Consolidated financial statements

Preliminary version, unaudited financial statements – under audit
free translation

December, 31 2017

CONTENTS

Consolidated balance sheet 3
Consolidated income statement 5
Consolidated statement of comprehensive income 9
Statement of changes in equity 10
Consolidated statement of cash flows 11
Basis of preparation 12
Significant events 12
Scope of consolidation 13
Accounting principles 19
Note 1. Goodwill 40
Note 2. Other intangible assets 42
Note 3. Insurance business investments 43
Note 4. Receivables arising from banking and other activities 49
Note 5. Investments in associates 50
Note 6. Tangible assets 50
Note 7. Receivables arising from insurance and reinsurance operations 52
Note 8. Other assets 52
Note 9. Cash and cash equivalents 53
Note 10. Share capital 53
Note 11. Share-based payments 54
Note 12. Revaluation reserves 55
Note 13. Provisions for liabilities and charges 56
Note 14. Employee benefits 58
Note 15. Financing liabilities 63
Note 16. Liabilities relating to insurance contracts 64
Note 17. Payables arising from banking sector activities 64
Note 18. Deferred tax 64
Note 19. Payables arising from insurance and reinsurance 66
Note 20. Other liabilities 66
Note 21. Revenue 67
Note 22. Claim expenses 68
Note 23. Overheads by function 69
Note 24. Expenses from banking activities 69
Note 25. Income and expenses from ceded reinsurance 70
Note 26. Investment income, net of management expenses (excluding finance costs) 70
Note 27. Other operating incomes and expenses 71
Note 28. Share in net income of associates 71
Note 29. Income tax expense 72
Note 30. Breakdown of net income by segment 73
Note 31. Earnings per share 76
Note 32. Group's headcount 77
Note 33. Related parties 77
Note 34. Key management compensation 79
Note 35. Breakdown of audit fees 79
Note 36. Off-balance sheet commitments 80
Note 37. Operating leases 81
Note 38. Relationship between parent company and subsidiaries 81
Note 39. Events after the reporting period 81
Note 40. Risk management 82

Consolidated balance sheet

(in thousands of euros)

ASSETS	Notes	Dec. 31, 2017	Dec. 31, 2016
Intangible assets		**217,230**	**215,708**
Goodwill	1	155,082	156,214
Other intangible assets	2	62,148	59,494
Insurance business investments	3	**2,876,380**	**2,751,091**
Investment property	3	288	787
Held-to-maturity securities	3	1,852	2,740
Available-for-sale securities	3	2,743,385	2,593,953
Trading securities	3	30,111	69,696
Derivatives	3	9,383	2,975
Loans and receivables	3	91,361	80,940
Receivables arising from banking and other activities	4	**2,523,549**	**2,481,525**
Investments in associates	5	**15,780**	**13,411**
Reinsurers' share of insurance liabilities	16	**405,178**	**341,347**
Other assets		**920,776**	**926,344**
Buildings used in the business and other property, plant and equipment	6	54,679	57,484
Deferred acquisition costs	8	43,903	46,393
Deferred tax assets	18	79,516	71,973
Receivables arising from insurance and reinsurance operations	7	494,839	528,273
Trade receivables arising from other activities	8	47,640	14,849
Current tax receivables	8	60,286	69,126
Other receivables	8	139,913	138,246
Cash and cash equivalents	9	**264,325**	**332,071**
TOTAL ASSETS		**7,223,218**	**7,061,497**

(in thousands of euros)

EQUITY AND LIABILITIES	Notes	Dec. 31, 2017	Dec. 31, 2016
Equity attributable to owners of the parent		**1,802,621**	**1,755,177**
Share capital	**10**	314,496	314,496
Additional paid-in capital		810,420	810,420
Retained earnings		518,361	501,734
Other comprehensive income		76,131	86,996
Consolidated net income for the year		83,213	41,531
Non-controlling interests		**160**	**5,490**
Total equity		**1,802,781**	**1,760,667**
Provisions for liabilities and charges	**13**	**121,716**	**151,074**
Financing liabilities	**15**	**388,234**	**390,044**
Liabilities relating to insurance contracts	**16**	**1,682,258**	**1,678,249**
Payables arising from banking sector activities	**17**	**2,527,716**	**2,409,691**
Amounts due to banking sector companies	**17**	568,711	452,144
Amounts due to customers of banking sector companies	**17**	322,064	366,363
Debt securities	**17**	1,636,941	1,591,184
Other liabilities		**700,513**	**671,772**
Deferred tax liabilities	**18**	113,595	104,500
Payables arising from insurance and reinsurance operations	**19**	204,730	191,911
Current taxes payable	**20**	76,996	110,847
Derivative instruments with a negative fair value	**20**	267	7,508
Other payables	**20**	304,925	257,006
TOTAL EQUITY AND LIABILITIES		**7,223,218**	**7,061,497**

Consolidated income statement

(in thousands of euros)

	Notes	Dec. 31, 2017	Dec. 31, 2016
Gross written premiums		*1,219,612*	*1,202,440*
Premium refunds		*(98,954)*	*(92,876)*
Net change in unearned premium provisions		*(10,961)*	*5,576*
Earned premiums	**21**	**1,109,697**	**1,115,140**
Fee and commission income		*128,914*	*128,795*
Net income from banking activities		*72,043*	*70,619*
Income from other activities		*44,279*	*96,743*
Other revenue	**21**	**245,236**	**296,157**
Revenue		**1,354,933**	**1,411,297**
Claims expenses	**22**	**(570,863)**	**(705,655)**
Policy acquisition costs	*23*	*(262,607)*	*(255,289)*
Administrative costs	*23*	*(253,532)*	*(275,095)*
Other insurance activity expenses	*23*	*(70,816)*	*(83,004)*
Expenses from banking activities, excluding cost of risk	*23 / 24*	*(13,779)*	*(13,193)*
Expenses from other activities	*23*	*(53,130)*	*(44,379)*
Operating expenses	**23**	**(653,864)**	**(670,960)**
Risk cost	**24**	**(4,483)**	**(4,222)**
UNDERWRITING INCOME BEFORE REINSURANCE		**125,723**	**30,460**
Income and expenses from ceded reinsurance	25	(25,970)	(17,599)
UNDERWRITING INCOME AFTER REINSURANCE		**99,753**	**12,861**
Investment income, net of management expenses (excluding finance costs)	26	55,281	48,032
CURRENT OPERATING INCOME		**155,034**	**60,893**
Other operating income and expenses	27	(589)	53,496
OPERATING INCOME		**154,445**	**114,389**
Finance costs		(18,109)	(18,373)
Share in net income of associates	28	2,369	(5,838)
Income tax expense	29	(55,651)	(48,124)
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS		**83,054**	**42,054**
Non-controlling interests		159	(523)
NET INCOME FOR THE YEAR		**83,213**	**41,531**
Earnings per share (€)	31	0.53	0.26
Diluted earnings per share (€)	31	0.53	0.26

The group has changed the structure of the consolidated income statement to provide more consistency between the financial statements and the published and commented aggregates in financial communications.

1. Reorganization of information on the **composition of turnover**
2. Elimination of subtotals that are not commented on in financial communications
3. Addition of **subtotals** facilitating **understanding of cost ratio calculation** (IAP)
4. And which are **commented in financial communications** (management report, presentations)

Old presentation

	31/12/16
Revenue	**1 411 297**
Gross written premiums	1 202 440
Premium refunds	-92 876
Net change in unearned premium provisions	5 576
Earned premiums	**1 115 140**
Fee and commission income	**128 795**
Net income from banking activities	**70 619**
Cost of risk	-4 222
Revenue or income from other activities	**96 743**
Investment income, net of management expenses	*46 927*
Gains and losses on disposals of investments	*1 105*
Investment income, net of management expenses (excluding finance costs)	**48 032**
Total revenue and income from ordinary activities	**1 455 107**
Claims expenses	-705 655
Expenses from banking activities, excluding cost of risk	-13 193
Expenses from other activities	-44 379
Income from ceded reinsurance	*239 940*
Expenses from ceded reinsurance	*-257 539*
Income and expenses from ceded reinsurance	-17 599
Policy acquisition costs	-255 289
Administrative costs	-275 095
Other current operating expenses	-83 004
Total current income and expenses	**-1 394 214**
CURRENT OPERATING INCOME	**60 893**
Other operating expenses	-54 945
Other operating income	108 441
OPERATING INCOME	**114 389**
Finance costs	-18 373
Share in net income of associates	-5 838
Income tax expense	-48 124
NET INCOME FROM CONTINUING OPERATIONS	**42 054**
Net income from discontinued operations	0
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTEREST$	**42 054**
Non-controlling interests	-523
NET INCOME FOR THE YEAR	**41 531**
Earnings per share (€)	0,26
Diluted earnings per share (€)	0,26

New presentation

	31/12/16
Gross written premiums	*1 202 440*
Premium refunds	*-92 876*
Net change in unearned premium provisions	*5 576*
Earned premiums	**1 115 140**
Fee and commission income	*128 795*
Net income from banking activities	*70 619*
Income from other activities	*96 743*
Other revenue	**296 157**
Revenue	**1 411 297**
Claims expenses	**-705 655**
Policy acquisition costs	*-255 289*
Administrative costs	*-275 095*
Other insurance activity expenses	*-83 004*
Expenses from banking activities, excluding cost of risk	*-13 193*
Expenses from other activities	*-44 379*
Operating expenses	**-670 960**
Risk cost	**-4 222**
UNDERWRITING INCOME BEFORE REINSURANCE	**30 460**
Income and expenses from ceded reinsurance	-17 599
UNDERWRITING INCOME AFTER REINSURANCE	**12 861**
Investment income, net of management expenses	*46 927*
Gains and losses on disposals of investments	*1 105*
Investment income, net of management expenses (excluding finance costs)	48 032
CURRENT OPERATING INCOME	**60 893**
Other operating income and expenses	53 496
OPERATING INCOME	**114 389**
Finance costs	-18 373
Share in net income of associates	-5 838
Income tax expense	-48 124
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS	**42 054**
Non-controlling interests	-523
NET INCOME FOR THE YEAR	**41 531**
Earnings per share (€)	0,26
Diluted earnings per share (€)	0,26

Detailed description of the changes

References to the quoted lines, aggregates and subtitles are illustrated in Figures 1 and 2 below (for example, the turnover aggregate is referenced [ix]).

- The agregate « Revenue » [ix] has been organized in order to sum the two subtotal (« Earned premiums » [iv], « Other revenue » [viii]) and so that the subtotal presented corresponds to the sum of the lines located before it 1 ; The lines "Fee and commission income", "Net income from banking activities" and "Income from other activities" are part of a new aggregate entitled "Other Revenue" [VIII] 3.

- The line « Risk cost » [xvii], which is not included in the calculation of turnover, is shifted lower in the income statement. 1.

- The line « Revenue or income from other activities » [vii] is renamed « Income from other activities » [vii] 1.

- The agregate « Investment income, net of management expenses (excluding finance costs) » [XXIII] and the two lines that are included in its calculation ("Investment income, net of management expenses" [XXI] and "Gains and losses on disposals of investments" [XXII]) are shifted lower in the income statement 4.

- The subtotals entitled "Total revenue and income from ordinary activities" and "Total current income and expenses" not being commented in the group's financial communications are no longer displayed 2.

- The agregate « Income and expenses from ceded reinsurance » [xix] is shifted lower in the income statement 4 ; the two lines in its calculation ("Income from ceded reinsurance" [XIX '] and " Expenses from ceded reinsurance" [XIX ' ']) are detailed in a note to the accounts and are no longer displayed in the income statement.

- The presentation of the expenses has been changed 3 :

- the lines « Expenses from banking activities, excluding cost of risk » [xiv] et « Expenses from other activities » [xv] are shifted to the bottom ;
- the lines « Policy acquisition costs » [xi], « Administrative costs » [xii] et « Other current operating expenses » [xiii] are shifted to the top; the line « Other current operating expenses » [xiii] is renamed « Other insurance activity expenses » [xiii] ;
- the all components included in the calculation of Cost Ratio forms the new aggregate entitled « Operating expenses » [xvi].

- The subtotal « Underwriting income before reinsurance » [xviii] and « Underwriting income after reinsurance » [xx] commented in the group's financial communications are added to the income statement [4].

The following figure shows Coface's income statement 2016 according to the new structure adopted from the year ended 31 December 2017.

***Figure 1** New presentation of Coface's Income Statement*

(in thousands of euros)

Reference		31/12/16
i	*Gross written premiums*	*1,202,440*
ii	*Premium refunds*	*(92,876)*
iii	*Net change in unearned premium provisions*	*5,576*
iv = i + ii + iii	**Earned premiums**	**1,115,140**
v	*Fee and commission income*	*128,795*
vi	*Net income from banking activities*	*70,619*
vii	*Income from other activities*	*96,743*
viii = v + vi + vii	**Other revenue**	**296,157**
ix = iv + viii	**Revenue**	**1,411,297**
x	**Claims expenses**	**(705,655)**
xi	*Policy acquisition costs*	*(255,289)*
xii	*Administrative costs*	*(275,095)*
xiii	*Other insurance activity expenses*	*(83,004)*
xiv	*Expenses from banking activities, excluding cost of risk*	*(13,193)*
xv	*Expenses from other activities*	*(44,379)*
xvi = xi + xii + xiii + xiv + xv	**Operating expenses**	**(670,960)**
xvii	**Risk cost**	**(4,222)**
xviii = ix + x + xvi + xvii	**UNDERWRITING INCOME BEFORE REINSURANCE**	**30,460**
xix = xix' + xix"	Income and expenses from ceded reinsurance	*(17,599)*
xx = xviii + xix	**UNDERWRITING INCOME AFTER REINSURANCE**	**12,861**
xxi	*Investment income, net of management expenses*	*46,927*
xxii	*Gains and losses on disposals of investments*	*1,105*
xxiii = xxi + xxii	Investment income, net of management expenses (excluding finance costs)	*48,032*
xxiv	**CURRENT OPERATING INCOME**	**60,893**
xxv = xxv' + xxv"	Other operating income and expenses	*53,496*
xxvi = xxiv + xxv	**OPERATING INCOME**	**114,389**
xxvii	Finance costs	*(18,373)*
xxviii	Share in net income of associates	*(5,838)*
xxix	Income tax expense	*(48,124)*
xxx = xxvi + xxvii + xxviii + xxix	**CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS**	**42,054**
xxxi	Non-controlling interests	*(523)*
xxxii	**NET INCOME FOR THE YEAR**	**41,531**
xxxiii	Earnings per share (€)	0.26
xxxiv	Diluted earnings per share (€)	0.26

Note on the " Income and expenses from ceded reinsurance " [xix]: The lines " Income from ceded reinsurance" [xix'] and " Expenses from ceded reinsurance" [xix''], the sum of which forms the " Income and expenses from ceded reinsurance " [xix] and which are detailed in a note, are no longer displayed in the income statement.

Figure 2 *Old presentation of Coface's Income Statement*

(in thousands of euros)

Reference		31/12/16
ix = iv + viii	**Revenue**	**1,411,297**
i	Gross written premiums	1,202,440
ii	Premium refunds	(92,876)
iii	Net change in unearned premium provisions	5,576
iv = i + ii + iii	**Earned premiums**	**1,115,140**
v	**Fee and commission income**	**128,795**
vi	**Net income from banking activities**	**70,619**
xvii	Cost of risk	(4,222)
vii	**Revenue or income from other activities**	**96,743**
xxi	*Investment income, net of management expenses*	*46,927*
xxii	*Gains and losses on disposals of investments*	*1,105*
xxiii = xxi + xxii	Investment income, net of management expenses (excluding finance costs)	**48,032**
ix + xvii + xxiii	**Total revenue and income from ordinary activities**	**1,455,107**
x	Claims expenses	(705,655)
xiv	Expenses from banking activities, excluding cost of risk	(13,193)
xv	Expenses from other activities	(44,379)
xix'	*Income from ceded reinsurance*	*239,940*
xix''	*Expenses from ceded reinsurance*	*(257,539)*
xix = xix' + xix''	Income and expenses from ceded reinsurance	(17,599)
xi	Policy acquisition costs	(255,289)
xii	Administrative costs	(275,095)
xiii	Other current operating expenses	(83,004)
x + xiv + xv + xix + xi + xii + xiii	**Total current income and expenses**	**(1,394,214)**
xxiv	**CURRENT OPERATING INCOME**	**60,893**
xxv'	Other operating expenses	(54,945)
xxv''	Other operating income	108,441
xxvi = xxiv + xxv	**OPERATING INCOME**	**114,389**
xxvii	Finance costs	(18,373)
xxviii	Share in net income of associates	(5,838)
xxix	Income tax expense	(48,124)
xxvi + xxvii + xxviii + xxix	**NET INCOME FROM CONTINUING OPERATIONS**	**42,054**
	Net income from discontinued operations	(0)
xxx = xxvi + xxvii + xxviii + xxix	**CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTERESTS**	**42,054**
xxxi	Non-controlling interests	(523)
xxxii	**NET INCOME FOR THE YEAR**	**41,531**
xxxiii	Earnings per share (€)	0.26
xxxiv	Diluted earnings per share (€)	0.26

Consolidated statement of comprehensive income

(in thousands of euros)	Notes	Dec 31, 2017	Dec 31, 2016
Net income for the period		**83,213**	**41,531**
Non-controlling interests		(159)	523
Other comprehensive income			
Currency translation differences reclassifiable to income		**(19,233)**	**12,413**
Reclassified to income			
Recognised in equity		(19,233)	12,413
Fair value adjustments on available-for-sale financial assets	3;12;18	**6,646**	**20,727**
Recognised in equity – reclassifiable to income – gross		23,002	29,751
Recognised in equity – reclassifiable to income – tax effect		(7,840)	(9,602)
Reclassified to income – gross		(11,201)	1,906
Reclassified to income – tax effect		2,685	(1,328)
Fair value adjustments on employee benefit obligations	3;12;18	**(797)**	**(5,378)**
Recognised in equity – not reclassifi able to income – gross		1,024	(7,811)
Recognised in equity – not reclassifi able to income – tax effect		(1,821)	2,433
Other comprehensive income for the period, net of tax		**(13,384)**	**27,762**
Total comprehensive income for the period		**69,670**	**69,816**
- attributable to owners of the parent		70,011	69,654
- attributable to non-controlling interests		(341)	162

Statement of changes in equity

(in thousands of euros)	Notes	Share capital	Premiums	Consolidated reserves	Treasury shares	Other comprehensive income			Net income for the period	Equity attributable to owners of the parent	Non-controlling interests	Total equity
						Foreign currency translation reserve	Reclassifiable revaluation reserves	Non-reclassifiable revaluation reserves				
Equity at December 31, 2015		786,241	347,371	444,874	(2,643)	(18,002)	94,278	(17,404)	126,239	1,760,954	6,073	1,767,027
Reduction of the value of the shares		(471,745)	471,745									
2015 net income to be appropriated				126,239					(126,239)			
Payment of 2015 dividends in 2016			(8,696)	(66,616)						(75,312)	(771)	(76,083)
Total transactions with owners		**(471,745)**	**463,049**	**59,623**					**(126,239)**	**(75,312)**	**(771)**	**(76,083)**
December 31, 2016 net income									41,531	41,531	523	42,054
Fair value adjustments on available-for-sale financial assets recognized in equity							20,745			20,745	(596)	20,149
Fair value adjustments on available-for-sale financial assets reclassified to income							578			578		578
Change in actuarial gains and losses (IAS 19R)								(5,378)		(5,378)		(5,378)
Currency translation differences						12,179				12,179	234	12,413
Treasury shares elimination					(327)					(327)		(327)
Free share plans expenses				207						207		207
Transactions with shareholders											27	27
Equity at December 31, 2016		314,496	810,420	504,704	(2,970)	(5,823)	115,601	(22,782)	41,531	1,755,177	5,490	1,760,667
2016 net income to be appropriated				41,531					(41,531)			
Payment of 2016 dividends in 2017				(20,398)						(20,398)		(20,398)
Total transactions with owners				**21,133**	**(0)**	**(0)**	**(0)**	**(0)**	**(41,531)**	**(20,398)**		**(20,398)**
June 30, 2017 net income									83 213	83,213	(159)	83,054
Fair value adjustments on available-for-sale financial assets recognized in equity	3;12;14;18						15,162			15,162	(1)	15,161
Fair value adjustments on available-for-sale financial assets reclassified to income	3;12;14;18						(8,514)			(8,514)	(1)	(8,515)
Change in actuarial gains and losses (IAS 19R)								(797)		(797)		(797)
Currency translation differences						(19,052)				(19,052)	(181)	(19,233)
Treasury shares elimination					(1,696)					(1,696)		(1,696)
Free share plans expenses				695						695		695
Transactions with shareholders				(3,505)		(38)	2,374			(1,169)	(4,988)	(6,157)
Equity at December 31, 2017		**314,496**	**810,420**	**523,027**	**(4,666)**	**(24,913)**	**124,623**	**(23,579)**	**83,213**	**1,802,621**	**160**	**1,802,781**

