3.1 / ECONOMIC ENVIRONMENT [(1)]

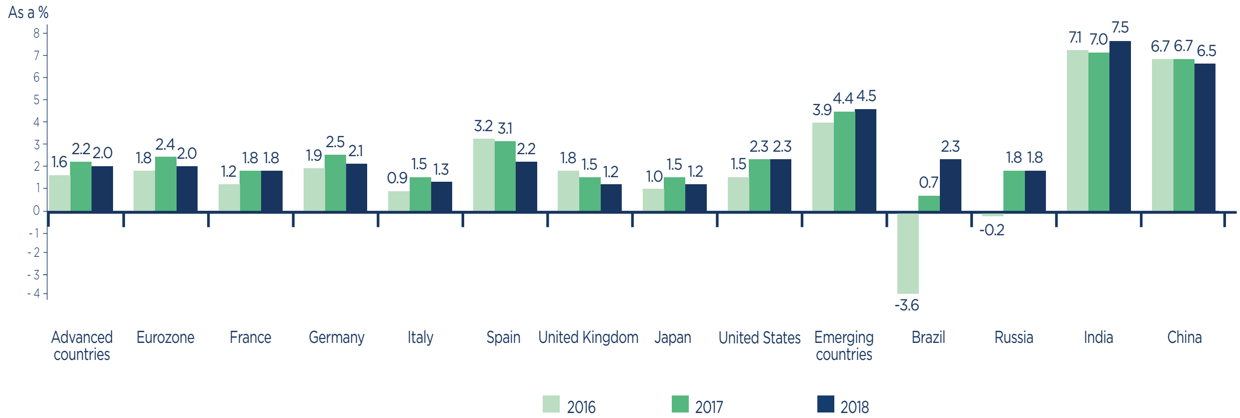
In 2017, the global economy achieved 3.1% growth, according to Coface, exceeding the performance in 2016 (2.6%). There was a synchronised upswing in growth worldwide, with emerging countries posting 4.4% growth and advanced countries 2.2%.

Economic activity picked up in the eurozone with reported GDP growth of 2.4% in 2017 (after 1.8% in 2016). The continuing accommodating monetary policy, high confidence level of agents and the relatively low commodities prices are all factors that had a positive impact on growth in 2017. Activity picked up in most major eurozone economies, even if the countries continued to show different growth trends. Once again, growth in Germany was strengthened (2.5%), firstly by the momentum of private consumption linked to an increase in real income, and secondly thanks to the still buoyant global economy. The influx of refugees also had a positive impact on growth: it was accompanied by a high level of consumption and public spending, mostly in public housing and infrastructures. The French economy also recorded stronger growth (1.8%), driven by a surge in corporate investments and the rally in electricity exports and tourism. The momentum that led to more new business creations and fewer corporate failures grew stronger. Among Southern European countries, Spain continued on its upward trend (3.1%), well above the figures observed in Italy (1.5%) and in Portugal (2.6%). The situation also improved in Greece (1.4%), following the agreement reached with international creditors in June.

In the UK, activity barely slackened (1.5%), in spite of fears that Brexit would lead to a more substantial slowdown. In the US, growth clearly accelerated (2.3%), buoyed by the confidence of agents, resilient household consumption and the upturn in residential investment. Lastly, growth in Japan exceeded forecasts (1.5%), stimulated by foreign trade and stronger industrial production.

The economic downturn observed in emerging countries since 2010 appears to have hit a low in 2016. The situation in Latin America was not as exuberant (1.1%), despite growth returning to positive figures. Brazil improved its macro-economic fundamentals (0.7%) with the recovery of household consumption and the very favourable climatic conditions. Growth in the CIS (2.1%) was spurred by the turnaround in commodities prices and the restored confidence of Russian households, which took advantage of the increase in their real income and stable prices. Growth in Sub-Saharan Africa stood at 2.6%, unlike the North Africa-Middle East zone (1.9%). Saudi Arabia, in particular, fell into recession this year (0.5%) due to a vast budget consolidation programme and a drop in oil production. Emerging Asia stood out again with the most vigorous growth (6.0%). However, the slack in Chinese growth was confirmed (6.7%), against a background of more restrictive measures towards investors. Lastly, in the Europe/Middle East-Africa zone, Turkey reported robust growth (5.5%, after 2.9% in 2016). It was spurred by accommodating monetary and budget policies, and very high private consumption.

GDP growth (as %): 2016, 2017 and 2018 (source Coface)



(1) Group estimates.

3.2 / SIGNIFICANT EVENTS IN THE PERIOD

3.2.1 CHANGES IN GOVERNANCE

Appointments to the Coface Board of Directors

At the meeting of July 27, 2017, the COFACE SA Board of Directors co-opted **Isabelle Laforgue,** Chief Transformation Officer of Econocom, and **Nathalie Lomon,** Chief Financial Officer of Ingenico, as independent directors of the COFACE SA Board of Directors.

They replace **Linda Jackson,** Chief Executive Officer of French carmaker Citroën, member of the Executive Committee of PSA Peugeot Citroën, and **Martine Odillard,** President of Cinémas Gaumont Pathé, who left the Board to focus on their current professional responsibilities.

Appointments to the Coface Executive Committee

Since April 3, 2017:

- **Cécile Paillard** joined the Group to replace **Antonio Marchitelli** as director of the Mediterranean and Africa region;
- **Antonio Marchitelli** took over from **Cyrille Charbonnel** as director of the Western Europe region;
- **Cyrille Charbonnel** is now the Head of a new Group Underwriting Department which combines risk underwriting, information, claims & collections, and commercial underwriting (see below).

Furthermore, since November 1, 2017:

- **Katarzyna Kompowska** is the Head of the Northern Europe region;
- **Declan Daly** joined the Group to replace **Katarzyna Kompowska** as director of the Central Europe region.

3.2.2 CREATION OF THE UNDERWRITING DEPARTMENT

Created in April 2017, this department is tasked with striking a balance between the Group's commercial ambition and risk control, while helping to improve the service rendered to clients. It is organised into four units:

- commercial underwriting, which sets contract underwriting standards for the Group and has the final say on overriding commercial decisions;
- information, which handles the acquisition and production of pertinent and useful information for risk underwriting;
- risk underwriting, which defines and controls the policy on underwriting credit risks, and monitors its application;
- claims & collections, which is in charge of indemnification and debt collection procedures.

By combining these functions under a single department, Coface has given itself the resources to optimise and accelerate the decision-making processes that affect the life of its contracts; furthermore, the Group is consolidating its capacity to generate profitable growth thanks to better control of its commitments.

3.2.3 SIGNING OF LABOUR AGREEMENTS IN FRANCE AND IN GERMANY

In France, a new framework agreement was signed on May 17, 2017 with employee representative bodies. This agreement provides for the set-up, on or after January 2018, of a work-time organisation that is more in line with market practices and that better reflects the Group's social and economic challenges.

In Germany, the voluntary departure plan that was presented in November 2016 to the employee representative bodies was signed on May 10, 2017. As indicated in previous communications, this plan had resulted in the recognition of a provision for restructuring, recorded in the financial statements for the year ended on December 31, 2016.

3.2.4 ARRANGEMENT OF A SYNDICATED CREDIT FACILITY

In order to refinance its factoring business, COFACE SA signed an agreement for a €700 million syndicated loan on July 28, 2017 with a group of partner banks. This loan replaces the existing bilateral credit lines.

Coface is backed by a panel of six relationship banks: Natixis, Société Générale, BNP Paribas, Crédit Agricole CIB, acting as mandated arrangers and bookkeepers, HSBC and BRED acting as mandated arrangers. Natixis intervenes as documentation agent and Société Générale as management agent. The loan is arranged for a period of three years with two extension options, for one year each, in the hand of the lenders.

This transaction allows 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 top-tier banks which, through this transaction, confirm their medium-term commitment alongside Coface.

3.2.5 RENEWAL OF THE SECURITISATION PROGRAMME

To refinance its factoring activities, the Group has renewed early its entire securitisation programme worth €1,195 million, for a period of five years. This renewal allows the Group to consolidate a significant and competitive source of refinancing for five more years while strengthening relations with its top-tier banking partners.

3.2.6 CREATION OF LOCAL HUBS: NORDIC, ADRIATIC, BALTIC

Coface has simplified its structure in 10 countries by combining its operations into three hubs: Nordic hub (Denmark, Sweden, Norway, Finland), Adriatic hub (Croatia, Slovenia, Serbia) and Baltic hub (Latvia, Estonia, Lithuania). These hubs group together functions serving several countries into one single geographic location. They allow the Group to reach a better critical size and to improve operational efficiency as well as the service provided to our clients in these regions.

