.0% decrease in business at a constant scope was due to greater selectivity in the choice of receivables to be factored, coupled with terminations.

In Poland, growth in the factored receivables portfolio continued and generated a 5.0% increase in revenue at constant exchange rate (4.9% increase at current exchange rate). Factoring fees increased, whereas the interest margin was penalised by low rates.

Change in revenue by region

The table below shows the trends in consolidated revenue (net of intra-group flows) within the Coface Group's seven geographic regions for the financial years ended December 31, 2017 and 2018:

	As of Dec. 31		Change			
Change in consolidated revenue by region of invoicing *(in millions of euros)*	**2018**	**2017**	*(in €m)*	*(as a %)*	*(as a %: at constant exchange rate)*	*(as a %: at constant scope and exchange rate)*
Western Europe	284.0	280.8	3.2	1.1%	1.6%	1.8%
Northern Europe	303.1	303.9	(0.8)	(0.3%)	(0.3%)	(0.2%)
Mediterranean & Africa	370.4	348.0	22.4	6.4%	8.2%	8.2%
North America	126.5	121.9	4.6	3.8%	8.3%	8.3%
Central Europe	133.8	127.7	6.1	4.8%	6.1%	6.1%
Asia-Pacific	95.4	96.9	(1.5)	(1.5%)	2.7%	2.7%
Latin America	71.5	75.7	(4.2)	(5.5%)	12%	12%
CONSOLIDATED REVENUE	**1,384.7**	**1,354.9**	**29.8**	**2.2%**	**4.6%**	**4.6%**

All the regions reported an increase in revenue at constant scope and exchange rate, except for Northern Europe, which was almost flat (down 0.2%).

In Western Europe, revenue was up by 1.8% (up 1.1% at current scope and exchange rate). Policyholder revenue growth continued. New production was up in France, contrary to the United Kingdom where the economy slowed amid persisting uncertainty surrounding Brexit. Following a strong 2017, Switzerland suffered from a high basis of comparison for Single Risk.

In Northern Europe, revenue was almost flat (down 0.2% at constant scope and exchange rate), penalised by a decrease in factoring revenue in a context of margin control. The credit insurance business stabilised in Germany. Pricing pressure remained high but was offset by lower terminations and improved policyholder business. Revenue improved in other countries within the region (the Netherlands, Sweden and Denmark).

Revenue for the Mediterranean & Africa was up 8.2% (up 6.4% at current scope and exchange rate). Commercial performance across the region was good, due in particular to an improved retention rate. Turkey and South Africa saw a return to growth, thanks to the acquisition of new contracts.

In North America, revenue was up 8.3% (up 3.8% at current scope and exchange rate) driven by the signature of two new Single Risk policies. In credit insurance, improved policyholder business and a slight increase in new contract production helped balance the portfolio.

Central Europe reported an increase of 6.1% in its revenue (up 4.8% at current scope and exchange rate). High retention and continuing sustained customer business helped support credit insurance premium volumes, whereas the underwriting of new policies suffered. Poland and Russia's commercial performance were strong.

Asia-Pacific reported an increase of 2.7% in its revenue (down 1.5% at current scope and exchange rate). The negative exchange rate impact was due to currencies correlated to the US dollar. Without affecting a strict respect of underwriting rules, new production was up and terminations down. Premium refunds, nevertheless, continued to be given due to the low level of claims. Single Risk contract production was down.

Latin America saw a 12% increase in revenue (down 5.5% at current scope and exchange rate). The strong negative exchange rate impact was due to the material depreciation of the Argentine peso and, to a lesser extent, the Brazilian real. The portfolio grew thanks to the signature of international policies, in particular in Brazil. This country's economic outlook improved, which also boosted customer activity. The retention rate also improved markedly in most of the region's countries.

3.3.3 Underwriting income

Underwriting income before reinsurance

Underwriting income before reinsurance reached €219.9 million, a 75% increase compared with end-December 2017 (€125.7 million). The main contributor to this performance was the cost of claims, which was down €66.4 million, followed by the €29.8 million increase in revenue.

The 7.3 percentage-point improvement in the loss ratio lead to a combined ratio before reinsurance that was down 7.9 percentage points at 80.0% (87.9% at December 31, 2017). The cost ratio was also down (by 0.6 percentage points), driven by higher earned premiums. After restating the non-recurring tax expense borne by Italy in 2017, the gross cost ratio was stable.

Loss experience

The Group's loss ratio before reinsurance including claims handling expenses improved by 7.3 percentage points, dropping from 51.4% in 2017 to 44.2% in 2018. Latin America was the only region to see an increase in its loss ratio. The strict management of past claims contributed to a level of recoveries which was significantly above the historic average. Nevertheless, the slowdown in global growth has led to a gradual normalisation of the risk environment, with the third quarter of 2018 marking a turning point in the number of corporate defaults in France. The slightly higher loss ratio for the current underwriting period is due to several material claims during the fourth quarter.

▶ Loss experience

	As of Dec. 31		Change	
(in millions of euros and as a %)	**2018**	**2017**	*(in €m)*	*(as a %)*
Claims expenses incl. claims handling costs	504.5	570.9	(66.4)	(12%)
Loss ratio before reinsurance	44.2%	51.4%	-	(7.3) pts
Earned premiums	1,142.6	1,109.7	32.9	3.0%

In Western Europe, the loss ratio fell to 34.6% (-19.4 percentage points) following a 2017 financial year impacted by a few specific files which were subject to facultative reinsurance coverage (-14.9 percentage points adjusted for the ceded share of these specific files).

In Northern Europe, the loss ratio was down 8.4 percentage points at 48.9%, due to a lower claims severity this year than in 2017.

The ratio for the Mediterranean & Africa region stood at 48.8%, a satisfactory level which was almost flat compared with the previous year (up 0.5 percentage points). Agile risk management helped contain the loss experience in the majority of countries, notably Italy.

In North America, the loss ratio declined to 39.1% (down 9.9 percentage points, or down 5.0 percentage points adjusted), thanks to good risk management in previous financial years.

The loss ratio for Central Europe was stable at 49.7% (up 0.2%).

Asia-Pacific's loss ratio stood at 23.6%, a marked improvement compared with 2017 (53.8%) thanks mainly to major recoveries on claims recorded in previous years.

The loss ratio in Latin America climbed to 57.9% (up 22 percentage points) due to a worsening in Argentina's loss ratio, which was affected by an unfavourable economic environment. The loss ratio excluding the Argentine exchange rate effect stood at 51.8%. Other markets remained under control.

Change in loss experience by invoicing region *(as a %)*	As of Dec. 31		
	2018	**2017**	**Change in points**
Western Europe	34.6%	54.0%	(19.4) pts
Northern Europe	48.9%	57.2%	(8.4) pts
Mediterranean & Africa	48.8%	48.4%	0.5 pts
North America	39.1%	49.0%	(9.9) pts
Central Europe	49.7%	49.6%	0.2 pts
Asia-Pacific	23.6%	53.8%	(30.2) pts
Latin America	57.9%	35.9%	22 pts
LOSS RATIO BEFORE REINSURANCE	**44.2%**	**51.4%**	**(7.3) PTS**

Overheads

Overheads *(in millions of euros)*	As of Dec. 31		Change	
	2018	**2017**	*(as a %)*	*(as a %: at constant scope and exchange rate)*
Internal overheads	527.0	525.0	0.4%	2.6%
of which claims handling expenses	*28.0*	*26.6*	*5.3%*	*6.4%*
of which internal investment management expenses	*4.0*	*2.1*	*87%*	*87%*
Commissions	163.2	157.7	3.5%	6.3%
TOTAL OVERHEADS	**690.2**	**682.6**	**1.1%**	**3.5%**

Total overheads, which include claims handling expenses and investment management expenses, grew by 3.5% at constant scope and exchange rate (up 1.1% at current scope and exchange rate), from €682.6 million at December 31, 2017 to €690.2 million at December 31, 2018. Restated for the €6 million non-recurring tax expense borne by Italy in 2017, the increase was 4.4% at constant scope and exchange rate (up 2.0% at current scope and exchange rate).

Policy acquisition commissions were up 6.3% at constant scope and exchange rate (up 3.5% at current scope and exchange rate), from €157.7 million in 2017 to €163.2 million in 2018. This improvement was comparable to that of earned premiums (up 5.7% at constant scope and exchange rate) driven by brokerage-based markets in North America and the Mediterranean & Africa region or those becoming brokerage-based (Central Europe region). The in-sourcing of agents in North America, nonetheless, helped generate savings in terms of external fees.

Internal overheads, which include claims handling expenses and investment management expenses, grew by 2.6% at constant scope and exchange rate (up 0.4% at current scope and exchange rate), from €525.0 million in 2017 to €527.0 million in 2018. After restating the non-recurring tax expense borne by Italy in 2017, the increase was 3.8% at constant scope and exchange rate (up 1.6% at current scope and exchange rate).

