3.1 Economic environment (1)

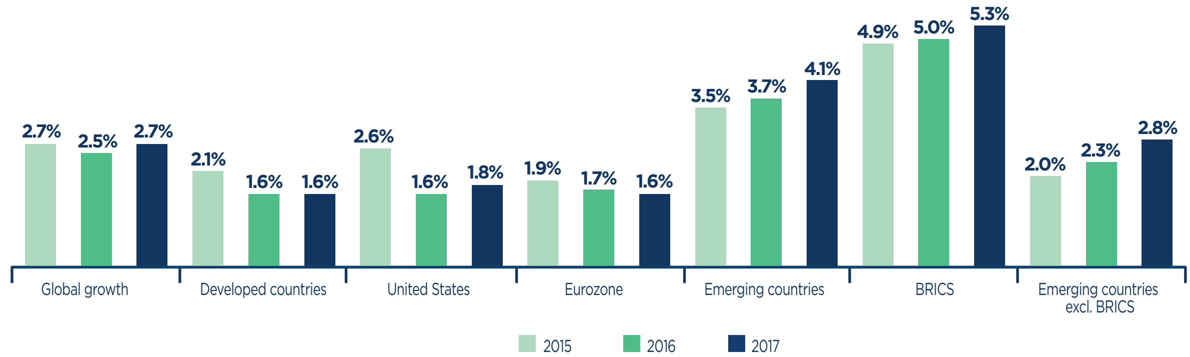
In 2016, global growth reached 2.5%, according to Coface, representing a slight downturn over the previous year (2.7%). While growth in emerging countries was hardly more dynamic (3.7%), advanced countries reported a slowdown in their growth (1.6%).

Economic activity rallied in the eurozone, with GDP growth reaching 1.7% in 2016 (after 1.9% in 2015). Once again, the factors that fuelled growth in 2015 continued to drive growth in 2016: (i) low commodities prices; depreciation of the euro against the dollar; iii) less budget consolidation; (iv) quantitative easing policy. Activity picked up in most eurozone major economies, even if the countries continued to show different growth trends. Growth strengthened in Germany (+1.8%), driven in particular by dynamic private consumption linked to the robust performance of the employment market and the extension of the minimum wage, but also by still favourable exogenous factors. The influx of refugees also had a positive impact on growth. In France, growth was resilient (+1.3%), still buoyed by household demand, but penalised by sluggish activity linked to tourism and lacklustre investment in spite of improved corporate margins and fewer company defaults. Among Southern European countries, Spain continued on its uptrend (+3.2%), well above the figures observed in Italy (0.9%) and in Portugal (1.2%). The situation in Greece also improved slightly (positive growth figure of 0.3%).

Activity barely slackened in the UK (+2.0%), in spite of fears of the referendum on leaving the European Union leading to a more substantial slowdown. In the US, growth clearly hit a down draft (+1.6%), owing to less robust fundamentals, and was characterised at the end of the year by the election of the new President, Donald Trump, and the Fed's key interest rate hike, a long-awaited first sign of a step towards the end of quantitative easing. Lastly, Japanese growth remained disappointing (0.8%), in spite of an expansionist policy mix.

The economic downturn observed in emerging countries since 2010 appears to have hit a low in 2016. Latin America was the hardest hit region (1% recession) with, in particular, the new business downturn in Brazil (-3.6%), followed by the CIS (-0.2%) with recession in Russia standing at 0.7%. Growth in Sub-Saharan Africa dropped 1.3% unlike the North Africa-Middle East zone (2.9%). Egypt in particular, which had to devalue its currency at the end of 2016, had to cope with less dynamic activity (drop in tourism in particular, but also expatriate rebates and less support from the GCC). Emerging Asia stood out again with the most vigorous growth (5.8%). However, the Chinese economic downturn was confirmed (6.7%), against a background of more restrictive measures towards investors. Furthermore, new concerns appeared in Europe about Turkish growth and the deterioration of its political and security environment. These concerns weakened the Turkish pound, which plunged to a record low against the dollar.

GDP GROWTH (AS A %): 2016 AND 2017 (SOURCE COFACE)



(1) *Group estimates.*

3.2 Significant events in the period

3.2.1 CHANGES IN GOVERNANCE

Appointment of Xavier Durand as Chief Executive Officer (CEO) of Coface

Coface's Board of Directors held a meeting on January 15, 2016, under the chairmanship of Laurent Mignon, and appointed Xavier Durand as new Chief Executive Officer (CEO). This appointment became effective after the Board meeting of February 9, 2016, held to approve the 2015 financial statements. Jean-Marc Pillu continued to act as Coface CEO until that date.

The severance payment of Mr Jean-Marc Pillu, granted by the Board of Directors of January 15, 2016, amounts to €1,979 thousand and is recognised in the accounts for the year ended December 31, 2016.

Rebalancing the composition of regions in Europe

The Coface Group Executive Committee decided to rearrange the Group's organisation in Europe in order to create better balanced, more geographically coherent regions.

The Coface Group's regional organisation has been changed as follows:

- Spain and Portugal, which used to be part of Western Europe, are now managed by the Mediterranean & Africa region;
- Russia, which used to be in the Northern Europe region, has rejoined Central Europe.

Changes in the Group's executive organisation

While preparing to roll out its new strategy, Coface strengthened its teams and continuously updated its organisation throughout 2016, to enhance efficiency, speed and customer service, which strengthening control. These changes were finalised in the beginning of 2017 and are described in Section 1.7 "Group organisation".

3.2.2 LAUNCH OF THE *FIT TO WIN* STRATEGIC PLAN

Fit to Win seeks to position Coface as the most agile global credit insurance partner in the sector, while optimising its capital model (see Section 1.6 "Strategy of the Group")

Coface presented its new strategic plan at the first "Investor' Day" organised in London on September 22, 2016. Named *Fit to Win*, the plan seeks to position Coface as the most agile global partner in the industry, while evolving towards a more efficient capital model.

Fit to Win is being rolled out over a three-year period, with the ambition of restoring Coface's financial performance through three transformation levers:

(a) strengthen risk management expertise and information quality, particularly in emerging markets;

(b) improve operational efficiency within a customer-centric business model; and

(c) implement differentiated growth strategies in markets where the Group operates, by preferring the principle of value creation over that of growth.

The operational roll-out of the *Fit to Win* plan

The operational roll-out of the *Fit to Win* plan is proceeding in line with expectations:

Strengthen risk management and information quality

The actions undertaken to strengthen risk management and information quality are progressing steadily, in emerging markets especially, with the enhancement of analysts teams, the update of risk underwriting policies and procedures, and the establishment of a central team of senior risk underwriters. Their full effect will become gradually visible within the next two years.

Improve operating efficiency and customer service

For this second strategic priority, Coface has launched multiple initiatives such as optimising its purchases and real estate portfolio, creating a leaner organisation and reviewing corporate commitments. Consultations have begun with the personnel representative bodies and are progressing according to plan.

The exceptional gain from the transfer of the State export guarantees management business will be used to finance the restructuring costs and the investments required to transform technologies and processes in order to improve operational efficiency and customer service.

As announced previously, €38.6 million of restructuring expenses and €2.1 million of plan set-up costs were recognised in the 2016 accounts; in 2017, Coface expects these expenses to amount to €21 million, then to €6 million and €3 million respectively in the following two years.

Coface has set itself the goal of using these actions to save €10 million in costs in 2017, and €30 million in 2018, thereby offsetting the entirety of the gross margin loss resulting from the transfer of the State export guarantees management business in France.

Implement differentiated growth strategies

Coface has decided to promote the principle of value creation over growth and has accordingly tailored its commercial approach to suit specific markets, sectors and customer profiles. This resulted in rate increases in Latin America and portfolio restructuring in Asia.

In mature markets, where priority is given to operational efficiency and innovation, Coface strengthened its customer relations management teams and modernised its commercial action. New partnerships were recently signed with Bank of China, Unicredit and BPCE.

Reduce capital intensity

Coface's determination to maintain its financial strength throughout the implementation of the *Fit to Win* plan leads to a target solvency ratio in the upper end of the 140% to 160% range and at least a single A financial strength rating.

In addition, Coface has identified ways of improving its use of capital, in particular through the increased use of reinsurance. It took a first step by raising the quota-share ceded reinsurance rate to 26% starting from January 1, 2017 (versus 20% in 2016).

The increase in ceded reinsurance should gradually reduce capital needs and thereby contribute to the *Fit to Win* ambition to achieve net return on average tangible equity (RoATE) of 9% or more through the cycle.

3.2.3 TRANSFER OF STATE EXPORT GUARANTEES MANAGEMENT

Coface transferred its State export guarantees management business to Bpifrance on December 31, 2016. The IT teams and resources dedicated to this business were also transferred on January 2, 2017.

Coface had been managing State export credit guarantees as a service performed on behalf of the French government. In 2016, this business represented around 4% of its consolidated revenue.

As consideration for this transfer, Coface received compensation corresponding to an exceptional pre-tax gain of €75 million recognised in the accounts for the year ended December 31, 2016 (see Section 1.5.1 "Transfer of the public guarantees management business to the Bpifrance group", Section 7.5 "Important contracts"), and Note 30 to the consolidated financial statements.

3.2.4 OPERATIONS ON CAPITAL AND FINANCIAL STRENGTH

◆ Arrangement of a contingent equity line [1]

On February 9, 2016, Coface arranged with BNP Paribas Arbitrage a contingent equity line of €100 million, for a period of three years (that can be shortened to two years at the discretion of Coface), available in one tranche and that can be exercised in the event of the occurrence of certain extreme events.

The contingent equity line supplements the existing capital management and solvency tools by offering an effective and competitive solution in terms of costs (annual commission of 0.50%). It is part of a conservative capital management strategy in connection with pillar 2 of Solvency II and allows the Group to reinforce its financial strength to protect its business against extreme risks.

◆ Financial strength confirmed by rating agencies

On September 29 and then November 28, 2016, rating agencies Fitch and Moody's reconfirmed the Group's insurer financial strength (IFS) ratings at AA- and A2 (stable outlook) respectively.

◆ Reduction of the par value of the Group's share

The Board of Directors' meeting of July 27, 2016 decided to reduce the share's par value from €5 to €2. The operation restores the value of the share to a level comparable to that of the large majority of companies in the market.