These transactions were made possible thanks to the acquisition of minority shares (25% of the capital) in the Central Europe holding company which occurred at the end of March 2017.

3.2.7 INAUGURATION OF A COFACE TECHNOLOGIES IT CENTRE IN BUCHAREST

Coface inaugurated its new IT centre, Coface Technologies, on June 13, 2017. Its creation is an important step towards strengthening the Group's IT and operational performances. Located in Bucharest, it will centralise certain development functions which were previously outsourced. A third of the target workforce has been recruited and the transfer of skills has commenced, according to schedule.

3.2.8 LAUNCH OF THE NEW COFANET ESSENTIALS CLIENT INTERFACE

Digital transformation is one of the pillars of the differentiated growth strategy that Coface has set up with Fit to Win.

Coface's aim in developing a pertinent digital offer and high-quality online tools is therefore to offer its clients an enhanced service, setting it apart from the competition. In May, therefore, the Group rolled out an entirely new version of CofaNet Essentials, the web interface for credit insurance policy management, with a modern look and feel, compatible with mobile phones and tablets and offering a fuller, tailored customer experience.

3.3 / COMMENTS ON INCOME AT DECEMBER 31, 2017

Coface transferred its State export guarantees management business to Bpifrance on January 1, 2017, a service Coface performed on behalf of the French state. For purposes of comparability with the results as at December 31, 2017, the tables and charts present the results at December 31, 2016 without the contribution from this business line. They are indicated by "excluding DGP". The results published at December 31, 2016 are indicated by "2016".

3.3.1 PERFORMANCE OF THE GROUP

Thanks to a favourable economic environment, the actions taken under the Fit to Win plan resulted in a sharp improvement in Coface's earnings in 2017.

The reported consolidated revenue of €1,354.9 million corresponds to a 0.3% increase (at constant scope [1] and exchange rate) compared with 2016; the net loss ratio has improved by 14.1 percentage points, to 51.4%, and the net cost ratio is stable at 35.2%. The Group ended the year with a two-fold increase in net income, to €83.2 million (*versus* €41.5 million in 2016) and a solvency boosted by 16 percentage points, to ~ 166% [2].

As this level is slightly above the Group's target range, it can activate the capital management driver built into the Fit to Win plan, by launching share buybacks for a target total amount of €30 million. The shares acquired under the buyback plan are intended to be cancelled. Given the distribution proposed to COFACE SA shareholders for a dividend of €0.34 per share [3], total shareholder return would then amount to 100% of income for 2017 subject to the execution of the share buyback plans.

3.3.2 REVENUE

The Group's consolidated revenue grew by 0.3% at constant scope and exchange rate (restated of the State guarantees revenue in France) to €1,354.9 million in 2017. It is slightly down at constant scope (down 0.3% compared with 2016).

The negative currency effect of 0.6 percentage points can be explained by the stronger euro against the US dollar (the portfolio's primary currency), Asian currencies and the pound sterling. The euro grew stronger after the abatement of political risk in Europe and a rosier economic outlook.

Furthermore, the Turkish pound and the Argentinian peso depreciated sharply in 2017.

The table below shows the changes in the COFACE Group's consolidated revenue by business line as of December 31, 2016 and 2017:

Change in consolidated revenue by business line *(in millions of euros)*	As of Dec. 31 2017	2016	2016 excluding DGP	Change *(in €m: at constant scope)*	*(as a %: at constant scope)*	*(as a %: at constant scope and exchange rate)*
Insurance	1,282.9	1,340.7	1,287.3	(4.4)	(0.4)%	0.3%
Earned premiums [1]	*1,109.7*	*1,115.1*	*1,115.1*	*(5.4)*	*(0.5)%*	*0.2%*
Services [2]	*173.2*	*225.5*	*172.2*	*1.0*	*0.3%*	*0.4%*
Factoring	72.0	70.6	70.6	1.4	2.0%	1.7%
CONSOLIDATED REVENUE	**1,354.9**	**1,411.3**	**1,357.9**	**(3.0)**	**(0.3)%**	**0.3%**

(1) Earned premiums – Credit, Single Risk and Surety Bond.
(2) Sum of revenue from services related to credit insurance ("Fees and commission income", "Compensation for public procedures management services" 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) Constant scope = excluding the State guarantees management business line (€53.4 million of revenue in 2016).
(2) 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.
(3) The proposed dividend of €0.34 per share is subject to the approval of the Shareholders' Meeting of May 16, 2018.

Insurance

Revenue for the insurance business line (including surety bond and Single Risk) is slightly down (-0.4% at constant scope), from €1,287.3 million in 2016 to €1,282.9 million in 2017 (+0.3% at constant scope and exchange rate).

Earned premiums are down 0.5% at constant scope (up 0.2% at constant scope and exchange rate), from €1,115.1 million in 2016 to €1,109.7 million in 2017. Mature markets returned to growth, fuelled by policyholders' activity in the buoyant European economic environment. Only Northern Europe remained down, despite an improvement in contract retention. In emerging markets, the action plans undertaken to improve the containment of loss experience continued to produce their effects in Asia-Pacific throughout the year. Latin America was penalised by Brazil, where political instability had an adverse impact on business.

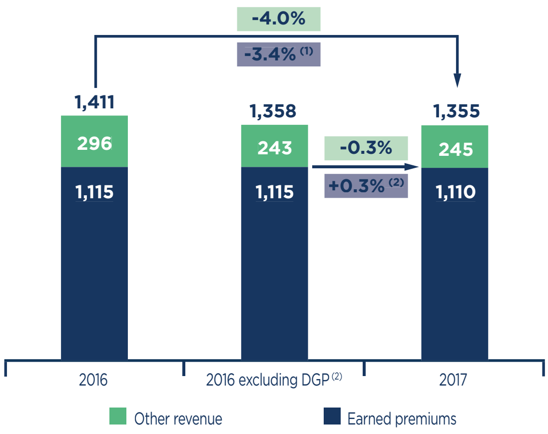
The annual production of new contracts, totalling €128.9 million in 2017, is down compared with 2016 (€137.7 million). The good performances of certain mature countries (such as Spain, the UK and the Netherlands) did not offset the mediocre results of a number of emerging countries (primarily in connection with the risk control action plans). The political context remains uncertain in Turkey. Mexico, which is highly dependent on the United States, suffered from the latter's loss of confidence towards it.

The contract retention rate (ratio between the annual value of renewed policies and the value of policies to be renewed during the year) continues to improve significantly: 89.7% at December 31, 2017 (*versus* 88.0% in 2016) in a highly competitive context.

The "business generated by policyholders" component increased sharply by 4.9% in 2017 (*versus* +0.6% in 2016), driven by mature markets and in particular Southern European countries (Italy, France, etc.) where growth was stronger after remaining sluggish for several years.

The price slump was more modest in 2017 in mature markets, while the pressure grew stronger in emerging countries subsequent to the growth upturn in many of them. The price effect recorded in the credit insurance contracts was a negative 1.5% in 2017 *versus* negative 1.7% in 2016.

Revenue from the services business is slightly up by 0.3% at constant scope (up 0.4% at constant scope and exchange rate), rising from €172.2 million in 2016 to €173.2 million in 2017.



Factoring

Revenue from factoring (exclusively in Germany and Poland) is up 2.0% as reported (up 1.7% at constant scope and exchange rate), from €70.6 million in 2016 to €72.0 million in 2017.

Germany recorded an increase of 0.6% in its business line thanks to the surge in factored receivables and the increase in the interest margin despite the persistently low rates. A negative price effect had a negative impact on factoring fees.

In Poland, the commercial roll-out of the business line continued: revenue grew by 11.5% as reported (up 8.7% at constant scope and exchange rate). The growth of the receivables portfolio generated an increase in commissions and interest revenue.

(1) At constant exchange rate.
(2) At constant scope and exchange rate. Constant scope = excluding the State guarantees management business line (€53.4 million of revenue in 2016, and €0.6 million of residual revenue recorded in Q4-2017). Coface disposed of this activity as of January 1, 2017; the data affected by this activity was restated for comparability.