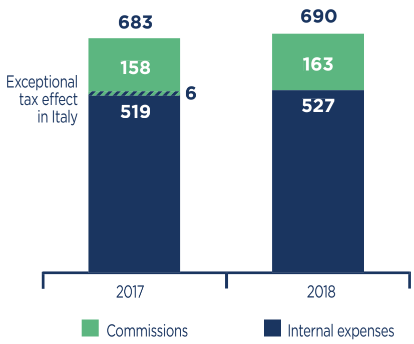
Payroll costs increased 5.1% at constant scope and exchange rate (up 3.2% at current scope and exchange rate), from €273.5 million in 2017 to €282.3 million in 2018. This increase was mainly due to the ramp-up of the Coface Technologies IT centre in Bucharest, which centralises certain development functions which were previously outsourced. Current inflation, notably in Argentina and Turkey, has imposed wage increases, whereas improved operational performance in France has led to greater contributions to company-sponsored savings plan (employee profit-sharing) in favour of the teams.

The 7.5% increase in IT costs at constant scope and exchange rate (up 3.5% at current scope and exchange rate), from €46.3 million in 2017 to €47.9 million in 2018, was mainly due to investments in the transformation of IT services and tools with a view to improve the Group's operational efficiency.

Other expenses (taxes, information costs, rent) were down 1.8% at constant scope and exchange rate (down 4.1% at current scope and exchange rate), from €205.2 million in 2017 to €196.8 million in 2018. After restating the non-recurring tax expense borne by Italy in 2017, these expenses were up 1.2% at constant scope and exchange rate (down 1.2% at current scope and exchange rate).

In line with previous announcements, the €30 million cost savings objective was exceeded, with €39 million in savings made at end-December 2018. These savings allow the Group to continue reinvesting (€18 million in 2018) in Coface's in-depth transformation, focused on risks (risk management and compliance), systems, processes and service quality.

The cost ratio before reinsurance improved by 0.6 percentage points from 36.5% for the financial year ended December 31, 2017 to 35.9% for the financial year ended December 31, 2018, thanks to a greater increase in earned premiums than in overheads. The growth in earned premiums thus has a favourable impact of 1.1 percentage points, which was partly offset by the increase in policy acquisition commissions (for 0.5 percentage points). After restating the non-recurring tax expense borne by Italy in 2017, the gross cost ratio was stable.



In Western Europe, overheads were up 16% at constant exchange rates, impacted by a change in the allocation of re-billed central expenses. Restated for this one-off impact, internal central expenses were down thanks to savings in rent and rental expenses following the renegotiation of the lease on the Bois-Colombes head office housing the French teams. IT costs and information costs expenses were also down.

In Northern Europe, overheads were down slightly (by 0.6%) at constant scope and exchange rate, thanks to a decrease in payroll costs relating to the roll-out of the Fit to Win plan.

Overheads for the Mediterranean & Africa region were up 0.6% at constant scope and exchange rate (up 4.7% without taking into account the non-recurring tax expense borne by Italy in 2017). Payroll costs increased in Israel and Turkey, while Italy was affected by IT costs related to the implementation of a new accounting tool.

In North America, overheads increased by just 1.5% at constant scope and exchange rate. The region benefited in particular from the first positive effects of the in-sourcing of agents.

In Central Europe, overheads increased by 6.9% at constant scope and exchange rate. The increase in external commissions in Russia, Romania, Poland and Austria was due to the strong growth in revenue and a greater weighting of business contributors in the portfolio.

In Asia-Pacific, overheads increased by just 2.9% at constant scope and exchange rate, due to inflation.

In Latin America, overheads increased by 10% at constant scope and exchange rate. Payroll costs increased due to high inflation. The significant depreciation of the Argentine peso and the Brazilian real also drove an increase in premium taxes.

Underwriting income after reinsurance

Underwriting income after reinsurance reached €157.8 million, a 58% increase compared with 2017 (€99.8 million).

The higher cost of reinsurance (-€62.1 million for the financial year ended December 31, 2018 compared with -€26 million for the financial year ended December 31, 2017) was due to the improvement in loss experience (fewer claims ceded to reinsurers) and the increase in earned premiums (more premiums ceded to reinsurers). A few claims during the fourth quarter of 2017 which benefited from optional reinsurance coverage at higher ceding rates also had a favourable impact on the cost of reinsurance in 2017.

(in thousands of euros and %)	As of Dec. 31 2018	2017	Change *(in €k)*	*(as a %)*
Turnover	1,384,735	1,354,933	29,802	2.2%
Claims expenses	(504,509)	(570,863)	66,354	(12%)
Policy acquisition costs	(243,236)	(262,607)	19,372	(7.4%)
Administrative costs	(241,136)	(253,532)	12,396	(4.9%)
Other expenses from insurance activities	(82,556)	(70,816)	(11,740)	17%
Expenses from banking activities, excluding cost of risk	(13,552)	(13,779)	227	(1.6%)
Cost of risk	(2,122)	(4,483)	2,361	(53%)
Expenses from other activities	(77,739)	(53,130)	(24,609)	46%
Underwriting income before reinsurance	**219,885**	**125,723**	**94,163**	**75%**
Income and expenses after ceded reinsurance	(62,128)	(25,970)	(36,158)	NS
UNDERWRITING INCOME AFTER REINSURANCE	**157,757**	**99,753**	**58,004**	**58%**
Net combined ratio	79.6%	86.6%	-	-

3.3.4 Investment income, net of management expenses (excluding finance costs)

Financial markets

In 2018, economic growth remained markedly positive in the major regions of the word, although this did not prevent major differences. Supported by the budgetary measures of the Trump administration, the US economy performed well. The same could not be said of the eurozone, where growth was highly disappointing due to both internal and external factors. Finally, the situation slowly deteriorated in emerging markets, which were highly exposed to the Chinese slowdown and international trade tensions.

In the United States, 2018 saw strong economic performance: following a slow start at the beginning of the year, growth stepped up markedly in the second and third quarters, driven by the budgetary stimulus of tax reforms. Confidence remained well orientated across all sectors of the US economy. The Federal Reserve (Fed) continued to tighten its monetary policy with four rate hikes during the year, thanks to solid growth and stable inflation. The introduction of tariffs by Washington on a large number of Chinese imports and other key trading partners introduced an aggressive side to US trade policy, fuelling fears of a trade war between the United States and China, the negative impact of which would weigh on trade growth and confidence. Bond markets were affected by the decline in long-term sovereign bond rates. US 10-year yields ended the year at 2.60% after reaching a peak of 3.26% at the beginning of November.

Economic figures were highly disappointing in the eurozone in 2018. GDP growth was only 1% during the first three quarters of the year, compared with 2% during the last three quarters of 2017. Several negative factors contributed to this performance. Manufacturing and exports were penalised by a high euro at the beginning of the year and international trade tensions. Political uncertainty remained a major theme, to varying degrees, in the large countries: difficulties achieving a government majority in Germany at the beginning of the year, the budgetary stand-off between Italy and the European Commission since the summer, significant social tensions in France during the fourth quarter. Moreover, visibility over Brexit remained very low at the end of the year. The European Central Bank (ECB) terminated its asset purchase programme in December, despite knowing that its ability to raise key interest rates in 2019 remained very uncertain. Ten-year German yields fell below 0.20% at the end of December, *i.e.*, a level lower than that seen at the beginning of 2018. Moreover, the market significantly downgraded expectations of rate hikes by the Fed and the ECB.

In emerging economies, despite major variations between countries, emerging economy growth was strong during the first quarter of 2018 in a buoyant global context. However, this momentum slowed slightly during the second quarter. Firstly, the normalisation of US monetary policy, coupled with the strong appreciation of the dollar, led several emerging market banks to terminate their monetary easing policies and even increase interest rates. Secondly, emerging markets continued to suffer, weakened by the increase in geopolitical/international risks and idiosyncratic risks which developed into full-blown crises (Turkey, Argentina, etc.). Finally, the trade war between the United States and China weighed heavily on emerging economies.

Major uncertainties on the equity markets led to significant falls on all markets at the end of the year: in local currencies, the United States fell 6.3% (MSCI USA index), the eurozone was down 14.7% (MSCI Euro index), Europe declined 13.1% (MSCI Europe index), and emerging markets and Japan were down 12.3% and 16.8%, respectively, notably due to the increase in long-term rates in the United States.

Financial income

Against this economic backdrop, in the context of the defined strategic allocation, the Group decreased its exposure to investment-grade and high-yield corporate debt while increasing its exposure to sovereign debt. All these investments were made within a strictly defined risk framework. The quality of issuers, sensitivity of issues, dispersal of issuer positions and geographic regions are governed by strict rules defined in the various management mandates granted to the Group's dedicated managers.