Consolidated statement of cash flows

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Net income for the period	**83,213**	**41,531**
Non-controlling interests	(159)	523
Income tax expense	55,651	48,124
+/- Share in net income of associates	(2,369)	5,838
Finance costs	18,109	18,373
Operating income (A)	**154,445**	**114,389**
+/- Depreciation, amortization and impairment losses	(11,742)	51,148
+/- Net additions to/reversals from technical provisions	26,362	140,474
+ Dividends received from associates	(0)	1,008
+/- Unrealized foreign exchange income / loss	(2,898)	8,340
+/- Non-cash items	615	37,896
Total non-cash items (B)	***12,336***	***238,866***
Gross cash flows from operations (C) = (A) + (B)	***166,780***	***353,255***
Change in operating receivables and payables	14,964	(60,418)
Net taxes paid	(47,699)	(89,060)
Net cash related to operating activities (D)	***(32,735)***	***(149,478)***
Increase (decrease) in receivables arising from factoring operations	(24,117)	(117,473)
Increase (decrease) in payables arising from factoring operations	1,458	(59,736)
Increase (decrease) in factoring liabilities	99,343	106,219
Net cash generated from banking and factoring operations (E)	***76,684***	***(70,990)***
Net cash generated from operating activities (F) = (C+D+E)	210,730	132,787
Acquisitions of investments	(1,531,312)	(1,608,009)
Disposals of investments	1,331,927	1,510,745
Net cash used in movements in investments (G)	***(199,385)***	***(97,264)***
Acquisitions of consolidated subsidiaries, net of cash acquired	(6,500)	
Disposals of consolidated companies, net of cash transferred		
Net cash used in changes in scope of consolidation (H)	***(6,500)***	
Disposals of property, plant and equipment and intangible assets	(18,085)	(8,210)
Acquisitions of property, plant and equipment and intangible assets	2,045	250
Net cash generated from (used in) acquisitions and disposals of property, plant and equipment and intangible assets (I)	***(16,040)***	***(7,960)***
Net cash used in investing activities (J) = (G+H+I)	(221,925)	(105,224)
Proceeds from the issue of equity instruments		
Treasury share transactions	(1,696)	(327)
Dividends paid to owners of the parent	(20,398)	(75,312)
Dividends paid to non-controlling interests		
Cash flows related to transactions with owners	***(22,114)***	***(76,410)***
Proceeds from the issue of debt instruments		
Cash used in the redemption of debt instruments	(2,290)	(2,882)
Interests paid	(17,583)	(17,911)
Cash flows related to the financing of Group operations	***(19,873)***	***(20,793)***
Net cash generated from (used in) financing activities (K)	(41,987)	(97,203)
Impact of changes in exchange rates on cash and cash equivalents (L)	(14,564)	4,874
Net increase in cash and cash equivalents (F+J+K+L)	(67,746)	(64,766)
Net cash generated from operating activities (F)	210,730	132,787
Net cash used in investing activities (J)	(221,925)	(105,224)
Net cash generated from (used in) financing activities (K)	(41,987)	(97,203)
Impact of changes in exchange rates on cash and cash equivalents (L)	(14,564)	4,874
Cash and cash equivalents at beginning of period	**332,071**	**396,837**
Cash and cash equivalents at end of period	**264,325**	**332,071**
Net change in cash and cash equivalents	(67,746)	(64,766)

Basis of preparation

These IFRS consolidated financial statements of the Coface Group as at December 31st, 2017 are established in accordance with the International Financial Reporting Standards (IFRS) as published by the IASB and as adopted by the European Union[1]. They are detailed in the note "Accounting principles" of the present consolidated financial statements as at December 31st, 2017.

They are presented with comparative financial information at December 31st, 2016.

These IFRS consolidated financial statements for the year ended December 31st, 2017 have been reviewed by the Coface Group's Board of Directors on February 12th, 2018.

Significant events

Coface Central Europe Holding: minority interests buyout

Coface now holds the entire share capital of its subsidiary Coface Central Europe Holding, following the acquisition of 25% held since 1990 by KSV1870, the Austrian specialist in debt collection and corporate information. Shares were acquired on March 27th, 2017 for an amount of €6.5 million.

Tax audit in France

The Compagnie Française d'Assurance pour le Commerce Extérieur received an account verification notice on January 10th, 2017, issued by the Direction des vérifications nationales et internationales. The audit covers the 2014 and 2015 fiscal years. The impact of the tax assessment amounts to € 12 millions recorded in the income statement of the year 2017. Moreover, an income tax income for € 2.6 millions is recorded for refunds of the 3% taxes already paid.

Social agreements signature in France and Germany

In France, a new framework agreement was signed on May 17th, 2017 with employee representative bodies.This agreement provides for the setting up, starting in January 2018, a working time organization more in line with market practices and taking better account of the group social and economic issues.

In Germany, the voluntary redundancy plan, which was presented last November to the employee representative bodies, was signed on May 10th 2017.

This plan resulted in an accrual constitution for restructuring recorded in the accounts closed at December 31th, 2016.

Establishment of a syndicated line of credit

As part of the refinancing of its factoring business, COFACE SA signed on July 28th 2017, with a group of partner banks, the setting up of a €700 million syndicated loan in euros. This credit replaces existing bilateral credit lines.

Coface relies on a panel of 6 relational banks: Natixis, Société Générale, BNP Paribas, Crédit Agricole CIB, acting as mandated arrangers and bookkeepers, HSBC and BRED acting as mandated arrangers. Natixis acts as documentation agent and Société Générale as a facility agent. The credit is set up for a 3 years period with two extension options of one year each, on initiative of the lenders.

This transaction enables the Group to improve its financial flexibility and extend its maturity refinancing, while taking advantage of favorable market conditions and strengthening relations with its leading banks, thereby confirming their medium-term commitment from Coface.

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[1] The standards adopted by the European Union can be consulted on the website of the European Commission at: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en#ifrs-financial-statements

Securitization program renewal

As part of the refinancing of its factoring activities, the Group renewed in advance its entire securitization program of €1,195 million for a five-year period. This renewal allows the Group to sustain a significant and competitive source of refinancing for another five years while strengthening relationships with its leading banking partners.

Scope of consolidation

Change in the scope of consolidation in 2017

First-time consolidation

Coface now holds the entire share capital of its subsidiary Coface Central Europe Holding, following the acquisition of 25% held since 1990 by KSV1870, the Austrian specialist in debt collection and corporate information. For the Central Europe region, it concerns Coface Central Europe Holding, Coface Poland CMS and Coface Romania CMS entities, which are now consolidated at 100% interest.

Moreover, Fonds Colombes 3 quatter mutual fund (Fonds Communs de Placement or FCP) owned by Coface Europe and Lausanne 3 Bis owned by Coface Ré were created during the 1st quarter 2017.

Exit from consolidation scope

Fonds Colombes 5 mutual fund (Fonds Communs de Placement or FCP) owned by Coface Europe were dissolved during the 3rd quarter 2017.

Special purpose entities

SPEs used for the credit insurance business

Coface's credit enhancement operations consist of insuring, via a special purpose entity (SPE), receivables securitised by a third party through investors, for losses in excess of a predefined amount. In this type of operation, Coface has no role whatsoever in determining the SPE's activity or its operational management. The premium received on the insurance policy represents a small sum compared to all the benefits generated by the SPE, the bulk of which flow to the investors.
Coface does not sponsor securitisation arrangements. It plays the role of mere service provider to the special purpose entity by signing a contract with the SPE. In fact, Coface holds no power over the relevant activities of the SPEs involved in these arrangements (selection of receivables in the portfolio, receivables management, etc.). No credit insurance SPEs were consolidated within the financial statements at December 31, 2015.

SPEs used for financing operations

Since 2012, Coface has put in place an alternative refinancing solution to the liquidity line granted by Natixis for the Group's factoring business in Germany and Poland (SPEs used for financing operations).
Under this solution, every month, Coface Finanz – a Group factoring company – sells its factored receivables to a French SPV (special purpose vehicle), the FCT Vega securitisation fund. The sold receivables are covered by credit insurance provided by Coface Deutschland (formerly Coface Kreditversicherung AG).
The securitisation fund acquires the receivables at their nominal value less a discount (determined on the basis of the portfolio's past losses and refinancing costs). To obtain refinancing, the fund issues (i) senior units to the conduits (one conduit per bank) which in turn issue ABCP (asset-backed commercial paper) on the market, and (ii) subordinated units to Coface Factoring Poland. The Coface Group holds control over the relevant activities of the FCT.
The FCT Vega securitisation fund is consolidated in the Group financial statements.

SPEs used for investing operations

The "Colombes" mutual funds were set up in 2013 to centralise the management of the Coface Group's investments. The administrative management of these funds has been entrusted to Amundi, and Caceis has been selected as custodian and asset servicing provider.

The European branches of Compagnie Française d'Assurance pour le commerce extérieur , which do not have any specific local regulatory requirements, participate in the centralized management of their assets, set up by the Compagnie française d'assurance pour le commerce extérieur. They receive a share of the global result resulting from the application of an allocation key representing the risks subscribed by each branch and determined by the technical accruals.
Fonds Lausanne was created in 2015 in order to allow to Coface Ré to subcribe to parts in investment funds, the management is delegated to Amundi, the custodian is Caceis Switzerland and the asset servicing provider is Caceis.

The three criteria established by IFRS 10 for consolidation of the FCP Colombes and FCP Lausanne funds are met. Units in dedicated mutual funds (UCITS) have been included in the scope of consolidation and are fully consolidated. They are wholly-controlled by the Group.
All of Coface entities are consolidated by full integration method, except Cofacredit consolidated by equity method.

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2017	Interest Dec. 31, 2017	Control Dec. 31, 2016	Interest Dec. 31, 2016
Northern Europe						
Germany	Coface, Niederlassung in Deutschland (ex Coface Kreditversicherung) Isaac – Fulda – Allee 1 55124 Mainz	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Germany	Coface Finanz GmbH Isaac – Fulda – Allee 1 55124 Mainz	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Debitorenmanagement GmbH Isaac – Fulda – Allee 1 55124 Mainz	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Rating Holding GmbH Isaac – Fulda – Allee 1 55124 Mainz	Full	100,00%	100,00%	100,00%	100,00%
Germany	Coface Rating GmbH Isaac – Fulda – Allee 1 55124 Mainz	Full	100,00%	100,00%	100,00%	100,00%
Germany	Kisselberg Isaac-Fulda-Allee 1 55124 Mainz	Full	100,00%	100,00%	100,00%	100,00%
Germany	Fct Vega (Fonds de titrisation) 41 rue Délizy 93500 Pantin	Full	100,00%	100,00%	100,00%	100,00%
Country Bas	Coface Nederland Services STADIONSTRAAT 20 4815 NG Breda	Full	100,00%	100,00%	100,00%	100,00%
Netherlands	Coface Nederland Claudius Prinsenlaan 126 4815 NG Breda	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Denmark	Coface Danmark 11C Jens Ravnsvej 7100 Vejle	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Sweden	Coface Sverige Kungsgatan 33 111 56 Stockholm	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Western Europe						
France	COFACE SA 1 Place Costes et Bellonte 92 270 Bois-Colombes	Parent company	100,00%	100,00%	100,00%	100,00%
France	Compagnie française d'assurance pour le commerce extérieur 1 Place Costes et Bellonte 92 270 Bois-Colombes	Full	100,00%	100,00%	100,00%	100,00%
France	Cofacredit Tour D2 - 17 bis place des reflets 92988 Paris la Défense cedex	Equity method	36,00%	36,00%	36,00%	36,00%
France	Cofinpar 1 Place Costes et Bellonte 92 270 Bois-Colombes	Full	100,00%	100,00%	100,00%	100,00%
France	Cogeri Place Costes et Bellonte 92 270 Bois-Colombes	Full	100,00%	100,00%	100,00%	100,00%
France	Fimipar 1 Place Costes et Bellonte 92 270 Bois-Colombes	Full	100,00%	100,00%	100,00%	100,00%

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2017	Interest Dec. 31, 2017	Control Dec. 31, 2016	Interest Dec. 31, 2016
Western Europe						
France	Fonds Colombes 2 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 2 bis 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 bis 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 ter 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 3 quater 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	-	-
France	Fonds Colombes 4 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 4 bis 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 5 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
France	Fonds Colombes 6 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
Belgium	Coface Belgium Services Holding 100 Boulevard du Souverain 1170 Bruxelles	Full	100,00%	100,00%	100,00%	100,00%
Belgium	Coface Belgique 100, Boulevard du Souverain B-1170 Bruxelles (Watermael-Boitsfort)	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Luxembourg	Coface Luxembourg 2, Route d'Arlon L-8399 Windhof (Koerich) Luxembourg	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Switzerland	Coface Suisse Rue Belle-Fontaine 18 1003 Lausanne	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Switzerland	Coface Ré Rue Belle-Fontaine 18 1003 Lausanne	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 2 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 2 bis 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 3 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	100,00%	100,00%
Switzerland	Fonds Lausanne 3 bis 90, Boulevard Pasteur 75015 Paris	Full	100,00%	100,00%	-	-
UK	Coface UK Holdings Egale 1, 80 St Albans Rd. Watford Hertfordshire. WD17 1RP	Full	100,00%	100,00%	100,00%	100,00%
UK	Coface UK Services Egale 1, 80 St Albans Rd. Watford Hertfordshire. WD17 1RP	Full	100,00%	100,00%	100,00%	100,00%
UK	Coface UK Egale 1, 80 St Albans Rd. Watford Hertfordshire. WD17 1RP	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Ireland	Coface Ireland Unit 5, Adelphi House. Upper George's Street Dun Laoghaire - Co Dublin	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2017	Interest Dec. 31, 2017	Control Dec. 31, 2016	Interest Dec. 31, 2016
Central Europe						
Austria	Coface Austria Kreditversicherung Service GmbH Marxergasse 4c 1030 Vienna	Full	100,00%	100,00%	100,00%	100,00%
Austria	Coface Central Europe Holding AG Marxergasse 4c 1030 Vienna	Full	100,00%	100,00%	74,99%	74,99%
Austria	Compagnie francaise d´assurance pour le Commerce Exterieur SA Niederlassung Austria Marxergasse 4c 1030 Vienna	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Hungary	Compagnie francaise d´assurance pour le commerce extérieur Hungarian Branch Office Váci út 45. H/7 1134 Budapest	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Poland	Coface Poland Credit Management Services Sp. z o.o. Al. Jerozolimskie 142 A, 02-305 Warszawa	Full	100,00%	100,00%	100,00%	74,99%
Poland	Coface Poland Factoring Sp. z o.o. Al. Jerozolimskie 142 A, 02-305 Warszawa	Full	100,00%	100,00%	100,00%	100,00%
Poland	Compagnie francaise d'assurance pour le commerce exterieur Spółka Akcyjna Oddział w Polsce Al. Jerozolimskie 142 A, 02-305 Warszawa	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Czech Republic	Compagnie francaise d'assurance pour le commerce exterieur organizační složka Česko I.P. Pavlova 5 120 00 Praha 2	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Romania	Coface Romania CMS Street Pipera number 42, Floor 6, Sector 2, 020112, Bucuresti	Full	100,00%	100,00%	100,00%	74,99%
Romania	Compagnie francaise d'assurance pour le commerce exterieur S.A. Bois - Colombes – Sucursala Bucuresti Street Pipera number 42, Floor 6, Sector 2, 020112, Bucuresti	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Slovakia	Compagnie francaise d´assurance pour le commerce extérieur, pobočka poisťovne z iného členského štátu Šoltésovej 14 811 08 Bratislava	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Lithuanie	Compagnie Francaise d'Assurance pour le Commerce Exterieur Lietuvos filialas A. Tumeno str. 4 Vilnius	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Latvia	Coface Latvia Insurance Berzaunes iela 11a LV-1039 Riga	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Bulgaria	Compagnie Francaise d'Assurance pour le Commerce Exterieur SA – Branch Bulgaria 42 Petar Parchevich Str. 1000 Sofia	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Russia	CJSC Coface Rus Insurance Company 23-1, 1st Tverskaya-Yamskaya str. 125047 Moscow	Full	100,00%	100,00%	100,00%	100,00%

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2017	Interest Dec. 31, 2017	Control Dec. 31, 2016	Interest Dec. 31, 2016
Mediterranean & Africa						
Italy	Coface Italy (Succursale) Via Giovanni Spadolini 4 20141 Milan	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Italy	Coface ITALIA Via Giovanni Spadolini 4 20141 Milan	Full	100,00%	100,00%	100,00%	100,00%
Israel	Coface ISRAEL 23 Bar Kochva st, Bnei Brak 5126002 PB 76	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Israel	Coface Holding Israel 11 Ben Gurion st, Bnei Brak 5126015 Bnei Brak	Full	100,00%		100,00%	
Israel	BDI – Coface (business data Israel) 11 Ben Gurion st, Bnei Brak 5126015 Bnei Brak	Full	100,00%		100,00%	
South Africa	Coface South Africa 3021 William Nicol Drive Block A 2021 Bryanston –Johannesburg	Full	100,00%	100,00%	100,00%	100,00%
South Africa	Coface South Africa Services 3021 William Nicol Drive Block A 2021 Bryanston –Johannesburg	Full	100,00%	100,00%	100,00%	100,00%
Spain	Coface Servicios España, SL Calle Aravaca, 22 28040 Madrid	Full	100,00%	100,00%	100,00%	100,00%
Spain	Coface Iberica C/Aravaca 22 28040 Madrid	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Portugal	Coface Portugal Av. José Malhoa, 16B - 7º Piso, Fracção B.1 Edifício Europa 1070 - 159 Lisboa	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Turquey	Coface Sigorta Buyukdere Caddesi, Yapi Kredi Plaza, B-Blok Kat:6 Levent 34 330 Istanbul	Full	100,00%	100,00%	100,00%	100,00%

Country	Entity	Consolidation Method	Percentage			
			Control Dec. 31, 2017	Interest Dec. 31, 2017	Control Dec. 31, 2016	Interest Dec. 31, 2016
North America						
United States	Coface North America Holding Company 650 College road east, suite 2005, Princeton, NJ 08540 - USA	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface North America 650 College road east, suite 2005, Princeton, NJ 08540 - USA	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface Services North America 900 Chapel Street New Haven, CT 06510	Full	100,00%	100,00%	100,00%	100,00%
United States	Coface North America Insurance company 650 College road east, suite 2005, Princeton, NJ 08540 - USA	Full	100,00%	100,00%	100,00%	100,00%
Canada	Coface Canada 251 Consumer Road Suite 910 Toronto - On M2J 1R3	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Latin America						
Mexico	Coface Seguro De Credito Mexico SA de CV Av. Insurgentes Sur #1685 Piso 15, Col. Guadalupe Inn, Delegación: Alvaro Obregon - 01020 Mexico City, México	Full	100,00%	100,00%	100,00%	100,00%
Mexico	Coface Holding America Latina SA de CV Av. Insurgentes Sur #1685 Piso 15, Col. Guadalupe Inn, Delegación: Alvaro Obregon - 01020 Mexico City, México	Full	100,00%	100,00%	100,00%	100,00%
Brazil	Coface Do brasil Seguros de Credito SA 34, João Duran Alonso Square Brooklin Novo District Saõ Paulo 12 floor	Full	100,00%	100,00%	100,00%	100,00%
Brazil	Seguradora Brasileira De Credito Interno SA (SBCE) Pça. João Duran Alonso, 34 - 12° Andar Brooklin Novo - Sao Paulo, CEP: 04571-070	Full	75,82%	75,82%	75,82%	75,82%
Chile	Coface Chile Nueva Tajamar 555. Piso 17 Torre Costanera - Las Condes. Santiago	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Argentina	Coface Argentina Ricardo Rojas 401 – 7 Floor CP 1001 Buenos Aires – Argentina	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Ecuador	Coface Ecuador Irlanda E10-16 y República del Salvador Edificio Siglo XXI, PH	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Asia-Pacific						
Australia	Coface Australia LEVEL 11, 1 MARKET STREET, SYDNEY NSW 2000, AUSTRALIA	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Hong-Kong	Coface Hong Kong 29th Floor, No.169 Electric Road North Point, Hong Kong	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Japan	Coface Japon Atago Green Hills MORI Tower 38F, 2-5-1 Atago, Minato-ku - Tokyo 105-6238	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Singapore	Coface Singapour 16 Collyer Quay #15-00 Singapore 049318	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	
Taiwan	Coface Taiwan Room A5, 6F, N°16, Section 4, Nanjing East Road, Taipei 10553	-	Branch of Compagnie française d'assurance pour le commerce extérieur		Branch of Compagnie française d'assurance pour le commerce extérieur	

Accounting principles

Applicable accounting standards

Standards adopted by the European Union as at December 31st, 2017 but not yet in force at that date, and not applied by Coface in the financial statement at the end of December 2017

IFRS 9

The new IFRS 9, "Financial Instruments," was adopted by the European Commission on November 22nd, 2016 and will retroactively apply beginning on January 1st, 2018. This one replaced the corresponding requirements in IAS 39.
IFRS 9 sets out new rules for classifying and measuring financial assets and liabilities, new impairment rules for credit risk on financial assets and the treatment of hedging transactions, with the exception of macro-hedging.
transactions, which are subject to a separate standard currently being examined by the IASB.