The share capital would therefore be reduced by €471,744,696 and drop from €786,241,160 to €314,496,464. The amount of the capital reduction is allocated to a "share premium" sub-account and is unavailable. This decision does not change the number of shares comprising the Group's share capital, *i.e.*, 157,248,232 shares (see Section 7.2.1.7 "History of capital").

3.2.5 REFERENDUM OF JUNE 23, 2016: "BREXIT"

The UK's vote on June 23, 2016 to leave the European Union immediately resulted in a drop in the pound sterling's exchange rate and high uncertainty and volatility on financial markets.

(1) *See also the press release dated February 9, 2016, available online at www.coface.com.*

In the short term, the Group expects this higher risk level to impact the strength of some specific sectors and has taken measures to adjust its exposures (construction, importers, intermediaries, recruitment).

The Group has also taken steps to adjust its exposure to financial risks.

The Group is taking the consequences of the Brexit vote into consideration, in particular the negotiation of a trade agreement between the UK and the European Union, and is adjusting its risk monitoring accordingly.

3.2.6 EVENTS AFTER DECEMBER 31, 2016 (PURSUANT TO ITEM 20.9 OF ANNEX 1 OF EC REGULATION 809/2004)

There has been no significant change to the Group's financial or commercial position since December 31, 2016.

Compagnie française d'assurance pour le commerce extérieur received an accounts audit notice on January 10, 2017, issued by the Directorate for National and International Audits. The audit [1] will concern financial years 2014 and 2015.

3.3 Key financial performance indicators

3.3.1 FINANCIAL INDICATORS

Revenue

Composition of the Group's consolidated revenue by business line

The revenue from credit insurance and related services of the Group (representing 89% of the Group's consolidated revenue in 2016 and 2015, and 88% in 2014), combines the premiums from credit insurance policies and Single Risk policies ("Earned premiums net of cancellation"), the related service revenue ("Fee and commission income" and "Other related benefits and services"), and the revenue from management services for public coverage of export credit insurance carried out on behalf of the French State up to December 31, 2016 (see Section 1.5.1 "Credit insurance and related services").

It allows the revenue from this core business line to be presented and separate reporting for the surety bond activity (see Section 1.5.3 "Surety bonds"). At the operational level, surety bonds represent a different kind of risk (in terms of underlying factors and duration of risk), even though this activity is compensated by a premium, as with the credit insurance activity, and to that end meets the definitions for insurance contracts provided by IFRS 4.

The revenue from services in addition to the credit insurance business includes:

- the revenue from the factoring business, which primarily consists of factoring fees and net financing fees ("Net income from banking activities");
- the revenue from the Group's surety bond business; and
- the revenue from other services, which combines all revenue collected by the Group for the sale of services to access companies' solvency information, along with the marketing information ("Information and other services"), and the sale of debt collection services for receivables ("Receivables management"), for customers without credit insurance.

Composition of the Group's consolidated revenue by type of revenue

The Group's consolidated revenue, which is presented in its financial statements by type of revenue, in compliance with IFRS, consists of the following:

- premiums, corresponding to the amounts paid by the Group's policyholders as consideration for the Coface Group's commitment to cover the risks provided for in their insurance policy: credit insurance (short-term), Single Risk (medium-term) and surety bond (medium term) which, in terms of the offer, is not a credit insurance product, although its compensation takes the form of a premium;
- revenue from services provided by the Group: services related to credit insurance (information services on debtors, oversight of credit limits, management and debt collection), and services to manage public coverage of export credit insurance on behalf of the French State until December 31, 2016 (the principle and terms of compensation of the French State are established in the "Financial Agreement" dated February 24, 2012 – see Section 1.5.1 "Transfer of the public guarantees management business to the Bpifrance group" and 7.5 "Important contracts"; and
- factoring fees which provide payment for the services related to management and debt collection of receivables, as well as the net fees from financing outstanding receivables (financing margin) and the fees

(1) *The Directorate for National and International Audit is a national service of the General Directorate of Public Finances.*

for managing disputes that have been collected by the Group as part of its factoring activities in Germany and Poland (corresponding to "Net income from banking activities").

Earned premiums net of cancellations

Earned premiums net of cancellations combine gross premiums earned (fraction of premium written during the accounting year or previously, corresponding to the coverage of risks covered during the accounting year concerned) within the context of direct business (premiums related to policies underwritten directly by a group insurance company) and the premiums for inward reinsurance (premiums earned through partners within the context of fronting agreements in countries where the Group does not have a licence allowing it to work directly).

Premium refunds corresponding to refunds to policyholders of a portion of the premiums they have paid when the loss experience of their insurance policy does not exceed a certain threshold (policyholders' bonuses and rebates) or is nil (no-claims bonus), as well as the provisions for unearned premiums (fraction of premiums issued during the accounting year which relate to the coverage of risks covered for the period between the closing date of the accounting period and the expiration date of the contracts) are deducted from the premiums earned, thereby constituting the premiums earned net of cancellations.

Fees and commission income

Fees and commission income consists of charges billed to policyholders for credit insurance related services, (such as information on debtors, fees for monitoring credit limits and receivables management and debt collection). In this respect, fees and commission income are calculated under credit insurance revenue.

Net income from banking activities

This corresponds to revenue from factoring activities, which primarily consists of factoring fees (collected for management of receivables billed) and net financing fees (financing margin, corresponding to the amount of financial interest received from factoring clients, less interest paid for refinancing of the factoring debt). The premiums paid by the factoring companies to the insurance companies (for cover of the debtor risk and the ceding risk) are deducted from the net income from banking activities.

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.

Revenue or income from other activities

This combines the other revenue of the Group with, on the one hand, the revenue from "Other insurance-related services", as well as the compensation collected by Coface for public credit insurance procedures management services, "Remuneration of public credit insurance procedures", which are calculated under credit insurance revenue and, on the other hand, "Information and other services" revenue, consisting of revenue from the sale of corporate information and marketing, and recovery of receivables ("Receivables management") for customers without credit insurance.

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.

Claims expenses

"Claims expenses" correspond to claims paid under credit insurance contracts, less changes from recoveries following Single Risk policies and surety bonds, recourse (amounts recovered from the debtor after paying the policyholder for the claim) during the year, and the change in claims provisions during the year, and the management 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 25 of Chapter 4 "Financial items").

Expenses from banking activities excluding cost of risk

The "Expenses from banking activities excluding cost of risk" correspond to the general operating expenses (payroll costs, IT costs, etc.), relating to factoring activities.

Expenses from other activities

The “Expenses from other activities” correspond to general expenses related exclusively to information and debt collection for customers without credit insurance.

Total general expenses, excluding external acquisition costs (commissions), are analysed independently of the method for accounting for them by destination, 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.

Income and expenses net of ceded reinsurance (reinsurance result)

“Income and expenses net of ceded reinsurance” (reinsurance result) correspond to the amount of income from ceded reinsurance (claims ceded to reinsurers during the year for reinsurance treaties of the Group, 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).

Underwriting income after reinsurance

Underwriting income net of reinsurance is a key financial indicator used by the Coface Group to analyze the operational performance of all of its business lines (excluding income from the investment portfolio).

Policy acquisition costs

“Policy acquisition costs”, consisting of insurance contracts external acquisition costs, include all of the commissions paid to business finder insurance intermediaries (brokers and other intermediaries) based on the revenue contributed and the internal costs of acquiring the policies, essentially fixed costs corresponding to payroll costs related to policy acquisition (including services charged for establishing contracts) and the Group’s sales network fees. These costs primarily include the costs related to the credit insurance business. However, due to pooling, policy acquisition costs related to the Group’s other business lines are also included in this item (see Note 27 “General expenses by function” in Chapter 4 “Financial items”).

Administrative costs

“Administrative costs” correspond to the Group’s general expenses, notably payroll and IT management costs related to policy administration. These costs primarily include the costs related to the credit insurance business. However, due to pooling, policy administration costs related to the Group’s other business lines are also included in this item (see Note 27 “General expenses by function” in Chapter 4 “Financial items”).

Other operating income and expenses

“Other operating income and expenses” include the charges that cannot be either directly allocated, or allocated through the application of a distribution key to one of the destinations defined by the chart of accounts (see Note 30 “Other operating income and expenses” in Chapter 4 “Financial items”).

Operating income

Operating income corresponds to the “Underwriting income net of reinsurance”, “Net investment income excluding the cost of debt” (finance costs) and “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 in Note 3.6 and Note 32 of Chapter 4 “Financial items”).

Net attributable income for the year (Group share)

Net attributable income (Group share) 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”.

Significant accounting principles and main estimates

Significant accounting principles

A description of the Group’s accounting methods is outlined in Note 3 to the Group’s consolidated financial statements presented in Chapter 4. In particular, the general principles which apply to the credit insurance activities, the services business and the factoring business, along with the distribution of income and expenses relating to the various businesses of the Group, are presented.

Main estimates

Preparing the consolidated financial statements in conformity with IFRS requires the Group or subsidiary management to make estimates and use certain assumptions which have an impact on the carrying amounts of assets and liabilities recorded in the consolidated balance sheet, the notes related to these assets and liabilities, the income and expense items in the income statement and the commitments relating to the period-end. Management is likewise forced to use its judgement when applying the Group’s accounting methods.

The accounting methods presented below, and more extensively described in Notes 3 and 4 of Chapter 4, are those requiring the most significant use of the estimates and the judgement of the Group’s management.

ESTIMATES	CALCULATION BASIS
Goodwill impairment	Impairment is recognised when the recoverable amount of goodwill, defined as the higher of value in use and fair value, is below its carrying amount. The value in use of cash-generating units is calculated based on cost of capital, long-term growth rate, loss ratio and cost ratio assumptions.
Provision for earned premiums not yet written	This provision is calculated based on the estimated amount of premiums expected in the period. This provision corresponds to the difference between this estimate and the premiums already recorded.
Provision for policyholders' bonuses and rebates	This provision is calculated based on the estimated amount of refunds and bonuses payable to policyholders in accordance with the terms and conditions of the policies written.
Provision for subrogation and salvage	This provision is calculated based on the estimated amount of potential recoveries for the claims settled.
Claims provision	This includes the estimated total cost of claims reported but not settled at year end.
IBNR* provision	The IBNR provision is calculated on a statistical basis, using an estimate of the final amount of claims that will be settled after the risk has been extinguished and after any debt collection action has been taken.
Pension benefit obligations	Retirement commitments are evaluated in compliance with IAS 19 and are reviewed annually by actuaries, according to the actuarial assumptions of the Group.