The market value of the portfolio decreased in the 2018 financial year due to the fall of equity markets and the widening of credit spreads, reflecting an uncertain economic environment hindered by fears of trade wars and geopolitical tensions.

The following table shows the financial portfolio by main asset class:

Market value

	As of Dec. 31	
(in millions of euros)	**2018**	**2017**
Listed shares	162	192
Unlisted shares	16	14
Bonds	1,775	1,785
Loans, deposits and money-market mutual funds	525	549
Real estate	227	219
Total investment portfolio	**2,705**	**2,761**
Associated and non-consolidated companies	129	116
TOTAL	**2,834**	**2,877**

The results of these investments amounted to €45.4 million, of which €4.7 million in realised gains and impairment (*i.e.*, 1.7% of the 2018 average outstanding and 1.5% excluding gains and impairment), to be compared to €49.8 million, of which €12.3 million of gains and impairment/reversals in 2017 (1.8% of the 2017 average gains and 1.4% excluding gains and impairment). Despite challenging market conditions over the year which saw a widening in credit spreads and a major fall in equity markets, the Group managed to maintain a similar rate of return as in 2017.

Investment portfolio income

	As of Dec. 31	
(in millions of euros)	**2018**	**2017**
Equities	5.5	6.7
Fixed-income instruments	30.9	36.8
Investment properties	9.0	6.3
Total investment portfolio	**45.4**	**49.8**
Of which realised gains and impairment	*4.7*	*12.3*
Associated and non-consolidated companies	3.1	4.5
Net foreign exchange gains and derivatives	7.8	4.5
Financial and investment charges	(5.2)	(3.6)
TOTAL	**51.1**	**55.3**

After income from equity securities, foreign exchange and derivatives income, financial expense and investment charges, the Group's financial income for 2018 was €51.1 million.

Due to the decrease in revaluation reserves on the investment portfolio, which was mainly affected by the fall in credit and equity markets, the economic rate of return of financial assets was down 0.2% in 2018 *versus* 2.3% for the same period in 2017. The investment portfolio achieved its capital preservation objective in a context in which nearly all asset classes posted negative performance.

3.3.5 Operating income

(in millions of euros)	As of Dec. 31 2018	2017	Change *(in €m)*	*(as a %)*	*(as a %: at constant scope and exchange rate)*
Consolidated operating income	**203.9**	**154.4**	**49.5**	**32%**	**35%**
Operating income including finance costs	**186.2**	**136.3**	**49.9**	**37%**	**40%**
Other operating income and expenses	(5.0)	(0.6)	(4.4)	NS	NS
OPERATING INCOME INCLUDING FINANCE COSTS AND EXCLUDING OTHER OPERATING INCOME AND EXPENSES	**191.2**	**136.9**	**54.3**	**40%**	**43%**

Consolidated operating income increased 35% at constant scope and exchange rate, from €154.4 million for the financial year ended December 31, 2017 to €203.9 million for the financial year ended December 31, 2018.

Current operating income, including finance costs and excluding non-recurring items (other operating income and expenses), increased by €54.3 million (up 43% at constant scope and exchange rate) from €136.9 million in 2017 to €191.2 million in 2018.

The net combined ratio, including extraordinary items, fell by 7 percentage points, from 86.6% in 2017 to 79.6% in 2018, including a decline of 6.2 percentage points in net loss ratio and a decline of 0.7 percentage points of cost ratio.

Other operating income and expenses amounted to a negative €5.0 million and mainly included:

- for other operating income:
  - reversals of provisions after paid compensation as part of the lease negotiation for the Bois-Colombes head office for €5.2 million,
  - reversals of provisions no longer required in Brazil and Belgium for a total of €3.1 million;
- for other operating expenses:
  - restructuring costs totalling €5.7 million,
  - €5.0 million in compensation paid to sales agents in North America as part of their in-sourcing,
  - capital losses on the disposal of Cofacrédit securities totalling €2.2 million.

All regions contributed positively to operating income, including Asia-Pacific, where a return to better fortunes was confirmed.

Change in operating income consolidated by invoicing region *(in millions of euros)*	As of Dec. 31 2018	2017	Change	Share of annual total at Dec. 31, 2018
Western Europe	34.9	55.2	(20.3)	15%
Northern Europe	53.0	54.9	(1.9)	22%
Mediterranean & Africa	71.3	45.2	26.1	30%
North America	13.0	7.4	5.6	5%
Central Europe	28.7	30.7	(2.0)	12%
Asia-Pacific	26.1	(12.1)	38.1	11%
Latin America	9.7	12.1	(2.4)	4%
TOTAL (EXCLUDING INTER-REGIONAL FLOWS AND HOLDING COST NOT RE-INVOICED)	**236.6**	**193.4**	**43.2**	**100%**

3.3.6 Net income for the year (attributable to owners of the parent)

The effective tax rate of the Coface Group fell from 40.8% in 2017 to 34.4% in 2018, a normalisation of 6.4 percentage points thanks to the return to profitability of emerging markets.

Net income (attributable to owners of the parent) for the year stood at €122.3 million, a 47% increase compared with the financial year ended December 31, 2017 (€83.2 million).

3.3.7 Parent company net income

The net income of COFACE SA in 2018 amounted to €122.6 million, compared to €20.8 million in 2017. This figure can be primarily explained by the payment of the dividend by Compagnie française d'assurance pour le commerce extérieur, the Group's operating subsidiary, totalling €133.4 million in 2018, compared with €27.7 million in 2017.

3.4 GROUP CASH AND CAPITAL RESOURCES

Information in this section is derived from the statement of cash flows in the consolidated financial statements and from Note 9 "Cash and cash equivalents" in the Company's consolidated financial statements.

	As of Dec. 31	
(in millions of euros)	**2018**	**2017**
Net cash flows generated from operating activities	124.8	210.7
Net cash flows generated from investment activities	31.3	(221.9)
Net cash flows generated from financing activities	(116.0)	(42.0)

	As of Dec. 31	
(in millions of euros)	**2018**	**2017**
Cash and cash equivalents at beginning of period	264.3	332.1
Cash and cash equivalents at end of period	302.4	264.3
Net change in cash	38.1	(67.7)

3.4.1 Group debt and sources of financing

The Group's debt comprises financial debt (financing liabilities) and operating debt linked to its factoring activities (composed of "Amounts due to banking sector companies" and "Debt securities").

	As of Dec. 31	
(in millions of euros)	**2018**	**2017**
Subordinated borrowings	388.7	388.2
Sub-total financial debt	**388.7**	**388.2**
Amounts due to banking sector companies	660.2	568.7
Debt securities	1,537.6	1,636.9
Sub-total operating debt	**2,197.8**	**2,205.6**

Financial debt

For the financial year ended December 31, 2018, the Group's financing liabilities, totalling €388.7 million, exclusively include the subordinated borrowing.

These fixed-rate (4.125%) subordinated notes (maturing on March 27, 2024) were issued on March 27, 2014 by COFACE SA for a nominal amount of €380 million.

The issue allowed the Group to optimise its capital structure, which had previously been characterised by an extremely low debt ratio (less than 1% at end-2013), and to strengthen its regulatory equity.

These securities are irrevocably and unconditionally guaranteed on a subordinated basis by Compagnie française d'assurance pour le commerce extérieur, the Group's main operating entity.

Operating debt linked to the factoring business

The Group's operating debt is mainly linked to financing for its factoring activities.

This debt, which includes "Amounts due to banking sector companies" and "Debt securities" items, corresponds to sources of refinancing for the Group's factoring companies (Coface Finanz in Germany and Coface Poland Factoring in Poland).

Amounts due to banking sector companies, which correspond to drawdowns on the bilateral credit lines (see "Bilateral credit lines" below) set up with various banking partners of Coface Finanz and Coface Poland Factoring and the Group's leading local banks, amounted to €660.2 million for the financial year ended on December 31, 2018.

Borrowings represented by securities amounted to €1,537.6 million for the financial year ended on December 31, 2018, including:

- the Senior units issued by the Vega securitisation fund under the Coface Finanz factoring receivables securitisation programme (see paragraph below "Securitisation Programme"), in the amount of €1,089.2 million; and
- commercial paper issued by COFACE SA (see paragraph below "Commercial paper programme") to finance the activity of Coface Finanz in the amount of €448.4 million.

Coface Group's main sources of operational financing

To date, the Coface Group's main sources of operational financing are:

- a securitisation programme to refinance its trade factoring receivables for a maximum amount of €1,195 million;
- a commercial paper programme for a maximum amount of €650 million; and
- bilateral credit lines for a maximum total amount of €971.5 million.

In February 2012, the Group took a first step towards achieving financial autonomy by implementing a factoring receivables securitisation programme dedicated to financing the business of Coface Finanz (Germany) and implemented a commercial paper programme dedicated to factoring financing.