Change in revenue by region

The table below shows the changes in consolidated revenue (net of intra-group flows) within the COFACE Group's seven geographic regions for the periods ended December 31, 2016 and 2017:

Change in consolidated revenue by region of invoicing *(in millions of euros)*	As of Dec. 31			Change			
	2017	2016	2016 excluding DGP	*(in €m: at constant scope)*	*(as a %: at constant scope)*	*(as a %: at constant exchange rate)*	*(as a %: at constant scope and exchange rate)*
Western Europe	280.8	327.2	273.8	7.0	2.3%	(13)%	3.6%
Northern Europe	303.9	307.3	307.3	(3.4)	(1.1)%	(1.1)%	(1.1)%
Mediterranean & Africa	348.0	331.9	331.9	16.2	4.9%	5.4%	5.4%
North America	121.9	136.1	136.1	(14.2)	(10)%	(8.9)%	(8.9)%
Central Europe	127.7	121.3	121.3	6.4	5.3%	3.7%	3.7%
Asia-Pacific	96.9	109.8	109.8	(12.9)	(12)%	(10)%	(10)%
Latin America	75.7	77.7	77.7	(2.0)	(2.6)%	(1.6)%	(1.6)%
CONSOLIDATED REVENUE	**1,354.9**	**1,411.3**	**1,357.9**	**(3.0)**	**(0.3)%**	**(3.4)%**	**0.3%**

Three regions reported an increase in revenues at constant scope and exchange rate: Mediterranean & Africa (+5.4%), Central Europe (+3.7%) and Western Europe (+3.6%), contrary to the remaining four: Northern Europe (-1.1%), Latin America (-1.6%), North America (-8.9%) and Asia-Pacific (-10%).

In Western Europe, revenue is up 2.3% at constant scope (+3.6% at constant scope and exchange rate) with credit insurance driven by the commercial momentum of the United Kingdom and by the turnaround in policyholder activity in France and in Belgium. The progression in revenue was also driven by the signing in Switzerland of new Single Risk policies and by the development of the surety bond offering in France. The fall in value of the pound sterling following the Brexit vote explains the negative foreign exchange effect.

In Northern Europe, revenue shrank by 1.1% as reported (down 1.1% at constant scope and exchange rate). In a favourable economic environment, the credit insurance business line is still plagued by difficulties in Germany. The year was marked by weak production of new contracts and by an increase in premium refunds. However, the Single Risk, surety bonds and factoring business lines reported satisfactory growth.

Revenue for the Mediterranean & Africa region increased by 4.9% (up 5.4% at constant scope and exchange rate) spurred by the robust commercial performance in Italy, Spain and Israel. In credit insurance, Italy received a boost from the business upswing of its clients. Action plans to contain loss experience continued to weigh on Turkey's revenue in a still uncertain political context.

In North America, revenue dropped 10.5% (down 8.9% at constant scope and exchange rate). The United States suffers from a difficult comparison in Single Risk considering the large contracts signed in 2016. In Canada, the level of terminations for non-profitable contracts remains high.

Central Europe reported an increase of 5.3% in its revenue (up 3.7% at constant scope and exchange rate). The revaluation of the Polish zloty and the Russian rouble explains the positive foreign exchange impact. In credit insurance, all countries in the region reported good commercial performance, especially in the fourth quarter. In Austria, despite strong pressure on prices, the end of the year was marked by an improvement in the underwriting of new policies and a decline in terminations. In Poland, commercial performance remained high in a market that is increasingly brokerage-based. The sales development of factoring continued (up 8.7% at constant scope and exchange rate).

Revenue in Asia-Pacific dropped 11.7% (down 10.0% at constant scope and exchange rate). The termination level remains high, a consequence of past action plans on risks and tighter underwriting rules.

Latin America reported a 2.6% drop in revenue (down 1.6% at constant scope and exchange rate), mainly in Brazil and in Mexico.

3.3.3 UNDERWRITING INCOME

Underwriting income before reinsurance

Underwriting income before reinsurance increased by €121.4 million at constant scope, from €4.4 million in 2016 to €125.7 million in 2017, thanks to the decline in loss experience (down €134.8 million).

As a result, the loss ratio improved by 11.8 percentage points. Investments made in the efficiency projects as well as in strengthening the control environment and the competencies of talents (€16 million) are financed by the savings of €19 million, which helped to limit the increase in cost ratio to 0.9 percentage points (effect of overall inflation). The combined ratio before reinsurance stood at 87.9%, down 11.0 percentage points compared with 2016 (after restating the State guarantees management activity).

/ Loss experience

2017 benefited fully from the steps taken under the Fit to Win strategic plan to strengthen risk management. Targeted actions and portfolio reviews made it possible to contain the loss experience of emerging countries, facilitated by more buoyant global economic context. Loss ratio levels remained satisfactory in mature regions. As such, the Group's loss ratio before reinsurance improved by 11.8 percentage points, dropping from 63.3% in 2016 to 51.4% in 2017.

Loss experience

	As of Dec. 31		Change	
(in millions of euros and %)	**2017**	2016	*(in €m)*	*(as a %)*
Claims expenses incl. claims handling costs	570.9	705.7	(134.8)	(19)%
Loss ratio before reinsurance	51.4%	63.3%	-	(11.8) pts
Earned premiums	1,109.7	1,115.1	(5.4)	(0.5)%

In Western Europe, the loss ratio became normal at 54.0% (47.7% excluding the ceded share of certain files) up by 15.5 percentage points owing to the ceding of a significant share of a few large files.

Northern Europe reported a slight drop in its ratio to 57.2% (down 1.3 percentage points).

The ratio for the Mediterranean & Africa region settled at 48.4%, down 1.4 percentage points. Action plans to contain the loss experience resulted in a sharp improvement in the ratio in Turkey. At the same time, the loss experience increased in Italy (a few major losses in credit insurance and surety bond) and in Spain, while still staying at satisfactory levels.

North America reported a steep drop in loss ratio to 49.0% (38.5% excluding the ceded share of certain files) thanks to better than anticipated recoveries.

Central Europe presented a nearly stable loss ratio at 49.6%, (down 0.7 percentage points).

Asia-Pacific reported a loss ratio of 53.8%, a significant improvement on 2016 (146.8%), the result of commercial, risks and recovery action plans taken to contain loss experience.

Latin America also reported a substantial drop in loss ratio to 35.9% (down 24.4 percentage points), especially in Brazil, where the improvement is more significant.

Change in loss experience by region of invoicing *(in %)*	As of Dec. 31 **2017**	2016	Change in points
Western Europe	54.0%	38.5%	+15.5 pts
Northern Europe	57.2%	58.5%	(1.3) pts
Mediterranean & Africa	48.4%	49.8%	(1.4) pts
North America	49.0%	85.0%	(36.0) pts
Central Europe	49.6%	50.3%	(0.7) pts
Asia-Pacific	53.8%	146.8%	(93.0) pts
Latin America	35.9%	60.2%	(24.4) pts
LOSS RATIO BEFORE REINSURANCE	**51.4%**	**63.3%**	**(11.8) PTS**

Overheads

Overheads *(in millions of euros)*	As of Dec. 31			Change	
	2017	**2016**	**2016 excluding DGP**	*(as a %: at constant scope)*	*(as a %: at constant scope and exchange rate)*
Internal overheads	525.0	545.4	518.1	1.3%	2.0%
of which claims handling expenses	*26.6*	*25.1*	*25.1*	*5.8%*	*6.1%*
of which internal investment management expenses	*2.1*	*2.7*	*2.7*	*(19)%*	*(19)%*
Commissions	157.7	153.4	153.4	2.8%	3.6%
TOTAL OVERHEADS	**682.6**	**698.8**	**671.5**	**1.7%**	**2.3%**

Total overheads, which include claims handling expenses and investment management expenses, grew by 1.7% at constant scope (+2.3% at constant scope and exchange rate), from €671.5 million at December 31, 2016 to €682.6 million at December 31, 2017. Excluding the non-recurring tax effect in Italy, expenses increased by 0.8% at constant scope and by 1.4% at constant scope and exchange rate.

Policy acquisition commissions were up 2.8% as reported (up 3.6% at constant scope and exchange rate), from €153.4 million in 2016 to €157.7 million in 2017. This increase can be primarily explained by the revenue growth on brokerage-based markets (Mediterranean & Africa region) or markets becoming brokerage-based (Central Europe region), as well as to the arrangement of relations with new agents and banking partners.

Internal overheads, including claims handling expenses and investment management expenses, are up 1.3% at constant scope (up 2.0% at constant scope and exchange rate), from €518.1 million in 2016 (excluding the direct expenses of the public guarantees management activity in France, which amounted to €27.3 million) to €525.0 million in 2017. This increase can be explained in particular by a non-recurring tax effect in Italy which had an impact of €6 million.