The following treatments will apply to fiscal years beginning on or after January 1st, 2018, replacing the accounting standards currently used to recognize financial instruments. In application of the option allowed by IFRS 9, Coface does not plan to communicate comparative information for its financial statements.

Exemption

The amendment to IFRS 4 relating to the joint application of IFRS 9 "Financial Instruments" to IFRS 4 "Insurance Contracts" with specific provisions for financial conglomerates was adopted on November 3rd, 2017 and is applicable on January 1st, 2018. This European regulation allows European financial conglomerates to opt for the postponement of application of IFRS 9 for their insurance sector until January 1st, 2021 (date of application of the new IFRS 17 Insurance Contracts standard) under conditions:

- not to transfer financial instruments between the insurance sector and the other sectors of the conglomerate (with the exception of instruments at fair value through profit or loss);
- to indicate the insurance entities that apply the IAS 39 standard;
- to provide additional specific information in the attached notes.

Coface, meeting the eligibility criteria of a financial conglomerate, plans to apply this provision for its insurance entities, which will therefore remain under IAS 39 until December 31st, 2020. The entities concerned by this measure are all insurance and entities whose activity is directly related to insurance (service entities, consolidated funds).

Scope of application

Consequently, the entities concerned by the application of IFRS 9 are exclusively entities carrying the factoring business, an activity operated by Coface in Germany and in Poland.

Classification

On initial recognition, financial assets are classified at amortized cost, at fair value through equity or at fair value through profit or loss, and for debt instruments based on the entity's management of its financial instruments (management model or business model) and the characteristics of their contractual flows (SPPI Solely Payments of Principal & Interests).

Business model

The portfolio business model represents the way in which the entity manages its financial assets portfolio in order to generate cash -flow. The judgment exercise is necessary for the entity to assess the economic model implemented.

The business model determination must take into account all the information on how cash flows have been achieved in the past, as well as all other relevant information.
In addition, the business model determination must take place at a level that reflects the way in which financial assets groups are collectively managed in order to achieve the given economic objective. The economic model is thus not determined instrument by instrument, but at a higher aggregation level, by portfolio.

The standard retains three management models:

- A management model whose objective is to hold financial assets in order to collect the contractual cash flows ("collection model");
- A blended management model in which assets are managed with the objective of both collecting the contractual cash flows and disposing of the financial assets ("collection and sales model");
- A management model whose objective is to bank cash flows generated by the disposal of financial assets ("held for trading").

Basic character determination or "SPPI"

A financial asset is basic if the financial asset contractual terms give rise, on specified dates, to cash flows corresponding only to principal repayments and interest calculated on the principal outstanding.

The "principal" is defined as the financial asset fair value at the acquisition date. "Interest" is the time value counterpart of money and the credit risk associated with the principal, but also other risks such as liquidity risk, administrative costs and trading margin.

To assess if the contractual cash flows are only principal and interest payments, the instrument contractual terms must be considered. This involves analyzing any element that might call into question the exclusive representation of the money time value.

Debt instruments (loans, receivables or debt securities) may be measured at amortized cost, at fair value through equity or at fair value through profit or loss.

A debt instrument is measured at amortized cost if it satisfies the following two conditions:

- the asset is held in a management model whose target is the collection of contractual cash flows, and
- the financial asset contractual terms give rise, on specific dates, to cash flows corresponding only to principal repayments and interest calculated on the outstanding capital. In this case, the asset is said to be basic and these flows are deemed "SPPI".

A debt instrument is measured at fair value by OCI if it satisfies the following two conditions:

- the asset is held in a management model whose target is both the collection of contractual cash flows and financial assets sale, and
- the financial asset contractual terms give rise, on specific dates, to cash flows corresponding only to principal repayments and interest calculated on the outstanding capital. In this case, the asset is said to be basic and these flows are deemed "SPPI".

The debt instruments included in the two business models of collection or collection and sales that do not meet the "SPPI" criteria are measured at fair value through profit or loss.

Debt instruments included in a business model transaction are measured at fair value.

Embedded derivatives are not booked separately from host contracts anymore when those contracts deal with financial assets.

Regarding financial liabilities, classification and evaluation rules under IAS 39 are identical under IFRS 9, apart from rules on financial assets that one entity evaluates at fair value through profits and losses (fair value option), for which revaluation differences related to its own credit risk variations are booked in gains and losses recorded directly in equity, without any later reclassification in fair value through profits and losses.

IAS 39 standard' rules related to derecognition of financial assets and liabilities are strictly identical under IFRS 9 standard.

Impairment

General model

IFRS 9 standard initiates a unique forward-looking impairment model, based, not on the occurred credit losses, but on the expected credit losses (ECL) calculated on all debt portfolios recorded at amortized cost or at fair value by other comprehensive income (OCI recyclable), and also calculated on financing- lease receivables under IAS 17 and on assets backing contracts under IFRS 15. This unique impairment model is also applicable to the provisioning of financing-lease commitments outside the scope of application of the standard (for evaluation) and to the provisioning of financial guarantees commitments, apart those measured at fair value through profits and losses.

Within this new impairment model in IFRS 9, it is mandatory to record, on initiation, expected losses over one year (Stage 1), and then secondly, if the credit risk increases significantly since the initial recognition, expected losses at maturity (Stage 2). Thirdly, if the credit risk downgrades to the point that the debt payment is threatened, a provision should be booked for expected losses at maturity (Stage 3), in perfect line with IAS 39 requirements about individual-based impairment on bad debts.

Simplified approach

IFRS 9 proposes a simplified approach for impairment of trade receivables, contract assets and lease receivables, which consists of classifying assets in 2 categories instead of 3 and measuring the amount equal to lifetime expected credit losses (usually less than 12 months). The Category 1 is not used.

Category 2: Receivables whose credit risk has increased significantly since initial recognition but for which there is no evidence of default at the reporting date:

- Impairment is measured at the amount of lifetime expected losses of the receivables;
- The amount of expected losses is calculated on a collective basis (by portfolio).

Category 3: Doubtful receivables for which there is objective evidence of default at the reporting date:

- Impairment is measured at the amount of lifetime expected losses of the receivables;
- The amount of expected losses is calculated on an individual basis (by receivable).

Entity shall apply the simplified impairment approach to all trade receivables which do not contain a significant financing component.

Entity may choose between the two methods (general or simplified) for receivables which contain a significant financing component and for lease receivables. When entity applies the general impairment method for these receivables, it will be forced to modify its systems to assess the level of credit risk, as well as the amount of expected losses over the next 12 months or over the entire life cycle.

Hedge accounting

IFRS 9 introduces a modified hedge accounting model, which is more in line with risk management activities.

Implementation of the standard

For factoring entities, Coface has carried out the implementation of the standard within the framework of project organization which involves all the related business lines and support functions.

Classification of financial asset

The main activity of Coface's factoring entities is the purchase of receivables held by its customers, by assuming counterparty risk.

Coface does not hold financial assets for trading purposes and financial assets are not managed at fair value (in the context of risk management or investment strategy).
The predominant economic model is based on the collection of contractual cash flows. Sales (in frequency and value) are not necessary to achieve the commercial target.
On the basis of the work carried out on the Classification and Evaluation component, it appears that all the financial assets concerned (i.e. factoring receivables) which were previously recorded at the amortized cost under IAS 39 would continue to meet conditions for a depreciated cost accounting under IFRS 9.

Depreciation of assets

An analysis of the factoring contracts of Coface showed that the maximum payment period falls in the range 61-180 days. As a result, all receivables must expire within one year or less. Since the maximum repayment period is one year or less, the expected loss at 12 months (Category 1) is conceptually equal to the expected life loss (Category 2). On the basis of the contractual structure, a separate modelling of category 1 and 2 degradation is not necessary. The classification in the general and simplified approach is useless because there is ultimately only one step for non-depreciated receivables.

Depreciation methodology

Coface will rely on the calculation of depreciation on the calculation models using the internal ratings of debtors ("DRA").
The methodology for calculating depreciation (expected loss or "ECL") will be based on the three main parameters: the probability of default "PD", the loss given default "LGD" and the amount of exposure in case of default "EAD" (Exposure at default). The depreciation will be the product of the PD by the LGD and the EAD, over the lifetime of the receivables (Category 2).

The expectancy loss over the lifetime will be estimated on the basis of the current value of all cash shortfalls over the remaining life of the financial instrument. The expected loss at 12 months is a part of the expected loss over the lifetime associated with the probability of occurrence of default events within 12 months from the reporting date. As already explained, due to the short maturity of the purchased receivables, the estimate of the expected loss of credit only focuses on the expected losses at 12 months.

Specific adjustments will be made to take into account the current conditions and the prospective macroeconomic projections (forward looking).

Financial impact

Due to the factoring receivables structuring , most of which are covered by credit insurance contracts subscribed by Coface entities, the factoring receivables impairment is already taken into account in the group's consolidated financial statements through insurance provisions calculated from actuarial methods and currently classified in IBNR (Incurred but nor received) provisions.

A this point of assessment, it is therefore not anticipated that the first IFRS 9 application will have a significant impact, either on opening equity at January 1st, 2018 or the income statement items for the 2018 financial year.

IFRS 15

The new standard IFRS 15 “Revenue from Contracts with Customers” adopted by the European Commission on September 22nd, 2016 and of mandatory application on or after January 1st, 2018.

The amendment “IFRS 15 clarification” adopted by the European Commission on October 31st, 2017 is also applicable in a mandatory manner from January 1st, 2018.

IFRS 15 will replace the current accounting standards and interpretations related to revenues recognition and now imposes a single accounting model for all revenues from customers contracts.

According to this standard, the accounting of the proceeds from the ordinary activities will now have to reflect the transfer of control of the goods and services promised to the customers for an amount corresponding to the consideration that the entity expects to receive in exchange for these goods and services.

IFRS 15 introduces a new guidance of revenue recognizing in 5 steps :

- Identification of contracts with customers,
- Identification of separate performance obligations (or elements) to be counted separately from each other;
- Determination of the price of the transaction as a whole;
- Allocation of the transaction price to different performance obligations;
- Accounting of products when performance obligations are met.

The standard IFRS 15 applies to all contracts with customers except for, in particular, leases within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts, financial instruments within the scope of IAS 39 Financial Instruments. If specific requirements regarding revenue or contract costs are provided by another standard, this one should be firstly applied.

In accordance with the option provided by IFRS 15, Coface does not plan to communicate comparative information in its financial statements.

IFRS 16

The standard IFRS 16 "Leases" adopted by the European Commission on October 31st, 2017 will replace IAS 17 "leasing contracts" and interpretations relating to the accounting of such contracts. It will be applicable on January 1st, 2019 retrospectively following specific transitional arrangements.

According to IFRS 16, the definition of leasing contracts implies, on one hand, the identification of an asset and, on the other hand, the control by the taker of the right to use this asset.
From the lessor's point of view, the expected impact should be limited, the retained provisions remaining substantially unchanged from the present IAS 17 standard.

For the taker, the standard will impose the accounting on the balance sheet of all leases as a right of use on the leased assets, registered in the fixed assets and in the liabilities, the accounting of a financial debt for rents and other payments to be made during the rental period. Coface plans to use the exception provided by the standard by not modifying the accounting treatment of short-term leases (less than 12 months) or relating to low-value underlying assets (unit value 5000 euro at most).

The right of use will be amortized linearly and the financial debt actuarially over the duration of the lease. The interest expenses on the financial debt and the amortization expenses of the right to use will be made distinctly to the income statement. Conversely, according to current IAS 17, the so-called simple or operational leases do not induce a registration on the balance sheet and only the related rents are recorded in the income statement.

The estimating amount’s work of user fees to be recorded on the balance sheet was carried out during the financial year 2017. At this stage, the effects of the implementation of IFRS 16 relate mainly to real estate assets leased for the needs of operating as offices. Coface expects the income statement impact not to be significant and the balance sheet impact on fixed assets and financial liabilities be the same order as amounts presented in note 37 Operating lease contracts.

Consolidation methods used

In accordance with IAS 1 "Presentation of Financial Statements", IFRS 10 and IFRS 3 on Business Combinations, certain interests that are not material in relation to the Coface Group's consolidated financial statements were excluded from the scope of consolidation.The consolidation methods applied are as follows:

- companies over which the Coface Group exercises exclusive control are fully consolidated;
- companies over which the Coface Group exercises significant influence are accounted for by the equity method.

All the entities of the Coface Group scope are fully consolidated except Cofacrédit, which is consolidated at equity method.

IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" in relation to consolidated financial statements as well as SIC-12 on special purpose entities. The control of an entity must now be analysed through three aggregate criteria: the power on the relevant activities of the entity, exposure to the variable returns of the entity and the investor's ability to affect the variable returns through its power over the entity. The analysis of Special Purpose Entities (SPE's) from Coface Group is presented in the note 2 Scope of consolidation.

Intercompany transactions

Material intercompany transactions are eliminated on the balance sheet and on the income statement.

Non-current assets held for sale and discontinued operations

In accordance with IFRS 5, a non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and it must be highly probable that the sale will take place within 12 months.

A sale is deemed to be highly probable if:

- management is committed to a plan to sell the asset (or disposal group);
- a non-binding offer has been submitted by at least one potential buyer;
- it is unlikely that significant changes will be made to the plan or that it will be withdrawn.

Once assets meet these criteria, they are classified under "Non-current assets held for sale" in the balance sheet at the subsequent reporting date, and cease to be depreciated/amortised as from the date of this classification. An impairment loss is recognised if their carrying amount exceeds their fair value less costs to sell. Liabilities related to assets held for sale are presented in a separate line on the liabilities side of the balance sheet.

If the disposal does not take place within 12 months of an asset being classified as "Non-current assets held for sale", the asset ceases to be classified as held for sale, except in specific circumstances that are beyond Coface's control.

A discontinued operation is a clearly identifiable component of an entity that either has been disposed of, or is classified as held for sale, and:

- the component represents a separate major line of business or geographical area of operations;
- without representing a separate major line of business or geographical area of business, the component is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the component is a subsidiary acquired exclusively with a view to resale.

The income from these operations is presented on a separate line of the income statement for the period during which the criteria are met and for all comparative periods presented. The amount recorded in this income statement line includes the

net income from discontinued operations until they are sold, and the post -tax net income recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

Year-end and accounting period

All consolidated companies have a December 31 year-end and an accounting period of 12 months.

Foreign currency translation

Translation of foreign currency transactions

In accordance with IAS 21, transactions carried out in foreign currencies (*i.e.,* currencies other than the functional currency) are translated into the functional currency of the entity concerned using the exchange rates prevailing at the dates of the transactions. The Group's entities generally use the closing rate for the month preceding the transaction date, which is considered as approximating the transaction-date exchange rate provided there are no significant fluctuations in rates.

Translation of the financial statements of subsidiaries and foreign branches

Coface's consolidated financial statements are presented in euros.

The balance sheets of foreign subsidiaries whose functional currency is not the euro are translated into euros at the year-end exchange rate, except for capital and reserves, which are translated at the historical exchange rate. All resulting foreign currency translation differences are recognised in the consolidated statement of comprehensive income.

Income statement items are translated using the average exchange rate for the year, which is considered as approximating the transaction-date exchange rate provided there are no significant fluctuations in rates (see IAS 21.40). All exchange differences arising on translation of these items are also recognised in other comprehensive income.

General principles

The insurance business

An analysis of all of Coface's credit insurance policies shows that they fall within the scope of IFRS 4, which permits insurers to continue to use the recognition and measurement rules applicable under local GAAP when accounting for insurance contracts.

Coface has therefore used French GAAP for the recognition of its insurance contracts.

However, IFRS 4:

- prohibits the use of equalisation and natural disaster provisions
- and requires insurers to carry out liability adequacy tests.

The services business

Companies engaged in the sale of business information and debt collection services fall within the scope of IAS 18 "Revenue".

In accordance with IAS 18, revenue is recognised when: (i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; and (iii) the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably.

The factoring business

Companies engaged in the factoring business are directly impacted by IAS 39 “Financial Instruments: Recognition and Measurement”: a financial instrument is a contract that gives rise to a financial asset of one entity (contractual right to receive cash or another financial asset from another entity) and a financial liability or equity instrument of another entity (contractual obligation to deliver cash or another financial asset to another entity).

In application of IAS 39, Application Guidance 26, trade receivables are classified within the “Loans and receivables” category. After initial recognition at fair value, these receivables are measured at amortised cost using the effective interest method (EIM). The financing fee is recorded over the term of the factoring transactions, which is equivalent to it being included in the EIM in view of the short-term nature of the transactions concerned.

Classification of income and expenses for the Group’s different businesses

Breakdown by function of insurance company expenses

The expenses of French and international insurance subsidiaries are initially accounted for by nature and are then analysed by function in income statement items using appropriate cost allocation keys. Investment management expenses are included under investment expenses. Claims handling expenses are included under claims expenses. Policy acquisition costs, administrative costs and other current operating expenses are shown separately in the income statement.

Factoring companies

Operating income and expenses of companies involved in the factoring business are reported as “Income from banking activities” and “Expenses from banking activities” respectively.

Other companies outside the insurance business and factoring business

Operating income and expenses of companies not involved in the insurance or factoring businesses are reported under “Income from other activities” and “Expenses from other activities”, respectively.

Revenue

Consolidated revenue includes:

- premiums, corresponding to the sums paid by the policyholders in return for the group's commitment to cover the risks planned in their insurance policy: credit insurance (short term), single risk (medium term) and surety (medium term). The bond is not a credit insurance product because it represents a different risk nature (in terms of the underlying and the duration of the risk), but its remuneration takes the form of a premium; It responds to the definitions of insurance contracts given in IFRS 4;
- other revenues which include:
    - revenue from services related to credit insurance contracts ("fee and commission income"), corresponding to debtors' information services, credit limit monitoring, management and debt recovery. They are included in the calculation of the turnover of the credit insurance activity;
    - the compensation received by Compagnie française d’assurance pour le commerce extérieur from the French government for its management of public credit insurance procedures. The terms and procedures applicable to the compensation paid by the French government was set out in the “Financial Agreement” signed between the French government and Compagnie française d’assurance pour le commerce extérieur. This agreement was terminated on December 31st , 2016;
    - revenue from services which consist of providing customer access to credit and marketing information and debt collection services to clients without credit insurance contracts;
    - net income from banking activities are revenues from factoring entities. They consist mainly of factoring fees (collected for the management of factored receivables) and net financing fees (financing margin,

corresponding to the amount of financial interest received from factoring customers, less interest paid on refinancing of the factoring debt). Premiums paid by factoring companies to insurance companies (in respect of debtor and ceding risk) are deducted from net banking income.

Consolidated revenue is analysed by country of invoicing (in the case of direct business, the country of invoicing is that in which the issuer of the invoice is located and for inward reinsurance, the country of invoicing is that in which the ceding insurer is located) and by business line (credit insurance, bonding, factoring, and information & other services).

Insurance operations

Earned premiums

Gross written premiums

Gross premiums correspond to written premiums, excluding tax and net of premium cancellations. They include an estimate of pipeline premiums and premiums to be cancelled after the reporting date.

The estimate of pipeline premiums includes premiums negotiated but not yet invoiced as well as premium adjustments corresponding to the difference between minimum and final premiums. It also includes a provision for future economic risks that may impact end-of-year premiums.

Premiums invoiced are primarily based on policyholders' revenue or trade receivables balances, which vary according to changes in revenue. Premium income therefore depends directly on the volume of sales made in the countries where the Group is present, especially French exports and German domestic and export sales.

Premium refunds

Premium refunds include policyholders' bonuses and rebates, gains and no claims bonus, mechanisms designed to return a part of the premium to a policyholder according to contract profitability. They also include the penalties, taking the form of an additional premium invoiced to policyholders with the loss attributed to the policy.

The "premium refunds" item includes provisions established through an estimation of rebates to be paid.

Reserves for unearned premiums

Reserves for unearned premiums are calculated separately for each policy, on an accruals basis. The amount charged to the provision corresponds to the fraction of written premiums relating to the period between the year-end and the next premium payment date.

Gross earned premiums

Gross earned premiums consist of gross premiums issued, net of premium refunds, and variation in reserves for unearned premiums.

Deferred acquisition costs

Policy acquisition costs, including commissions are deferred over the life of the contracts concerned according to the same rules as unearned premium provisions.

The amount deferred corresponds to policy acquisition costs related to the period between the year-end and the next premium payment date. Deferred acquisition costs are included in the balance sheet under "Other assets".

Changes in deferred acquisition costs are included under “Policy acquisition costs” in the income statement.

Charges de prestations des contrats

Paid claims

Paid claims correspond to insurance settlements net of recoveries, plus claims handling expenses.

Claims provisions

Claims provisions include provisions to cover the estimated total cost of reported claims not settled at the year-end. Claims provisions also include provisions for claims incurred but not yet reported, determined by reference to the final amount of paid claims.

The provisions also include a provision for collection costs and claims handling expenses.

Specific provisions are also recorded for major claims based on the probability of default and level of risk exposure, estimated on a case-by-case basis.