In 2014, a structural addition was introduced into the securitisation programme which allowed the maximum amount of the programme to be increased to €1,195 million (recall that the initial amount was €1,100 million). At the end of 2015, the securitisation programme was renewed ahead of schedule, for an unchanged maximum amount.

In 2017, the Group continued to set up new bilateral lines in Germany and Poland. At the end of 2017, the securitisation programme was entirely renewed ahead of schedule, for a period of five years and for an unchanged amount. Concerning the commercial paper issue programme, the Group restructured the credit lines likely to be drawn should the commercial paper market shut down. Since July 28, 2017, the Group has had a syndicated loan maturing in three years with two one-year extension options for a maximum amount of €700 million. This loan replaces the bilateral credit lines covering the maximum amount of the €600 million commercial paper programme on the one hand, and includes an additional liquidity line of €100 million available to factoring entities if needed.

On June 8, 2018, Coface Poland Factoring and a group of partner banks set up a €300 million multi-currency syndicated loan. This loan partially replaces existing bilateral credit lines. The loan has a two-year maturity with the option of a one-year extension, at the lenders' discretion. The maximum amount of the commercial paper programme was increased to €650 million with the option to issue commercial paper in euros, dollars and pound sterling.

At December 31, 2018, the amount of the Coface Group's debt linked to its factoring activities amounted to €2,197.8 million.

(a) Securitisation programme

In connection with the refinancing of its factoring activities, in February 2012 the Group implemented a securitisation programme for its factoring trade receivables for a maximum total amount of €1,100 million, guaranteed by Compagnie française d'assurance pour le commerce extérieur. The maximum amount of the programme increased by €95 million, thanks to a structural addition set up in July 2014. The ceding entity was Coface Finanz, the German wholly-owned subsidiary of Compagnie française d'assurance pour le commerce extérieur. The purchaser of the receivables is a French securitisation mutual fund, Vega, governed by the stipulations of the French Monetary and Financial Code. The Group gained initial funding from this ceded reinsurance, with 35% of the programme due in one year and the remaining 65% in three years. On February 3, 2014, the Group reached an agreement with the banks in charge of the funding, to renew the funding due in one year and extend the three-year portion of the funding, which was accordingly raised to 75% of the programme size. Thanks to the additional financing that was introduced in July 2014, the share of financing at three years reached 77%. The securitisation programme was completely renewed early in December 2017, *i.e.*, for a maximum amount of €1,195 million and financing units of 23% and 77%, respectively, on maturities of one and three years. The main monitoring indicators for the programme include the default ratio, the delinquency ratio and the dilution ratio. The priority units issued by the Vega securitisation mutual fund were subscribed and refinanced by four vehicles issued in consideration for the short-term securities. The subordinated units were underwritten by Coface Poland Factoring.

At December 31, 2018, €1,089.2 million had been used under this programme.

This Securitisation Programme includes a number of usual early-payment cases associated with such a programme, concerning the financial position of Coface Finanz (the ceding company) and other Group entities (including certain indicators regarding the quality of the ceded receivables), and linked to the occurrence of various events, such as:

- payment default of Coface Finanz or of Compagnie française d'assurance pour le commerce extérieur for any sum due under the securitisation mutual fund;
- the cross default of any Group entity pertaining to debt above €100 million;

- closure of the asset-backed commercial paper market for a consecutive period of 180 days;
- winding-up proceedings against Coface Finanz, Coface Poland Factoring, the Company or Compagnie française d'assurance pour le commerce extérieur;
- the discontinuance or substantial change to the activities practised by Coface Finanz or by Compagnie française d'assurance pour le commerce extérieur;
- a downgrading of the financial rating of Compagnie française d'assurance pour le commerce extérieur below BBB- for the main funding (maximum amount of €1,100 million) and to below A for additional funding (maximum amount of €95 million);
- as well as in case of non-compliance with one of the covenants linked to the quality of the portfolio of ceded factoring receivables.

The securitisation programme does not contain a change of control clause for the Company, but contains restrictions regarding the change of control in Compagnie française d'assurance pour le commerce extérieur and the factoring companies resulting in their exit from the Group.

The three covenants set by the Securitisation Programme include:

Covenant	Definition	Trigger threshold
Default ratio	Three-month moving average of the rate of unpaid receivables beyond 60 days after their due date	> 2.24%
Delinquency ratio	Three-month moving average of the rate of unpaid receivables beyond 30 days after their due date	> 5.21%
Dilution ratio	Three-month moving average of the dilution ratio	> 9.71%

At December 31, 2018, the Group had complied with all of these covenants.

(b) Bilateral credit lines

In connection with the refinancing of its factoring business, the Group also introduced, mainly through its subsidiaries, a certain number of bilateral credit lines and bank overdrafts for a total maximum amount of €971.5 million:

- bilateral credit lines and bank overdrafts concluded with six German banks (the "German credit lines") and two Polish banks (the "Polish bank overdrafts") for a maximum amount of €247.5 million. These bilateral credit lines and bank overdrafts were concluded for a maximum period of one to two years. Some German credit lines contain the usual clauses, such as: borrower compliance with a specified net asset level; and borrower change of control clause and benefit for the lender of the strictest financial covenant granted by the borrower to other financial institutions. The Polish overdraft facilities contain the standard commitments. At December 31, 2018, €119.4 million had been drawn down under the German credit lines and €5.7 million had been used under the Polish bank overdrafts;
- bilateral credit lines concluded with the Group's eight relationship banks:
  - four lines for a maximum total amount of €215 million for Coface Finanz (with maturities ranging between one and three years), of which €116 million had been drawn down as of December 31, 2018,
  - three lines for a maximum total amount of €209 million for Coface Poland Factoring (with maturities ranging between one and two years), of which €153 million had been drawn down as of December 31, 2018,
  - a syndicated loan facility for a total amount of €300 million for Coface Poland Factoring, of which €231 million had been drawn down as of December 31, 2018.

(c) Commercial paper programme

The Group has a commercial paper issuance programme that was extended in October 2015 and increased in June 2018 to reach a maximum amount of €650 million. Under this programme, the Company frequently issues securities with due dates ranging generally between one and six months. At December 31, 2018, securities issued under the commercial paper programme totalled €448.4 million. The programme was rated P-2 by Moody's and F1 by Fitch.

Should the commercial paper market shut down, since July 28, 2017 the Group has had a currently unused syndicated loan, granted for a period of three years with two one-year extension options and covering the maximum amount of the commercial paper issue programme (€650 million). This loan replaces the former bilateral credit lines in force in the event of market shut down. The agreement regulating this syndicated loan contains the usual restrictive clauses (such as a negative pledge clause, prohibition from assigning the assets outside the Group above a specified threshold or restrictions related to the discontinuance or any substantial change in the Group's business activities) and early repayment clauses (payment default, cross default, non-compliance with representations, warranties and commitments, significant adverse change affecting the Company and its capacity to meet its obligations under these bilateral credit lines, insolvency and winding-up proceedings), in line with market practices.

3.4.2 Solvency of the Group [1]

In accordance with the regulations, the Group also measures its financial strength based on the capital requirement (amount of equity required to cover its managed risks) according to the Solvency II Regulation standard formula for its insurance business and according to bank regulations for the Group's financing companies. The change in capital requirement depends on numerous factors and parameters linked to changes in the loss ratio, underwriting volumes, risk volatility, the sequencing of loss settlement and the asset types invested in the Company's balance sheet.

For insurance activities, pursuant to the Solvency II Regulation which became effective on January 1, 2016, the Group proceeded with the calculation of the solvency capital requirement (SCR) under the standard formula introduced by European Directive No. 2009/138/EC on December 31, 2018. The Group's SCR evaluates the risks linked to pricing, underwriting, establishment of provisions, as well as market risks and operating risks. It takes account of frequency risks and severity risks. This calculation is calibrated to cover the risk of loss corresponding to a 99.5% quantile at a one-year horizon. As of December 31, 2018, the estimated amount of the Group's capital requirement (including the SCR calculated according to the standard formula) amounted to €1,238 million, compared with €1,262 million [2] at year-end 2017.

The Group also calculates the capital requirement for the factoring business. At December 31, 2018, the required capital for the factoring business was estimated at €251 million by applying a rate of 9.875% to the risk-weighted assets, or RWA. The Group is considering making a prudent estimate, given that the German and Polish local regulators (the two countries in which the Group operates its factoring business) have not defined specific mandatory capital requirements for factoring companies.

The amount of the capital requirement for the insurance business and the capital requirement for the factoring business is comparable with the available capital, which as of December 31, 2018 totalled €2,091 million.

As of December 31, 2018, the capital requirement solvency ratio (ratio between the Group's available capital and its capital requirement for insurance and factoring) amounted to 169%, compared to 164% at the end of 2017 estimated according to the model applicable under Solvency II.