Payroll costs dropped 2.4% at constant scope and exchange rate, from €281.7 million in 2016 to €273.5 million in 2017.

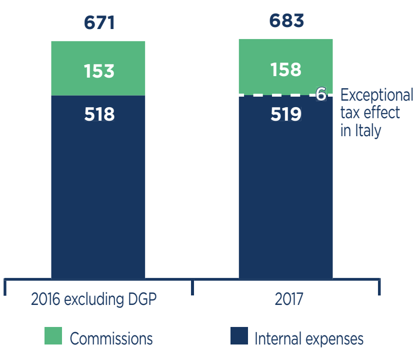
IT costs also fell by 3.8% at constant scope and exchange rate to €46.3 million.

Other expenses (taxes, information purchases, rents) increased by 10% at constant scope and exchange rate, from €188.3 million in 2016 to €205.2 million in 2017, with the non-recurring tax effect in Italy taken into account. Excluding this effect, the increase is 6.8%.

€19 million were saved in costs thanks to the operational efficiency measures rolled out under the Fit to Win plan. Coface confirmed its objective to save €30 million in 2018. Furthermore, Coface spent €16 million on capital expenditure (growth actions, risks and solvency management actions, transformation of processes) during 2017.

The cost ratio before reinsurance deteriorated by 0.9 percentage points, from 35.6% in 2016 (restated of the State guarantees management activity) to 36.5% in 2017. The non-recurring tax expense in Italy has an impact of 0.6 percentage points. Restated, the 0.3 percentage point increase can be attributed to the increase in policy acquisition commissions.

Central expenses are rebilled to the regions on the basis of their individual contribution to the Group's performance. The calculation rules were reviewed in 2017 to take better account of the works carried out by the head office for the regions.



In Western Europe, overheads dropped by 9.1% at constant scope and exchange rate (down 12% excluding change of allocation methodology for central expenses) thanks to savings on IT costs, rents and lower payroll costs, due to the roll-out of the Fit to Win plan.

In Northern Europe, overheads are stable (up 0.4%) at constant scope and exchange rate (down 2.2% excluding change of allocation methodology for central expenses). The larger share of central expenses rebilled to the region has been offset by savings on payroll costs and in communication expenses.

In Mediterranean & Africa, overheads increased by 16% at constant scope and exchange rate (up 12% excluding change of allocation methodology for central expenses), impacted in policy acquisition commissions by costs linked to the arrangement of relations with new agents and the distribution agreement with Unicredit in Italy. Internal overheads are penalised by a non-recurring tax effect borne in Italy. Excluding this effect, the increase in overheads is 11%. It is due firstly to the variable administration costs linked to the growth of revenue, and secondly to a larger share of expenses rebilled by head office to the region.

In North America, overheads increased slightly, by 1.3% at constant scope and exchange rate (down 1.3% excluding change of allocation methodology for central expenses). The decline in commissions as a result of the decline in revenue offsets the increase in payroll costs (structuring and strengthening of the region).

In Central Europe, they are up by 14% at constant scope and exchange rate (up 10% excluding change of allocation methodology for central expenses) owing to the increase in policy acquisition costs, especially in Austria, Russia, Poland and Romania. The roll-out in Poland of the Group management tool for the factoring business also generated additional IT costs.

In Asia-Pacific, overheads increased by 2.1% at constant scope and exchange rate (down 0.6% excluding change of allocation methodology for central expenses). The decrease in commissions linked to the decline in revenue made up for the additional payroll costs in a region under structuring.

In Latin America, overheads increased by 24% at constant scope and exchange rate (up 20% excluding change of allocation methodology for central expenses). Policy acquisition costs are up due to an increased use of brokerage services. Payroll costs are also up in a region marked by high inflation.

Underwriting income after reinsurance

Underwriting income after reinsurance rose by €113.0 million at constant scope, from negative €13.2 million in 2016 to positive €99.8 million in 2017.

Reinsurance cost increased by 48%, from negative €17.6 million for the year ended December 31, 2016 to negative €26.0 million for the year ended December 31, 2017. This change is due firstly to a steep drop in loss experience, and secondly to a higher ceding rate for the 2017 underwriting year.

Note that 2016 benefited from a non-recurring gain of €13.8 million for the exceptional accrual of claims collection costs in Northern Europe. Furthermore, several substantial claims reported in the fourth quarter of 2017 are subject to special reinsurance conditions (higher ceding rate thanks to locally negotiated policies).

	As of Dec. 31			Change	
(in thousands of euros and %)	**2017**	2016	2016 excluding DGP	*(in €k)*	*(in %)*
Revenue	1,354,933	1,411,297	1,357,936	(3,003)	(0.3)%
Claims expenses	(570,863)	(705,655)	(705,655)	134,792	(19)%
Policy acquisition costs	(262,607)	(255,289)	(239,572)	(23,036)	9.6%
Administrative costs	(253,532)	(275,095)	(271,552)	18,020	(6.6)%
Other expenses from insurance activities	(70,816)	(83,004)	(75,009)	4,193	(5.6)%
Expenses from banking activities, excluding cost of risk	(13,779)	(13,193)	(13,193)	(586)	4.4%
Cost of risk	(4,483)	(4,222)	(4,222)	(261)	6.2%
Expenses from other activities	(53,130)	(44,379)	(44,379)	(8,750)	20%
Underwriting income before reinsurance	**125,723**	**30,460**	**4,354**	**121,369**	**NS**
Income and expenses from ceded reinsurance	(25,970)	(17,599)	(17,599)	(8,371)	48%
UNDERWRITING INCOME AFTER REINSURANCE	**99,753**	**12,861**	**(13,245)**	**112,998**	**NS**
Combined ratio after reinsurance	86.6%	97.4%	100.6%	-	-

3.3.4 INVESTMENT INCOME, NET OF MANAGEMENT EXPENSES (EXCLUDING FINANCE COSTS)

Financial markets

2017 was marked by clearly better-than expected economic figures, especially those of global trade, which fostered a well-synchronised growth cycle worldwide. Yet inflation did not pick up as expected the United States and in Europe. This tableau was somewhat tarnished by political tensions. The protectionist turn, feared at the beginning of the year in the United States, has remained limited, and the risks for the integrity of European institutions receded at the end of the French elections in the spring.

In the United States, the recovery cycle, remarkable for its duration (uninterrupted growth since 2009) continued in 2017, supported by the continuous improvement of the job market and an upturn in investment. However, inflation remained moderate. This did not prevent the Federal Reserve, in light of the vibrant economy and the risks linked to maintaining extremely low interests rates over a long period, from three key interest rate hikes, in March, June and December. American long-term rates experienced a downward phase during the first three quarters of the year, owing to the inability of the administration to implement reforms and the unanticipated slowdown of inflation. They later rallied in response to the better economic figures and the adoption of the tax reform in December. The US 10-year interest rate therefore stayed nearly stable over the year and ended the year at around 2.40%, *versus* 2.45% the previous year. The equities markets continued the previous year's trend and posted an annual performance of more than 19.5%.

In the eurozone, the euro economic figures surprisingly continued on their upward trend in 2017, driven by the robust performance of all components, excluding inflation, and by the decline of the unemployment rate. Political risk fell significantly after the elections in the Netherlands and in France, although the hung parliament in Germany and the political crisis in Catalonia were blots on this rosy landscape. The year was also marked by a lull in tense Brexit negotiations, still on track for 2019. The European Central Bank was therefore able to announce, in October, an extension of its asset purchase plan, at least until September 2018, plus a reduction of the volume of monthly purchases starting from January 2018. Against this background, all European rates appreciated: the 10-year German rate increased from 0.2% to 0.4%, the French 10-year rate from 0.7% to 0.8%, the Spanish 10-year rate from 1.4% to 1.6% and the Italian 10-year rate rose from 1.8% to 2.1%. The equities markets also took advantage of the economic and political environment and posted annual performance of more than 9.0%.

Emerging economies were also boosted by the global upswing. The significant upturn in global trade was favourable to foreign demand. Private consumer spending also increased significantly. Investment expenditure was very high in countries exporting manufactured products. In commodities-exporting countries, the lower inflation led to greater easing of monetary policies, which helped countries such as Russia and Brazil to get out of recession.

Financial income

Against this economic background, in the context of the defined strategic allocation, the Group increased its exposure to equities and to European non-listed real estate assets while reducing its exposure to the sovereign debt of the leading issuers on financial markets. All these investments were made within a strictly defined risk framework; the quality of issuers, sensitivity of issues, dispersal of issuer positions and geographic areas are governed by strict rules defined in the different management mandates granted to the Group's dedicated managers.