In the guarantee business, local methods are applied. Provisions are only recorded for claims of which the Company concerned has been notified by the year-end. However, an additional provision is recorded when the risk that the guarantee will be called on is higher due to the principal (guaranteed) becoming insolvent, even if no related bonds have been called on. This additional provision is calculated based on the probability of default and the level of risk exposure.

Subrogation and salvage

Subrogation and salvage represent estimated recoveries determined on the basis of the total amount expected to be recovered in respect of all open underwriting periods.

The subrogation and salvage includes a provision for debt collection costs.

In accordance with the applicable French Regulations, separate provisions are set aside for claims and recoveries.

Reinsurance operations

All of the Group’s inward and ceded reinsurance operations involve transfers of risks.

Inward reinsurance

Inward reinsurance is accounted for on a contract-by-contract basis using data provided by the ceding insurers.

Technical provisions are determined based on amounts reported by ceding insurers, adjusted upwards by Coface where appropriate.

Commissions paid to ceding insurers are deferred and recognised in the income statement on the same basis as reserves for unearned premiums. Where these commissions vary depending on the level of losses accepted, they are estimated at each period-end.

Ceded reinsurance

Ceded reinsurance is accounted for in accordance with the terms and conditions of the related treaties.

Reinsurers’ share of technical provisions is determined on the basis of technical provisions recorded under liabilities.

Funds received from reinsurers are reported under liabilities.

Commissions received from reinsurers are calculated by reference to written premiums. They are deferred and recognised in the income statement on the same basis as ceded reserves for unearned premiums.

Other operating income and expenses

In accordance with Recommendation no. 2013-03 issued by the ANC (the French accounting standards setter), "Other operating income" and "Other operating expenses" should only be used to reflect a major event arising during the reporting period that could distort the understanding of the Company's performance. Accordingly, limited use is made of this caption for unusual, abnormal and infrequent income and expenses of a material amount which Coface has decided to present separately in the income statement so that readers can better understand its recurring operating performance and to make a meaningful comparison between accounting periods, in accordance with the relevance principle set out in the IFRS Conceptual Framework.

Other operating income and expenses are therefore limited, clearly identified, non-recurring items which are material to the performance of the Group as a whole.

Goodwill

In accordance with the revised version of IFRS 3, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred;
- to which we add the amount of any non-controlling interest in the acquiree;
- and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- less the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (generally measured at fair value).

In the case of a bargain purchase, the resulting gain is recognised in net income on the acquisition date.

If new information comes to light within the 12 months following the initial consolidation of a newly-acquired company and that new information affects the initial fair values attributed to the assets acquired and liabilities assumed at the acquisition date, the fair values are adjusted with a corresponding increase or decrease in the gross value of goodwill.

Goodwill is allocated, at the acquisition date, to the cash-generating unit (CGU) or group of CGUs that is expected to derive benefits from the acquisition. In accordance with paragraph 10 of IAS 36, goodwill is not amortised but is tested for impairment at least once a year or whenever events or circumstances indicate that impairment losses may occur. Impairment testing consists of comparing the carrying amount of the CGU or group of CGUs (including allocated goodwill) with its recoverable amount, which corresponds to the higher of value in use and fair value less costs to sell. Value in use is determined using the discounted cash flow method.

Impairment tests on goodwill and intangible assets

In accordance with IAS 36, for the purpose of impairment testing the strategic entities included in the Group's scope of consolidation are allocated to groups of CGUs.

A group of CGUs is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets (other CGUs). Paragraph 80 of IAS 36 stipulates that goodwill acquired in a business combination must, from the acquisition date, be allocated to each of the acquirer's groups of CGUs that is expected to benefit from the synergies of the combination.

Coface has identified groups of CGUs, based on its internal organisation as used by management for making operating decisions.

The seven groups of CGUs are as follows:

- Northern Europe;
- Western Europe;
- Central Europe;
- Mediterranean & Africa;
- North America;
- Latin America;
- Asia-Pacific.

Measuring groups of CGUs and performing goodwill impairment tests

Existing goodwill is allocated to a group of CGUs for the purpose of impairment testing. Goodwill is tested for impairment at least once a year or whenever there is an objective indication that it may be impaired.

Goodwill impairment tests are performed by testing the group of CGUs to which the goodwill has been allocated.

If the recoverable amount of the group of CGUs is less than its carrying amount, an impairment loss is recognised and allocated to reduce the carrying amount of the assets of the group of CGUs, in the following order:

- first, by reducing the carrying amount of any goodwill allocated to the group of CGUs (which may not be subsequently reversed); and
- then, the other assets of the group of CGUs pro rata to the carrying amount of each asset in the Group.

The recoverable amount represents the higher of value in use (determined using the discounted cash flow method) and fair value less costs to sell (determined using multiples data from comparable listed companies as well as comparable recent transactions).

Method used for measuring the value of Coface entities

Value in use: Discounted cash flow method

Cash flow projections were derived from the three-year business plans drawn up by the Group's operating entities as part of the budget process and approved by Coface Group management.

These projections are based on the past performance of each entity and take into account assumptions relating to Coface's business line development. Coface draws up cash flow projections beyond the period covered in its business plans by extrapolating the cash flows over two additional years.

The assumptions used for growth rates, margins, cost ratios and claims ratios are based on the entity's maturity, business history, market prospects, and geographic region.

Under the discounted cash flow method, Coface applies a discount rate to insurance companies and a perpetuity growth rate to measure the value of its companies.

Fair value

Under this approach, Coface values its companies by applying multiples of (i) revenue (for services companies), revalued net assets (for insurance companies) or net banking income (for factoring companies), and (ii) net income. The benchmark multiples are based on stock market comparables or recent transactions in order to correctly reflect the market values of the assets concerned.

The multiples-based valuation of an entity is determined by calculating the average valuation obtained using net income multiples and that obtained using multiples of revenue (in the case of services companies), revalued net assets (insurance companies) or net banking income (factoring companies).

Intangible assets: IT development costs

Coface capitalises IT development costs and amortises them over their estimated useful lives when it can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the current and future availability of adequate resources to complete the development; and
- its ability to reliably measure the expenditure attributable to the intangible asset during its development.

Internally generated software is amortised over its useful life, which is capped at 15 years.

Property, plant and equipment: property assets

Property, plant and equipment are measured using the amortised cost model. Coface applies this model to measure its property, plant and equipment, including buildings used in the business. IFRS requires the breakdown of these buildings into components where the economic benefits provided by one or more components of a building reflect a pattern that differs from that of the building as a whole. These components are depreciated over their own useful life.

Coface has identified the following components of property assets:

Land	Not depreciated
Enclosed/covered structure	Depreciated over 30 years
Technical equipment	Depreciated over 15 years
Interior fixtures and fittings	Depreciated over 10 years

Properties acquired under finance leases are included in assets and an obligation in the same amount is recorded under liabilities.

A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership.

An impairment loss is recognised if the carrying amount of a building exceeds its market value.

Financial assets

The Group classifies its financial assets into the following five categories: available-for-sale financial assets, financial assets held for trading, held-to-maturity investments, financial assets at fair value through income, and loans and receivables.

The date used by Coface for initially recognising a financial asset in its balance sheet corresponds to the asset's trade date.

Available-for-sale financial assets (AFS)

Available-for-sale financial assets are carried at fair value plus transaction costs that are directly attributable to the acquisition (hereafter referred to as the purchase price). The difference between the fair value of the securities at year-end and their purchase price (less actuarial amortisation for debt instruments) is recorded under “Available-for-sale financial assets” with a corresponding adjustment to revaluation reserves (no impact on net income). Investments in non-consolidated companies are included in this category.

Financial assets held for trading

Financial assets held for trading are recorded at the fair value of the securities at year-end. Changes in fair value of securities held for trading during the accounting period are taken to the income statement.

Held-to-maturity investments (HTM)

Held-to-maturity investments are carried at amortised cost. Premiums and discounts are included in the calculation of amortised cost and are recognised over the useful life of the financial asset using the yield-to-maturity method.

Financial assets at fair value through profit or loss

Financial assets at fair value through income are accounted for in the same way as securities held for trading.

Loans and receivables

The “Loans and receivables” category includes cash deposits held by ceding insurers lodged as collateral for underwriting commitments. The amounts recognised in relation to these deposits corresponds to the cash amount actually deposited.

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market are also included in this caption. These assets are recognised at amortised cost using the effective interest method.

Loans and receivables also include short-term deposits whose maturity at the date of purchase or deposit is more than three months but less than 12 months.

Fair value

The fair value of listed securities is their market price at the measurement date. For unlisted securities fair value is determined using the discounted cash flow method.

Impairment test

Available-for-sale financial assets are tested for impairment at each period-end. When there is objective evidence that such an asset is impaired and a decline in the fair value of that asset has previously been recognised directly in equity, the cumulative loss is reclassified from equity to income through “Investment income, net of management expenses”.

A multi-criteria analysis is used to assess whether there is any objective indication of impairment. An independent expert is used for these analyses, particularly in the case of debt instruments.

Impairment indicators include the following:

- for debt instruments: default on the payment of interest or principal, the existence of a mediation, alert or insolvency procedure, bankruptcy of a counterparty or any other indicator that reveals a significant decline in the counterparty's financial position (such as evidence of losses to completion based on stress tests or projections of recoverable amounts using the discounted cash flow method);

- for equity instruments (excluding investments in unlisted companies): indicators showing that the entity will be unable to recover all or part of its initial investment. In addition, an impairment test is systematically performed on securities that represent unrealised losses of over 30% or which have represented unrealised losses for a period of more than six consecutive months. This test consists of carrying out a qualitative analysis based on various factors such as an analysis of the equity instrument's market price over a given period, or information relating to the issuer's financial position. Where appropriate, an impairment loss is recognised based on the instrument's market price at the period-end. Independently of this analysis, an impairment loss is systematically recognised when an instrument represents an unrealised loss of over 50% at the period-end, or has represented an unrealised loss for more than 24 months;

- for investments in unlisted companies: an unrealised loss of over 20% over a period of more than 18 months, or the occurrence of significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer and indicate that the amount of the investment in the equity instrument will not be recovered.

If the fair value of an instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in income, the impairment loss is reversed, with the amount of the reversal recognised in:

- equity, for equity instruments;
- income, for debt instruments, in an amount corresponding to the previously-recognised impairment loss.

In accordance with IFRIC 10, impairment losses recognised on equity instruments in an interim reporting period are not reversed from income until the securities concerned are divested.

Derivatives and hedging transactions

A derivative is a financial instrument (IAS 39):

- whose value changes in response to the change in the interest rate or price of a product (known as the "underlying");
- that requires no or a very low initial net investment; and
- that is settled at a future date.

A derivative is a contract between two parties – a buyer and a seller – under which future cash flows between the parties are based on the changes in the value of the underlying asset.

In accordance with IAS 39, derivatives are measured at fair value through income, except in the case of effective hedges, for which gains and losses are recognised depending on the underlying hedging relationship.

Derivatives that qualify for hedge accounting are derivatives which, from their inception and throughout the hedging relationship, meet the criteria set out in IAS 39. These notably include a requirement for entities to formally document and designate the hedging relationship, including information demonstrating that the hedging relationship is effective, based on prospective and retrospective tests. A hedge is deemed to be effective when changes in the actual value of the hedge fall within a range of 80% and 125% of the change in value of the hedged item.

- For fair value hedges, gains or losses from remeasuring the hedging instrument at fair value are systematically recognised in income. These amounts are partially offset by symmetrical gains or losses on changes in the fair value of the hedged items, which are also recognised in income. The net impact on the income statement therefore solely corresponds to the ineffective portion of the hedge.
- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion of the gain or loss on the hedging instrument is recognised in income.

Coface's derivatives were used for hedging purposes, notably to hedge currency risks, interest rate risks and changes in fair value of equities in the portfolios of the "Colombes" funds. Coface does not carry out any hedging transactions within the meaning of IAS 39. The financial instruments that it does use are recognised at fair value through income.

Financing liabilities

This item mainly includes the subordinated debt and liabilities relating to financing agreements (finance leases).

Borrowings are initially recognised at fair value after taking account of directly-attributable transaction costs.

They are subsequently measured at amortised cost using the effective interest method. Amortised cost corresponds to:

- the measurement of the financial liability on initial recognition; minus
- repayments of principal; plus or minus
- cumulative amortisation (calculated using the effective interest rate) and any discounts or premiums between the initial amount and the maturity amount.

Premiums and discounts are not included in the initial cost of the financial liability. However, they are included in the calculation of amortised cost and are recognised over the life of the financial liability using the yield-to-maturity method. As and when they are amortised, premiums and discounts impact the amortised cost of the financial liability.

Accounting treatment of debt issuance costs

Transaction costs directly attributable to the issuance of financial liabilities are included in the initial fair value of the liability. Transaction costs are defined as incremental costs directly attributable to the issuance of the financial liability, *i.e.,* that would not have been incurred if the Group had not acquired, issued or disposed of the financial instrument.

Transaction costs include:

- fees and commissions paid to agents, advisers, brokers and other intermediaries;
- levies by regulatory agencies and securities exchanges;
- and transfer taxes and duties.

Transaction costs do not include:

- debt premiums or discounts;
- financing costs;
- internal administrative or holding costs.

Payables arising from banking sector activities

This item includes:

- amounts due to banking sector companies: corresponds to bank credit lines. They represent the refinancing of the

credit extended to factoring clients;

- amounts due to customers of banking sector companies, corresponding to payables arising from factoring operations. They include:
  - amounts credited to factoring clients' current accounts that have not been paid out in advance by the factor, and
  - factoring contract guarantee deposits;
- debt securities. This item includes subordinated borrowings and non-subordinated bond issues. These borrowings are classified as "Payables arising from banking sector activities" as they are used for financing the factoring business line.

All borrowings are initially recognised at fair value less any directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

Receivables arising from factoring operations

Receivables arising from factoring operations represent total receivables not recovered at the reporting date. They are stated at nominal value, corresponding to the amount of factored invoices, including tax. When it appears probable that all or part of the amount receivable will not be collected, a provision is recorded by way of a charge to the income statement (under "Cost of risk"). The receivables shown in the balance sheet are stated net of provisions.

The net carrying amount of receivables arising from factoring operations is included in the consolidated balance sheet under "Receivables arising from banking and other activities".

Cash and cash equivalents

Cash includes all bank accounts and demand deposits. Cash equivalents include units in money-market funds (SICAV) with maturities of less than three months.

Provisions for liabilities and charges

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recorded at the reporting date if a present obligation towards a third party resulting from a past event exists at that date and it is probable or certain, as of the date when the financial statements are drawn up, that an outflow of resources embodying economic benefits to that third party will be required to settle the obligation and that a reliable estimate can be made of the amount of the obligation.

Provisions are discounted when the effect of the time value of money is material.

The provisions for liabilities and charges include the provisions for fiscal risks, for litigations with third-parties and on the vacant premises. These provisions are reviewed at each closing.

The provision for vacant premises is calculated taking into account the future rents that the company committed to pay until the end of the lease, from which are deducted the future income expected from potential subleases.

Employee benefits

In certain countries in which Coface operates, employees are awarded short-term benefits (such as paid leave), long-term benefits (including "long-service awards") and post-employment benefits, such as statutory retirement benefits.

Short-term benefits are recognised as a liability in the accounts of the Coface companies that grant such benefits.

Other benefits, including long-term and post-employment benefits are subject to different coverage and are classified as follows:

- defined contribution plans: consequently, the Company's legal or constructive obligation is limited to the amount that it agrees to pay to the fund, whichh will pay due amounts to the employees. These plans are generally state pension plans, which is the case in France;
- defined benefit plans, under which the employer has a legal or constructive obligation to provide agreed benefits to employees.

In accordance with IAS 19, Coface records a provision to cover its liability, regarding primarily:

- statutory retirement benefits and termination benefits;
- early retirement and supplementary pension payments;
- employer contributions to post-employment health insurance schemes;
- long-service awards.

Based on the regulations specific to the plan and country concerned, independent actuaries calculate:

- the actuarial value of future benefits, corresponding to the present value of all benefits to be paid. The measurement of this present value is essentially based on:
    - demographic assumptions,
    - future benefit levels (statutory retirement benefits, long service awards, etc.),
    - the probability that the specified event will occur,
    - an evaluation of each of the factors included in the calculation of the benefits, such as future salary increases,
    - the interest rate used to discount future benefits at the measurement date;
- the actuarial value of benefits related to service cost (including the impact of future salary increases), determined using the projected unit credit method which spreads the actuarial value of benefits evenly over the expected average remaining working lives of the employees participating in the plan.

Stock options

In accordance with IFRS 2 "Share-based Payment", which defines the recognition and measurement rules concerning stock options, the options are measured at the grant date. The Group uses the Black and Scholes option pricing model for measuring stock options. Changes in fair value subsequent to the grant date do not impact their initial measurement.

The fair value of options takes into account their expected life, which the Group considers as corresponding to their compulsory holding period for tax purposes. This value is recorded in personnel costs on a straight-line basis from the grant date and over the vesting period of the options, with a corresponding adjustment directly in equity.

In connection with its stock market listing, the Coface Group awarded to certain beneficiaries (employees of COFACE SA subsidiaries) bonus shares (cf. Note 14).

In accordance with the IFRS 2 rules, only stock options granted under plans set up after November 7th, 2002 and which had not vested at January 1st, 2005 have been measured at fair value and recognised in personnel costs.

Income tax

Income tax expense includes both current taxes and deferred taxes.

The tax expense is calculated on the basis of the latest known tax rules in force in each country where the results are taxable.

On January 1st, 2015, COFACE SA opted for the tax integration regime by integrating French subsidiaries held directly or indirectly by more than 95% (Compagnie française d'assurance pour le commerce extérieure, Cofinpar, Cogeri and Fimipar).

Temporal differences between the values of assets and liabilities in the consolidated accounts, and those used to determine the taxable income, give rise to the recording of deferred taxes.

Deferred taxes are recorded by the liability method for temporary differences between the carrying amount of assets and liabilities at each period-end and their tax base.

Deferred tax assets and liabilities are calculated for all temporary differences, based on the tax rate that will be in force when the differences are expected to reverse, if this is known, or, failing that, at the tax rate in force at the period-end.

Deferred tax assets are recorded only when it is probable that sufficient taxable profits against which the asset can be utilised will be available within a reasonable time frame.

Receivables and payables denominated in foreign currencies

Receivables and payables denominated in foreign currencies are translated into euros at the year-end exchange rate.

Unrealised exchange gains and losses on receivables and payables denominated in foreign currencies are recorded in the consolidated income statement, except for those related to the technical provisions carried in the accounts of the subsidiaries of Compagnie française d'assurance pour le commerce extérieur (formerly COFACE SA) and those concerning consolidated companies' long-term receivables and payables whose settlement is neither planned nor likely to occur in the foreseeable future.

Exchange differences concerning receivables and payables denominated in a foreign currency and relating to a consolidated company are treated as part of Coface's net investment in that company. In accordance with IAS 21, these exchange differences are recorded in other comprehensive income until the disposal of the net investment.

Segment information

Coface applies IFRS 8 for segment information reporting, which requires an entity's operating segments to be based on its internal organisation as used by management for the allocation of resources and the measurement of performance.

The segment information used by management corresponds to the following geographic regions:

- Northern Europe;
- Western Europe;
- Central Europe;
- Mediterranean & Africa;
- North America;
- Latin America;
- Asia-Pacific.

No operating segments have been aggregated for the purposes of published segment information.

The Group's geographic industry sector segmentation is based on the country of invoicing.

Related parties

A related party is a person or entity that is related to the entity preparing its financial statements (referred to in IAS 24 as "the reporting entity").

Estimates

The main balance sheet items for which management is required to make estimates are presented in the table below:

Estimates	Notes	Type of information required
Goodwill impairment	1	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 and loss *ratio assumptions*.
Provision for earned premiums not yet written	16	This provision is calculated based on the estimated amount of premiums expected in the period less premiums recognised.
Provision for premium refunds	16 ; 21	This provision is calculated based on the estimated amount of rebates and bonuses payable to policyholders in accordance with the terms and conditions of the policies written.
Provision for subrogation and salvage	16 ; 22	This provision is calculated based on the estimated amount potentially recovered on settled claims.
Claims reserves	16 ; 22 ; 40	It includes an estimate of the total cost of claims reported but not settled at year end.
IBNR provision	16 ; 22 ; 40	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 action taken to recover amounts paid out.
Pension benefit obligations	14	Pension benefit obligations are measured in acordance with IAS 19 and annually reviewed by actuaries according to the Group's actuarial assumptions.

The policies managed by the Coface Group's insurance subsidiaries meet the definition of insurance contracts set out in IFRS 4. In accordance with this standard, these contracts give rise to the recognition of technical provisions on the liabilities side of the balance sheet, which are measured based on local GAAP pending the publication of an IFRS that deals with insurance liabilities.

The recognition of technical provisions requires the Group to carry out estimates, which are primarily based on assumptions concerning changes in events and circumstances related to the insured and their debtors as well as to their economic, financial, social, regulatory and political environment. These assumptions may differ from actual events and circumstances, particularly if they simultaneously affect the Group's main portfolios. The use of assumptions requires a high degree of judgement on the part of the Group, which may affect the level of provisions recognised and therefore have a material adverse effect on the Group's financial position, results, and solvency margin.