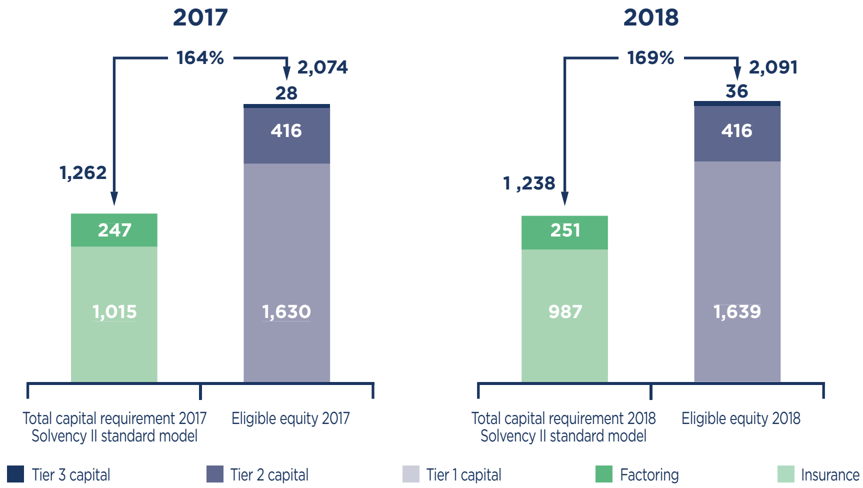
The table below presents the items for calculating the capital requirement coverage ratio in the Group's standard formula [2]:

(in millions of euros)	As of Dec. 31, 2018	As of Dec. 31, 2017 [3]
Total equity	1,807	1,803
- Goodwill and other intangible assets (net of deferred taxes)	(198)	(196)
+ Revaluation of provisions using the best estimate method (net of deferred taxes)	325	257
- Consolidation under the equity method of non-consolidated subsidiaries (net of deferred taxes)	(87)	(76)
+/- Other adjustments*	(49)	(46)
- Dividend payments	(122)	(83)
+ Subordinated debt (valued at market value)	416	416
= Solvency II available own funds (A)	**2,091**	**2,074**
Capital requirement – Insurance (SCR in standard formula) (B)	987	1,015
Capital requirement – Factoring (C)	251	247
Standard capital requirement formula (D) = (B) + (C)	1,238	1,262
SOLVENCY RATIO (E) = (A)/(D)	**169%**	**164%**

* *Mainly linked to the revaluation of certain balance sheet items, including the adjustment following the equity availability test.*

(1) Information relating to solvency is not audited.
(2) This estimated solvency ratio is a preliminary calculation carried out in line with Coface's interpretation of Solvency II; the final calculation may differ from the result of this preliminary calculation. The solvency ratio is not audited.
(3) Includes the estimated calculation of capital required for the factoring of €247 million taking into account the early adoption under the standard approach of credit risk under CRD 4 Regulations. The final solvency ratio at December 31, 2017 was 164%.

The Group is also currently working on a partial internal model as part of the implementation of Solvency II. Discussions have begun with the ACPR aimed at validating its partial internal model in order to calculate, based on the Coface Group's specific risk management, its capital requirements under Solvency II.



3.4.3 Return on equity

The return on equity ratio is used to measure the return on the Group's invested capital. Return on average tangible equity (or RoATE) is the ratio between net attributable income (attributable to owners of the parent) and the average of attributable accounting equity (attributable to owners of the parent) restated for intangible items (intangible asset values).

The table below presents the elements used to calculate the Group's RoATE over the 2017-2018 period:

	As of Dec. 31		
(in millions of euros)	2018	2018 (1)	2017
Accounting equity (attributable to owners of the parent) – A	1,806	1,810 (2)	1,803
Intangible assets – B	221	221	217
Equity, net of intangible assets – C (A - B)	1,586	1,589	1,585
Average equity, net of intangible assets - D ($[C_n + C_{n-1}]/2$)	1,585	1,587	1,562
Net income (attributable to owners of the parent) – E	122.3	126.2	83.2
RoATE – E/D	7.7%	8.0%	5.3%

(1) Calculation restated for non-recurring items.
(2) Recalculated on the basis of net income excluding non-recurring items.

3.4.4 Off-balance sheet commitments

Most of the Group's off-balance sheet commitments concern certain credit lines, guarantees received (pledged securities received from reinsurers corresponding to deposits made by reinsurers under commitments binding them to the Coface Group) and transactions on financial markets.

The table below presents the details of the Group's off-balance sheet commitments for the 2017-2018 period:

(in thousands of euros)	Dec. 31, 2018	Related to financing	Related to operating activities
Commitments given	**1,098,565**	**1,075,637**	**22,928**
Surety and letters of credit	1,075,637	1,075,637	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	15,428		15,428
Commitments received	**1,443,393**	**1,026,777**	**416,616**
Endorsements and letters of credit	140,063		140,063
Guarantees	174,053		174,053
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	326,777	326,777	
Contingent capital	100,000		100,000
Financial commitments in respect of equity interests	2,500		2,500
Guarantees received	**356,927**		**356,927**
Securities pledged as collateral by reinsurers	356,927		356,927
Financial market transactions	**250,081**		**250,081**

(in thousands of euros)	Dec. 31, 2017	Related to financing	Related to operating activities
Commitments given	**1,085,684**	**1,047,117**	**38,567**
Endorsements and letters of credit	1,047,117	1,047,117	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	31,067		31,067
Commitments received	**1,366,164**	**962,506**	**403,658**
Endorsements and letters of credit	138,598		138,598
Guarantees	162,194		162,194
Credit lines linked to commercial paper	700,000	700,000	
Credit lines linked to factoring	262,506	262,506	
Contingent capital	100,000		100,000
Financial commitments in respect of equity interests	2,866		2,866
Guarantees received	**318,779**		**318,779**
Securities lodged as collateral by reinsurers	318,779		318,779
Financial market transactions	**95,501**		**95,501**

Guarantees and letters of credit totalling €1,075,637 thousand for the financial year ended December 31, 2018 correspond mainly to:

- a joint guarantee of €380,000 thousand in favour of investors in COFACE SA subordinated notes' (10-year maturity);
- various joint guarantees totalling €695,637 thousand given by the Group, in particular to banks financing the factoring business.

Collateral concerns Coface Re for €309,712,000 and Compagnie française pour le commerce extérieur for €47,215,000.

The syndicated loan for a maximum amount of €700 million for the financial year ended December 31, 2018 includes the coverage of the Group's commercial paper issuance programme for €650 million and an additional liquidity line of €50 million available to factoring entities if needed (see Section 3.4.1 "Group debt and sources of financing").

3.5 POST-CLOSING EVENTS (ACCORDING TO ITEM 20.9 OF ANNEX I TO EC REGULATION 809/2004)

There has been no significant change to the Group's financial or commercial position since December 31, 2018.

3.6 OUTLOOK

3.6.1 Economic environment [1]

The global economy is expected to grow at a slower pace in 2019 (3.0%, down 0.2 percentage points compared with 2018), due to a slowdown in business in advanced economies and despite dynamic growth in emerging markets.

In 2019, among advanced economies, the United States will see a marked slowdown in its growth (2.3%, down 0.6% compared with 2018). Corporate investment is expected to decline after having been boosted by President Trump's tax reform in 2018, notably due to the rising financing cost due to the US Federal Reserve's rate hikes. Activity is likely to be slightly less dynamic in the United Kingdom (1.2%). The scale of this slowdown will depend on the terms of the United Kingdom's exit and the trade deal negotiated with the EU. Uncertainty will weigh on investments, as will the rising cost of financing due to higher key interest rates. Eurozone growth is expected to slow (1.6%), but will remain above its long-term potential. Uncertainties surrounding the terms of Brexit, risks weighing on the Italian economy, and difficulties in the automotive sector will also dampen growth momentum. In Spain, growth will be slower (2.2% *versus* 2.5%) than in 2018, but will remain strong. The deterioration in the automotive sector will penalise the economy, as will weak employment creation momentum, which will lead to a drop in consumer spending despite an increase in the minimum wage. Corporate investment is also likely to slow. In Germany, activity is likely to be slightly less dynamic (1.4%), owing to a slowdown in investments due to external factors (Brexit, in particular) and the fall in business confidence, in particular in the automotive sector. In France, growth is also expected to slow (1.4%) and corporate defaults increase (up 1.0%). Measures introduced to boost disposable income are projected to help consumer spending increase despite the impact of the "yellow vests" crisis, in particular for demand in capital goods. However, the fall in confidence indicators explains the slowdown in consumer investment, contrary to that of companies. In Italy, growth will be weak (0.5%), penalised by economic uncertainties, despite the budgetary agreement between the government and Brussels. In Japan, structural issues relating to the rigid job market and lacklustre private consumption are likely to slow down activity (1.0%), which is reaching the end of its recovery cycle.