* *IBNR (incurred but not reported): provision for unknown claims corresponding to claims that have already occurred, but of which the insurer has not yet been informed.*

Furthermore, the recording of deferred tax assets depends in part on estimates of the Group's future profits. The accounting methodology for deferred taxes is presented in Note 3.6 and Note 21 of Chapter 4 "Financial items".

3.3.2 OPERATING INDICATORS

In the course of its activities, and in addition to the financial information published in accordance with IFRS, the Group tracks certain key operating ratios that provide an understanding of its performance and profitability of its products (loss ratio, cost ratio and combined ratio).

◆ 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.

Loss ratio

This ratio allows the Group to measure the underwriting profitability of insurance contracts during the financial year. By analyzing this ratio, it is also possible to price policies effectively by taking into account the amount of claims made by policyholders.

Loss ratio before reinsurance

The loss ratio before reinsurance is the ratio of claim expenses (as defined above) to gross earned premiums (the sum of the gross premiums issued and unearned premium provisions), net of premium refunds. Premium rebates are reimbursements made to policyholders of part of the premiums paid by them when claims under their insurance policies do not exceed a certain threshold (low claims bonus) or when there are no claims (no-claims bonus).

Loss ratio after reinsurance

Loss ratio after reinsurance corresponds to the ratio of claims expenses (net of claims ceded to reinsurers under reinsurance treaties entered into by the Group) to the gross earned premiums (net of premiums ceded to reinsurers).

Cost ratio

Cost ratio before reinsurance

The cost ratio before reinsurance is the ratio of general expenses (as defined below) to gross earned premiums (as described above). It is used by the Group to measure all the costs related to the acquisition and management of its portfolio of contracts in a given financial year.

The Coface Group's credit insurance business is supported by services activities such as corporate information and receivables recovery. These services are inherent to the traditional credit insurance activity (related services) and the related expenses are included in the general expenses of the Group. General expenses are also increased by complementary businesses such as factoring (in Germany and Poland) and management of public procedures on behalf of the French State until December 31, 2016. Until June 30, 2014, SBCE, a Brazilian insurance company, performed the same type of activity for the Brazilian government. This agreement, which was entered into by the government of Brazil and SBCE, was not renewed as at June 30, 2014. In order for the cost ratio calculated by the Group to be comparable to the cost ratio calculated by other main market players, revenue generated by the additional businesses (non-insurance) described above is deducted from general expenses.

Cost ratio after reinsurance

The cost ratio after reinsurance is the ratio of general expenses (after deduction of reinsurance commission paid by reinsurers) to gross earned premiums (net of premiums ceded to reinsurers).

General expenses

General expenses accounted for in the cost ratio are the sum of:

- policy acquisition costs (consisting of the external acquisition costs, corresponding to commissions paid to intermediaries which introduce business (brokers or other intermediaries) and internal acquisition costs corresponding to the cost of maintaining distribution networks and the costs relating to departments in charge of writing contracts);
- administrative costs (including Group general expenses, payroll costs, IT costs, etc., excluding profit-sharing and incentive schemes);
- other current operating expenses (expenses that cannot be allocated to any of the purposes defined by the accounting plan, 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 (general expenses related exclusively to information and debt collection for customers without credit insurance), minus revenue related to:
  - fee and commission income (ancillary fees charged under insurance contracts for the provision of credit insurance related services: information on debtors, fees for monitoring credit limits of customers of policyholders and receivables management and recovery),
  - other related benefits and services (ancillary services such as administrative fees for managing claims and reinvoiced receivables recovery fees),
  - information and other services (fees charged for access to information on corporate solvency and marketing information) provided to customers without credit insurance,
  - receivables management (fees charged for receivables debt collection services) provided to customers without credit insurance,
  - net income from banking activities relating to the factoring activities, and
  - remuneration for public procedures management services.

Combined ratio

Combined ratio measures the overall profitability of the Group's activities and its technical margin.

The combined ratio is the sum of the loss and cost ratios. It is tracked by the Group both before and after reinsurance (claims expenses net of those ceded to reinsurers under reinsurance treaties entered into by the Group and general expenses, less reinsurance commissions paid by the reinsurers over total gross earned premiums net of premiums ceded to reinsurers).

3.3.3 ALTERNATIVE PERFORMANCE MEASURES (APM) AT DECEMBER 31, 2016

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) 2 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; ■ N-1 at the group structure of year N.	**i.** Historic method used by Coface to calculate pro forma % (constant FX and perimeter). The transfer of the public guarantees business will be taken into account in this category (impact in 2017 since transfer was effective on December 31, 2016).
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.	**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 on a like-for-like basis.
Internal general expenses excluding exceptional items	
(2) Restatement or Addition of items considered as exceptional with respect to internal general expenses. The term "exceptional" refers to impacts on expenses which do not occur every year.	Indicator used to compare changes in internal general expenses by excluding exceptional items.

b) Alternative performance measures related to operating income

DEFINITION	JUSTIFICATION
Operating income excluding restated exceptional items (including financial 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 general expenses (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 general expenses (see definition above) **(2)**). This aggregate is also restated for "current operating income and expenses" classified after operating income in the management income statement.	Indicator used to compare changes in net income by excluding exceptional items.

(1) DGP: State guarantees business line.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
i. (Rev. current N - FX Impact N-1)/(Rev. current N-1 + perimeter Impact N) - 1	**i. - 3.6% =** (€1,411.3m - (- €24.2m))/(€1,489.5m + €0.0m) - 1	**i. N/A** = €1,489.5m +/- €0.0m
ii. Rev. current N +/-Restatements/ Additions exceptional items N	**ii.** €1,411.3m +/- €0.0m	**ii.** €1,489.5m +/- €0.0m
Fee and commission income/Earned premiums	**Current: 12.1%** = (€134.7m/€1,115.1m) **Like-for-like: 11.9%** = (€134.7m - (- €1.0m))/ (€1,115.1m - (-€22.7m))	**Current: 11.4%** = (€135.7m/€1,185.9m)
Current internal general expenses +/- Restatements/Additions of exceptional items	**€545.4m** +/- €0.0m	**€551.2m** +/- €0.0m

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
Current operating income +/- Restatements/Additions of exceptional items	**= €58.7m** = (€114.4m + (-€18.4m) - (+€53.5m) - (-€16.1m)	**= €194.2m** = (€192.3m + (-€18.5m) - (-€4.2m) - (-€16.1m)

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
Current operating income +/- Restatements/Additions of exceptional items net of tax	**= - €12m** = (€41.5m - (€75m + €19.2m - €38.6m exceptional items) - (-€19.1m tax on exceptional items) = €5m - (€26.1m DGP income) - (-€9m DGP income tax expense)	**= €106.7m** = (€126.2m - (-€4.2m exceptional items) - €1.5m tax on exceptional items) = €128.9m - (€33.9m DGP (1) income) - (-€11.7m DGP (1) income tax expense)

d) Alternative performance measures related to the combined ratio

DEFINITION	JUSTIFICATION
Loss ratio before/after reinsurance	
Please refer to Section 3.3.2 and Note 3.8 (Breakdown of the calculation of ratios at December 31)	
Cost ratio before/after reinsurance	
Please refer to Section 3.3.2 and Note 3.8 (Breakdown of the calculation of ratios at December 31)	
Combined ratio before/after reinsurance	
Please refer to Section 3.3.2 and Note 3.8 (Breakdown of the calculation of ratios at December 31)	
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 general expenses (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 general expenses (see definition above) **(2)**)	Indicator used to compare changes in loss ratio after reinsurance by excluding exceptional items.
Gross loss ratio with claims handling expenses	
Addition of claims handling expenses to the loss ratio before reinsurance excluding claims handling expenses. -(Claims/Earned premiums) Claims handling expenses refer to the expenses generated by the emergence of claims and managing the indemnification related thereto (such as legal fees, collection fees, etc.)	Key indicator in loss monitoring
Current year gross loss ratio gross – 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

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
Combined ratio after reinsurance +/- Restatements/Additions of exceptional items	**[A]=[B]+[C]** **97.4%** = 65.5% + 31.9%	**[A]=[B]+[C]** **83.1%** = 52.5 + 30.5%
Loss ratio after reinsurance +/- Restatements/Additions of exceptional items	**65.5%** = 65.5% +/- 0.0 pts.	**52.5%** = 52.5 +/- 0.0 pts.
Cost ratio after reinsurance +/- Restatements/Additions of exceptional items	**31.9%** = 31.9% +/- 0.0 pts.	**30.5%** = 30.5 +/- 0.0 pts.
-[(Claims) + (Claims handling expenses)]/ [Earned premiums] (see P&L)	**63.3%** = -[(-€680.5m) + (-€25.1m)]/[€1,115.1m]	**51.0%** = -[(-€578.9m) + (-€26.5m)]/[€1,185.9m]
= Claims reported in the current year / Earned premiums for the current year See ultimate loss ratios development triangle	**70.0%** = see ultimate loss ratios development triangle	**70.2%** = see ultimate loss ratios development triangle
[E] = [F-D]	**-9.0%** = 61.0% - 70.0%	**-21.4%** = 48.8% - 70.2%
-(Claims/Earned premiums)	**61.0%** =-(-€680.5m/€1,115.1m)	**48.8%** =-(-€578.9m/€1,185.9m)