For certain financial assets held by the Group there is no active market, there are no observable inputs, or the observable inputs available are not representative. In such cases the assets' fair value is measured using valuation techniques which include methods or models that are based on assumptions or assessments requiring a high degree of judgement. The

Group cannot guarantee that the fair value estimates obtained using these valuation techniques represent the price at which a security will ultimately be sold, or at which it could be sold at a given moment. The valuations and estimates are revised when circumstances change or when new information becomes available. Using this information, and respecting the objective principles and methods described in the consolidated and combined financial statements, the Group's management bodies regularly analyse, assess and discuss the reasons for any decline in the estimated fair value of securities, the likelihood of their value recovering in the short term, and the amount of any ensuing impairment losses that should be recognised. It cannot be guaranteed that any impairment losses or additional provisions recognised will not have a material adverse effect on the Group's results, financial position and solvency margin.

All amounts are stated (in thousands of euros) in the following notes, unless specified otherwise.

Note 1. Goodwill

In accordance with IAS 36, goodwill is not amortised but is systematically tested for impairment at the year-end or whenever there is an impairment indicator.

Breakdown of goodwill by region :

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Northern Europe	112,603	112,603
Western Europe	5,068	5,068
Central Europe	8,417	8,397
Mediterranean & Africa	22,183	22,371
North America	5,795	6,598
Latin America	1,016	1,177
TOTAL	**155,082**	**156,214**

The change in goodwill amounted to €1,132 thousand due to the fluctuation of the exchange rate.

Impairment testing methods

Goodwill and other non-financial assets were tested for impairment losses at December 31st, 2017. Coface performed the tests by comparing the value in use of the groups of CGUs to which goodwill was allocated with their carrying amounts.
Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or a CGU. This value is determined using the discounted cash flow method, based on the three-year business plan drawn up by the subsidiaries and validated by Management. The cash flows are extrapolated for an additional two years using normalised loss ratios and target cost ratios. Beyond this five-year period, the terminal value is calculated by projecting to infinity the cash flows for the last year.
The main assumptions used to determine the value in use of the groups of CGUs were a long-term growth rate of 1.5% for all entities and the weighted average cost of capital.
The assumptions used for goodwill impairment testing were as follows by group of CGUs at December 31st, 2017:

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Cost of capital	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Perpetual growth rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Contribution to consolidated net assets	586.2	520.2	171.9	184.8	41.8	56.7

The assumptions used in 2016 were as follows:

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Cost of capital	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Perpetual growth rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Contribution to consolidated net assets	490.9	658.0	171.8	160.6	45.9	49.4

Sensitivity of impairment tests

Sensitivity analyses were performed for the impairment tests, based on the following sensitivity factors:

- long-term growth rate sensitivity: the impairment tests were tested for sensitivity based on a 0.5-point decrease in the perpetual growth rate applied. The analysis showed that such a 0.5-point decrease would not have an impact on the outcome of the impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31st, 2017;
- cost of capital sensitivity: the impairment tests were tested for sensitivity based on a 0.5-point increase in the cost of capital applied. The analysis showed that such a 0.5-point increase would not have an impact on the outcome of the impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31st, 2017;
- loss ratio and the cost ratio sensitivity for the last two years of the business plan (2021 and 2022): additional impairment tests were performed based on a 2-point increase in the loss ratio and a 1-point increase in the cost ratio. The sensitivity analysis showed that such increases in the assumptions used would not have an impact on the outcome of the original impairment tests or therefore on the Group's consolidated financial statements for the year ended December 31st, 2017.

For the Group's main goodwill items, the sensitivity of enterprise values to the assumptions used is shown in the following table :

Outcome of impairment tests

(in millions of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean and Africa	North America	Latin America
Contribution to consolidated net assets	586.2	520.2	171.9	184.8	41.8	56.7
Value in use of CGU	721.3	671.2	354.0	443.3	54.6	116.9
Sensitivity Long-term growth rate -0,5 point	704.9	639.4	341.8	424.9	50.4	111.2
Sensitivity WACC +0,5 point	699.3	644.1	339.6	421.1	49.5	110.8
Sensitivity Loss Ratio 2022 +1 point	716.0	635.7	350.1	433.9	50.1	113.2
Sensitivity Loss Ratio 2022 +2 points	710.8	591.6	346.3	424.4	45.7	109.5
Sensitivity Cost Ratio 2022 +1 point	710.8	624.7	346.8	425.5	49.0	113.1
Sensitivity Cost Ratio 2022 +2 points	700.4	578.2	339.7	407.7	43.4	109.2

Note 2. Other intangible assets

(in thousands of euros)	Dec. 31, 2017 Net value	Dec. 31, 2016 Net value
Development costs and software	59,463	56,336
Purchased goodwill	2,291	2,738
Other intangible assets	394	420
TOTAL	**62,148**	**59,494**

	Dec. 31, 2017		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Development costs and software	187,177	(127,714)	59,463
Purchased goodwill	7,832	(5,541)	2,291
Other intangible assets	2,722	(2,328)	394
TOTAL	**197,731**	**(135,583)**	**62,148**

	Dec. 31, 2016		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Development costs and software	183,821	(127,485)	56,336
Purchased goodwill	8,608	(5,870)	2,738
Other intangible assets	2,676	(2,256)	420
TOTAL	**195,105**	**(135,611)**	**59,494**

Group mainly makes investments in hardware and IT licenses.
These investments amounted to €15,5 million in 2017 financial year compared to €6,3 million in 2016 financial year.

Change in the gross amount of intangible assets

(in thousands of euros)	Dec. 31, 2016	Increases	Decreases	Exchange rate and other effects	Dec. 31, 2017
Development costs and software	183,821	15,350	(11,055)	(938)	187,178
Purchased goodwill	8,608	(0)	(0)	(777)	7,831
Other intangible assets	2,676	117	(0)	(71)	2,722
TOTAL	**195,105**	**15,467**	**(11,055)**	**(1,786)**	**197,731**

(in thousands of euros)	Dec. 31, 2015	Increases	Decreases	Exchange rate and other effects	Dec. 31, 2016
Development costs and software	184,790	6,255	(8,383)	1,159	183,821
Purchased goodwill	8,367	(0)	(0)	241	8,608
Other intangible assets	3,191	44	(177)	(382)	2,676
TOTAL	**196,348**	**6,299**	**(8,560)**	**1,018**	**195,105**

Change in accumulated amortisation and impairment of intangible assets

(in thousands of euros)	Dec. 31, 2016	Additions	Reversals	Exchange rate and other effects	Dec. 31, 2017
Accumulated amortisation - development costs and software	(124,148)	(10,622)	9,047	769	(124,954)
Accumulated impairment - development costs and software	(3,337)	(0)	576	(0)	(2,761)
Total amortisation and impairment - development costs and software	**(127,485)**	**(10,622)**	**9,623**	**769**	**(127,715)**
Accumulated amortisation - purchased goodwill	(5,870)	(308)	(0)	637	(5,541)
Accumulated impairment - purchased goodwill	(0)	(0)	(0)	(0)	(0)
Total amortisation and impairment - purchased goodwill	**(5,870)**	**(308)**	**(0)**	**637**	**(5,541)**
Accumulated amortisation - other intangible assets	(2,236)	(131)	(0)	59	(2,308)
Accumulated impairment - other intangible assets	(20)	(0)	(0)	1	(19)
Total amortisation and impairment - other intangible assets	**(2,256)**	**(131)**	**(0)**	**60**	**(2,327)**
TOTAL	**(135,611)**	**(11,061)**	**9,623**	**1,466**	**(135,583)**

Note 3. Insurance business investments

6.1 – Analysis by category

At December 31st, 2017, the carrying amount of available-for-sale (AFS) securities amounted to €2,743,385 thousand, securities held for trading ("trading securities") came to €30,111 thousand and held-to-maturity (HTM) securities was €1,852 thousand.

As an insurance group, Coface's investment allocation is heavily weighted towards fixed-income instruments.
The distribution of the bonds portefolio by rating at December 31st, 2017 was as follows:

- Bonds rated "AAA": 19%
- Bonds rated "AA" and "A": 37%
- Bonds rated "BBB": 33%
- Bonds rated "BB" and lower : 11%.

(in thousands of euros)	Dec. 31, 2017					Dec. 31, 2016				
	Amortized cost	Revaluation	Net value	Fair value	Unrealized gains and losses	Amortized cost	Revaluation	Net value	Fair value	Unrealized gains and losses
AFS securities	2,599,727	143,658	**2,743,385**	2,743,385		2,459,575	134,378	**2,593,953**	2,593,953	
Equities and other variable-income securities	211,479	111,806	323,285	323,285		140,734	106,714	247,448	247,448	
Bonds and government securities	2,175,164	26,090	2,201,254	2,201,254		2,183,369	25,997	2,209,366	2,209,366	
o/w direct investments in securities	*1,757,587*	*25,326*	*1,782,913*	*1,782,913*		*1,768,986*	*24,414*	*1,793,400*	*1,793,400*	
o/w investments in UCITS	*417,577*	*764*	*418,341*	*418,341*		*414,383*	*1,583*	*415,966*	*415,966*	
Shares in non-trading property companies	213,084	5,762	218,846	218,846		135,472	1,667	137,139	137,139	
HTM securities										
Bonds	1,852		**1,852**	2,564	712	2,740		**2,740**	3,460	720
Fair value through income – trading securities										
Money market funds (UCITS)	30,111		**30,111**	30,111		69,696		**69,696**	69,696	
Derivatives (positive fair value)		9,383	**9,383**	9,383			2,975	**2,975**	2,975	
(derivatives negative fair value for information)		*(267)*	*(267)*	*(267)*			*(7,508)*	*(7,508)*	*(7,508)*	
Loans and receivables	91,362		**91,361**	91,361		80,940		**80,940**	80,940	
Investment property	695	(408)	**288**	288		716	71	**787**	787	
TOTAL	**2,723,747**	**152,633**	**2,876,380**	**2,877,092**	**712**	**2,613,667**	**137,424**	**2,751,091**	**2,751,811**	**720**

(in thousands of euros)	Gross Dec. 31, 2017	Impairment	Net Dec. 31, 2017	Net Dec. 31, 2016
AFS securities	**2,773,560**	**(30,175)**	**2,743,385**	**2,593,953**
Equities and other variable-income securities	353,452	(30,167)	323,285	247,448
Bonds and government securities	2,201,254		2,201,254	2,209,366
o/w direct investments in securities	*1,782,913*		*1,782,913*	*1,793,400*
o/w investments in UCITS	*418,341*		*418,341*	*415,966*
Shares in non-trading property companies	218,854	(8)	218,846	137,139
HTM securities				
Bond	**1,852**		**1,852**	**2,740**
Fair value through income – trading securities				
Money market funds (UCITS)	**30,111**		**30,111**	**69,696**
Derivatives (positive fair value)	**9,383**		**9,383**	**2,975**
(for information, derivatives with a negative fair value)	*(267)*		*(267)*	*(7,508)*
Loans and receivables	**91,361**		**91,361**	**80,940**
Investment property	**288**		**288**	**787**
TOTAL	**2,906,555**	**(30,175)**	**2,876,380**	**2,751,091**

Impairments

(in thousands of euros)	Dec. 31, 2016	Additions	Reversals	Exchange rate effects and other	Dec. 31, 2017
AFS securities	**30,510**	**2,273**	**(2,586)**	**(22)**	**30,175**
Equities and other variable-income securities	29,411	2,273	(1,495)	(22)	30,167
Bonds and government securities	1,091	(0)	(1,091)	(0)	(0)
Shares in non-trading property companies	8				8
TOTAL	**30,510**	**2,273**	**(2,586)**	**(22)**	**30,175**

Reversals are related to the disposal of AFS securities.

Change in investments by category

	Dec. 31, 2017						
(in thousands of euros)	Carrying amount	Increases	Decreases	Revaluation	Impairment	Other movements	Carrying amount
AFS securities	**2,593,953**	**1,482,729**	**(1,279,397)**	**11,789**	**313**	**(66,001)**	**2,743,385**
Equities and other variable-income securities	247,448	165,973	(94,095)	7,120	(778)	(2,383)	323,285
Bonds and government securities	2,209,366	1,235,072	(1,185,303)	573	1,091	(59,545)	2,201,254
Shares in non-trading property companies	137,139	81,685		4,095		(4,073)	218,846
HTM securities							
Bonds	2,740	119	(1,007)				1,852
Fair value through income – trading securities	69,696		(39,585)				30,111
Loans, receivables and other financial investments	84,702	25,195	(7,293)	1,061		(2,634)	101,031
TOTAL	**2,751,091**	**1,508,043**	**(1,327,282)**	**12,850**	**313**	**(68,635)**	**2,876,380**

Derivatives

The structural use of derivatives is strictly limited to hedging. The notional amounts of the hedges therefore do not exceed the amounts of the underlying assets in the portfolio.

During 2017, the majority of the derivative transactions carried out by the Group concerned the systematic hedging of currency risks via swaps or currency futures for primarily USD-denominated bonds held in the investment portfolio that covers all of Coface's European entities (whose currency risks are systematically hedged).

Investments in equities were subject to systematic partial hedging through purchases of put options. The hedging strategy applied by the Group is aimed at protecting the portfolio against a sharp drop in the equities market in the eurozone.

Regarding the bond portfolio, some of our exposure to European sovereign debt is hedged through future rates. Some one-off interest rate hedging transactions were also set up on negotiable debt securities.

None of these transactions qualified for hedge accounting under IFRS as they were mainly currency transactions and partial market hedges.

Derivatives also includes, from the first quarter of 2016, the fair value of the contingent capital instrument. This fair value corresponds to the fees due. This asset is shown in level 3.

The criteria triggering the exercise of the contingent capital line have not changed since the inception.

6.2 – Financial instruments recognized at fair value

The fair values of financial instruments recorded in the balance sheet are measured according to a hierarchy that categorizes into three levels the inputs used to measure fair value. These levels are as follows:

Level 1: Quoted prices in active markets for an identical financial instrument.

Securities classified as level 1 represent 85% of the Group's portfolio. They correspond to:

- equities, bonds and government securities listed on organized markets, as well as units in dedicated mutual funds whose net asset value is calculated and published on a very regular basis and is readily available (AFS securities);
- government bonds and bonds indexed to variable interest rates (HTM securities);
- French units money-market funds, SICAV (trading securities).

Level 2: Use of inputs, other than quoted prices for an identical instrument that are directly or indirectly observable in the market (inputs corroborated by the market such as yield curves, swap rates, multiples method, etc.).

Securities classified as level 2 represent 3% of the Group's portfolio. This level is used for the following instruments:

- unlisted equities;
- loans and receivables due from banks or clients and whose fair value is determined using the historical cost method.

Level 3: Valuation techniques based on unobservable inputs such as projections or internal data.

Securities classified as level 3 represent 12% of the Group's portfolio. This level corresponds to unlisted equities, investment securities and units in dedicated mutual funds, as well as investment property.

Value in use is the present value of future cash flows that may result from an asset or cash-generating unit. The valuation, based on the discounted cash flow method, is based on the three-year projected budget prepared by the subsidiaries and validated by management with two years built on the basis of standardized management ratios (loss ratios and target cost ratios). Beyond the fifth year, the terminal value is evaluated on a basis infinite capitalization of the last year cash flow.

Breakdown of financial instrument fair value measurements as at December 31st, 2017 by level in the fair value hierarchy

(in thousands of euros)	Carrying amount	Fair value	Level 1 Fair value determined based on quoted prices in active markets	Level 2 Fair value determined based on valuation techniques that use observable inputs	Level 3 Fair value determined based on valuation techniques that use unobservable inputs
AFS securities	**2,743,385**	**2,743,385**	**2,395,995**	**23**	**347,367**
Equities and other variable-income securities	323,285	323,285	194,741	23	128,521
Bonds and government securities	2,201,254	2,201,254	2,201,254		
Shares in non-trading property companies	218,846	218,846			218,846
HTM securities					
Bonds	1,852	2,564	2,564		
Fair value through income – trading securities					
Money market funds (UCITS)	30,111	30,111	30,111		
Derivatives	9,383	9,383	3,770	5,004	609
Loans and receivables	91,361	91,361		91,361	
Investment property	288	288			288
TOTAL	**2,876,380**	**2,877,092**	**2,432,440**	**96,388**	**348,264**

Movements in Level 3 securities as at December 31st, 2017

(in thousands of euros)		Gains and losses recognized in the period		Transactions for the period		Exchange rate effects	
	At Dec. 31, 2016	In income	Directly in equity	Purchases/ Issues	Sales/ Redemptions		**At Dec 31, 2017**
AFS securities	**269,595**	**(2,273)**	**1,635**	**84,897**	**(237)**	**(6,250)**	**347,367**
Equities and other variable-income securities	132,456	(2,273)	(2,460)	3,212	(237)	(2,177)	128,521
Shares in non-trading property companies	137,139		4,095	81,685		(4,073)	218,846
Derivatives	**1,122**			**(513)**			**609**
Investment property	**787**				**(499)**		**288**
TOTAL	**271,504**	**(2,273)**	**1,635**	**84,384**	**(736)**	**(6,250)**	**348,264**

Breakdown of financial instrument fair value measurements as at December 31st, 2016 by level in the fair value hierarchy

(in thousands of euros)	Carrying amount	Fair value	Level 1 Fair value determined based on quoted prices in active markets	Level 2 Fair value determined based on valuation techniques that use observable inputs	Level 3 Fair value determined based on valuation techniques that use unobservable inputs
AFS securities	**2,593,953**	**2,593,953**	**2,324,334**	**23**	**269,595**
Equities and other variable-income securities	247,448	247,448	114,969	23	132,456
Bonds and government securities	2,209,366	2,209,366	2,209,366		
Shares in non-trading property companies	137,139	137,139			137,139
HTM securities					
Bonds	2,740	3,460	3,460		
Fair value through income – trading securities					
Money market funds (UCITS)	69,696	69,696	69,696		
Derivatives	2,975	2,975	993	860	1,122
Loans and receivables	80,940	80,940		80,940	
Investment property	787	787			787
TOTAL	**2,751,091**	**2,751,811**	**2,398,483**	**81,823**	**271,504**

Movements in Level 3 securities as at December 31st, 2016

(in thousands of euros)	At Dec. 31, 2015	Gains and losses recognized in the period		Transactions for the period		Exchange rate effects	At Dec 31, 2016
		In income	Directly in equity	Purchases/ Issues	Sales/ Redemptions		
AFS securities	**240,219**	**445**	**5,178**	**46,411**	**(17,058)**	**(5,600)**	**269,595**
Equities and other variable-income securities	129,297	445	3,427	2,850		(3,563)	132,456
Shares in non-trading property companies	110,922		1,751	43,561	(17,058)	(2,037)	137,139
Derivatives				**1,122**			**1,122**
Investment property	**800**	**(13)**					**787**
TOTAL	**241,019**	**432**	**5,178**	**47,533**	**(17,058)**	**(5,600)**	**271,504**

Note 4. Receivables arising from banking and other activities

Breakdown by nature

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Receivables arising from banking and other activities	2,523,549	2,412,543
Non-performing receivables arising from banking and other activities	56,501	86,579
Allowances for receivables arising from banking and other activities	(56,501)	(17,597)
TOTAL	**2,523,549**	**2,481,525**

Breakdown by age

Receivables arising from banking and other activities represent receivables acquired within the scope of factoring agreements.

They are recognised at cost within assets in the balance sheet and they are classified as level 2. Factoring receivables include both receivables whose future recovery is guaranteed by Coface and receivables for which the risk of future recovery is borne by the customer.

Where applicable, the Group recognises a valuation allowance against receivables to take account of any potential difficulties in their future recovery, it being specified that the receivables are also covered by a credit insurance agreement. Accordingly, the related risks are covered by claims provisions.

	Dec. 31, 2017					
		Due				
(in thousands of euros)	**Not Due**	**- 3 Months**	**3 Months to 1 Year**	**1 to 5 Years**	**+ 5 Years**	**Total**
Receivables arising from banking and other activities	1,862,396	661,153				2,523,549
Non-performing receivables arising from banking and other activities			6,972	22,407	27,122	56,501
Allowances for receivables arising from banking and other activities			(6,972)	(22,407)	(27,122)	(56,501)
Total receivables arising from banking and other activities	**1,862,396**	**661,153**	**0**	**0**	**0**	**2,523,549**
Claims reserve as hedge for factoring receivables						
Total receivables arising from banking and other activities after claims reserves	**1,862,396**	**661,153**	**0**	**0**	**0**	**2,523,549**

	Dec. 31, 2016					
		Due				
(in thousands of euros)	**Not Due**	**- 3 Months**	**3 Months to 1 Year**	**1 to 5 Years**	**+ 5 Years**	**Total**
Receivables arising from banking and other activities	1,895,174	517,369				2,412,543
Non-performing receivables arising from banking and other activities			10,285	64,474	11,820	86,579
Allowances for receivables arising from banking and other activities			(2,674)	(3,165)	(11,758)	(17,597)
Total receivables arising from banking and other activities	**1,895,174**	**517,369**	**7,611**	**61,309**	**62**	**2,481,525**
Claims reserve as hedge for factoring receivables			(7,611)	(61,309)	(62)	(68,982)
Total receivables arising from banking and other activities after claims reserves	**1,895,174**	**517,369**	**0**	**0**	**0**	**2,412,543**

Note 5. Investments in associates

(in thousands of euros)	Dec 31, 2017	Dec. 31, 2016
Investments in associates at January 1	13,411	20,258
Dividends paid	(0)	(1,009)
Share in net income of associates	2,369	(5,838)
TOTAL INVESTMENTS IN ASSOCIATES	**15,780**	**13,411**

Investment in associates are related to Cofacredit, entity owned at 36% and accounted by equity method. Investments in associates increased by €2,369 thousand during the year 2017.