Emerging countries are expected to experience slightly more buoyant growth in 2019 than in 2018. On the one hand, any prospects of growth in the United States would limit the Fed's monetary tightening, lessening capital outflows from emerging markets. However, the economic slowdown in Europe and the United States may spread to emerging economies through trade flows. Growth in India will remain strong (7.7%), driven in particular by consumer spending, reforms in favour of FDI and the possible suspension of monetary policy tightening. Emerging markets' performances will not be hugely limited by the slowdown in Chinese activity (6.2%), caused by weakening private consumption and the maturing of certain markets. South Africa is likely to see more dynamic growth than in 2018 (1.4% *versus* 0.7%), thanks to a recovery in investments in the mining sector, but this will be mitigated by political uncertainties, in particular relating to the land reform. Argentina is expected to suffer a second year of recession (down 1.0%), but to a lesser extent than in 2018 thanks to a recovery in agriculture and the relative stabilisation of the macro-economic context. Turkish growth will continue to weaken (1.2%), in particular due to the impact of the depreciation of the Turkish lira.

3.6.2 Outlook for the Group

The end of 2018 confirmed the scenario adopted by Coface of a gradual normalisation of the risk environment. The economic environment is now clearly more volatile; in addition to already known sources of risk (Argentina, Turkey), new risk factors have surfaced (Chinese slowdown, confidence in Europe, shutdown, trade wars).

Against this backdrop, Coface is confident in the relevance of its strategy, which is to become a more agile credit insurer, and remains focused on its implementation.

Drawing on its investments in risk management, Coface will continue to apply its strict underwriting policy, while underlining the sensitivity of the credit insurance business to major claims that can represent a large share of a quarter's profit.

Confident in the strength of its balance sheet, and in line with its capital management policy, the Company will propose to its shareholders the distribution of 100% of its net income, as a 0.79€ dividend[2].

Coface reiterates its objective of filing its certification request for its internal model in the summer of 2019. Discussions with the regulator on this subject have already started.

Moreover, changes to the standard formula, the estimated impact of which is a decrease of between 15 and 20 percentage points in the Group's solvency [3], are expected for an application in 2020.

The goals of delivering a net combined ratio of around 83% across the cycle and achieving a RoATE of 8% + 1% have been maintained.

(1) Group estimates.
(2) The proposed dividend is subject to the approval of the Shareholders' Meeting of May 16, 2019.
(3) Unaudited data.

3.7 KEY FINANCIAL PERFORMANCE INDICATORS

3.7.1 Financial indicators

Consolidated revenue

The composition of the Group's consolidated revenue (premiums, other revenue) is described under "Accounting principles and methods" in the notes to the consolidated financial statements.

Claims expenses

"Claims expenses" correspond to claims paid under credit insurance contracts, Single Risk policies and surety bonds, less changes in recoveries following recourse (amounts recovered from the debtor after paying the policyholder for the claim) during the financial year, and to the change in claims provisions during the financial year, and the handling expenses for these claims, which cover the costs of processing and managing policyholders' claims declarations, and those generated by monitoring the recovery procedures (charges and provisions for internal and external debt collection fees).

Claims paid correspond to compensation paid under the policies during the financial year, net of collections received, plus costs incurred to provide the management, regardless of the financial year during which the claim was declared or during which the event producing the claim took place, less amounts recovered during the financial year for claims previously indemnified, regardless of the year the indemnification was paid.

Claims provisions are established for claims declared but not yet settled at financial year-end, as well as for claims that have not yet been declared, but which have been deemed probable by the Group, given the events that have arisen during the financial year (incurred but not reported – IBNR provisions). The amounts thus provisioned also take into consideration a forecast of the amount to be collected for these claims. These provisions are decreased each year by recoveries made following the payment of compensation or the estimate of potential losses for declared or potential claims. The difference between the amount of provisions in a given financial year (established during the first year of underwriting a policy) and the amounts re-evaluated the following years are either a liquidation profit (revaluation downward) or loss (revaluation upward) (see Note 22 to the consolidated financial statements).

Operating expenses

"Operating expenses" correspond to the sum of the following items:

- "Policy acquisition costs", consisting of:
  - external acquisition costs, namely commissions paid to intermediaries which introduce business (brokers or other intermediaries) and which are based on the revenue contributed by such intermediaries, and
  - internal acquisition costs corresponding essentially to fixed costs related to payroll costs linked to policy acquisition and to the costs of the Group's sales network;
- "Administrative costs" (including Group operating costs, payroll costs, IT costs, etc., excluding profit-sharing and incentive schemes). The policy acquisition costs as well as administrative costs primarily include costs linked to the credit insurance business. However, due to pooling, costs related to the Group's other businesses are also included in these items;
- "Other current operating expenses" (expenses that cannot be allocated to any of the functions defined by the chart of accounts, including in particular management expenses);
- "Expenses from banking activities" (general operating expenses, such as payroll costs, IT costs, etc., relating to factoring activities); and
- "Expenses from other activities" (overheads related exclusively to information and debt collection for customers without credit insurance).

As such, "Operating expenses" consist of all overheads, with the exception of internal investment management expenses for insurance – which are recognised in the "Investment income, net of management expenses (excluding finance costs)" aggregate – and claims handling expenses, with the latter included in the "Claims expenses" aggregate.

Total internal overheads (*i.e.*, overheads excluding external acquisition costs (commissions)), are analysed independently of the method for accounting for them by function, in all of the Group's countries. This presentation enables a better understanding of the Group's economy and differs on certain points from the presentation of the income statement, which meets the presentation requirements of the accounting standards.

Cost of risk

"Cost of risk" corresponds to expenses and provisions linked to cover the ceding risk (inherent to the factoring business) and the credit risk, net of credit insurance coverage.

Underwriting income

Underwriting income is an intermediate balance of the income statement which reflects the operational performance of the Group's activities, excluding the management of business investments. It is calculated before and after recognition of the income or loss from ceded reinsurance:

- "Underwriting income before reinsurance" (or underwriting income gross of reinsurance) corresponds to the balance between consolidated revenue and the total represented by the sum of claims expenses, operating expenses and cost of risk;
- "Underwriting income after reinsurance" (or underwriting income net of reinsurance) includes, in addition to the underwriting income before reinsurance, the income or loss from ceded reinsurance, as defined below.

Income (loss) from ceded reinsurance (expenses or income net of ceded reinsurance)

"Reinsurance income" (or income and expenses net of ceded reinsurance) corresponds to the sum of income from ceded reinsurance (claims ceded to reinsurers during the financial year under the Group's reinsurance treaties, net of the change in the provision for claims net of recourse that was also ceded, plus the reinsurance commissions paid by reinsurers to the Group for proportional reinsurance), and charges from ceded reinsurance (premiums ceded to reinsurers during the financial year for reinsurance treaties of the Group, net of the change in provisions for premiums also ceded to reinsurers).

Investment income, net of management expenses (excluding finance costs)

"Investment income, net of management expenses (excluding finance costs)" combines the result of the Group's investment portfolio (investment income, gains or losses from disposals and reversals of provisions for impairment), exchange rate differences and investment management expenses.

Current operating income/(loss)

"Current operating income (loss)" corresponds to the sum of "Underwriting income after reinsurance", "Net investment income excluding the cost of debt (finance costs)" and non-current items, namely "Other operating income and expenses".

In the presentation of operating income by region, the amounts are represented before revenue from interregional flows and holding costs not charged back to the regions have been eliminated.

Income tax

Tax expenses include tax payable and deferred tax that results from consolidation restatements and temporary tax differences, insofar as the tax position of the companies concerned so justifies (as more extensively described under "Accounting principles and methods" and in Note 29 of the consolidated financial statements).

Net income (attributable to owners of the parent)

Net income (attributable to owners of the parent) corresponds to the amount of "Net income from continuing operations" (corresponding to "Operating income", net of "Finance costs", "Share in net income of associates" and "Income tax"), "Net income from discontinued operations" and "Non-controlling interests".

3.7.2 Operating indicators

As part of its business operations, in addition to the financial aggregates published in accordance with the international financial reporting standards (IFRS), the Group uses four operational indicators to track its commercial performance. They are described below:

Production of new contracts

The production of new contracts corresponds to the annual value of credit insurance policies taken out by new customers during the period. The Group generally records a higher production of new contracts during the first quarter of a given financial year.

Retention rate

The rate corresponds to the ratio between the annual value of the policies actually renewed and that of the policies that were supposed to be renewed at the end of the preceding period. The annual value of the policies corresponds to the valuation of the credit insurance policies over a 12-month period according to an estimate of the volume of related sales and the level of the rate conditions in effect at the time the policy is taken out.

Price effect of credit insurance policies

The price effect of the credit insurance policies corresponds to the difference between the annual value of the contracts, calculated based on the rate conditions in effect at the time the policy is taken out, and the annual value of the policies for the preceding period (calculated based on the rate conditions of the preceding period and excluding any volume effect related to the definitive revenue of the policyholders).