The market value of the portfolio increased in 2017, thanks to a positive return on the investment portfolio and to the improved economic environment.

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

Market value

	As of Dec. 31	
(in millions of euros)	**2017**	**2016**
Listed shares	192	113
Unlisted shares	14	14
Bonds	1,785	1,797
Loans, deposits and units in dedicated mutual funds	549	570
Property	219	138
Total investment portfolio	**2,761**	**2,631**
Associated and non-consolidated companies	116	121
TOTAL	**2,877**	**2,752**

The persistently weak interest rates and the low level of spreads mechanically led to a slight reduction in the Group's portfolio rate of return. The result of these investments amounted to €49.8 million, of which €10 million of outsourcing (*i.e.* 1.8% of the 2017 average outstanding and 1.5% excluding outsourcing), to be compared to €43.5 million, of which €3.5 million of outsourcing in 2016 (1.7% of the 2016 average outstanding and 1.6% excluding outsourcing).

Investment portfolio income

	As of Dec. 31	
(in millions of euros)	**2017**	**2016**
Shares	6.7	1.6
Fixed-income instruments	36.8	37.5
Investment property	6.3	4.4
Total investment portfolio	**49.8**	**43.5**
o/w outsourcing	*10.0*	*3.5*
Associated and non-consolidated companies	4.5	1.4
Net foreign exchange gains and derivatives	4.5	6.3
Financial and investment charges	(3.6)	(3.2)
TOTAL	**55.3**	**48.0**

After income from investments in companies, foreign exchange and derivatives income, financial expense and investment costs, the Group's financial income for 2017 was €55.3 million.

The economic rate of return of financial assets was therefore 2.3% in 2017 *versus* 2.8% for the same period in 2016. The increase in 2017 income was not enough to offset the strong effect linked to the drop in interest rates for 2016 which significantly contributed to the 2016 economic rate of return.

3.3.5 OPERATING INCOME

(in millions of euros)	As of Dec. 31 2017	2016	2016 excluding DGP	Change *(in €m: at constant scope)*	*(as a %: at constant scope)*	*(as a %: at constant scope and exchange rate)*
Consolidated operating income	**154.4**	**114.4**	**88.3**	**66.2**	**75%**	**77%**
Operating income including finance costs	**136.3**	**96.0**	**69.9**	**66.4**	**95%**	**98%**
Other operating income and expenses	(0.6)	53.5	53.5	(54.1)	NS	NS
OPERATING INCOME INCLUDING FINANCE COSTS AND EXCLUDING OTHER OPERATING INCOME AND EXPENSES	**136.9**	**42.5**	**16.4**	**120.5**	**734%**	**746%**

Consolidated operating income increased by €66.2 million, *i.e.* +77% at constant scope and exchange rate, from €88.3 million in 2016 to €154.4 million in 2017.

Current operating income, including finance costs and excluding non-recurring items (other operating income and expenses), has increased by €120.5 million at constant scope, from €16.4 million in 2016 to €136.9 million in 2017.

The combined ratio after reinsurance, including exceptional items, fell by 14 percentage points, from 100.6% in 2016 to 86.6% in 2017, of which -14.1 percentage points of net loss ratio and +0.1 percentage points of cost ratio.

Other operating income and expenses amounted to negative €0.6 million and mainly concern the implementation of the Fit to Win strategic plan. Restructuring costs are less than initially expected.

All regions contributed positively to operating income with the exception of Asia-Pacific, where the financial statements are nevertheless significantly better than in 2016.

Change in operating income Consolidated by region *(in millions of euros)*	As of Dec. 31 2017	2016	2016 excluding DGP	Change	Share of annual total at December 31, 2016
Western Europe	55.2	134.2	108.1	(52.8)	29%
Northern Europe	54.9	37.1	37.1	17.8	28%
Mediterranean & Africa	45.2	66.7	66.7	(21.5)	23%
North America	7.4	(30.6)	(30.6)	38.0	4%
Central Europe	30.7	29.8	29.8	0.9	16%
Asia-Pacific	(12.1)	(81.7)	(81.7)	69.7	(6)%
Latin America	12.1	6.2	6.2	5.9	6%
TOTAL (EXCLUDING INTER-REGIONAL FLOWS AND HOLDING COST NOT REBILLED)	**193.4**	**161.5**	**135.4**	**58.0**	**100%**

3.3.6 NET INCOME FOR THE YEAR (ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT)

The effective tax rate of the COFACE Group fell from 50.1% in 2016 to 40.8% in 2017, returning to a normal rate thanks to the improved circumstances of emerging markets. Moreover, the tax rate for the financial year ended December 31, 2017 was negatively impacted by an exceptional payment in France of €12 million following the verification made by the national and international verification department.

At constant scope and exchange rate, net income for the year amounted to €83.2 million, corresponding to a two-fold increase compared with 2016. At constant scope (restated of the income generated by the operational activities of public procedures management (€17.1 million)), net income for the year increased by 249%.

3.3.7 PARENT COMPANY NET INCOME

The net income of COFACE SA in 2017 amounted to €20.8 million, compared to €75.4 million in 2016. 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, for an amount of €27.7 million in 2017 compared with €87.0 million in 2016.

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)	**2017**	**2016**
Net cash flows generated from operating activities	210.7	132.8
Net cash flows generated from investment activities	(221.9)	(105.2)
Net cash flows generated from financing activities	(42.0)	(97.2)

	As of Dec. 31	
(in millions of euros)	**2017**	**2016**
Cash and cash equivalents at beginning of year	332.1	396.8
Cash and cash equivalents at end of year	264.3	332.1
Net change in cash and cash equivalents	(67.7)	(64.8)

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)	**2017**	2016
Subordinated borrowings	388.2	387.8
Obligations under finance leases	0.0	2.3
Bank overdrafts and other borrowings	0.0	0.03
Sub-total financial debt	**388.2**	**390.1**
Amounts due to banking sector companies	568.7	452.1
Debt securities	1,636.9	1,591.2
Sub-total operating debt	**2,205.6**	**2,043.3**

Financial debt

For the period ended December 31, 2017, the Group's financing liabilities, totalling €388.2 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 COFACE 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 the "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 Factoring Poland 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 Factoring Poland and the Group's leading local banks, amounted to €568.7 million for the period ended on December 31, 2017.

The borrowings represented by the securities amounted to €1,636.9 million for the period ended on December 31, 2017, including:

- the Senior units issued by the Vega securitisation fund under the factoring receivables Securitisation Programme (see paragraph below "Securitisation Programme") of Coface Finanz, in the amount of €1,169.7 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 €467.2 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 €600 million; and
- bilateral credit lines for a maximum total amount of €877.3 million.

Since 2011, the amount of the Group's operational financing has fallen sharply. In 2012, the Group took a first step towards achieving financial autonomy by implementing in February 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 2013, the Group continued to move away from Natixis by extending its commercial paper programme.

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). The Securitisation Programme was renewed early at the end of 2015 for an unchanged maximum amount.

In 2015, the Group decided to set up new bilateral lines to replace the historic financing lines with Natixis and extend its commercial paper programme.

In 2016, the Group continued to set up new bilateral lines in order to optimise financing in Germany and support growth in Poland.

In 2017, the Group continued to set up new bilateral lines in Germany and Poland. The Securitisation Programme was entirely renewed ahead of schedule, at the end of 2017, 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 a syndicated loan for a period of 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 one hand, and also includes an additional liquidity line of €100 million at the disposal of factoring entities if needed, on the other hand.

At December 31, 2017, the amount of the COFACE Group's debt linked to its factoring activities amounted to €2,205.6 million.

/ (a) Securitisation programme

In connection with the refinancing of its factoring activities, the Group implemented, in February 2012, 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 from this ceded reinsurance initial funding 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 total amount of €1,195 million and financing units of 23% and 77% respectively on maturities of one year 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 undertakings which were issued in consideration for the short-term securities. The subordinated units were underwritten by Coface Factoring Poland.