Note 6. Tangible assets

(in thousands of euros)	Dec. 31, 2017 Net value	Dec. 31, 2016 Net value
Buildings used in the business	35,344	38,528
Other property, plant and equipment	19,335	18,956
TOTAL	**54,679**	**57,484**

	Dec. 31, 2017		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Buildings used in the business	107,795	(72,451)	35,344
Other property, plant and equipment	55,832	(36,497)	19,335
TOTAL	**163,627**	**(108,948)**	**54,679**

	Dec. 31, 2016		
(in thousands of euros)	Gross amount	Amortisation and impairment	Net value
Buildings used in the business	109,016	(70,488)	38,528
Other property, plant and equipment	57,434	(38,478)	18,956
TOTAL	**166,450**	**(108,966)**	**57,484**

Change in the gross amount of property, plant and equipment

(in thousands of euros)	Dec. 31, 2016	Increases	Decreases	Exchange rate and other effects	Dec. 31, 2017
Land used in the business	14,010	(0)	(0)	(0)	14,010
Buildings used in the business	95,006	7	(1,228)	0	93,785
Total buildings used in the business	**109,016**	**7**	**(1,228)**	**0**	**107,795**
Operating guarantees and deposits	5,247	122	(25)	(87)	5,257
Other property, plant and equipment	52,187	4,071	(5,085)	(598)	50,575
Total other property, plant and equipment	**57,434**	**4,192**	**(5,110)**	**(684)**	**55,832**
TOTAL	**166,450**	**4,199**	**(6,338)**	**(684)**	**163,627**

(in thousands of euros)	Dec. 31, 2015	Increases	Decreases	Exchange rate and other effects	Dec. 31, 2016
Land used in the business	14,010	(0)	(0)	(0)	14,010
Buildings used in the business	94,978	28	(0)	(0)	95,006
Total buildings used in the business	**108,988**	**28**	**(0)**	**(0)**	**109,016**
Operating guarantees and deposits	5,202	19	(31)	57	5,247
Other property, plant and equipment	54,175	1,864	(3,758)	(94)	52,187
Total other property, plant and equipment	**59,377**	**1,883**	**(3,789)**	**(37)**	**57,434**
TOTAL	**168,365**	**1,911**	**(3,789)**	**(37)**	**166,450**

Group mainly makes investments in tangible assets relating to the arrangement or layout of operated office buildings. These investments amounted to €4,2 million in the 2017 financial year compared to €1,9 million in the 2016 financial year.

Change in accumulated depreciation and impairment of property, plant and equipment

(in thousand of euros)	Dec. 31, 2016	Additions	Reversals	Exchange rate and other effects	Dec. 31, 2017
Accumulated depreciation – Building used in the business	(70,488)	(2,231)	268	(0)	(72,451)
Accumulated impairment – Buildings used in the business	(0)	(0)	(0)	(0)	(0)
Buildings used in the business	**(70,488)**	**(2,231)**	**268**	**(0)**	**(72,451)**
Accumulated depreciation other property, plant & equipment	(36,031)	(3,563)	4,802	394	(34,398)
Accumulated impairment other property, plant & equipment	(2,447)	(19)	333	34	(2,099)
Other property, plant and equipment	**(38,478)**	**(3,582)**	**5,135**	**428**	**(36,497)**
TOTAL	**(108,966)**	**(5,813)**	**5,403**	**428**	**(108,948)**

(in thousand of euros)	Dec. 31, 2015	Additions	Reversals	Exchange rate and other effects	Dec. 31, 2016
Accumulated depreciation – Building used in the business	(68,232)	(2,256)	(0)	(0)	(70,488)
Accumulated impairment – Buildings used in the business	(0)	(0)	(0)	(0)	(0)
Buildings used in the business	**(68,232)**	**(2,256)**	**(0)**	**(0)**	**(70,488)**
Accumulated depreciation other property, plant & equipment	(34,858)	(3,496)	2,209	114	(36,031)
Accumulated impairment other property, plant & equipment	(168)	(2,233)	(1)	(45)	(2,447)
Other property, plant and equipment	**(35,026)**	**(5,729)**	**2,208**	**69**	**(38,478)**
TOTAL	**(103,258)**	**(7,985)**	**2,208**	**69**	**(108,966)**

Market value of buildings used in the business

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Carrying amount	35,344	38,528
Market value	60,794	60,383
UNREALISED GAIN	**25,450**	**21,855**

The buildings held by the Coface Group do not represent any unrealised losses; no impairment is therefore recorded at December 31st, 2017.

Note 7. Receivables arising from insurance and reinsurance operations

Breakdown by nature

(in thousands of euros)	Dec. 31, 2017			Dec. 31, 2016		
Trade receivables arising from other activities	303,603	(33,601)	270,003	323,460	(31,114)	292,346
Current tax receivbales	119,998	(0)	119,998	127,962	(0)	127,962
Other receivables	105,129	(289)	104,840	111,133	(3,168)	107,965
Total	**528,730**	**(33,890)**	**494,840**	**562,555**	**(34,282)**	**528,273**

Breakdown by age

(in thousands of euros)	Dec. 31, 2017					
	Not due	Due				
		-3 months	3 months to 1 year	1 to 5 years	+ 5 years	Total
TOTAL Receivables arising from insurance and reinsurance operations	**360,819**	**78,253**	**37,193**	**13,635**	**4,939**	**494,839**

(in thousands of euros)	Dec. 31, 2016					
	Not due	Due				
		-3 months	3 months to 1 year	1 to 5 years	+5 years	Total
TOTAL Receivables arising from insurance and reinsurance operations	385,919	68,846	55,268	12,035	6,205	528,273

The insurance business operates on a reverse production cycle: premiums are earned before claims are paid out. Furthermore, Coface primarily bills its clients on a monthly or quarterly basis, which allows it to recognise its receivables with a short-term maturity of less than or equal to 3 months.
Consequently, the risk of liquidity linked to insurance receivables is considered to be marginal.

Note 8. Other assets

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Deferred acquisition costs	43,903	46,393
Trade receivables arising from other activities	47,640	14,849
Current tax receivbales	60,286	69,126
Other receivables	139,913	138 246
Total	**291,742**	**268,614**

"Other receivables" mainly includes :

- Receivables in factoring entities towards credit-insurance entities for €58 millions;
- Loans granted to non-consolidated Coface entities for €27 millions.

Note 9. Cash and cash equivalents

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Cash at bank and in hand	236,813	289,434
Cash equivalents	27,512	42,637
Total	**264,325**	**332,071**

Operational cash optimization continued during FY 2017, leading to a decrease of the cash amounts and an increase in long term investments. Cash and cash equivalents are all available; no amount is placed on escrow type accounts.

Note 10. Share capital

Ordinary shares	Number of shares	Per value	Share capital (in €)
At December 31, 2016	157,248,232	2	314,496,464
Nominal value decrease		-	-
At December 31, 2017	**157,248,232**	**2**	**314,496,464**
Treasury shares deducted	(510,536)	2	(1,021,072)
At December 31, 2017 (excluding treasury shares)	**156,737,696**	**2**	**313,475,392**

	Dec. 31, 2017		Dec. 31, 2016	
Shareholders	Number of shares	%	Number of shares	%
Natixis	64,853,881	41.38%	64,853,881	41.33%
Public	91,883,815	58.62%	92,050,341	58.67%
Total excluding treasury shares	**156,737,696**	**100.00%**	**156,904,222**	**100.00%**

The parent company of the Coface Group is Natixis, which in turn is owned by BPCE, the central body of Banques Populaires and Caisses d'Épargne.

Natixis holds, at the end of December 2017, 41.38% of the Coface Group's shares excluding treasury shares, and 41.24% including treasury shares.

Note 11. Share-based payments

Ongoing free share plans

In connection with its stock market listing, the Coface Group awarded free shares to certain beneficiaries (corporate officers and employees of COFACE SA subsidiaries).

Plan	Allocation date	Number of shares granted	Acquisition period	Acquisition date	Availability date	Fair value of the share at the allocation date	Net expense for the year (in thousands of euros)
Allotment of exceptional free shares	June 26, 2014	43,269	2 years	July 1, 2016	July 1, 2018	10.4	**(0)**
Long-term Incentive Plan 2014	June 26, 2014	78,842	3 years	July 1, 2017	July 1, 2019	10.4	**(558)**
Long-term Incentive Plan 2015	Feb. 17, 2015	106,800	3 years	Feb. 18, 2018	Feb. 18, 2020	11.8	**346**
Long-term Incentive Plan 2016	Nov. 03, 2016	302,196	3 years	Nov. 04, 2019	Nov. 04, 2019	5.5	**563**
Long-term Incentive Plan 2017	Feb. 08, 2017	400,546	3 years	Feb. 09, 2020	Feb. 09, 2020	6.2	**632**

Change in the number of free shares

Plan	Number of free shares at Dec. 31, 2016	Number of new free share grants in 2017	Number of free shares cancelled in 2017	Number of free shares acquired in 2017	Number of shares to be acquired at Dec. 31, 2017
Allotment of exceptional free shares	(0)			(0)	**(0)**
Long-term Incentive Plan 2014	78,842		(78,842)		**(0)**
Long-term Incentive Plan 2015	106,800				**106,800**
Long-term Incentive Plan 2016	302,196	(0)			**302,196**
Long-term Incentive Plan 2017	(0)	400,546			**400,546**

The total number of shares allocated to the *Long-term Incentive Plan 2017* amounts to 405 318 shares; only 400 546 shares were affected nominatively to beneficiaries including 366 146 shares and 34 400 performance units.

Performance units are awarded instead of free shares as soon as the free shares implementation appears complex or irrelevant in terms of the number of beneficiaries. These units are indexed on the share price and subject to the same conditions of presence and performance that shares free but are valued and paid in cash at the end of the vesting period.

The vesting of free shares under the *Long-term Incentive Plan* is contingent on a presence requirement and achieving of objectives.

Measurement of free shares

In accordance with IFRS 2 relating to “Share-based payments”, the award of free shares to employees results in the recognition of an expense corresponding to the fair value of shares granted on the award date adjusted for unpaid dividends during the rights vesting period and transfer restrictions during the holding period, as well as the probability of the materialisation of the performance conditions.

The plans were measured on the assumptions below:

- discount rate corresponding to a risk-free rate on the plans’ duration;
- income distribution rate set at 60%;
- the lock-in value, which is calculated in consideration of a risk-free interest rate and a two-year borrowing rate.

Based on these assumptions, a total of €983 thousand was expensed under the implemented plans at December 31, 2017.

Note 12. Revaluation reserves

(in thousands of euros)	Investment instruments	Reserves - gains and losses not reclassifiable to income (IAS 19R)	Income tax	Revaluation reserves attributable to owners of the parent	Non-controlling interests	Revaluation reserves
At January 1, 2017	**139,686**	**(33,105)**	**(13,763)**	**92,818**	**2,415**	**95,233**
Fair value adjustments on available-for-sale financial assets reclassified to income	(11,199)		2,684	(8,515)	(1)	(8,516)
Fair value adjustments on available-for-sale financial assets recognised in equity	23,128		(7,913)	15,215	(157)	15,058
Change in reserves - gains and losses not reclassificable to income (IAS 19R)	(0)	968	(1,821)	(853)		(853)
Transactions with shareholders	2,373		5	2,378	(2,378)	0
At December 31, 2017	**153,988**	**(32,137)**	**(20,808)**	**101,043**	**(121)**	**100,922**

(in thousands of euros)	Investment instruments	Reserves - gains and losses not reclassifiable to income (IAS 19R)	Income tax	Revaluation reserves attributable to owners of the parent	Non-controlling interests	Revaluation reserves
At January 1, 2016	**107,435**	**(25,294)**	**(5,267)**	**76,874**	**3,009**	**79,883**
Fair value adjustments on available-for-sale financial assets reclassified to income	1,906		(1,328)	578		**578**
Fair value adjustments on available-for-sale financial assets recognised in equity	30,345		(9,601)	20,744		**20,150**
Change in reserves - gains and losses not reclassificable to income (IAS 19R)		(7,811)	2,433	(5,378)	(594)	**(5,378)**
Transactions with shareholders						
At December 31, 2016	**139,686**	**(33,105)**	**(13,763)**	**92,818**	**2,415**	**95,233**

Note 13. Provisions for liabilities and charges

(in thousands of euros)	Dec 31, 2017	Dec 31, 2016
Provisions for disputes	5,652	9,683
Provisions for pension and other post-employment	66,141	71,798
Other provisions for liabilities and charges	49,923	69,593
Total	**121,716**	**151,074**

(in thousands of euros)	Dec. 31, 2016	Additions	Reversals (utilised)	Reversals (surplus)	Reclassi-fications	Changes in OCI	Exchange rate effects	Dec 31, 2017
Provisions for tax disputes	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Provisions for employee	7,005	246	(1,347)	(714)	(2,080)	(0)	(16)	3,094
Provisions for other disputes	2,678	353	(0)	(0)	(72)	(0)	(401)	2,558
Provisions for disputes	**9,683**	**599**	**(1,347)**	**(714)**	**(2,152)**	**(0)**	**(417)**	**5,652**
Provisions for pension	**71,798**	**3,160**	**(6,466)**	**(1,032)**	**(4)**	**(1,026)**	**(289)**	**66,141**
Provisions for liabilities	15,786	1,480	(0)	(3,057)	(0)	(0)	(58)	14,151
Provisions for restructuring	42,906	6,967	(10,589)	(8,446)	1	(0)	(1)	30,838
Provisions for taxes (excl. income taxes)	4,932	5,215	(8,414)	(0)	336	(0)	(24)	2,045
Other provisions for liabilities	5,969	1,517	(5,699)	(806)	1,905	(0)	3	2,889
Other provisions for liabilities and charges	**69,593**	**15,179**	**(24,702)**	**(12,309)**	**2,242**	**(0)**	**(80)**	**49,923**
Total	**151,074**	**18,938**	**(32,515)**	**(14,055)**	**86**	**(1,026)**	**(786)**	**121,716**

(in thousands of euros)	Dec. 31, 2015	Additions	Reversals (utilised)	Reversals (surplus)	Reclassi-fications	Changes in OCI	Exchange rate effects	Dec 31, 2016
Provisions for tax disputes	3,525			(177)	(3,346)		(2)	
Provisions for employee	5,683	4,059	(2,334)	(423)			20	7,005
Provisions for other disputes	1,758	728	(200)	(11)	(1)		404	2,678
Provisions for disputes	**10,966**	**4,787**	**(2,534)**	**(611)**	**(3,347)**		**422**	**9,683**
Provisions for pension	**84,855**	**9,220**	**(4,736)**	**(25,414)**	**1**	**7,815**	**57**	**71,798**
Provisions for liabilities	13,999	1,596		(164)			357	15,788
Provisions for restructuring	888	42,277	(220)	(42)			3	42,906
Provisions for taxes (excl. income taxes)		1,600			3,346		(15)	4,931
Other provisions for liabilities	3,527	2,580			(125)		(14)	5,968
Other provisions for liabilities and charges	**18,413**	**48,053**	**(220)**	**(206)**	**3,221**		**332**	**69,593**
Total	**114,234**	**62,060**	**(7,490)**	**(26,231)**	**(125)**	**7,815**	**811**	**151,074**

Provisions for liabilities and charges mainly include provisions for pensions and other post-employment benefit obligations and provisions for restructuring.

The provisions for restructuring amount to €30.8 million at December 31, 2017. They are related to the implementation of the *Fit to Win* strategic plan for €18 million and a provision for vacant premises €12.3 million.

Implementation of *Fit to Win* strategic plan

French entities contribute to the provisions for restructuring *Fit to Win* for €7.6 million. They are mainly composed of pre-retirement provisions for €5.8 million according to the plan showed to the employees' representative bodies on December 13th, 2016 concerning 64 posts.

The 2016 assumptions have been reviewed with additional items linked to the implementation of the plan ; ledding to a reduction of the average cost per employee and the provision as well.

German entities have updated the 2016's restructuring provisions, which had been presented to employees representative bodies on November 30th, 2016. At December 31st, 2017, these provisions amount €8.2 million affecting 45 posts. The calculation of the provision is based on an average salary according to the industry standard. It takes into account the staff seniority and other additional costs (cost of portage, cost of reinsertion and assessment of bonuses that can be negotiated individually).

The decrease in the provisions on the year 2017 is due to a reversal used to offset the cost of departures, and to a reversal of provisions which became irrelevant for €8 million. This reversal comes from two effects. On one hand, the number of posts affected by the plan has been reduced, and on the other hand, some departures did not have any additional costs.

Provisions for vacant premises

Provisions for restructuring also include a provision on vacant premises and redevelopment of premises. This provision was initially constituted on the financial year 2016 following the transfer of State export guarantees to BPI France and the redevelopment of Bois-Colombes site. It was updated in 2017 and now amounts to €12.3 million.

The valuation of this provision is based on an assumption of vacant premises renting as from June 2018. This provision represents about one-third of the total surface earned with the site's redevelopment. The conditions selected are based on a market price and a rent-free period.

Note 14. Employee benefits

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Present value of benefit obligation at January 1st	**73,863**	**86,784**
Current service cost *	2,191	(18,665)
Interest cost	(1,107)	1,408
Actuarial (gains) / losses	(1,167)	9,219
Benefits paid	(5,600)	(4,949)
Other	23	67
Present value of benefit obligation at December 31st	**68,203**	**73,864**
Change in plan assets		
Fair value of plan assets at January 1st	**2,065**	**1,929**
Revaluation adjustments – Return on plan assets	(117)	135
Acquisitions / mergers / deconsolidations	(0)	(0)
Employee contributions	(0)	110
Employer contributions	158	140
Benefits paid	(225)	(249)
Other	181	(0)
Fair value of plan assets at December 31st	**2,062**	**2,065**
Reconciliation		
Present value of benefit obligation at December 31st	**68,203**	**73,864**
Fair value of plan assets	2,062	2,065
(Liability) / Asset recognised in the balance sheet at December	**(66,141)**	**(71,799)**
Income statement		
Current service cost	1,901	6,532
Past service cost	(0)	(0)
Benefits paid including amounts paid in respect of settlements	289	(0)
Interest cost	1,079	1,408
Interest income	(10)	(38)
Revaluation adjustments on other long-term benefits	(255)	1,306
Other	155	13
(Income) / Expenses recorded in the income statement	**3,160**	**9,221**
Changes recognised directly in equity not reclassifiable to income		
Revaluation adjustments arising in the year	(1,026)	7,815
Revaluation adjustments recognised in equity not reclassifiable to income	**(1,026)**	**7,815**

(in thousands of euros) Dec. 31, 2017	France	Germany	Austria	Italy	Other	TOTAL
Present value of benefit obligation at January 1st	**18,329**	**29,099**	**19,757**	**3,666**	**3,012**	**73,863**
Current service cost	729	1,343	(249)	124	244	2,191
Interest cost	(274)	(842)	119	(110)	(0)	(1,107)
Actuarial (gains) / losses	(570)	(613)	331	(315)	(0)	(1,167)
Benefits paid	(1,146)	(2,645)	(1,656)	(153)	(0)	(5,600)
Other	3	(13)	(143)	(0)	175	22
Present value of benefit obligation at December 31st	**17,071**	**26,329**	**18,159**	**3,212**	**3,431**	**68,203**
Change in plan assets						
Fair value of plan assets at January 1st	**(0)**	**1,339**	**907**	**(0)**	**(181)**	**2,065**
Revaluation adjustments – Return on plan assets	(0)	(75)	(42)	(0)	(0)	(117)
Employer contributions	(0)	15	143	(0)	(0)	158
Benefits paid	(0)	(57)	(168)	(0)	(0)	(225)
Other	(0)	(0)	(0)	(0)	181	181
Fair value of plan assets at December 31st	**(0)**	**1,221**	**841**	**(0)**	**(0)**	**2,062**
Reconciliation						
Present value of benefit obligation at December 31st	**17,071**	**26,329**	**18,159**	**3,212**	**3,431**	**68,203**
Fair value of plan assets	(0)	1,221	841	(0)	(0)	2,062
(Liability) / Asset recognised in the balance sheet at December	**(17,071)**	**(25,108)**	**(17,318)**	**(3,212)**	**(3,431)**	**(66,141)**
Income statement						
Current service cost	656	1,119	47	79	(0)	1,901
Past service cost	(0)	(0)	(0)	(0)	(0)	(0)
Benefits paid including amounts paid in respect of settlements	(0)	(0)	289	(0)	(0)	289
Interest cost	165	183	45	155	531	1,079
Interest income	(0)	(10)	(0)	(0)	(0)	(10)
Revaluation adjustments on other long-term benefits	(0)	(255)	(0)	(0)	(0)	(255)
Other	(0)	(0)	(0)	155	(0)	155
(Income) / Expenses recorded in the income statement	**821**	**1,037**	**381**	**389**	**531**	**3,160**
Changes recognised directly in equity not reclassifiable to income						
Revaluation adjustments arising in the year	(570)	(613)	331	(315)	141	(1,026)
Revaluation adjustments recognised in equity not reclassifiable to income	**(570)**	**(613)**	**331**	**(315)**	**141**	**(1,026)**