Volume effect

The method for calculating premiums on the Group's revenue produces its effects throughout the life of the policies, and not for a single financial year. When the volume of a policyholder's actual sales is higher than what was taken into consideration to determine the amount of premiums billed during the period covered by the policy, this difference produces a positive effect on the earned premiums recorded by the Group with a one-year lag. Conversely, when the volume of the policyholder's sales is less than what was used as the basis for calculating the flat rate, this difference does not produce any effect on the Group's revenue for the following financial year.

3.7.3 Breakdown of the calculation of ratios as of December 31

Earned premiums *(in thousands of euros)*	2018	2017
Gross earned premiums [A]	**1,142,608**	**1,109,697**
Ceded earned premiums	(327,541)	(301,545)
NET EARNED PREMIUMS [D]	**815,067**	**808,152**

Claims expenses *(in thousands of euros)*	2018	2017
Claims expenses* [B]	**(504,509)**	**(570,863)**
Ceded claims	124,537	112,655
Change in claims provisions net of recoveries	12,211	43,153
NET CLAIMS EXPENSES [E]	**(367,762)**	**(415,055)**

* *Of which claims handling expenses.*

Operational expenses *(in thousands of euros)*	2018	2017
Operating expenses	**(658,219)**	**(653,864)**
Of which employee profit-sharing	6,219	4,662
Other income (services)*	242,127	244,661
OPERATING EXPENSES, NET OF OTHER INCOME – BEFORE REINSURANCE [C]	**(409,872)**	**(404,542)**
Commissions paid by reinsurers	128,666	119,767
OPERATING EXPENSES, NET OF OTHER INCOME – AFTER REINSURANCE [F]	**(281,207)**	**(284,775)**

* *Excluding the contribution from the public guarantee business in 2017 (€0.6 million).*

Gross combined ratio = gross loss ratio	$\frac{B}{A}$	**+ gross cost ratio**	$\frac{C}{A}$
Net combined ratio = net loss ratio	$\frac{E}{D}$	**+ net cost ratio**	$\frac{F}{D}$

Ratios	2018	2017
Loss ratio before reinsurance	44.2%	51.4%
Loss ratio after reinsurance	45.1%	51.4%
Cost ratio before reinsurance	35.9%	36.5%*
Cost ratio after reinsurance	34.5%	35.2%*
Combined ratio before reinsurance	80.0%	87.9%*
Combined ratio after reinsurance	79.6%	86.6%*

* *Excluding the contribution from the public guarantee business in 2017 (€0.6 million).*

3.7.4 Alternative performance measures (APM) as of December 31, 2018

This section takes a look at KPIs not defined by accounting standards but used by the Company for its financial communications. This section is a follow-up to the AMF's position – IAP DOC 2015-12.

The indicators below represent indicators listed as belonging to the category of Alternative Performance Measures.

a) Alternative Performance Measures related to revenue and its items

Definition	Justification
Revenue with restated items	
(1) Two types of restatements on revenue: **i.** Calculation of revenue growth percentages in like-for-like: ◆ year N recalculated at the exchange rate of year N-1; ◆ year N-1 at the Group structure of year N. **ii.** Removal or addition of revenue in value (€) considered as extraordinary in the current year. The term "extraordinary" refers to impacts on revenue which do not occur every year.	**i.** Historic method used by Coface to calculate *pro forma* %. **ii.** Item considered as extraordinary; in other words, which will only occur in the current financial year (year N).
Fee and commission income/Gross earned premiums (current – like-for-like)	
Weight of fees and commission income over earned premiums on like-for-like basis: ◆ year N at the exchange rate of year N-1; ◆ year N-1 at the Group structure of year N. Fees and commission income corresponds to the revenue invoiced on additional services.	Indicator used to monitor changes in fees and commission income compared to the main revenue item at constant scope.
Internal overheads excluding extraordinary items	
(2) Restatement or Addition of items considered as extraordinary with respect to internal overheads. The term "extraordinary" refers to impacts on expenses which do not occur every year. Indicator used to compare changes in internal overheads by excluding extraordinary items.	

b) Alternative Performance Measures related to operating income

Definition	Justification
Operating income excluding restated extraordinary items (including finance costs and excluding other operating income and expenses)	
Restatement or Addition of items considered as extraordinary to operating income: these include extraordinary income and expenses impacting either revenue (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in operating income by excluding extraordinary items.

c) Alternative Performance Measures related to net income

Definition	Justification
Net income excluding extraordinary items	
Restatement or Addition of items considered as extraordinary with respect to net income. This includes extraordinary income and expenses likely to impact either revenue (see definition above **(1)**) or overheads (see definition above **(2)**). This aggregate is also restated for "current operating income and expenses" classified after operating income in the management income statement.	Indicator used to compare changes in net income by excluding extraordinary items.

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
i. (Rev. current N - FX Impact N-1)/(Rev. current N-1 + perimeter Impact N) -1 **ii.** Rev. current N +/- Restatements/Additions of extraordinary items N	**i. +4.6%** = (1,384.7 - (-31.9)/(1,354.9 - (0.6 DGP residual compensation + 0.2 adjustment gross domestic factoring income) - 1 **ii.** 1,384.7 +/- 0.0	**i. N/A** 1,354.1 = 1,354.9 - (0.6 DGP residual compensation + 0.2 adjustment gross domestic factoring income) ii. 1,354.9 +/- 0.0
Fee and commission income/Earned premiums - Constant	**Current: 11.9%** = 136.1/1,142.6 **Like-for-like: 11.7%** = 137.4/1,172.4	**Current: 12.0%** = 133.3/1,109.7
Current internal overheads +/- Restatements +/- Additions of extraordinary items	**€527.0m** = 527.0 +/- 0.0	**€519.0m** = 525.0 - (6.0 non-recurring tax expense in Italy)

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
Operating income +/- Restatements +/- Addition of extraordinary items	**€191.2m** = 203.9 + (-17.7) - (-5.0 extraordinary items)	**€136.9m** = 154.4 + (-18.1) - (-0.6 extraordinary items)

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
Current operating income +/- Restatements +/- Additions of extraordinary items net of tax	**€126.2m** = 122.3 - (-5.0 Exceptional items - 0.8 Exceptional fees) - (2.0 tax on extraordinary items and fees)	€83.2m +/- 0.0

d) Alternative Performance Measures related to the combined ratio

Definition	Justification
Loss ratio gross of reinsurance (loss ratio before reinsurance) and gross loss ratio with claims handling expenses refer to the same indicator	
The ratio of claims expenses to gross earned premiums (the sum of gross earned premiums and unearned premium provisions), net of premium refunds.	Indicator for monitoring the level of loss borne by the Group with respect to premiums, after ceded reinsurance.
Loss ratio net of reinsurance (loss ratio after reinsurance)	
Ratio between claims expenses net of claims expenses ceded to reinsurers under reinsurance treaties entered into by the Group, and total earned premiums net of premiums ceded to reinsurers.	Indicator for monitoring the level of loss borne by the Group with respect to premiums, after ceded reinsurance.
Cost ratio before reinsurance	
Ratio between operating expenses (net of employee profit sharing) less other income* and earned premiums.	Indicator for monitoring the level of operating expenses (insurance contracts portfolio acquisition and management) borne by the Group with respect to premiums.
Cost ratio after reinsurance	
Ratio between operating expenses (net of employee profit sharing) less other income* net of commissions received from reinsurers under reinsurance treaties entered into by the Group, and the total of earned premiums net of premiums ceded to reinsurers.	Indicator for monitoring the level of operating expenses (insurance contracts portfolio acquisition and management) borne by the Group with respect to premiums after ceded reinsurance.
Combined ratio before/after reinsurance	
The combined ratio is the sum of the loss ratios (before/after reinsurance) and cost ratios (before/after reinsurance) as defined above.	Overall profitability indicator of the Group's activities and of its technical margin before and after ceded reinsurance.
Net combined ratio excluding restated and extraordinary items [A]	
Restatement or Addition of items considered as extraordinary with respect to combined ratio after reinsurance. This includes extraordinary income and expenses impacting either revenue (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in combined ratios after reinsurance by excluding extraordinary items.
Loss ratio excluding extraordinary items [B]	
Restatement or Addition of items considered as extraordinary with respect to loss ratio after reinsurance.	Indicator used to compare changes in loss ratios after reinsurance by excluding extraordinary items.
Net cost ratio excluding restated and extraordinary items [C]	
Restatement or Addition of items considered as extraordinary to cost ratio after reinsurance: these include extraordinary income and expenses impacting either revenue (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in cost ratios after reinsurance by excluding extraordinary items.
Current year gross loss ratio – before reinsurance excluding claims handling expenses [D]	
Ultimate claims expense (after recourse) over earned premiums (after premium refunds) for the current year. The insurance period is exclusively the current year N.	Indicator used to calculate the loss ratio before reinsurance excluding claims handling expenses.