At December 31, 2017, €1,169.7 million had been used under the 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 reinsured 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 Factoring Poland, 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 reinsured portfolio of 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	Moving average over 3 months of the rate of unpaid receivables beyond 60 days after their due date	>2.24%
Delinquency ratio	Moving average over 3 months of the rate of unpaid receivables beyond 30 days after their due date	>5.21%
Dilution ratio	Moving average over 3 months of the dilution ratio	>9.71%

At December 31, 2017, 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 €877.3 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 €211.3 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; 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, 2017, €40.8 million had been drawn down under the German credit lines and €2.4 million had been used under the Polish bank overdrafts;
- bilateral credit lines concluded with the Group's seven relationship banks:
  - five lines for a maximum total amount of €240 million for Coface Finanz (with maturities ranging between one and three years), of which €156.3 million had been drawn down as of December 31, 2017,
  - seven lines for a maximum total amount of €425.9 million for Coface Factoring Poland (with maturities ranging between one and two years), of which €369 million had been drawn down as of December 31, 2017.

/ (c) Commercial paper programme

The Group has a commercial paper issuance programme that was extended in October 2015 to reach a maximum amount of €600 million. Under this programme, the Company frequently issues securities with due dates ranging generally between one and six months. At December 31, 2017, the total amount of securities issued under the commercial paper programme totalled €467.2 million. The programme was rated P-2 by Moody's and F1 by Fitch.

Should the commercial paper market shut down, the Group has, since July 28, 2017, 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 (€600 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

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 on December 31, 2017 with the calculation of the solvency capital requirement (SCR) under the standard formula introduced by European Directive No. 2009/138/EC. 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, 2017, the estimated amount of the Group's capital requirement (including the SCR calculated according to the standard formula) amounted to €1,260 million compared with €1,335 million at year-end 2016.

The Group also calculates the capital requirement for the factoring business. At December 31, 2017, the required capital for the factoring business was estimated at €247 million by applying a rate of 9.25% 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 totalled, as of December 31, 2017, €2,096 million.

As of December 31, 2017, the capital requirement coverage rate (ratio between the Group's available capital and its capital requirement for insurance and factoring) amounted to 166%, compared to 150% at the end of 2016 estimated according to the model applicable under Solvency II.

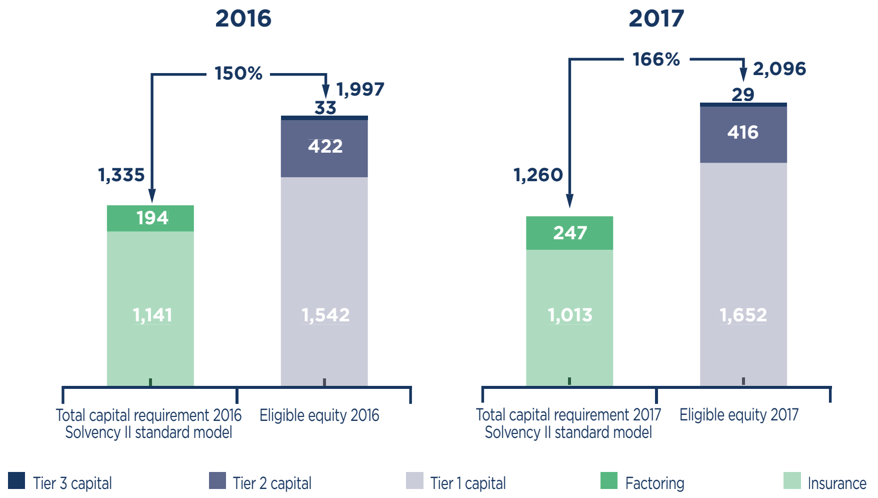
The table below presents the items for calculating the capital requirement coverage ratio in the Group's standard formula [1]:

(in millions of euros)	As of Dec. 31, 2017	As of Dec. 31, 2016 [1]
Total equity	1,803	1,761
- Goodwill and other intangible assets (net of deferred taxes)	(196)	(195)
+ Revaluation of provisions using the best estimate method (net of deferred taxes)	267	147
- Consolidation under the equity method of non-consolidated subsidiaries (net of deferred taxes)	(76)	(75)
+/- Other adjustments [2]	(35)	(43)
- Dividend payments	(83)	(20)
+ Subordinated debt (valued at market value)	416	422
= Solvency II available own funds (A)	**2,096**	**1,997**
Capital requirement – Insurance (SCR in standard formula) (B)	1,013	1,141
Capital requirement – Factoring (C)	247	194
Standard capital requirement formula (D) = (B)+(C)	**1,260**	**1,335**
SOLVENCY RATIO (E) = (A)/(D)	**166%**	**150%**

(1) Final calculation.
(2) Mainly linked to the revaluation of certain balance sheet items, including the adjustment following the equity availability test.

(1) As the Solvency II Standard formula is interpreted by Coface. The estimated Solvency ratio is not audited.

Solvency II ratio



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 and the average of attributable accounting equity (attributable to equity holders of the parent) excluding intangible items (intangible asset values).

The table below presents the elements used to calculate the COFACE Group's RoATE over the 2016-2017 period:

	As of Dec. 31		
(in millions of euros)	2017	2016	2016 [1]
Accounting equity (attributable to equity holders of the parent) – A	1,803	1,755	1,755
Intangible assets – B	217	216	216
Tangible equity – C (A-B)	1,585	1,539	1,486 [2]
Average tangible equity D ($[C_n + C_n\text{-}1]/2$)	1,562	1,538	1,513
Net income (attributable to equity holders of the parent) – E	83	42	(12)
RoATE – E/D	5.3%	2.7%	(0.8)%

(1) Not including exceptional items for the year and excluding the contribution of the State guarantees business line.
(2) Recalculated on the basis of net income excluding exceptional 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 2016-2017 period:

(in thousands of euros)	Dec. 31, 2017	Related to financing	Related to activity
Commitments given	**1,085,684**	**1,047,117**	**38,567**
Guarantees 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**
Guarantees 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**	**0**	**318,779**
Securities lodged as collateral by reinsurers	318,779		318,779
Financial market transactions	**95,501**		**95,501**

(in thousands of euros)	Dec. 31, 2016	Related to financing	Related to activity
Commitments given	**955,126**	**944,303**	**10,823**
Guarantees and letters of credit	944,303	944,303	
Property guarantees	7,500		7,500
Financial commitments in respect of equity interests	3,323		3,323
Commitments received	**1,270,697**	**886,936**	**383,761**
Guarantees and letters of credit	136,964		136,964
Guarantees	143,997		143,997
Credit lines linked to commercial paper	600,000	600,000	
Credit lines linked to factoring	286,936	286,936	
Contingent capital	100,000		100,000
Financial commitments in respect of equity interests	2,800		2,800
Guarantees received	**302,893**	**0**	**302,893**
Securities lodged as collateral by reinsurers	302,893		302,893
Financial market transactions	**58,533**		**58,533**

Guarantees and letters of credit totalling €1,047,117 thousand for the year ended December 31, 2017 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 €667,116 thousand given by the Group, in particular to banks financing the factoring business.

The securities lodged as collateral by reinsurers concern Coface Re for €254,135 thousand and Compagnie française pour le commerce extérieur for €64,644 thousand.

The syndicated loan for a maximum amount of €700 million for the financial year ended December 31, 2017 includes the coverage of the Group's commercial paper issuance programme for €600 million and an additional liquidity line of €100 million available to factoring entities if needed (see Section 3.4.1 "Group debt and sources of financing").

3.5 / EVENTS AFTER DECEMBER 31, 2017 (ACCORDING TO ITEM 20.9 OF THE ANNEX I TO EC REGULATION 809/2004)

There has been no significant change to the Group's financial or commercial position since December 31, 2017.

3.6 / OUTLOOK

3.6.1 ECONOMIC ENVIRONMENT (1)

In 2018, the global economy should grow at the same pace (3.2%) as in 2017, considering the surge in business activity in emerging economies (4.5% after 4.4%) and slightly slowed-down growth in advanced countries (2.0% after 2.2%).

Among the advanced economies, the United States in particular is expected to post sustained growth (2.3%) in 2018, stimulated by President Trump's tax reform, which should encourage investment. However, activity will be less dynamic in the United Kingdom (1.2%), with the negative effects of Brexit materialising (slump in corporate and household confidence, inflation exceeding the growth of nominal wages). Although growth in the eurozone is likely to slow down, it will still remain buoyant (2.0%) Indeed, the momentum of domestic and foreign demand will continue to fuel the activity of eurozone economies. The factors that underpinned growth in developed economies in recent years, such as low oil prices, accommodating monetary policy or again low inflation, are likely to be slightly less favourable contributors this year. In particular, the inflation uptick is likely to limit the purchasing power of households, which can, to a large extent, be explained by commodities prices, which, after falling since mid-2014 and hitting a record low in 2016, have risen, boosted by the agreement between OPEC and its partners. Spain should report sound (+2.2%) but contracted growth compared to the previous year. In Germany, activity is likely to be slightly less dynamic (2.1%), owing to investments slowed down by uncertainties from the external environment (Brexit in particular) and the lower influx of refugees. In France, growth should be nearly stable (1.8%) and is likely to be boosted by the increase in purchasing power, regardless of budding tensions on the job market. In Italy, growth is expected to remain weak (1.3%), as private consumption is penalised by a less sustained increase in wages and jobs. In Japan, the structural difficulties linked to the rigid job market, lacklustre private consumption and the deflationist views of companies are likely to slow down activity (1.2%).