e) Alternative performance measures related to equity

DEFINITION	JUSTIFICATION
RoATE	
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. Accounting rate of return of 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)	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 investment portfolio only
Others	
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	N/N-1 COMPARISON 2016	2015
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]	**2.7%** = (€42m)/[(€1,539m + €1,537m)/2]	**8.4%** = (€126m)/[(€1,537m + €1,486m)/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]	**-0.8%** = (-€12m)/[(€1,485m + €1,518m)/2] To ensure comparability with subsequent years, the contribution to 2016 net income of the public guarantees management business has also been excluded from this indicator.	**7.2%** = (€107m)/[(€1,518m + €1,470m)/2] To ensure comparability with 2016, the contribution to 2015 net income of the public guarantees management business has also been excluded from this indicator.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
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).	**1.7%** = €43.5m/(((€2,649m - €122m) + (€2,752m - €121m))/2)	**2.0%** = €49.9m/(((€2,649m - €122m) + (€2,679m - €121m))/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).	**1.6%** = (€43.5m - (€3.5m))/(((€2,649m - €122m) + (€2,752m - €121m))/2)	**1.8%** = (€49.9m - (€4.5m))/(((€2,649m - €122m) + (€2,679m - €121m))/2)
Accounting 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)	**2.8%** = (€43.5m + ((€137.4m - €3.0m - €93.4m) - (€112.2m - €6.1m - €93.3m)))/(((€2,649m - €122m) + (€2,752m - €121m))/2)	**1.4%** = (€49.9m + ((€112.2m - €6.1m - €93.3m) - (€124.4m - €2.8m - €93.6m)))/ (((€2,649m - €122m) + (€2,679m - €121m))/2)
Income from shares excluding investments in companies + income from fixed-income instruments + real estate income	**€43.5m** = €1.6m + €37.5m + €4.4m	**€49.9m** = €14.2m + €33.4m + €2.3m
Income from foreign exchange + derivatives + from investments in companies (dividend, allowances to provisions, capital gains or losses, etc.)	**€7.7m** = €16.5m - €10.2m + €4.2m - €2.7m - €0.1m	**€5.9m** = €42.6m - €43.7m + €4.9m + €1.0m - €1.2m

g) Alternative performance measures linked to reinsurance

DEFINITION	JUSTIFICATION
Ceded premiums/ Gross earned 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	
Weight of ceded claims compared to total claims. Ceded claims correspond to the share of claims that Coface cedes to its reinsurers under reinsurance treaties signed with them.	Indicator used to monitor the change in reinsurance income.
Underwriting income before reinsurance	
Please refer to Section 3.3.1 and 3.4.3	
Underwriting income after reinsurance	
Please refer to Section 3.3.1 and 3.4.3	

3.4 Comments on income at December 31, 2016

3.4.1 PERFORMANCE OF THE GROUP

At the end of 2016, the year in which it began its transformation, Coface is reporting revenue of €1,411 million, down 3.6% (excluding exchange rate effect) compared to 2015. The loss ratio after reinsurance stands at 65.5% in the target range and, thanks to strict monitoring of expenses, the cost ratio after reinsurance is 31.9%.

Coface has successfully completed the transfer of the State export guarantees management business and launched its three-year *Fit to Win* strategic plan, which is in the process of being implemented.

Net income (attributable to equity holders of the parent) amounts to €41.5 million; it includes €36.5 million of non-recurring items linked to the transfer of the public guarantees management business and the deployment of the *Fit to Win* [(1)] strategic plan.

A dividend payment of €0.13 per share [(3)] for financial year 2016, will be proposed to COFACE SA shareholders. This dividend payment includes €0.07 per share corresponding to a distribution rate of 62% of adjusted income (€0.11 per share) [(3)] and €0.06 of exceptional dividend.

The new Solvency II prudential regime became effective on January 1, 2016. Calculated according to the standard formula, the capital coverage ratio required to cover insurance and factoring risks remained high at around 150% [(4)] at December 31, 2016. This level, in the target range of 140%-160% allows the Group to renew its commitment to distribute at least 60% of its normalised net income, as proposed this year.

(1) €75.0 million gain on French State export guarantees management transfer, €38.6 million in restructuring costs, €19.2 million of gains from reviewing employee benefits (including €5.1 million linked to discounting the actuarial rate to present value and €14.1 million in reversal of provision), representing a total of €55.6 million before tax (see Note 30 of the 2016 consolidated financial statements). After tax (applied normative rate: 34.43%), the contribution of these items to 2016 net income attributable to equity holders of the parent amounts to €36.5 million.

(2) The proposal for a dividend payment of €0.13 per share includes €0.07 of dividend and €0.06 of exceptional dividend; these payments are subject to the approval of the Annual Shareholders' Meeting of May 17, 2017.

(3) The following items are excluded from the calculations for the adjusted net income: €75.0 million of income linked to the transfer of public credit insurance procedures management in France, €38.6 million of restructuring expenses, i.e. a total of €36.3 million before income tax (see Note 30 of the consolidated financial statements 2016) After income tax (rate applied: 34.43%), the contribution of these items to the net income attributable to owners of the parent 2016 was €23.8 million.

(4) Estimate of the coverage ratio is based on the interpretation of the standard Solvency II formula. Not audited.

RECONCILIATION WITH THE FINANCIAL STATEMENTS	N/N-1 COMPARISON 2016	2015
(Ceded premiums (o/w change in premiums provisions)/Earned premiums)	**23.1%** =-(-€257.5m/€1,115.1m)	**22.4%** =-(-€265.7m/€1,185.9m)
Ceded claims (o/w change in claims provisions after recourse)/Total claims of which claims handling expenses	**20.4%** = -€144.2m/(-€680.5m)] + [-€25.1m]	**20.1%** = -[(-€121.8m) + (-€578.9m)]/[-€26.5m]

3.4.2 REVENUE

The Coface Group's consolidated revenue fell by 5.3%, from €1,489.5 million in 2015 to €1,411.3 million in 2016. Revenue was down 3.6% like-for-like.

There is no Group structure effect for 2016. The foreign exchange effect was down 1.7 points, primarily owing to devaluations of the Argentine peso, the pound sterling, the Turkish pound and the Mexican peso.

The table below shows the changes in the Coface Group's consolidated revenue by activity as of December 31, 2015 and 2016:

CHANGE IN CONSOLIDATED REVENUE BY ACTIVITY *(in millions of euros)*	AS OF DECEMBER 31 2016	2015	CHANGE *(in €m)*	*(in %)*	*(as a %: constant Group structure and exchange rate)*
Insurance	1,340.7	1,418.9	-78.3	-5.5%	-3.8%
Earned premiums	*1,115.1*	*1,185.9*	*-70.8*	*-6.0%*	*-4.1%*
*Services**	*225.5*	*233.0*	*-7.5*	*-3.2%*	*-2.7%*
Factoring	70.6	70.6	0.0	0.0%	0.6%
CONSOLIDATED REVENUE	**1,411.3**	**1,489.5**	**-78.2**	**-5.3**	**-3.6%**

* *Sum of revenue from services related to credit insurance ("Fees and commission income" and "Remuneration of public procedures management services") and services provided to customers without credit insurance (access to information on corporate solvency and marketing information ("Business information and other services") and receivables recovery ("Receivables management")).*

◆ Insurance

Revenue for the insurance business line (including surety bonds and Single Risk insurance products) was down by 5.5% as reported (down 3.8% like-for-like) from €1,418.9 million in 2015 to €1,340.7 million in 2016.

Earned premiums were down 6.0% as reported (down 4.1% like-for-like), from €1,185.9 million in 2015 to €1,115.1 million in 2016 under the effect of pressure on prices and sluggish customer business in the most mature regions (Western and Northern Europe) and the impact of action plans on risks, particularly high in Asia (reduction in exposures; non-renewal of certain risk generating policies for which the proposals for renegotiations of prices and terms have not been accepted).

The annual production of new contracts amounted to €139.1 million in 2016, corresponding to a drop of 2.5% over 2015, it remained stable except in Asia.

Contract retention rate (ratio between the annual value of renewed policies and the value of policies to be renewed during the year) improved slightly to 88.5% as of December 31, 2016 (versus 87.7% in 2015).

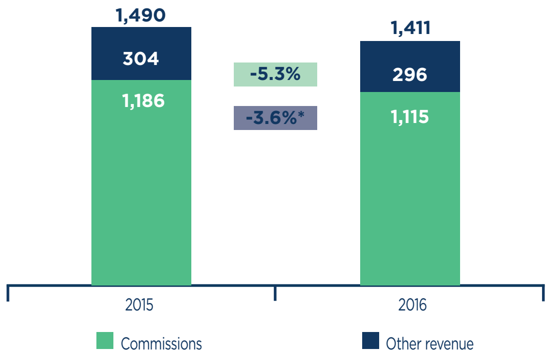
With a 1.7% decline in prices over 2016, versus 2.5% in 2015, the drop was more moderate. Mature markets are starting to stabilise in spite of the strong pressure on prices. Price increases were observed in Latin America.

The "business generated by policyholders" component (revenue/policyholders' business) rose by 0.8% in 2016 (versus +2.5% in 2015) marked by the economic downturn especially in emerging regions. Nonetheless, it remained positive and continued to drive the growth of our portfolio especially thanks to the robust performance of the Mediterranean & Africa region.

The service business revenue was down €7.5 million, from €233.0 million in 2015 to €225.5 million in 2016, corresponding to a drop of -3.2% (-2.7% like-for-like) mainly linked to the drop in remuneration for public procedures management services.

Factoring

Revenue from the factoring business (exclusively in Germany and Poland) was stable at €70.6 million in 2016, against a backdrop of significant access to market liquidities and a drop in interest rates. Germany reported a slight 0.9% drop in activity, due to pressure on prices while factoring in Poland rose 6.7% (+11% like-for-like), a sign of rallying commercial performances.



* on a like-for-like basis.

Change in revenue by region [(1)]

The following table shows the changes in consolidated revenue by business (net of intra-group flows) within the Group's seven geographic regions for the periods ended December 31, 2015 and 2016:

CHANGE IN CONSOLIDATED REVENUE BY REGION OF INVOICING *(in millions of euros)*	AS OF DECEMBER 31 2016	2015	CHANGE *(in €m)*	*(as a %)*	*(as a %: on a constant exchange rate basis)*	*(as a %: on a constant Group structure and exchange rate basis)*
Western Europe	327.2	363.3	-36.2	-10.0%	-8.4%	-8.4%
Northern Europe	307.3	324.5	-17.2	-5.3%	-5.3%	-5.3%
Mediterranean & Africa	331.9	340.3	-8.4	-2.5%	-1.3%	-1.3%
North America	136.1	131.3	4.8	3.7%	4.0%	4.0%
Central Europe	121.3	125.3	-4.0	-3.2%	-1.1%	-1.1%
Asia-Pacific	109.8	121.3	-11.5	-9.5%	-10.9%	-10.9%
Latin America	77.7	83.5	-5.7	-6.9%	9.0%	9.0%
CONSOLIDATED REVENUE	**1,411.3**	**1,489.5**	**-78.2**	**-5.3%**	**-3.6%**	**-3.6%**

In Western Europe, revenue fell by 10% (by 8.4% like-for-like) due to sluggish commercial activity and pressure on prices. In particular, the revenue generated by the Single Risk offer fell sharply against a backdrop of difficult market conditions in the UK, Switzerland and France. Lastly, remuneration for the public procedures management services dropped by €6.6 million.