(in thousands of euros) Dec. 31, 2016	France	Germany	Austria	Italy	Other	TOTAL
Present value of benefit obligation at January 1st	**38,208**	**25,111**	**18,458**	**2,436**	**2,570**	**86,783**
Current service cost	(22,379)	2,017	264	1,011	422	(18,665)
Interest cost	570	459	339	41	(0)	1,408
Actuarial (gains) / losses	3,475	3,617	1,757	349	20	9,219
Benefits paid	(1,543)	(2,103)	(1,065)	(171)	(66)	(4,949)
Other	(2)	(1)	4	(0)	65	66
Present value of benefit obligation at December 31st	**18,329**	**29,099**	**19,757**	**3,666**	**3,011**	**73,863**
Change in plan assets						
Fair value of plan assets at January 1	**(0)**	**1,201**	**909**	**(0)**	**(181)**	**1,929**
Revaluation adjustments – Return on plan assets	(0)	128	7	(0)	(0)	135
Employer contributions	(0)	139	1	(0)	(0)	140
Benefits paid	(0)	(145)	(103)	(0)	(0)	(249)
Other	(0)	(0)	(0)	(0)	(0)	(0)
Fair value of plan assets at December 31st	**(0)**	**1,339**	**907**	**(0)**	**(181)**	**2,065**
Reconciliation						
Present value of benefit obligation at December 31st	**18,329**	**29,099**	**19,757**	**3,666**	**3,011**	**73,862**
Fair value of plan assets	(0)	1,339	907	(0)	(181)	2,065
(Liability) / Asset recognised in the balance sheet at December	**(18,329)**	**(27,761)**	**(18,850)**	**(3,666)**	**(3,192)**	**(71,798)**
Income statement						
Current service cost	2,818	2,017	264	1,011	422	6,532
Past service cost	(0)	(0)	(0)	(0)	(0)	(0)
Benefits paid including amounts paid in respect of settlements	(0)	(0)	(0)	(0)	(0)	(0)
Interest cost	570	459	339	41	(0)	1,408
Interest income	(0)	(20)	(18)	(0)	(0)	(38)
Revaluation adjustments on other long-term benefits	(37)	1,263	(12)	91	(0)	1,306
Other	(0)	(0)	5	(0)	8	13
(Income) / Expenses recorded in the income statement	**3,351**	**3,718**	**578**	**1,143**	**430**	**9,220**
Changes recognised directly in equity not reclassifiable to income						
Revaluation adjustments arising in the year	3,511	2,247	1,780	258	19	7,815
Revaluation adjustments recognised in equity not reclassifiable to income	**3,511**	**2,247**	**1,780**	**258**	**19**	**7,815**

Actuarial assumptions

The discount rate applied to the Group's employee benefit obligations is based on the Bloomberg Corporate AA curve for French entities and on a basket of international AA-rated corporate bonds for foreign entities.

Dec. 31, 2017	France	Germany	Austria	Italy
Inflation rate	1.60%	1.60%	1.90%	1.60%
Discount rate				
Supplementary retirement and other plans	0.10%	1.75%	1.75%	N/A
Statutory retirement benefits	1.10%	N/A	1.75%	1.75%
Long-service awards	0.75%	1.75%	1.75%	1.75%
Other benefits	1.60%	1.75%	N/A	1.75%
Rate of salary increases (including inflation)	1.90%	2.40%	3.00%	1.60%
Rate of increase in medical costs (including inflation)	4.10%	N/A	N/A	4.40%
Average remaining working life until retirement				
Supplementary retirement and other plans	0.00	0.37	5.02	7.70
Statutory retirement benefits	15.80	N/A	9.92	12.40
Long-service awards	15.82	15.69	18.65	9.20
Other benefits	0.00	2.28	N/A	N/A
Term (years)				
Supplementary retirement and other plans	14.87	12.52	16.14	17.25
Statutory retirement benefits	11.92	0.00	9.06	10.10
Long-service awards	8.18	10.41	9.86	10.72
Other benefits	N/A	1.39	N/A	N/A

Dec. 31, 2016	France	Germany	Austria	Italy
Inflation rate	1.60%	1.90%	1.90%	1.90%
Discount rate				
Supplementary retirement and other plans	0.10%	0.85%	0.85%	0.85%
Statutory retirement benefits	0.75%	N/A	0.85%	0.85%
Long-service awards	0.45%	0.85%	0.85%	N/A
Other benefits	1.55%	0.85%	N/A	0.85%
Rate of salary increases (including inflation)	1.90%	2.40%	3.00%	1.90%
Rate of increase in medical costs (including inflation)	4.10%	N/A	N/A	4.40%
Average remaining working life until retirement				
Supplementary retirement and other plans	0.00	7.28	7.11	11.37
Statutory retirement benefits	15.68	N/A	8.42	13.37
Long-service awards	15.68	18.52	14.61	14.70
Other benefits	1.00	3.72	N/A	N/A
Term (years)				
Supplementary retirement and other plans	14.16	11.49	12.57	18.19
Statutory retirement benefits	10.40	N/A	8.31	9.98
Long-service awards	7.95	11.65	8.01	11.04
Other benefits	N/A	1.94	N/A	N/A

Sensitivity tests on the defined benefit obligation

Dec. 31, 2017	Post-employment defined benefit obligations		Other long-term benefits	
	Supplementary retirement and other plans	Statutory retirement benefits	Long-service awards	Other benefits
1% increase in the discount rate	-12.28%	-9.87%	-9.11%	-1.34%
-1% increase in the discount rate	15.43%	11.74%	10.69%	1.38%
1% increase in the inflation rate	7.93%	9.20%	1.22%	1.12%
-1% increase in the inflation rate	-6.60%	-7.86%	-1.40%	-1.11%
1% increase in rate of increase in medical costs	15.93%	0.00%	0.00%	0.00%
-1% increase in rate of increase in medical costs	-13.12%	0.00%	0.00%	0.00%
1% decrease in rate of salary increase (including inflation)	10.86%	10.98%	2.30%	1.12%
-1% decrease in rate of salary increase (including inflation)	-9.05%	-9.42%	-2.34%	-1.11%

Dec. 31, 2016	Post-employment defined benefit obligations		Other long-term benefits	
	Supplementary retirement and other plans	Statutory retirement benefits	Long-service awards	Other benefits
1% increase in the discount rate	-12.27%	-9.56%	-9.49%	-1.52%
-1% increase in the discount rate	15.20%	11.32%	11.17%	1.57%
1% increase in the inflation rate	1.30%	11.04%	11.53%	1.01%
-1% increase in the inflation rate	-1.17%	-9.49%	-10.31%	-1.00%
1% increase in rate of increase in medical costs	8.78%	8.52%	0.00%	1.01%
-1% increase in rate of increase in medical costs	-7.22%	-7.31%	0.00%	-1.00%
1% decrease in rate of salary increase (including inflation)	16.74%	0.00%	0.00%	0.00%
-1% decrease in rate of salary increase (including inflation)	-13.82%	0.00%	0.00%	0.00%

Note 15. Financing liabilities

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Due within one year		
- Finance leases	(0)	2,291
- Subordinated debt (Interest and amortization of expenses)	11,254	(0)
Total	**11,254**	**2,291**
Due between one and five years		
- Subordinated debt (amortization of expenses)	(1,642)	(0)
Total	**(1,642)**	**(0)**
Due beyond five years		
- Subordinated debt	378,622	387,753
Total	**378,622**	**387,753**
Total	**388,234**	**390,044**

On March 27th, 2014, COFACE SA issued a subordinated debt in the form of bonds for a nominal amount of €380 million (corresponding to 3,800 bonds with a nominal unit value of €100,000), maturing on March 27, 2024 (10 years), with an annual interest rate of 4.125%.
The per-unit bond issue price was €99,493.80, and the net amount received by COFACE SA was €376.7 million, net of placement fees and directly-attributable transaction costs.

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

On March 25th, 2014, a joint guarantee was issued by Compagnie française d'assurance pour le commerce extérieur for €380 million, in favour of the investors in COFACE SA's subordinated bonds, applicable until the extinction of all liabilities in respect of said investors.

As at December 31st, 2017, the debt presented on the line "Subordinated borrowings" of the balance sheet, amounted to €388,234 thousand, is composed of:

- nominal amount of bonds: €380,000 thousand;
- reduced by the debt issuance costs and the issue premium for €3,522 thousand;
- increased by accrued interest of €11,756 thousand.

The impact on consolidated income statement income as at December 31st, 2017 mainly includes the interest related to the period for €16,156 thousand.

Note 16. Liabilities relating to insurance contracts

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Provisions for unearned premiums	271,227	275,860
Claims reserves	1,265,601	1,275,230
Provisions for premium refunds	145,430	127,159
Liabilities relating to insurance contracts	**1,682,258**	**1,678,249**
Provisions for unearned premiums	(61,584)	(47,986)
Claims reserves	(309,120)	(266,756)
Provisions for premium refunds	(34,474)	(26,605)
Reinsurers' share of technical insurance liabilities	**(405,178)**	**(341,347)**
Net technical provisions	**1,277,080**	**1,336,902**

Note 17. Payables arising from banking sector activities

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Amounts due to banking sector companies	568,711	452,144
Amounts due to customers of banking sector companies	322,064	366,363
Debt securities	1,636,941	1,591,184
TOTAL	**2,527,716**	**2,409,691**

The lines "Amounts due to banking sector companies" and "Debt securities" correspond to sources of refinancing for the Group's factoring entities – Coface Finanz (Germany) and Coface Factoring Poland.

Note 18. Deferred tax

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets	(79,516)	(71,973)
Deferred tax liabilities	113,595	104,500
Net deferred tax - liabilities	**34,079**	**32,527**
Temporary differences	(26,984)	(23,510)
Provisions for pensions and other employment benefit obligations	(10,751)	(14,452)
Tax loss carry forwards	(7,752)	(9,348)
Cancellation of the claims equalization provision	79,566	79,837
Net deferred tax - liabilities	**34,079**	**32,527**

Deferred tax assets and liabilities must be assessed at the rate applicable on the date on which the asset will be realized or the liabilities will be settled.

In France, the finance law for 2017 predicted a decline in the current common law rate from 33.33% to 25% progressively between 2019 and 2022. This future rate change has been taken into account in the valuation of deferred taxes of the French entities of the Coface group.

Each entity is compensating deferred tax assets and liabilities whenever it is legaly authorized to compensate due tax assets and liabilities.

Changes in deferred tax balances by region

Deferred tax with positive signs are deferred tax liabilities. On the other hand, those with negative signs are deferred tax assets.

(in thousands of euros)	Dec. 31, 2016	Change through income	Revaluation adjustment on AFS investments	Change in Currency impact	Other movements	Dec. 31, 2017
Northern Europe	68,120	(12,684)	(80)	(0)	192	55,548
Western Europe	(9,456)	14,269	4,100	(191)	1,840	10,562
Central Europe	164	(374)	(48)	(45)	(83)	(386)
Mediterranean & Africa	(10,802)	(4,427)	(0)	88	211	(14,930)
North America	(2,880)	2,550	(205)	317	(3)	(221)
Latin America	(3,842)	124	1,413	835	(1,771)	(3,241)
Asia Pacific	(8,777)	(5,205)	(22)	751	(0)	(13,253)
Total	**32,527**	**(5,747)**	**5,158**	**1,755**	**386**	**34,079**

(in thousands of euros)	Dec. 31, 2015	Change through income	Revaluation adjustment on AFS investments	Change in Currency impact	Other movements	Dec. 31, 2016
Northern Europe	114,897	(46,115)	44	(0)	(706)	68,120
Western Europe	(16,193)	(1,925)	9,824	48	(1,210)	(9,456)
Central Europe	(480)	1,002	(29)	115	(445)	164
Mediterranean & Africa	(5,587)	(5,120)	(0)	(23)	(72)	(10,802)
North America	902	(3,625)	(116)	(40)	(0)	(2,880)
Latin America	803	(4,432)	1,209	(1,422)	(0)	(3,842)
Asia Pacific	(7,614)	(674)	(0)	(489)	(0)	(8,777)
Total	**86,728**	**(60,889)**	**10,932**	**(1,811)**	**(2,433)**	**32,527**

The “Other movements” column mainly includes deferred taxes on changes in retirement benefits recognised as equity not reclassifiable to income.

Deferred taxes related to Loss Carry

The breakdown by region of deferred taxes assets linked to tax deficits is as follows

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Northern Europe		907
Western Europe	173	1,174
Central Europe	953	676
Mediterranean & Africa	580	581
North Africa	244	4,117
Latin America		1,193
Asia-Pacific	5,802	700
Net deferred tax - liabilities	**7,752**	**9,348**

The recognition of deferred tax assets on loss carry is subject to a case-by-case recoverability analysis, taking into account the forecasts of the results of each entity. Deferred tax assets on losses are recognized at the level of entity's income tax results estimated for the period from 2017 to 2022, ie a recoverability horizon of five years. This recognition results from a Business Tax Plan prepared by each entity on the basis of the Business Plan approved by the Management.

Note 19. Payables arising from insurance and reinsurance

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Guarantee deposits received from policyholders and other	4,520	3,461
Amounts due to policyholders and agents	120,908	112,786
Payables arising from insurance and inward reinsurance operations	**125,428**	**116,247**
Amounts due to reinsurers	75,279	71,350
Deposits received from reinsurers	4,023	4,314
Payable arising from ceded reinsurance operations	**79,302**	**75,664**
Total	**204,730**	**191,911**

Note 20. Other liabilities

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Current tax payables	**76,996**	**110,847**
Derivatives and related liabilities	**267**	**7,508**
Accrued personnel costs	51,545	47,538
Sundry payables	226,704	171,023
Deferred income	8,338	7,908
Other accruals	18,338	30,537
Other payables	**304,925**	**257,006**
Total	**382,188**	**375,361**

Note 21. Revenue

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Premiums – direct business	1,137,778	1,120,765
Premiums – inward reinsurance	81,834	81,675
Gross written premiums	**1,219,612**	**1,202,440**
Premium refunds	**(98,954)**	**(92,876)**
Change of provisions for unearned premiums	**(10,961)**	**5,576**
Earned premiums	**1,109,697**	**1,115,140**
Fees and commission income	**128,914**	**128,795**
Net income from banking activities	**72,043**	**70,619**
Other insurance-related services	4,382	5,882
Remuneration of public procedures management services	574	53,361
Business information and other services	27,436	25,170
Receivables management	11,886	12,330
Income from other activities	**44,279**	**96,743**
Revenue or income from other activities	**245,236**	**296,157**
CONSOLIDATED REVENUE	**1,354,933**	**1,411,297**

Consolidated revenue by country of invoicing

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Northern Europe	303,872	307,320
Western Europe	280,785	327,176
Central Europe	127,708	121,259
Mediterranean & Africa	348,021	331,864
North America	121,894	136,119
Latin America	75,715	77,743
Asia-Pacific	96,938	109,816
CONSOLIDATED REVENUE	**1,354,933**	**1,411,297**

Consolidated revenue by activity

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Earned premiums - Credit	1,029,499	1,039,916
Earned premiums - Single risk	27,190	24,451
Earned premiums - Credit insurance	**1,056,689**	**1,064,367**
Fees and commission income	**128,914**	**128,795**
Other insurance-related services	**4,382**	**5,882**
Remuneration of public procedures management services	**574**	**53,361**
Revenue of credit insurance activity	**1,190,559**	**1,252,405**
Earned premiums - Guarantees	**53,008**	**50,773**
Financing fees	39,472	35,545
Factoring fees	33,884	35,557
Other	(1,314)	(483)
Net income from banking activities (factoring)	**72,043**	**70,619**
Business information and other services	27,436	25,170
Receivables management	11,886	12,330
Revenue of business information and other services activity	**39,322**	**37,500**
CONSOLIDATED REVENUE	**1,354,933**	**1,411,297**

Note 22. Claim expenses

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Paid claims, net of recoveries	(502,446)	(535,995)
Claims handling expenses	(26,607)	(25,139)
Change in claims reserves	(41,810)	(144,521)
Total	**(570,863)**	**(705,655)**

Claims expenses by period of occurence

(in thousands of euros)	Dec. 31, 2017			Dec. 31, 2016		
	Gross	Outward	Net	Gross	Outward	Net
Claims expenses – current year	(797,900)	196,781	(601,119)	(782,164)	167,717	(614,447)
Claims expenses – prior years	227,037	(40,980)	186,057	76,509	(23,514)	52,995
Total	**(570,863)**	**155,801**	**(415,062)**	**(705,655)**	**144,203**	**(561,452)**

Note 23. Overheads by function

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Acquisition costs	*(262,607)*	*(255,289)*
Administrative costs	*(253,532)*	*(275,095)*
Other operating expenses	*(70,816)*	*(83,004)*
Expenses from banking activities, excluding cost of risk	*(13,779)*	*(13,193)*
Expenses from other activities	*(53,130)*	*(44,379)*
Operating Expenses	(653,864)	(670,960)
Investment management expenses	(2,141)	(2,659)
Claims handling expenses	(26,607)	(25,139)
Total	**(682,612)**	**(698,758)**
of which employee profit-sharing	(4,662)	(5,118)

Total overheads includes general insurance expenses (by function), expenses from other activities and expenses from banking activities. It came out at €682,612 thousand as at December 31st, 2017 versus €698,758 thousand as at December 31st, 2016.

In the income statement, claims handling expenses are included in "Claims expenses" and investment management expenses are shown in "Investment income, net of management expenses (excluding finance costs)".

Note 24. Expenses from banking activities

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Charges to allowances for receivables	(3,490)	(15,129)
Reversal of allowances for receivables	38	10,965
Losses on receivables not covered by allowances	(1,031)	(58)
Cost of risk	**(4,483)**	**(4,222)**
Operating expenses	**(13,779)**	**(13,193)**
Total expenses from banking activities	**(18,262)**	**(17,415)**

"Cost of risk" corresponds to the risk-related expense on credit insurance operations conducted by factoring companies, which includes net additions to provisions, receivables written off during the year, and recoveries of amortised receivables.

Note 25. Income and expenses from ceded reinsurance

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Ceded claims	112,655	124,553
Change in claims provisions net of recoveries	43,153	19,649
Commissions paid by reinsurers	119,767	95,738
Income from ceded reinsurance	**275,575**	**239,940**
Ceded premiums	(315,203)	(249,702)
Change in unearned premiums provisions	13,658	(7,837)
Expenses from ceded reinsurance	**(301,545)**	**(257,539)**
Total	**(25,970)**	**(17,599)**

Note 26. Investment income, net of management expenses (excluding finance costs)

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Investment income	43,621	43,780
Change in financial instruments at fair value though income	1,541	(7,850)
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds	*64*	*(7,032)*
Net gains on disposals	4,059	1,105
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds	*(68)*	*(63)*
Additions to/(reversals from) impairment	1,620	(2,294)
Net foreign exchange gains	8,041	16,472
o/w hedged by currency derivatives on "Colombes" and "Lausanne" mutual funds [(1)]	(5,267)	2,584
Investment management expenses	(3,601)	(3,180)
Total	**55,281**	**48,032**

[(1)] The Colombes and Lausanne funds foreign exchange result covered by derivatives amounts to (€5,267) thousand ; they break down into €1,790 thousand in realized profit and (€7,057) thousand in unrealized losses.

Investment income by class

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Equities	6,688	1,610
Fixed income	36,821	37,462
Investment properties	6,337	4,424
Sub-total	**49,846**	**43,496**
Associated and non consolidated companies	4,515	1,447
Exchange rate - change profit/loss	4,521	6,270
Financial and investment charges	(3,601)	(3,180)
Total	**55,281**	**48,032**

Note 27. Other operating incomes and expenses

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
State export guarantees management transfer		(13,693)
Fit to Win restructuring charges	(6,650)	(38,626)
Provision for the compensation of American agents	(1,783)	(1,678)
Other operating expenses	(614)	(948)
Total other operating expenses	**(9,047)**	**(54,945)**
Gain on State export guarantees management transfer		77,200
Transfer of liabilities related to State export guarantees management		11,450
Reversal of provisions on strategic plan *Fit to Win*	8,446	
Gain linked to alignment of social benefits with market standards		19,209
Other operating income	10	582
Total other operating incomes	**8,456**	**108,441**
Total	**(591)**	**53,496**

Other operating income and expenses concern mainly restructuration fees related to the strategic plan *Fit to Win*.

- Other operating incomes include reversal of provisions which became irrelevant for €8.4 millions in German entities. This reversal comes from two effects. One one hand, the number of posts affected by the plan has been reduced, and on the other hand, some departures did not have any additional costs.