Emerging countries should experience slightly more buoyant growth in 2018 than in 2017. This can mainly be explained by the return to growth in Brazil (2.3%) and in Russia (1.8%), due, in particular, to higher commodities prices and greater exchange rate stability. Growth in India should remain robust (7.5%), fuelled mainly by the vibrant services sector. However, the improved performance from emerging countries should be somewhat limited by the activity slowdown in China (6.5%), as the authorities will try to mitigate the financial vulnerabilities linked to the high level of corporate debt. The government is likely to alternate between accommodating and tightening policies, in order to manage a gradual slowdown. South Africa should report more dynamic growth (1.2%) than in 2017, driven by the recovery of the mining sector, fewer significant political uncertainties and improved outlook for the agricultural sector. In Mexico (2.2%), despite the reconstruction works (after two major earthquakes) and a recovery of domestic demand, activity will be penalised by investor uncertainty about the presidential elections of July 2018 and the ongoing NAFTA negotiations.

(1) Group estimates.

The example of Mexico confirms that political risks will continue to make the headlines in 2018, in Latin America with several upcoming elections, but also in the Middle East and in Europe (United Kingdom with Brexit-related uncertainties, Italy, Spain, and Poland in particular). Several other risks will weigh on global growth this year. Firstly, the debt level of economic agents remains high: total global debt shot up by 55% between early 2007 and September 2017. The increase was more substantial for states and non-financial companies than for households and financial institutions. This higher debt will have to be monitored in 2018, against a background of expected tighter monetary policies in the United States, in the eurozone and in several emerging regions (Central Europe and some Asian countries). Lastly, should the debt grow faster than anticipated by markets, there could be a sharp correction on the bond and equity markets.

3.6.2 OUTLOOK FOR THE GROUP

In 2018, the economic environment in which Coface operates should remain buoyant, with global GDP growth expected to reach 3.2% (Coface estimate). However, this favourable context maintains a fiercely competitive pricing climate, which underlines more than ever the importance of improving the quality of service offered to the Group's clients, as a critical differentiation factor.

In 2018, Coface will continue to roll out Fit to Win with the same determination. Modernising the Group's culture and galvanising teams around the new values adopted with its Fit to Win strategic plan (client-centric, expertise, collaboration, courage and responsibility) are key to the success of this plan. The modernised and more dynamic "Coface, FOR TRADE" identity boldly proclaims the Group's mission: to become an agile and dynamic player, supporting corporate growth and global trade.

In 2017, the Group already shaved €19 million off its costs, a step ahead of the cost-savings plan, and maintains its objective to save €30 million in 2018. This year, the Group plans to invest €19 million in creating long-term value: initiatives to stimulate commercial momentum and improve service quality, transform the digital infrastructure, and relaunch works to develop a partial internal model for calculating its required solvency capital.

The objective of delivering a net combined ratio of around 83% through the cycle is maintained.

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 policies 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 year, and to the change in claims provisions during the 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).

The claims paid correspond to the compensation paid under the policies during the accounting year, net of collections received, plus the 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 the amounts recovered during the year for the claims previously indemnified, regardless of the year during which the indemnification was paid.

Claims provisions are established for claims declared but not yet settled at 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 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 line. However, due to pooling, policy administration costs related to the Group's other business lines 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 (namely 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

The "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 cover.

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 financial placements. 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 result" (or income and expenses net of ceded reinsurance) corresponds to the amount of income from ceded reinsurance (claims ceded to reinsurers during the 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 the charges from ceded reinsurance (premiums ceded to reinsurers during the 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 changes in provisions for depreciation), 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 the operating income by region, the amounts are represented before the revenue from interregional flows and holding costs not recharged to the regions have been eliminated.

Income tax expense

Tax expenses include the tax payable and the 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 policies" and in Note 29 of the consolidated financial statements).

Net income for the year

Net income for the year corresponds to the amount of "Net income from continuing operations" (corresponding to the "Operating income", net of "Finance costs", the "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 the 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 year.

Withholding rate

The withholding 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 the sales relating thereto 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 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 year.

3.7.3 BREAKDOWN OF THE CALCULATION OF RATIOS AT DECEMBER 31, 2017

Earned premiums *(in thousands of euros)*	Notes	2017	2016	2016 excluding DGP
Gross earned premiums [A]	**21**	**1,109,697**	**1,115,140**	**1,115,140**
Ceded earned premiums	25	(301,545)	(257,539)	(257,539)
NET EARNED PREMIUMS [D]		**808,152**	**857,601**	**857,601**

Claims expenses *(in thousands of euros)*	Notes	2017	2016	2016 excluding DGP
Claims expenses* [B]	**22**	**(570,863)**	**(705,655)**	**(705,655)**
Ceded claims	25	112,655	124,553	124,553
Change in claims provisions net of recoveries	25	43,153	19,649	19,649
NET CLAIMS EXPENSES [E]		**(415,055)**	**(561,453)**	**(561,453)**

* *Of which claims handling costs.*

Operational expenses *(in thousands of euros)*	Notes	2017	2016	2016 excluding DGP
Operating expenses	**23**	**(653,864)**	**(670,961)**	**(643,706)**
Of which employee profit-sharing	23	4,662	5,118	4,120
Other income (services)*	21	244,661	296,157	242,796
OPERATING EXPENSES, NET OF OTHER INCOME – BEFORE REINSURANCE [C]		**(404,542)**	**(369,685)**	**(396,790)**
Commissions paid by reinsurers	25	119,767	95,738	95,738
OPERATING EXPENSES, NET OF OTHER INCOME – AFTER REINSURANCE [F]		**(284,775)**	**(273,947)**	**(301,052)**

** Excluding exceptional items for the year and excluding the contribution of the State guarantees business (€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	2017	2016	2016 excluding DGP
Loss ratio before reinsurance	51.4%	63.3%	63.3%
Loss ratio after reinsurance	51.4%	65.5%	65.5%
Cost ratio before reinsurance	36.5%	33.2%	35.6%
Cost ratio after reinsurance	35.2%	31.9%	35.1%
Combined ratio before reinsurance	87.9%	96.4%	98.9%
Combined ratio after reinsurance	86.6%	97.4%	100.6%

3.7.4 ALTERNATIVE PERFORMANCE MEASURES (APM) AT DECEMBER 31, 2017

This section takes a look at Alternative performance measures, which are KPIs that are not defined by accounting standards but are used by the Company for its financial communication.

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 the revenue and its items

Definition	Justification
Revenue with restated items	
(1) Two types of restatements on the 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 Rev. in value (€) considered as exceptional in the current year. The term "exceptional" refers to impacts on revenue which do not occur every year.	**i.** Historic method used by Coface to calculate pro forma %. The transfer of the State Guarantees business line is taken into account in this category (starting from 2017). **ii.** Item considered as exceptional; in other words, which will only occur in the current year (year N).
Fee and commission income/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 exceptional items	
(2) Restatement or Addition of items considered as exceptional with respect to internal overheads. The term "exceptional" refers to impacts on expenses which do not occur every year.	Indicator used to compare changes in internal overheads by excluding exceptional items.

b) Alternative performance measures related to operating income

Definition	Justification
Operating income excluding restated exceptional items (including finance costs and excluding other operating income and expenses)	
Restatement or Addition of items considered as exceptional to operating income: it concerns exceptional 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 exceptional items.

c) Alternative performance measures related to net income

Definition	Justification
Net income excluding exceptional items	
Restatement or Addition of items considered as exceptional with respect to net income. It concerns exceptional 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 **(3)**.	Indicator used to compare changes in net income by excluding exceptional items.