In Northern Europe, revenue was down 5.3%. The region is impacted by strong pressure on prices and volumes.

Revenue for Mediterranean & Africa dropped by 2.5% as reported (down 1.3% like-for-like) during the period. Italy reported robust commercial performances which were however offset by premium rebates granted on the Spanish market where the risk environment was favourable.

Revenue for North America was up 3.7% as reported (up 4.0% like-for-like) thanks to major accounts customers.

Central Europe was down 3.2% as reported (down 1.1% like-for-like) owing to a drop in debt collection revenue, in line with the relatively low loss experience in the region.

In the Asia-Pacific region, revenue was down 9.5% as reported (down 10.9% like-for-like), following risk abatement measures and tougher underwriting rules.

Revenue was up 9.0% in Latin America on a like-for-like basis. This growth can be explained by the high inflation observed in the region, but also to rate hikes and the dynamic commercial performance, especially in Argentina.

(1) The modification of the composition of regions on April 11, 2016 led to a number of adjustments. Portugal and Spain, which were initially part of Western Europe, were transferred to the Mediterranean & Africa region. Russia, initially included in the Northern Europe region was transferred to the Central Europe region.

3.4.3 UNDERWRITING INCOME

Underwriting income before reinsurance

Underwriting income before reinsurance fell by €164.4 million, from 194.8 million in 2015 to €30.5 million in 2016. This drop is mainly due to a decline in revenue (down €78.2 million) combined with a higher loss experience (€100.3 million).

The combined ratio before reinsurance totalled 96.4% (+13.9 percentage points), which corresponds to a 12.2 percentage point increase in loss ratio and 1.7 percentage point increase in cost ratio. The deterioration of the cost ratio is primarily due to a significant drop in revenue especially earned premiums (down €70.8 million). Internal general expenses are still contained, down 1.1% as reported (up 0.4% like-for-like).

Loss experience

The loss ratio, before reinsurance, deteriorated by 12.2 percentage points, rising from 51.0% in 2015 to 63.3% in 2016. This deterioration can be explained by a development of claims following a higher than expected loss experience in emerging countries which also affected the loss experience of exporting countries based in mature countries. Contrary to Asia-Pacific, the situation improved in Latin America at the end of 2016, where business had been strongly impacted in 2015. In mature regions, the loss ratio remained low with the exception of North America.

LOSS EXPERIENCE

(in millions of euros and %)	AS OF DECEMBER 31 2016	2015	CHANGE *(in €m)*	*(as a %)*
Claims expenses incl. claims handling costs	705.7	605.3	100.3	16.6%
Loss ratio before reinsurance	63.3%	51.0%	-	+12.2 pts
Earned premiums	1,115.1	1,185.9	-70.8	-6.0%

In Western Europe, the loss ratio remained very low at 38.5%.

Northern Europe reported an increase in its ratio to 58.5%, corresponding to claims recorded on the specific sectors of traders.

The loss ratio for the Mediterranean & Africa region rose by 17.2 percentage points to 49.8%. This increase can be explained by a lower reversal of provisions in Spain which had reached a significant level in 2015. The ratio is still good at less than 50%.

In North America, the loss ratio stood at 85.0%, mainly due to the occurrence of substantial claims in the US in the industrial and services sectors while loss experience in Canada remained high.

Central Europe presented a loss ratio down to 50.3% as reported, (-7.1 percentage points). The action plans implemented in Russia in 2015 proved their effectiveness and thus helped to improve the loss experience.

Asia-Pacific recorded a loss ratio of 146.8%. This can be explained by a combination of several factors: strong credit insurance loss experience and major Single Risk claims primarily on contracts underwritten in Singapore.

The loss ratio for Latin America, another region marked by the volatility of risks on emerging markets, improved considerably to 60.2% (down 53.2 percentage points), as the action plans engaged in Mexico, Ecuador and in Brazil began to bear fruit.

CHANGE IN LOSS EXPERIENCE BY REGION OF INVOICING *(as a %)*	AS OF DECEMBER 31 2016	2015	CHANGE (% POINTS)
Western Europe	38.5%	33.5%	+5.0 pts
Northern Europe	58.5%	39.8%	+18.7 pts
Mediterranean & Africa	49.8%	32.5%	+17.2 pts
North America	85.0%	56.3%	+28.7 pts
Central Europe	50.3%	57.4%	-7.1 pts
Asia-Pacific	146.8%	100.6%	+46.2 pts
Latin America	60.2%	113.4%	-53.2 pts
LOSS RATIO BEFORE REINSURANCE	**63.3%**	**51.0%**	**+12.2 PTS**

GENERAL EXPENSES

GENERAL EXPENSES *(in millions of euros)*	AS OF DEC. 31, 2016	AS OF DEC. 31, 2015
Internal general expenses	545.4	551.2
of which claims handling expenses	*25.2*	*26.5*
of which investment management expenses	*2.7*	*2.1*
Commissions	153.4	162.0
TOTAL GENERAL EXPENSES	**698.8**	**713.2**

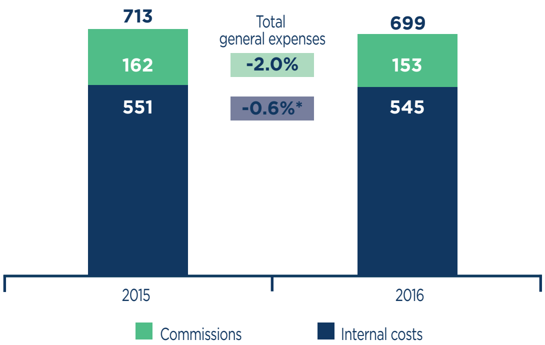
Gross earned premiums were down 2.0% as reported (down 0.6% like-for-like), from €713.2 million as of December 31, 2015 to €698.8 million at December 31, 2016.

Policy acquisition commissions were down 5.3% as reported (down 3.8% like-for-like), from €162 million in 2015 to €153.4 million in 2016. This change can be partly explained by the decline in earned premiums in 2016.

Internal general expenses, including claims handling expenses were down by 1.1% as reported (up +0.4% like-for-like), from €551.2 million in 2015 to €545.4 million in 2016.

Payroll costs are nearly stable at €304.0 million in 2016 as reported (up 1.4% like-for-like). IT costs decreased over the period to €50.5 million as reported, down 5.7% like-for-like. Other costs (taxes, IT purchases, rent) fell by 1.3% from €193.4 million in 2015 to €190.9 million in 2016. Savings were made, notably on IT purchases, travelling and the costs related to agents. The action plans launched in the regions continue to bear fruit.

Cost ratio before reinsurance deteriorated by 1.7 percentage points, from 31.5% in 2015 to 33.2% in 2016. This change can be primarily explained by the decline in earned premiums (+2.0 percentage points) and the compensation for public procedures management services (+0.6 percentage points) partly offset by external policy acquisition costs (-0.8 percentage points) and by a slight drop in internal general expenses (-0.5 percentage points) impacted by the roll-out of the *Fit to Win* strategic plan.



** on a like-for-like basis.*

In Western Europe, general expenses were down 8.3% (down 6.8% like-for-like). The drop was most significant for policy acquisition commissions (down 13.7% like-for-like) following the decline in commercial activity. Significant cost control measures were taken to reduce internal general expenses by 4.8% like-for-like.

In Northern Europe, general expenses dropped by 3.0% as reported (down 3.0% like-for-like), thanks to a strict cost management policy.

In Mediterranean & Africa, general expenses dropped by 2.6% as reported (down 1.5% like-for-like), especially for costs linked to the recovery business and for taxes and levies.

In North America, general expenses were up 3.9% as reported (up 4.2% like-for-like). Commissions rose 5.5% (like-for-like) owing to the increase in revenue in a region with a brokerage-based commercial structure.

In Central Europe, general expenses were up 1.2% (up 3.0% like-for-like), this increase concerns policy acquisition commissions, specifically in Poland. Internal general expenses rose slightly (up 0.7% like-for-like).

In Asia-Pacific, general expenses fell 1.1% as reported (down 3.0% like-for-like).

In Latin America, general expenses dropped 6.7% as reported (up 11.3% like-for-like). Foreign exchange (Argentine peso and Brazilian real) had a material impact on general expenses. The increase in internal general expenses was mainly confined to payroll costs owing to compensation for strong inflation in Argentina.

◆ Underwriting income after reinsurance

Underwriting income after reinsurance contracted by €130.6 million, from €143.4 million in 2015 to €12.8 million in 2016. This change follows the same trend as underwriting income before reinsurance (-€164.4 million) while benefiting from the positive impact on the Group's external reinsurance.

The cost of reinsurance dropped significantly, from -€51.4 million in 2015 to -€17.6 million 2016 owing to the increase in loss ratio and a non-recurring gain of €13.8 million (exceptional accrual of claims collection costs in Northern Europe).

(in thousands of euros and %)	AS OF DECEMBER 31 2016	2015	CHANGE *(in €km)*	*(as a %)*
Revenue	1,411,297	1,489,531	-78,234	-5.3%
Claims expenses	-705,655	-605,344	-100,311	16.6%
Policy acquisition costs	-255,289	-274,048	18,759	-6.8%
Administrative costs	-275,095	-269,956	-5,138	1.9%
Other current operating expenses	-83,004	-81,652	-1,352	1.7%
Expenses from banking activities, excluding cost of risk	-13,193	-14,094	901	-6.4%
Cost of risk	-4,222	-4,696	474	-10.1%
Expenses from other activities	-44,379	-44,892	513	-1.1%
UNDERWRITING INCOME BEFORE REINSURANCE	**30,460**	**194,848**	**-164,388**	**-84.4%**
Income and expenses from after reinsurance cessions	-17,599	-51,410	33,810	-65.8%
UNDERWRITING INCOME AFTER REINSURANCE	**12,861**	**143,438**	**-130,577**	**-91.0%**
Combined ratio after reinsurance	97.4%	83.1%	-	-

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

◆ Financial markets

2016 was especially memorable for two political events with unexpected outcomes: the UK vote to leave the European Union in June, and the election of Donald Trump as President of the United States in November. The economic situation, on the other hand, remained predictable in developed countries with continuation of the modest recovery on both sides of the Atlantic. In emerging countries, after serious doubts at the beginning of the year, the situation improved gradually (with, however, strong differences among countries), spurred by the stabilised situation in China and by an upsurge in oil prices.