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
- Claims expenses/Gross earned premiums	See 3.8.3 – Breakdown of the calculation of ratios at December 31	
- (Claims expenses + Ceded claims + Change in provisions on claims net of recourse)/(Gross earned premiums + Expenses from ceded reinsurance)	See 3.8.3 – Breakdown of the calculation of ratios at December 31	
- (Operating expenses – Employee profit sharing – Other income)/Gross earned premiums	See 3.8.3 – Breakdown of the calculation of ratios at December 31	
- (Operating expenses – Employee profit sharing – Other income – Commissions received from reinsurers)/(Gross earned premiums + Expenses from ceded reinsurance)	See 3.8.3 – Breakdown of the calculation of ratios at December 31	
Loss ratio (before/after reinsurance) + Cost ratio (before/after reinsurance)	See 3.8.3 – Breakdown of the calculation of ratios at December 31	
Combined ratio after reinsurance +/- Restatements/ Additions of extraordinary items	**[A]=[B]+[C]** **79.6%** = 45.1% + 34.5%	**[A]=[B]+[C]** **86.6%** = 51.4% + 35.2%
Loss ratio after reinsurance +/- Restatements/Additions of extraordinary items	**45.1%** = 45.1% +/- 0.0 pt	**51.4%** = 51.4% +/- 0.0 pt
Cost ratio after reinsurance +/- Restatements/Additions of extraordinary items	**34.5%** = 34.5% +/- 0.0 pt	**35.2%** = 35.17% + (0.07 pt impact of DGP residual pricing: 0.6/ (1,109.7-301.5))
Claims reported in the current year/Earned premiums for the current year See ultimate loss ratios development triangle	**75.7%** = see ultimate loss ratios development triangle	**74.1%** = see ultimate loss ratios development triangle

Definition	Justification
Prior year gross loss ratio – before reinsurance excluding claims handling expenses [E]	
Corresponds to gains/losses for insurance periods prior to current year N excluded. A gain or loss corresponds to an excess or deficit of claims provisions compared to the loss ratio actually recorded.	Indicator used to calculate the loss ratio before reinsurance excluding claims handling expenses.
Comprehensive gross loss ratio – before reinsurance excluding claims handling expenses [F]	
Corresponds to the accounting loss ratio for all insurance periods (Current year N and its prior years). This concerns the loss ratio before reinsurance excluding claims handling expenses.	Key indicator in loss monitoring.

* *Operating expenses include overheads linked to the execution of additional services (business information and debt collection) inherent to the credit insurance business. These also include overheads for service businesses carried out by the Group, such as factoring. In order for the cost ratio calculated by the Group to be comparable to the cost ratio calculated by other main market players, "Other revenue", namely the revenue generated by the additional businesses (non-insurance), is deducted from overheads.*

e) Alternative Performance Measures related to equity

Definition	Justification
RoATE – Return on average tangible equity	
Net income (attributable to owners of the parent) over average tangible equity (average equity for the period (attributable to owners of the parent) restated for intangible assets).	The return on equity ratio is used to measure the return on the Coface Group's invested capital.
RoATE excluding non-recurring items	
The calculation of RoATE (see definition of RoATE above) is based on net income excluding non-recurring items and Average Tangible Equity (see RoATE definition above) excluding non-recurring items. For this calculation, interests or commissions linked to capital management instruments (such as hybrid debt, contingent equity) are not considered as non-recurring items.	The calculation of return on equity ratio excluding non-recurring items is used to monitor the Group's profitability between two reporting periods.

	€M - N/N-1 comparison	
Reconciliation with the financial statements	**2018**	**2017**
[E] = [F-D]	**-34.0%** = 41.7% - 75.7%	**-25.1%** = 49.0% - 74.1%
- (Claims paid net of recourse + Change in claims provisions)/Earned premiums	**41.7%** = - (-476.5/1,142.6)	**49.0%** = - (-544.3/1,109.7)

	€M - N/N-1 comparison	
Reconciliation with the financial statements	**2018**	**2017**
Net income (attributable to owners of the parent) for year N/[(Equity attributable to owners of the parent N-1, restated for intangible assets N-1 + Equity attributable to owners of the parent restated for intangible assets N)/2]	**7.7%** = 122.3/[(1,586 + 1,585)/2]	**5.3%** = 83.2/[(1,585 + 1,539)/2]
Net income (attributable to owners of the parent) for year N excluding non-recurring items/[Equity attributable to owners of the parent excluding non-recurring items N-1, restated for intangible assets N-1 + Equity attributable to owners of the parent excluding non-recurring items N restated for intangible assets N)/2]	**8.0%** = 126.2/[(1,589 + 1,585)/2]	Not applicable for this reporting year

f) Alternative Performance Measures related to the investment portfolio

Definition	Justification
Accounting rate of return of financial assets	
Investment income before income from equity securities, foreign exchange income and financial expenses compared to the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the accounting performance of the financial assets portfolio.
Accounting rate of return of financial assets excluding income from disposals	
Investment income before income from equity securities, foreign exchange income and financial expense excluding capital gains or losses on disposals compared to the balance sheet total of financial assets excluding equity securities.	Indicator used to monitor the recurring accounting performance of the financial assets portfolio.
Economic rate of return of financial assets	
Economic performance of the asset portfolio. Thus, the change in revaluation reserves for the year over the balance sheet total of financial assets is added to the accounting return.	Indicator used to monitor the economic performance of the financial assets portfolio.
Investment portfolio income	
Investment portfolio income (shares/fixed-income instruments and real estate)	Used to monitor the income from the only investment portfolio.
Other	
Income from derivatives excluding exchange rate, equity securities and investment fees.	Used to monitor income from equity securities, derivatives excluding exchange rate and fees relating to investments.

g) Alternative Performance Measures linked to reinsurance

Definition	Justification
Ceded premiums/Gross earned premiums (rate of ceded premiums)	
Weight of Ceded premiums compared to earned premiums. Ceded premiums correspond to the share of earned premiums that Coface cedes to its reinsurers under reinsurance treaties signed with them. Earned premiums correspond to the sum of written premiums and provisions on earned premiums not yet written.	Indicator used to monitor changes in reinsurance income.
Ceded claims/total claims (rate of ceded claims)	
Weight of ceded claims compared to total claims. Ceded claims correspond to the share of Coface claims ceded to its reinsurers under reinsurance treaties signed with them.	Indicator used to monitor changes in reinsurance income.
Underwriting income before/after reinsurance (underwriting income gross/net of reinsurance)	
See definition above (financial indicators) Underwriting income before and after reinsurance is now reported directly in the income statement due to the change in the latter's presentation structure.	

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
Investment portfolio income/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/2).	**1.7%** = 45.4/(((2,834 - 129) + (2,877 - 116))/2)	**1.8%** = 49.8/(((2,877 - 116) + (2,752 - 121))/2)
Investment portfolio income excluding capital gains or losses/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/2).	**1.5%** = (45.4 - (4.7))/(((2,834 - 129) + (2,877 - 116))/2)	**1.4%** = (49.8 - (12.3))/(((2,877 - 116) + (2,752 - 121))/2)
Accounting rate of return on financial assets + (revaluation reserves of financial assets (shares excluding equity securities, real estate, fixed-income instruments), year N- revaluation reserves of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1)/((market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding equity securities, real estate, fixed-income instruments) year N-1]/2)	**(0.2)%** = (45.4 + ((108.6 - 103.9 - 2.3) - (152.6 - 90.7 - 9.4)))/(((2,834 - 129) + (2,877 - 116))/2)	**2.3%** = (49.8 + ((153 - 9 - 91) - (137.4 - 3 - 93.4)))/(((2,877 - 116) + (2,752 - 121))/2)
Income from shares excluding equity securities + income from fixed-income instruments + real estate income	**€45.4m** = 5.5 + 30.9 + 9.0	**€49.8m** = 6.7 + 36.8 + 6.3
Income from derivatives excluding exchange rate + income from equity securities + investment fees.	**-€2.5m** = 3.1 + 7.8 - 8.2 - 5.2	**-€2.5m** = 4.5 + 4.5 - 8 - 3.6

Reconciliation with the financial statements	€M - N/N-1 comparison 2018	2017
- (Ceded premiums (of which, change in premiums provisions)/Earned premiums)	**28.7%** = - (-327.5/1,142.6)	**27.2%** = - (-301.5/1,109.7)
- Ceded claims (of which, change in claims provisions after recourse)/Total claims	**27.1%** = -136.7/[(-476.5) + (-28.0)]	**27.3%** = -155.8/[(-544.3) + (-26.6)]

3.8 INVESTMENTS OUTSIDE THE INVESTMENT PORTFOLIO

Information can be found in Note 6 “Buildings used in the business and other property, plant and equipment” of the Group’s consolidated financial statements.