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
i. (Rev. current N - FX Impact N-1)/(Rev. current N-1 + perimeter Impact N) - 1 **ii.** Rev. current N +/-Restatements/Additions exceptional items N	**i. +0.3%** = (1,354.9 - (-8.1) - (0.6 DGP residual remuneration)/(1,357.9 + 0.0) - 1 **ii.** 1,354.9 +/- 0.0	**i. N/A** 1,357.9 = 1,411.3 - (53.4 DGP remuneration) **ii.** 1,411.3 +/- 0.0
Fee and commission income/Earned premiums – Constant	**Current: 12.0%** = 133.3/1,109.7 **Like-for-like: 12.0%** = 133.9/1,117.8	**Current: 12.1%** = 134.7/1,115.1
Current internal overheads +/- Restatements +/- Additions of exceptional items	**€519.0m** = 525.0 - (6.0 non-recurring tax expense in Italy)	**€518.1m** = 545.4 - (27.3 DGP direct expenses)

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
Operating income +/- Restatements +/- Addition of exceptional items	**€136.9m** = 154.4 + (-18.1) - (-0.6 exceptional items)	**€16.4m** = 114.4 + (-18.4) - (+53.5 exceptional items) - (26.1 DGP result)

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
Current operating income +/- Restatements +/- Additions of exceptional items net of tax	**€83.2m** +/- 0.0	**-€12m** = (41.5 - (26.1 DGP result) - (-9 tax on DGP income) = 24.4 - (75 + 19.2 - 38.6 exceptional items) - (-19.1 tax on exceptional items)

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 claim expenses to gross earned premiums (the sum of gross premiums issued 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 the claims expenses ceded to 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 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 exceptional items [A]	
Restatement or Addition of items considered as exceptional with respect to combined ratio after reinsurance. It concerns exceptional income and expenses likely to impact revenue (see definition above, **(1)**) or overheads (see definition above **(2)**).	Indicator used to compare changes in combined ratios after reinsurance by excluding exceptional items.
Loss ratio excluding exceptional items [B]	
Restatement or Addition of items considered as exceptional with respect to loss ratio after reinsurance.	Indicator used to compare changes in loss ratios after reinsurance by excluding exceptional items.
Net cost ratio excluding restated and exceptional items [C]	
Restatement or Addition of items considered as exceptional to cost ratio after reinsurance: it concerns exceptional 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 exceptional items.
Current year gross loss ratio – before reinsurance excluding claims handling expenses [D]	
Ultimate claims expense (after recourse) over earned premiums (after premium rebates) 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.
Prior year gross loss ratio – before reinsurance excluding claims handling expenses [E]	
Corresponds to the 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). It 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. They also include overheads linked to the service activities carried out by the Group, such as factoring and State guarantees management on behalf of the French State until December 31, 2016.*
In order for the cost ratio calculated by the Group to be comparable to the cost ratio calculated by other main market players, "Other income", namely the revenue generated by the additional businesses (non-insurance), is deducted from overheads.

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
- Claims expenses/Gross earned premiums	See 3.7.3 – Breakdown of the calculation of ratios at December 31, 2017	
- (Claims expenses + Ceded claims + Change in provisions on claims net of recourse)/Earned premiums + Expenses from ceded reinsurance)	See 3.7.3 – Breakdown of the calculation of ratios at December 31, 2017	
- (Operating expenses – Employee profit sharing – Other income)/Earned premiums	See 3.7.3 – Breakdown of the calculation of ratios at December 31, 2017	
- (Operating expenses – Employee profit sharing – Other income – Commissions received from reinsurers)/(Earned premiums + Expenses from ceded reinsurance)	See 3.7.3 – Breakdown of the calculation of ratios at December 31, 2017	
Loss ratio (before/after reinsurance) + Cost ratio (before/after reinsurance)	See 3.7.3 – Breakdown of the calculation of ratios at December 31, 2017	
Combined ratio after reinsurance +/- Restatements/Additions of exceptional items	**[A]=[B]+[C]** **85.9%** = 51.4% + 34.5%	**[A]=[B]+[C]** **100.6%** = 65.5% + 35.1%
Loss ratio after reinsurance +/- Restatements/Additions of exceptional items	**51.4%** = 51.4% +/- 0.0 pt	**65.5%** = 65.5% +/- 0.0 pt
Cost ratio after reinsurance +/- Restatements/Additions of exceptional items	**34.5%** = 35.17% + (0.07 pt impact of DGP residual pricing: 0.6/(1,109.7 - 301.5)) - (0.75 pt impact of the non-recurring tax impact in Italy: 6.0/(1,109.7-301.5))	**35.1%** = 31.9% + (3.2 pts impact of DGP indirect expenses: (53.4 + 1.0 - 27.3)/(1,115.1 - 257.5))
Claims reported in the current year/ Earned premiums for the current year See ultimate loss ratios development triangle	**74.1%** = see ultimate loss ratios development triangle	**70.0%** = see ultimate loss ratios development triangle
[E] = [F-D]	**-25.1%** = 49.0% - 74.1%	**-9.0%** = 61.0% - 70.0%
- (Claims paid net of recourse + Change in claims provisions)/Earned premiums	**49.0%** = - (- 544.3/1,109.7)	**61.0%** = - (-680.5/1,115.1)

e) Alternative performance measures related to equity

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

f) Alternative performance measures related to the investment portfolio

Definition	Justification
Accounting rate of return of financial assets	
Investment income before income from investments in companies, foreign exchange income and financial expenses compared to the balance sheet total of financial assets excluding investments in companies.	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 investments in companies, foreign exchange income and financial expense excluding capital gains or losses on disposals compared to the balance sheet total of financial assets excluding investments in companies.	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	
Foreign exchange income and investments in companies	Used to monitor income from investments in companies and foreign exchange which are not an integral part of the investment portfolio.

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
Net income for year N/[(Equity attributable to equity holders of the parent N-1, restated for intangible assets N-1 + Equity attributable to equity holders of the parent restated for intangible assets N)/2]	**5.3%** = 83/[(1,586 + 1,539)/2]	**2.7%** = 42/[(1,539 + 1,537)/2]
Net income for year N excluding exceptional items/[Equity attributable to equity holders of the parent excluding exceptional items N-1, restated for intangible assets N-1 + Equity attributable to equity holders of the parent excluding exceptional items N restated for intangible assets N)/2]	Not applicable for this reporting year	**-0.8%** = -12/[(1,486 + 1,540)/2] To ensure comparability with subsequent years, the contribution to 2016 net income of the State guarantees business line has also been excluded from this indicator

Reconciliation with the financial statements	€m - N/N-1 comparison 2017	2016
Investment portfolio income/((market value of financial assets (shares excluding investments in companies, real estate, fixed-income products) year N + market value of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N-1)/2).	**1.8%** = 49.8/(((2,877 - 116) + (2,752 - 121))/2)	**1.7%** = 43.5/(((2,752 - 121) + (2,649 - 122))/2)
Investment portfolio income excluding capital gains or losses/((market value of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N-1)/2).	**1.5%** = (49.8 - (10))/(((2,877 - 116) + (2,752 - 121))/2)	**1.6%** = (43.5 - (3.5))/(((2,752 - 121) + (2,649 - 122))/2)
Accounting rate of return on financial assets + (revaluation reserves of financial assets (shares excluding investments in companies, real estate, fixed-income instruments), year N- revaluation reserves of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N-1)/((market value of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N + market value of financial assets (shares excluding investments in companies, real estate, fixed-income instruments) year N-1]/2)	**2.3%** = (49.8 + ((153 - 9 - 91) - (137.4 - 3.0 - 93.4)))/(((2,877 - 116) + (2,752 - 121))/2)	**2.8%** = (43.5 + ((137.4 - 3.0 - 93.4) - (112.2 - 6.1 - 93.3)))/(((2,752 - 121) + (2,649 - 122))/2)
Income from shares excluding investments in companies + income from fixed-income instruments + real estate income	**€49.8m** = 6.7 + 36.8 + 6.3	**€43.5m** = 1.6 + 37.5 + 4.4
Net foreign exchange gains (losses) + derivative gains (losses) + income from investments in companies	**€9.0m** = 8 - 3.5 + 6.1 - 0.7 - 0.9	**€7.7m** = 16.5 - 10.2 + 4.2 - 2.7 - 0.1

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.	

	€M - N/N-1 comparison	
Reconciliation with the financial statements	2017	2016
(Ceded premiums (o/w change in premiums provisions)/Earned premiums)	**27.2%** = - (-301.5/1,109.7)	**23.1%** = - (-257.5/1,115.1)
- Ceded claims (o/w change in claims provisions after recourse)/Total claims	**27.3%** = -155.8/[(-544.3) + (-26.6)]	**20.4%** = -144.2/[(-680.5) + (-25.1)]

3.8 / INVESTMENTS OUTSIDE THE INVESTMENT PORTFOLIO

The 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.