In the United States, growth was disappointing in the beginning of the year, adversely impacted by the high dollar, but managed to bounce back, taking advantage of the positive effects of the drop in oil price on consumption and a vigorous employment market. The main event was the victory of Donald Trump in the US presidential elections, on a platform advocating for substantial tax cuts for families and businesses, more spending in certain sectors and an overhaul of trade relations with the rest of the world. The inflation fostered by this platform and the Federal Reserve's decision to raise its key interest rate at the end of year led to significant interest rate hikes in the last quarter and made up for the low interest rates in the first three quarters. The US 10-year yield rate rose from 2.28% to 2.45% at the end of the year. Equities markets rallied sharply at the end of the year and displayed an annual performance of more than 10%.

The economic recovery continued in the eurozone in 2016, though with significant differences among countries. Growth during the year was driven by household consumption which benefited from the low oil price and a weak euro against the dollar. However, there was still strong political uncertainty, stoked by the outcome of the British referendum and by the general wave of Eurosceptic sentiment. In the light of persistently weak growth and inflation, in addition to significant political risks, the European Central Bank maintained a very expansive policy throughout 2016. Accordingly, in March, it cut its key interest rates and announced an extension of its asset purchase programme to include corporate bonds starting in June. In December, it declared that it would reduce, starting in April 2017, the monthly volume of its asset purchase programme but would extend its duration until at least December 2017. These ECB measures led to another cut in sovereign rates over the period. The 10-year German rate fell by around 0.65% to 0.20% The French 10-year rate also dropped, by around 1% to 0.70% and the Spanish 10-year rate from around 1.80% to 1.40%, while the Italian 10-year rate, affected by the political uncertainty, rose from 1.60% to 1.80%.

For emerging countries, 2016 started off with heightened fears about an economic downturn in China and the consequences of low oil prices on producer countries. The differences among emerging countries continued to widen in 2016 with a political crisis in Brazil and downgrading of the sovereign ratings of several countries by the financial rating agencies. In the second quarter, the markets were reassured by improved Chinese figures and a surge in oil price. The signing of an agreement between OPEC countries also helped to confirm this trend by improving the outlook for oil exporting countries. However, at the end of the year, the election of Donald Trump opened up a new chapter of uncertainties. Emerging bond markets were therefore highly volatile but reported a positive performance for the year of nearly 10%, and thus partly wiped out the negative performances delivered in the previous quarters.

Financial income

Against this economic backdrop, the Group, as part of its defined strategic allocation policy, raised its exposure to the sovereign debt of leading issuers on the financial markets, and to unlisted European real estate while reducing its exposure to European equities. 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 2016, thanks to a positive return on the investment portfolio and the payment of the French State's compensation for the transfer of the public guarantees management business.

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

MARKET VALUE

	AS OF DECEMBER 31	
(in millions of euros)	2016	2015
Listed shares	113	207
Unlisted shares	14	12
Bonds	1,797	1,685
Loans, deposits and UCITS money-market funds	570	512
Property	138	112
TOTAL INVESTMENT PORTFOLIO	**2,631**	**2,527**
Associated and non-consolidated companies	121	122
TOTAL	**2,752**	**2,649**

The persistently low rates of return led to a slight fall in the return on the Group's portfolio. Investment income came off at €43.5 million (*i.e.* 1.7% of average outstanding in 2016) comparable with the €49.9 million reported in 2015 (2.0% of average outstanding in 2015).

INVESTMENT PORTFOLIO INCOME

	AS OF DECEMBER 31	
(in millions of euros)	2016	2015
Shares	1.6	14.2
Fixed-income instruments	37.5	33.4
Investment property	4.4	2.3
TOTAL INVESTMENT PORTFOLIO	**43.5**	**49.9**
o/w realised gains	*3.5*	*4.5*
Associated and non-consolidated companies	1.4	7.0
Net foreign exchange gains	6.3	-1.2
Financial and investment charges	-3.2	-2.7
TOTAL	**48.0**	**53.1**

After income from investments in companies, foreign exchange and derivatives income, financial expense and investment costs, financial income for 2016 came off at €48 million.

The economic rate of return of financial assets came off at 2.8% in 2016 versus 1.4% for the same period in 2015. This increase in economic return is linked to the drop during the year of European rates and the upturn on equities markets at the end of the year.

3.4.5 OPERATING INCOME

	AS OF DECEMBER 31		CHANGE		
(in millions of euros)	2016	2015	*(in €m)*	*(as a %)*	*(as a %: on a constant Group structure and exchange rate basis)*
OPERATING INCOME INCLUDING FINANCE COSTS: A	**96.0**	**173.8**	**-77.8**	**-44.8%**	**-43.2%**
Other operating income and expenses (B)	53.5	-4.2	57.7	NS	NS
OPERATING INCOME INCLUDING FINANCIAL COSTS AND EXCLUDING OTHER OPERATING INCOME AND EXPENSES: C = A-B	**42,5**	**178.0**	**-135.5**	**-76.1%**	**-74.5%**
Realised gains: (D)	-	-			
Interests costs (E)	-16.1	-16.1	0.0	0.0%	NS
OPERATING INCOME INCLUDING FINANCING COSTS AND EXCLUDING NON-RECURRING COSTS: F = C-D-E	**58.7**	**194.2**	**-135.5**	**-69.8%**	**-68.3%**

Current operating income, including finance costs and excluding restated items, fell by €135.5 million, *i.e.* by -69.8% (-68.3% like-for-like), from €194.2 million in 2015 to €58.7 million in 2016.

Combined ratio after reinsurance, including non-recurring items, rose by 14.3 percentage points, from 83.1% in 2015 to 97.4% in 2016 of which +12.9 percentage points of net loss ratio and +1.4 percentage points of cost ratio.

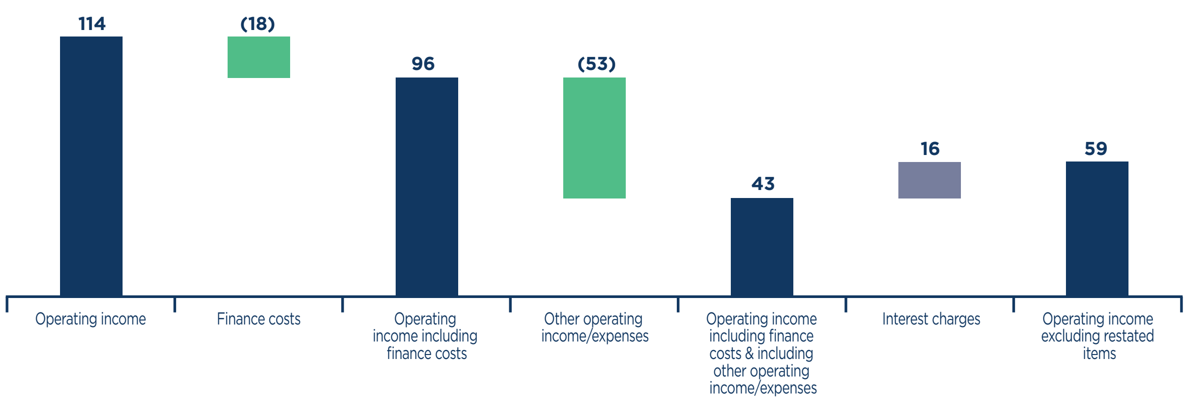
Other operating income and expenses amounted to €53.5 million and mainly comprise:

- compensation received following the transfer of the export support public procedures management business to the Bpifrance group and other income and expenses linked to exit from the scope of consolidation (€75 million);
- revenue linked to a reversal of provisions for employee commitments of €14.1 million and discounting of the corresponding actual rates by €5.1 million;
- expenses of €38.6 million linked to the roll-out of the *Fit to Win* strategic plan.

Interest expenses for the hybrid debt amounted to €16.1 million in 2016, stable compared to 2015 (debt contracted on March 27, 2014).

The decline in the Coface Group's operating income can be explained by both the deteriorated loss experience and the decline in revenue.

In €m



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All regions contributed positively to operating income, except Asia-Pacific and North America, which were strongly impacted by an increase in loss experience. We draw attention to the improved circumstances of the Latin America region.

CHANGE IN CONSOLIDATED OPERATING INCOME BY REGION *(in millions of euros)*	AS OF DECEMBER 31 2016	2015	CHANGE	SHARE OF ANNUAL TOTAL AT DECEMBER 31, 2016
Western Europe	134.2	82.8	51.4	83%
Northern Europe	37.1	95.7	-58.7	23%
Mediterranean & Africa	66.7	99.1	-32.4	41%
Central Europe	29.8	32.3	-2.5	18%
North America	-30.6	6.4	-36.9	-19%
Latin America	6.2	-21.5	27.7	4%
Asia-Pacific	-81.7	-56.8	-24.9	-51%
TOTAL (EXCLUDING INTER-REGIONAL FLOWS AND HOLDING COST NOT REBILLED)	**161.5**	**237.9**	**-76.4**	**100%**

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

The Coface Group's effective tax rate increased, jumped from 28.1% in 2015 to 50.1% in 2016. This increase can partly be explained by the total non-deferral of tax losses and the cancellation of an extraordinary positive effect recorded in 2015 in Italy.

Net income (attributable to equity holders of the parent) amounted to €41.5 million, down by 67%.

Restated for the following exceptional and non-recurring items:

- income and expenses linked to the transfer of the public procedures management business;
- income linked to the alignment of certain employee benefits;
- costs generated by the roll-out of the *Fit to Win* strategic plan;

and by excluding the income generated by the operational activities of public procedures management (€17.1 million), net income (attributable to equity holders of the parent) totalled -€12.0 million in 2016.

3.4.7 PARENT COMPANY NET INCOME

The net income of COFACE SA in 2016 amounted to €75.38 million, compared to €73.05 million in 2015. 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 €87 million in 2016 compared to €80 million in 2015.

3.5 Group cash and capital

Information in this section is derived from the statement of cash flows in the consolidated financial statements and from Note 12 "Cash and cash equivalents" in the Company's consolidated financial statements, as reported in Section 4 "Financial Items".

(in millions of euros)	AS OF DECEMBER 31 2016	2015
Net cash generated from operating activities	132.8	280.9
Net cash flows generated from investment activities	-105.2	-56.2
Net cash generated used in financing activities	-97.2	-98.7

(in millions of euros)	AS OF DECEMBER 31, 2016	2015
Cash and cash equivalents at beginning of period	396.8	278.6
Cash and cash equivalents at end of period	332.1	396.8
Net change in cash and cash equivalents	-64.8	118.2

3.5.1 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").

(in millions of euros)	AS OF DECEMBER 31, 2016	2015
Subordinated borrowings	387.8	387.3
Obligations under finance leases	2.3	5.2
Bank overdrafts and other borrowings	0.03	0.1
SUB-TOTAL FINANCIAL DEBT	**390.1**	**392.6**
Amounts due to banking sector companies	452.1	352.4
Debt securities	1,591.2	1,613.1
SUB-TOTAL OPERATING DEBT	**2,043.3**	**1,956.4**

◆ Financial debt

For the period ended December 31, 2016, the Group's financing liabilities, totalling €390.1 million, primarily include the subordinated borrowings issued for €387.8 million.

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 business.

This debt, which includes the lines "Amounts due to banking sector companies" and "Amounts due to customers of banking sector companies" correspond to sources of refinancing for the Group's factoring entities Coface Finanz (Germany) and Coface Factoring Poland.

Amounts due to banking sector companies, which corresponded to drawdowns on the bilateral credit lines (see below "Bilateral credit lines") set up with various banking partners of Coface Finanz and Coface Factoring Poland and the Group's leading local banks, amounted to €452.1 million for the period ended on December 31, 2016.

The borrowings represented by the securities amounted to €1,591.2 million for the period ended on December 31, 2016 including:

- the Senior units issued by the Vega securitisation mutual fund under the factoring receivables Securitisation Programme (see paragraph below "Securitisation Programme") of Coface Finanz, in the amount of €1,151 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 €440 million.

◆ Coface Group's main sources of operational financing

The Group's main sources of operational financing are to date:

- 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 €740.5 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.

At December 31, 2016, the amount of the Group's debt linked to its factoring activities amounted to €2,043 million.

(a) Securitisation programme

In connection with the refinancing of its factoring business, 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 reinsurer for 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 3-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 2015, *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, 2016, €1,151 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;
- liquidation 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 cases 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 receivables outstanding beyond 60 days after their due date	> 2.24%
Delinquency ratio	Moving average over 3 months of the rate of receivables outstanding 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, 2016, 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 €740.5 million:

- bilateral credit lines and bank overdrafts concluded with four German banks (the "German credit lines") and two Polish banks (the "Polish bank overdrafts") for a maximum amount of €176.8 million. These bilateral credit lines and bank overdrafts were concluded for a maximum period of one year. 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, 2016, €87.3 million had been drawn down under the German credit lines and €1.87 million had been used under the Polish bank overdrafts;

- bilateral credit lines concluded with six relational banks of the Group:
  - four lines for a maximum total amount of €190 million for Coface Finanz (with maturities ranging between one and three years), of which €78.2 million had been drawn down as of December 31, 2016,
  - six lines for a maximum total amount of €374 million for Coface Factoring Poland (with maturities ranging between one and two years), of which €284 million had been drawn down as of December 31, 2016.

(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, 2016, the total amount of securities issued under the commercial paper programme totalled €439.95 million. The programme was rated P-2 by Moody's and F1 by Fitch.

Should the commercial paper market shut down, the Coface Group has six lines of credit, currently unused and granted for a period of one year (due in October 2017) for a period of two years (due in October 2018) covering the maximum amount of the commercial paper issue programme (€600 million). The agreements regulating these bilateral credit lines contain the usual restrictive clauses (such as a negative pledge, 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 (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 liquidation procedure or downgrading of the Company's credit rating below BBB+ (by Fitch) or Baa1 (by Moody's)), in line with market practices.

3.5.2 SOLVENCY OF THE GROUP

In accordance with the regulation, 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 (see also Section 5.1.2.5 "Risks related to hedging the Group's solvency" – SCR ratio).

For insurance activities, pursuant to the Solvency II Regulation which became effective on January 1, 2016, the Group proceeded on December 31, 2016 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 99.5% quantile at a one-year horizon. As of December 31, 2016, the estimated amount of the Group's capital requirement (including the SCR calculated according to the standard formula) amounted to €1,335 million [1] compared to €1,332 million at year end 2015.

The Group also calculates the capital requirement for the factoring business line. As of December 31, 2016, the capital requirement for the factoring business amounted to €194 million. It is estimated by applying a 9% rate to the risk-weighted assets (or RWA). RWAs are calculated on the basis of the factoring outstandings, by applying weighting as a function of the probability of default and the expected loss in case of default, determined according to the method in line with that used by Natixis. The Group intends to implement a conservative estimate, given that:

- the percentage applied by the Group (9%) is higher than the rate currently required by banking regulations (8.625% for 2016); and
- 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, 2016, €1,997 million.

As of December 31, 2016, the capital requirement coverage rate (ratio between the Group's available capital and its capital requirement for insurance and factoring), amounted to 150% [2] compared to 147% at the end of 2015 estimated according to the model applicable under Solvency II.

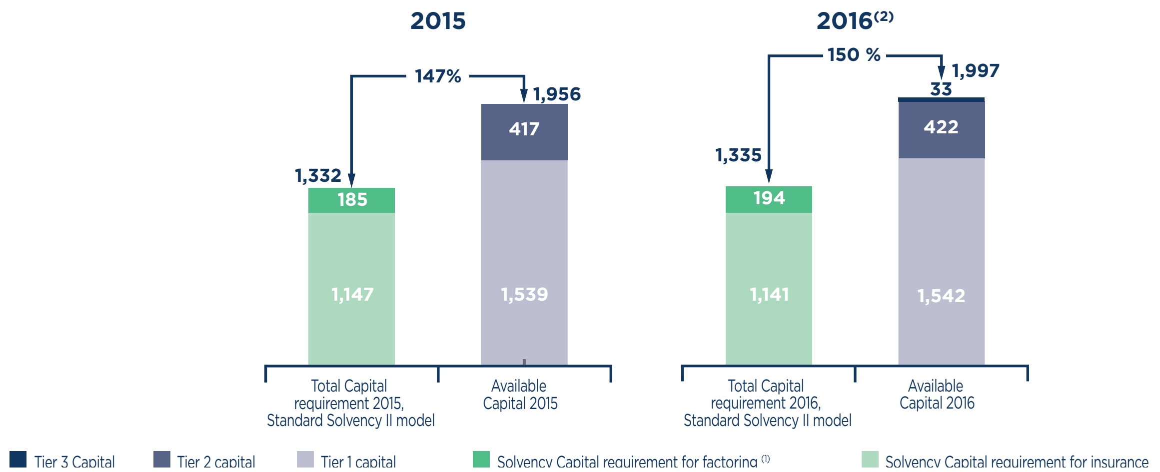
(1) United amount.
(2) Unaudited ratio.

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, 2016 (1)	AS OF DEC. 31, 2015*
Total equity	1,761	1,767
- Goodwill and other intangible assets (net of deferred taxes)	-195	-201
+ Revaluation of provisions using the best estimate method (net of deferred taxes)	147	127
- Consolidation under the equity method of non-consolidated subsidiaries (net of deferred taxes)	-75	-75
+/- Other adjustments**	-43	-3
- Dividend payments	-20	-75
+ Subordinated debt (valued at market value)	422	417
= SOLVENCY II AVAILABLE OWN FUNDS (A)	**1,997**	**1,955**
Capital requirement – Insurance (SCR in standard formula) (B)	1,141	1,147
Capital requirement – Factoring (C)	194	185
STANDARD CAPITAL REQUIREMENT FORMULA (D)=(B)+(C)	**1,335**	**1,332**
SOLVENCY RATIO (E) = (A)/(D)	**150%**	**147%**

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

Solvency II margin



(1) Calculated according to the RWA methodology used by Natixis.
(2) Preliminary calculation. Coface's interpretation of Solvency II. Unaudited.

(1) As the Solvency II Standard formula is interpreted by Coface. Unaudited.

3.5.3 RETURN ON EQUITY (1)

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 2015-2016 period:

(in millions of euros)	AS OF DECEMBER 31	
	2016	2015
Accounting equity (attributable to equity holders of the parent) – A	1,755	1,761
Intangible assets – B	216	224
Tangible equity – C (A -B)	1,539	1,537
Average tangible equity D ($[C_n + C_{n-1}]/2$)	1,538	1,511
Net income (attributable to equity holders of the parent) – E	42	126
RoATE – E/D	2.7%	8.4%

In order to analyze the change in return on equity between 2015 and 2016, this ratio was recalculated based on net income excluding exceptional items:

(in millions of euros)	AS OF DECEMBER 31	
	2016	2015
Accounting equity (attributable to equity holders of the parent) – A	1,755	1,761
Intangible assets – B	216	224
Equity, net of intangible assets, recalculated on the basis of the net income excluding exceptional items – C (A-B+F-E)	1,485	1,518
Average equity, net of intangible assets recalculated on the basis of net income excluding exceptional items- D ($[C_n + C_{n-1}]/2$)	1,502	1,494
Net income (attributable to equity holders of the parent) – E	42	126
Net income (attributable to equity holders of the parent) excluding exceptional items – F	-12*	107*
RoATE excluding exceptional items – F/D	(0.8%)*	7.2%*

* *Excluding exceptional items for the year (Note 30 of the Consolidated financial statements) and excluding the contribution of the public guarantees activity.*

(1) *See also comments on the operating income and the net income in Sections 3.4.5 and 3.5.6.*

3.5.4 OFF-BALANCE SHEET COMMITMENTS

Most of the Group's off-balance sheet commitments concern 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 2015-2016 period:

(in thousands of euros)	DEC. 31, 2016	RELATED TO SCOPE OF ENTITIES	RELATED TO FINANCING	RELATED TO OPERATING ACTIVITY
COMMITMENTS GIVEN	**955,126**		**944,303**	**10,823**
Endorsements 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	**1,170,697**	**0**	**886,936**	**283,761**
Endorsements 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	
Financial commitments in respect of equity interests	2,800			2,800
GUARANTEES RECEIVED	**302,893**	**0**	**0**	**302,893**
Securities lodged as collateral by reinsurers	302,893			302,893
FINANCIAL MARKET TRANSACTIONS	**58,533**			**58,533**

(in thousands of euros)	DEC. 31, 2015	RELATED TO SCOPE OF ENTITIES	RELATED TO FINANCING	RELATED TO OPERATING ACTIVITY
COMMITMENTS GIVEN	**924,417**	**5,569**	**911,348**	**7,500**
Endorsements and letters of credit	909,853		909,853	
Property guarantees	7,500			7,500
Financial commitments in respect of equity interests	5,569	5,569		
Obligations under finance leases	1,495		1,495	
COMMITMENTS RECEIVED	**1,228,810**	**2,776**	**958,900**	**267,134**
Endorsements and letters of credit	121,146			121,146
Guarantees	145,989			145,989
Credit lines linked to commercial paper	600,000		600,000	
Credit lines linked to factoring	358,900		358,900	
Financial commitments in respect of equity interests	2,776	2,776		
GUARANTEES RECEIVED	**409,216**	**0**	**0**	**409,216**
Securities lodged as collateral by reinsurers	409,216			409,216
FINANCIAL MARKET TRANSACTIONS	**55,699**			**55,699**

Endorsements and letters of credit totalling €944,303 thousand for the year ended December 31, 2016 correspond mainly to:

- a joint guarantee of €380,000 thousand in favour of COFACE SA subordinated notes' investors (10 year maturity);
- as well as €554,762 thousand corresponding to the joint guarantee given to the banks financing the factoring business.

Collateral concerning Coface Ré for €191,138 thousand and Compagnie française pour le commerce extérieur for €111,755 thousand.

Credit lines amounted to €600 million for the year ended December 31, 2016, corresponding to the bilateral credit lines set up in the context of the Group's commercial paper issuance programme for €600 million (see Section 3.5.1 "Group debt and sources of financing").

3.6 Events after December 31, 2016

There has been no significant change to the Group's financial or commercial position since December 31, 2016.

Compagnie française d'assurance pour le commerce extérieur received an accounts audit notice on January 10, 2017, issued by the Directorate for National and International Audits [1]. The audit will concern financial years 2014 and 2015.

3.7 Outlook

3.7.1 ECONOMIC ENVIRONMENT [2]

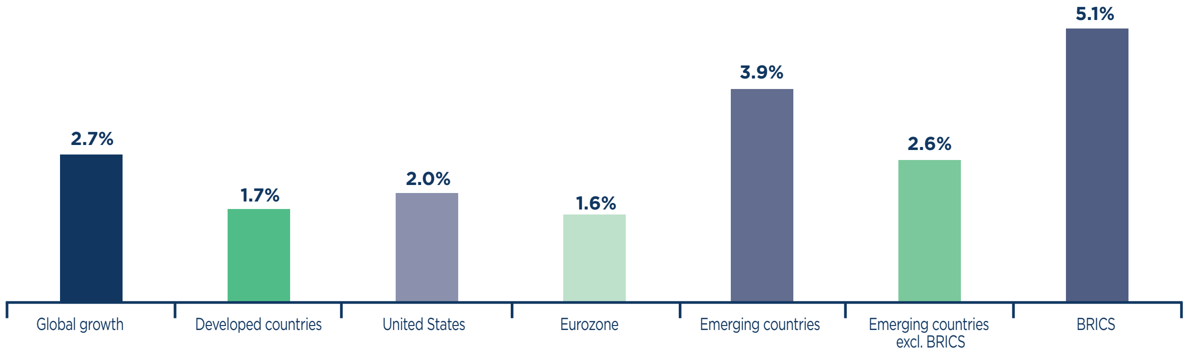
Global growth should be slightly higher in 2017 (2.7%) compared to 2016, thanks to the gradual business recovery in emerging economies (+4.1% after 3.7%) and moderate growth in leading countries (+1.6% after 1.6%).

In 2017, among advanced economies, the United States is likely to report modest growth (1.8%) owing to the adoption of a number of stimulus measures linked to the arrival of Donald Trump at the White House, while activity might be less dynamic in the United Kingdom (1.1%) due to the negative effects of Brexit (loss of confidence, inflation uptick linked to the depreciation of the pound sterling which will negatively impact household spending). Growth in the eurozone is likely to remain stable (1.6%) but marked by more political uncertainty (elections in the Netherlands, France and Germany). Vigorous domestic demand will continue to drive growth in these economies. The factors which supported developed economies in recent years such as low oil price, accommodating monetary policy or again low inflation, should have less of an impact 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, should start to rise. Spain should report sound (+2.3%) but contracted growth compared to the previous year. In Germany, activity is likely to be less buoyant (1.6%), owing to the inflation uptick and arrival of fewer refugees. In France, growth should be stable (1.3%), but investment will continue to struggle to take off while employment would be better orientated, especially more so against a background of uncertainties linked to the presidential elections. In Italy, growth is likely to remain lacklustre (0.8%), with private consumption still penalised by uncertainty and diminished household confidence.

Emerging countries should experience more sustained growth in 2017 than in 2016. This can be primarily explained by the end of the recession in Brazil (0.4%) and Russia (0.8%), especially owing to the gradual rise in commodities prices and greater exchange rate stability. India is likely to continue reporting robust growth (7.5%), despite the demonetisation shock at the end of 2016. However, these improved performances by emerging countries could be limited by weakening activity in China (6.3%): the country will continue to grapple with the same issues this year. As the government is not ready to reduce its support to activity, reducing imbalances does not appear to be a priority as shown by the progression of its non-financial private debt. South Africa is likely to record less dynamic growth (0.8%) than in 2016 owing to the contraction of manufacturing activity, political instability and a volatile rand. The same scenario applies to Mexico (1.5%), penalised by the depreciation of the peso against the dollar (linked in particular to the uncertainty around Donald Trump's politics), which will cause an inflation uptick and tougher monetary policy.

(1) The Directorate for National and International Audit is a national service of the General Directorate of Public Finances.
(2) Group estimates.

GDP GROWTH (as %): 2017 (source Coface)



3.7.2 OUTLOOK FOR THE GROUP

The macro-economic context remains challenging (sluggish growth in advanced countries with greater political uncertainty in the US, the UK and Western Europe, as 2017 is an electoral year in several major countries). However, emerging countries should report more sustained growth in 2017, thanks to the end of the recession in Brazil and Russia, even though growth will be limited by the activity downturn in China.

The Group, therefore, expects a volatile and uncertain economic environment in 2017.

With *Fit to Win*, Coface has set itself the goal of delivering return on average tangible equity (RoATE) of 9% or more throughout the cycle.

Coface is fully focused on executing its strategic plan, and the effects of the initiatives rolled out in this framework should appear gradually.

In 2017, the Group will continue to focus its priorities on implementing its *Fit to Win* strategic plan, while remaining attentive and adapting to the risk environment.

For 2017, Coface expects its loss ratio after reinsurance to decrease below 61%. Coface expects to reap the first fruits of the operational efficiency measures already rolled out in the *Fit To Win* plan and save €10 million in costs in 2017: restructuring investments and expenses should amount to €21 million this year.

3.8 Appendix – Breakdown of the calculation of ratios at December 31, 2016

ADJUSTED NET OPERATING EXPENSES *(in €k)*		NOTES	DEC. 31, 2015	DEC. 31, 2016
Total operating expenses		**27**	**713,226**	**698,758**
Net income from banking activities		24	-70,599	-70,619
Fee and commission income		24	-125,550	-128,795
Other insurance-related services		24	-10,129	-5,882
Information and other services		24	-25,262	-25,170
Receivables management		24	-12,086	-12,330
Remuneration of public procedures management services		24	-59,969	-53,361
of which employee profit-sharing		27	-7,439	-5,118
Investment management expenses		27	-2,124	-2,659
Claims handling expenses		27	-26,460	-25,139
ADJUSTED GROSS OPERATING EXPENSES	C		**373,608**	**369,685**
Commissions paid by reinsurers		28	-92,499	-95,738
ADJUSTED NET OPERATING EXPENSES	F		**281,109**	**273,947**

ADJUSTED NET EARNED PREMIUMS *(in €k)*		NOTES	DEC. 31, 2015	DEC. 31, 2016
Gross earned premiums	A	**24**	**1,185,935**	**1,115,140**
Ceded earned premiums		28	-265,710	-257,539
NET EARNED PREMIUMS	D		**920,225**	**857,601**

ADJUSTED NET CLAIMS EXPENSES *(in €k)*		NOTES	DEC. 31, 2015	DEC. 31, 2016
Gross claims expenses (1)	B	**25**	**605,344**	**705,655**
Ceded claims expenses		28	-123,389	-124,553
Change in claims provisions net of recoveries		28	1,588	-19,649
NET CLAIMS EXPENSES	E		**483,543**	**561,453**

(1) of which claims handling costs

RATIOS	DEC. 31, 2015	DEC. 31, 2016
Loss ratio before reinsurance	51.0%	**63.3%**
Loss ratio after reinsurance	52.5%	**65.5%**
Cost ratio before reinsurance	31.5%	**33.2%**
Cost ratio after reinsurance	30.5%	**31.9%**
Combined ratio before reinsurance	82.5%	**96.4%**
Combined ratio after reinsurance	83.1%	**97.4%**

Gross combined ratio = gross loss ratio $\frac{B}{A}$ **+ gross cost ratio** $\frac{C}{A}$

Gross combined ratio = net loss ratio $\frac{E}{D}$ **+ net cost ratio** $\frac{F}{D}$

3.9 Appendix – investments outside the investment portfolio

The Group mainly invests in property, plant and equipment relating to the organisation or refurbishment of the office properties used, as well as investments in IT equipment or licences. They amounted, excluding deposits, surety bonds and buildings used in the business, to €20.5 million at December 31, 2013 (of which around €15 million linked to the refurbishment of the Group's head office); however, they were immaterial at December 31, 2014. The amounts totalled €7.9 million at December 31, 2015.

During the period ended December 31, 2016, the Group continued with one-off investments relating to its property, plant and equipment in the amount of €8.2 million.