- Other operating expenses include an increase of the provision on vacant premises and redevelopment of premises in France for €3.6 million and also cost in several entities in France and international.

Other operating expenses also include compensation of American agents for €1.8 million.

Note 28. Share in net income of associates

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Cofacredit	2,369	(5,838)
Total	**2,369**	**(5,838)**

The share of Coface in Cofacredit is a revenue of €2,369 thousand.

Note 29. Income tax expense

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Income Tax	(63,022)	(109,123)
Deferred Tax	7,371	60,999
Total	**(55,651)**	**(48,124)**

Tax proof

(in thousands of euros)	Dec. 31, 2017		Dec. 31, 2016	
Net income for the year	**83 213**		**41 531**	
Non-controlling interests	159		-523	
Income tax expense for the year	-55 651		-48 124	
Share of net income of associates	2 369		-5 838	
Pre-tax income for the year and before share in net income of associates	**136 336**		**96 016**	
Tax rate		34,43%		34,43%
Theoretical tax	-46 940		-33 058	
Tax expense presented in the consolidation income statement	-55 651	40,82%	-48 124	50,12%
Difference	**8 711**	**6,39%**	**15 066**	**15,69%**
Impact of differences between Group tax rates and local tax rates	18 137	13,30%	8 663	9,02%
Specific local taxes	-2 589	-1,90%	-3 167	-3,30%
o/w French Corporate value added tax (CVAE)	*-873*	*-0,64%*	*-2 132*	*-2,22%*
Tax losses for which no deferred tax assets have been recognised	-14 397	-10,56%	-14 065	-14,65%
Utilisation of previously unrecognised tax loss carryforwards	2 943	2,16%	681	0,71%
Dividends paid in France non deductible for tax purposes (5%)	-301	-0,22%	-466	-0,49%
Tax on dividends paid by COFACE S.A (3%)	2 162	1,59%	-1 999	-2,08%
Tax audit in France	-12 382	-9,08%	0	0,00%
Liability method impact	566	0,42%	0	0,00%
Other differences	-2 850	-2,09%	-4 713	-4,91%

The effective income tax rate decreased from 50.1% at December 31st, 2016 to 40.8% at December 31st, 2017.

The negative impact of the tax assessment is offset by the increase of the net income from entities located in countries with a lower tax rate than the French rate.

Note 30. Breakdown of net income by segment

Premiums, claims and commissions are monitored by country of invoicing. In the case of direct business, the country of invoicing is that in which the issuer of the invoice is located and for inward reinsurance, the country of invoicing is that in which the ceding insurer is located.
Geographic segmentation by billing location does not necessarily match the debtor's location.
Reinsurance income, which is calculated and recognised for the whole Group at the level of Compagnie française d'assurance pour le commerce extérieur and Coface Re, has been reallocated at the level of each region.
Income taxes by segment have been calculated based on this monitoring framework.

Analysis of December 31st 2017 net income by segment

(in thousands of euros)	Northern Europe	Western Europe	Central Europe	Mediterranean & Africa	North America	Latin America	Asia - Pacific	Group reinsurance	Cogeri	Holding company costs	Inter-zone	Group total
REVENUE	**300,171**	**281,683**	**131,063**	**349,840**	**121,894**	**75,715**	**96,938**	**983,541**	**28,066**		**(1,013,978)**	**1,354,933**
o/w Earned Premium	*195,611*	*243,592*	*100,493*	*294,817*	*108,741*	*72,554*	*93,888*	*983,541*			*(983,540)*	***1,109,697***
o/w Factoring	*62,011*		*10,032*								*(0)*	***72,043***
o/w Other insurance-related services	*42,549*	*38,091*	*20,538*	*55,023*	*13,153*	*3,161*	*3,050*		*28,066*		*(30,438)*	***173,193***
Claims-related expenses (including claims handling costs)	(111,964)	(131,528)	(49,815)	(142,586)	(53,310)	(26,040)	(50,496)	(494,583)		(2,941)	492,400	**(570,863)**
Cost of risk	(4,516)		33									**(4,483)**
Commissions	(21,254)	(36,732)	(7,848)	(37,805)	(26,177)	(9,846)	(19,828)	(325,210)			327,042	**(157,658)**
Other internal general expenses	(118,739)	(90,020)	(45,880)	(114,653)	(34,678)	(26,788)	(34,913)		(27,446)	(35,337)	32,248	**(496,207)**
UNDERWRITING INCOME BEFORE REINSURANCE*	**43,698**	**23,402**	**27,553**	**54,795**	**7,729**	**13,041**	**(8,298)**	**163,748**	**620**	**(38,278)**	**(162,288)**	**125,723**
Income/(loss) on ceded reinsurance	(2,654)	12,665	(1,215)	(18,337)	792	(6,719)	(8,046)	(166,203)			163,747	**(25,970)**
Other operating income and expenses	8,000	(5,583)	50	(1,054)	(1,783)	(219)						**(589)**
Net financial income excluding finance costs	6,105	23,519	4,316	10,319	1,652	7,023	4,892		(588)	(893)	(1,064)	**55,281**
Finance costs	(263)	1,244	(17)	(550)	(1,007)	(1,044)	(602)		(142)	(16,156)	428	**(18,109)**
OPERATING INCOME including finance costs	**54,886**	**55,248**	**30,687**	**45,173**	**7,383**	**12,081**	**(12,054)**	**(2,455)**	**(110)**	**(55,327)**	**825**	**136,337**
Share in net income of associates		2,369										**2,369**
NET INCOME BEFORE TAX	**54,886**	**57,617**	**30,687**	**45,173**	**7,383**	**12,081**	**(12,054)**	**(2,455)**	**(110)**	**(55,327)**	**825**	**138,706**
Income tax expense	(17,168)	(45,585)	(5,867)	(5,846)	(3,073)	(7,119)	4,387	845	38	19,049	4,689	**(55,651)**
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTEREST	**37,718**	**12,031**	**24,820**	**39,327**	**4,310**	**4,962**	**(7,667)**	**(1,610)**	**(72)**	**(36,278)**	**5,513**	**83,054**
Non-controlling interests	(1)	1	(1)	(2)	(0)	162	0		0			**159**
NET INCOME FOR THE PERIOD	**37,716**	**12,032**	**24,819**	**39,325**	**4,310**	**5,125**	**(7,667)**	**(1,610)**	**(72)**	**(36,278)**	**5,513**	**83,213**

* Underwriting income before reinsurance is a key financial indicator used by the Coface Group to analyse the performance of its businesses. Underwriting income before reinsurance corresponds to the sum of revenue, claims expenses, expenses from banking activities, cost of risk, policy acquisition costs, administrative costs, and other current operating expenses, and expenses from other activities.

Analysis of December 31st 2016 net income by segment

(in thousands of euros)	Northern Europe	Western Europe	Central Europe	Mediter-ranean & Africa	North America	Latin America	Asia-Pacific	Group reinsurance	Cogeri	Holding company costs	Inter-zone	Group total
REVENUE	**303,075**	**330,682**	**124,228**	**334,044**	**136,119**	**77,743**	**109,801**	**955,662**	**27,421**		**(987,479)**	**1,411,297**
o/w Earned Premium	*196,940*	*235,849*	*95,820*	*282,146*	*122,911*	*74,812*	*106,647*	*955,662*			*(955,647)*	***1,115,140***
o/w Factoring	*61,619*		*9,000*									***70,619***
o/w Other insurance-related services	*44,516*	*94,833*	*19,408*	*51,899*	*13,207*	*2,931*	*3,154*		*27,421*		*(31,832)*	***225,538***
Claims-related expenses (including claims handling costs)	(115,260)	(90,754)	(48,175)	(140,409)	(104,473)	(45,067)	(156,576)	(660,657)		(3,404)	659,122	**(705,655)**
Cost of risk	(4,040)		(183)									**(4,222)**
Commissions	(20,970)	(34,469)	(6,198)	(34,350)	(30,423)	(8,573)	(22,755)	(263,984)			268,318	**(153,404)**
Other internal general expenses	(118,426)	(134,123)	(40,212)	(97,951)	(30,553)	(21,506)	(31,964)		(27,654)	(45,359)	30,192	**(517,557)**
UNDERWRITING INCOME BEFORE REINSURANCE*	**44,379**	**71,337**	**29,459**	**61,333**	**(29,331)**	**2,597**	**(101,495)**	**31,020**	**(232)**	**(48,763)**	**(29,847)**	**30,459**
Income/(loss) on ceded reinsurance	5,479	(33,052)	(2,860)	(2,924)	718	(3,109)	17,512	(30,368)			31,005	**(17,599)**
Other operating income and expenses	(20,208)	78,069	(1,718)	(302)	(1,678)	(668)	0					**53,496**
Net financial income excluding finance costs	7,859	17,275	5,071	8,997	737	7,670	2,451		157	(1,043)	(1,141)	**48,032**
Finance costs	(458)	555	(175)	(407)	(1,029)	(337)	(207)		(162)	(16,136)	(17)	**(18,373)**
OPERATING INCOME including finance costs	**37,051**	**134,184**	**29,778**	**66,697**	**(30,583)**	**6,154**	**(81,739)**	**653**	**(237)**	**(65,942)**	**0**	**96,014**
Share in net income of associates		(5,838)										**(5,838)**
NET INCOME BEFORE TAX	**37,051**	**128,345**	**29,778**	**66,697**	**(30,583)**	**6,154**	**(81,739)**	**653**	**(237)**	**(65,940)**	**0**	**90,178**
Income tax expense	(12,212)	(47,740)	(5,848)	(20,985)	10,086	725	3,803	(225)	82	22,703	1,488	**(48,124)**
CONSOLIDATED NET INCOME BEFORE NON-CONTROLLING INTEREST	**24,839**	**80,605**	**23,930**	**45,712**	**(20,497)**	**6,878**	**(77,935)**	**428**	**(155)**	**(43,237)**	**1,488**	**42,054**
Non-controlling interests	(0)	(3)	(474)	(2)	1	(47)	4		0			**(523)**
NET INCOME FOR THE PERIOD	**24,838**	**80,602**	**23,456**	**45,710**	**(20,497)**	**6,831**	**(77,933)**	**428**	**(155)**	**(43,237)**	**1,488**	**41,531**

* Underwriting income before reinsurance is a key financial indicator used by the Coface Group to analyse the performance of its businesses. Underwriting income before reinsurance corresponds to the sum of revenue, claims expenses, expenses from banking activities, cost of risk, policy acquisition costs, administrative costs, and other current operating expenses, and expenses from other activities.

Note 31. Earnings per share

	Dec. 31, 2017		
	Average number of shares	Net income for the period (in thousand of euros)	Earnings per share (in euros)
Basic earnings per share	156,820,959	83,213	0.53
Dilutive instruments	(0)		
Diluted earnings per share	**156,820,959**	**83,213**	**0.53**

	Dec. 31, 2016		
	Average number of shares	Net income for the period (in thousand of euros)	Earnings per share (in euros)
Basic earnings per share	156,927,932	41,531	0.26
Dilutive instruments	(0)		
Diluted earnings per share	**156,927,932**	**41,531**	**0.26**

Coface implemented with BNP Paribas Arbitrage on February 9th, 2016, a contingent capital line of €100 million, for a period of three years (that can be reduced 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 (significant increase in the loss or deterioration of the solvency ratio)[2]. In the event one of the extreme events planned for in the documentation occurs, Coface would benefit from a capital increase for a maximum amount of €100 million. The amount of the capital increase which could be carried out in accordance with the terms described herein shall not in any case exceed 10% of the share capital over the 12 months preceding the day on which the price of the share issuance is determined.

The potential dilutive effect of the contingent equity line arranged with BNP Paribas depends on the probability of occurrence of the extreme trigger events described above and on COFACE's share price at the time of their occurrence. By way of illustration, the following table summarises the potential dilutive impact of the operation under different scenarios for a shareholder who holds 1% of the share capital prior to the operation (calculated on the basis of the number of shares comprised in the share capital as at December 31st 2017).

Share issuance price	Scenario	Number of new shares issued	Percentage interest of the shareholder	
			Non-diluted basis	Diluted basis(1)
Average of the volume weighted average share price over 3 days preceding exercise of the warrants of €8,9188 (issuance price = €8,2945)(2)	No trigger	0	1.000%	1.000 %
	Trigger event	12 056 164	1.000 %	0.929 %

(1) Based on the dilution of share capital as of December 31st 2015 which would result from the exercise of all existing stock options, exercisable or not and final acquisition of all the outstanding shares granted free of charge.
(2) In the event of a share issuance on the day of the warrants issuance.

[2] See the press release date 9 February 2016 "COFACE SA implements contingent equity line of up to €100M

Note 32. Group's headcount

(in full time equivalent)	Dec. 31, 2017	Dec. 31, 2016
Northern Europe	632	686
Western Europe	945	1,160
Central Europe	480	468
Mediterranean & Africa	596	607
North America	124	113
Latin America	216	217
Asia-Pacific	134	127
Total	**3,127**	**3,378**

At December 31st, 2017, the number of employees of fully consolidated companies was 3,127 full-time equivalents *versus* 3,378 at December 31st, 2016, down -7% (-251 FTEs) year-on-year.

This decrease in staff is mainly due to the transfer of the State export guarantees.

Note 33. Related parties

At the end of December 2017, Natixis holds 41.38% of the Coface Group's shares excluding treasury shares, and 41.24% including treasury shares.

	Number of shares	%
Natixis	64,853,881	41,38%
Public	91,883,815	58,62%
Total	**156,737,696**	**100.00%**

Relations between the Group’s consolidated entities and related parties

The Coface Group’s main transactions with related parties concern Natixis and its subsidiaries.

The main related-party transactions are as follows:

- financing of a portion of the factoring activity by Natixis SA;
- financial investments with the BPCE and Natixis groups;
- Coface's credit insurance coverage made available to entities related to Coface;
- recovery of insurance receivables carried out by entities related to Coface on behalf of Coface;
- rebilling of general and administrative expenses, including overheads, personnel expenses, etc.

These transactions are broken down below:

Current operating income	Dec. 31, 2017		
(in thousands of euros)	Natixis SA	Natixis factor	Ellisphere
Revenue (net banking income, after cost of risk)	(2,427)		
Claims expenses	1	7	
Expenses from other activities	(8)	(1)	(18)
Policy acquisition costs	1	10	
Administrative costs	(60)	79	
Other current operating income and expenses	1	(1)	
Operating income/(loss)	**(2,492)**	**94**	**(18)**

Related-party receivables and payables	Dec. 31, 2017			
(in thousands of euros)	BPCEgroup	Natixis SA	Natixis Factor	Ellisphere
Financial investments	5,855	39,966		
Other assets			6	14
Cash and cash equivalents		11,819		
Liabilities relating to insurance contracts				
Amounts due to banking sector companies		149,544		
Other liabilities				58

The €149,544 thousand in financing liabilities due to banking sector companies, at the end of December 2017, corresponds to borrowings taken out with Natixis to finance the factoring business.

Current operating income	Dec. 31, 2016		
(in thousands of euros)	Natixis SA	Natixis factor	Ellisphere
Revenue (net banking income, after cost of risk)	(2,220)		
Claims expenses		3	
Expenses from other activities			(175)
Policy acquisition costs	1	25	
Administrative costs	(24)	13	
Other current operating income and expenses		9	
Operating income/(loss)	**(2,243)**	**50**	**(175)**

Related-party receivables and payables	Dec. 31, 2016			
(in thousands of euros)	BPCEgroup	Natixis SA	Natixis Factor	Ellisphere
Financial investments	11,667	70,056		
Other assets			56	
Cash and cash equivalents		1,102		
Liabilities relating to insurance contracts				
Amounts due to banking sector companies		127,014		
Other liabilities		60		45

The €127,014 thousand in financing liabilities due to banking sector companies, at the end of December 2016, corresponds to borrowings taken out with Natixis to finance the factoring business.

Note 34. Key management compensation

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Short-term benefits	3,188	3,249
(gross salaries and wages, incentives, benefits in kind and annual bonus)	-	-
Other long-term benefits	870	738
Statutory termination benefits	-	1,979
Share-based payment	-	266
Total	**4,058**	**6,232**

The Group Management Committee is composed of seven members on December 31st, 2017 and of Coface CEO.
The line "Other long-term benefits" corresponds to the free performance shares' allocation (value at allocation date).
A total of €216.7 thousand was paid out in directors' fees to the members of the Board of Directors, the Audit Committee, and the Compensation Committee in 2017.

Note 35. Breakdown of audit fees

	KPMG				Deloitte				Total			
In thousands of euros	2017	%	2016	%	2017	%	2016	%	2017	%	2016	%
Statutory and IFRS Audit												
COFACE SA	-266	20%	-228	16%	-309	15%	-204	12%	-575	17%	-432	14%
Filiales	-950	72%	-957	68%	-1 737	83%	-1 459	86%	-2 687	79%	-2 416	78%
Sous-total	**-1 216**	**92%**	**-1 185**	**85%**	**-2 046**	**98%**	**-1 663**	**98%**	**-3 262**	**96%**	**-2 848**	**92%**
Other fees than Statutory and IFRS Audit												
COFACE SA	-42	3%	0	0%	-22	1%	0	0%	-64	2%	0	0%
Filiales	-63	5%	-216	15%	-21	1%	-30	2%	-84	2%	-246	8%
Sous-total	**-105**	**8%**	**-216**	**15%**	**-43**	**2%**	**-30**	**2%**	**-148**	**4%**	**-246**	**8%**
Total	**(1,321)**	**100%**	**(1,401)**	**100%**	**(2,089)**	**100%**	**(1,693)**	**100%**	**(3,410)**	**100%**	**(3,094)**	**100%**

Note 36. Off-balance sheet commitments

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

The endorsements and letters of credit correspond mainly to :

- a joint guarantee of €380,000 thousand in favor of COFACE SA subordinated notes' investors (10 year maturity)
- a joint guarantee of €667,116 thousand euros given to banks financing the factoring business.

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

(in thousands of euros)	Dec. 31, 2016		
	TOTAL	Related to financing	Related to 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	**1,270,697**	**886,936**	**383,761**
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	
Contingent capital	100,000		100 000
Financial commitments in respect of equity interests	2,800		2,800
Guarantees received	**302,893**		**302,893**
Securities lodged as collateral by reinsurers	302,893		302,893
Financial market transactions	**58,533**		**58,533**

Note 37. Operating leases

Leases commitments given consist of non-cancellable lease agreements. They are broken down as follows :

(in thousands of euros)	Dec. 31, 2017	Dec. 31, 2016
Less than 1 year	24 832	23 557
Between 1 and 5 years	69 943	75 724
More than 5 years	7 456	408
Total	**102 231**	**99 689**

Note 38. Relationship between parent company and subsidiaries

The main operational subsidiary of the Coface Group is the Compagnie française d'assurance pour le commerce extérieur (la Compagnie). This subsidiary, which is wholly owned by the Company, is a public limited company (société anonyme) under French law, with share capital of €137,052,417.05, registered with the Nanterre Trade and Companies Registry under number 552 069 791.

The main flows between Coface SA, the listed parent company, and la Compagnie are as follows:

- Financing:
  - Coface SA and la Compagnie have granted each other one ten-year loan;
  - In net terms, Coface SA finances la Compagnie;
  - la Compagnie stands as surety for the bond issue floated by Coface SA;
  - A two-way cash flow agreement exists between COFACE SA and la Compagnie;
  - COFACE SA delegates to la Compagnie management of its commercial paper programme and of its cash management.
- Dividends:
  - la Compagnie pays dividends to Coface SA.
- Tax consolidation:
  - la Compagnie forms part of the tax consolidation group headed by Coface SA.

The table below summarises the interim balance of la Compagnie and its principal financial flows :

(in thousands of euros)	Listed company	Compagnie française pour le commerce extérieur (including branches)	Other entities	Eliminations	Total
Revenue	2,092	1,423,425	958,231	(1,028,815)	1,354,933
Total current income and expenses	12,186	56,198	126,305	(39,656)	155,033
Net income	(8,314)	(9,898)	101,425		83,213
Fixed assets	1,831,121	5,020,477	1,086,257	(4,789,566)	3,148,289
Indebtedness outside the group	388,234	(0)	(0)		388,234
Cash and cash equivalent	901	143,781	119,643		264,325
Net cash generated from operting activities	23,355	12,540	174,835		210,730
Dividends paid to the quoted company	(0)	27,688	(0)		27,688

Note 39. Events after the reporting period

There is no subsequent event post-closing date.

Note 40. Risk management

1. Risk management and internal control

Within the framework of the Group's activity, risk taking translates the search for business opportunities and the will to develop the Company in an environment intrinsically subject to numerous hazards. The essential goal of the risk management function is to identify the risks to which the Group is exposed and to set up an efficient internal control system to create value.

To address these risks, the Group has established a risk management structure which aims to ensure i) the proper functioning of all of its internal processes, ii) compliance with the laws and regulations in all of the countries where it operates, iii) control of compliance by all operating entities with the Group rules enacted in view of managing the risks related to operations and optimising its effectiveness.

The Group defines the internal control system as a set of mechanisms intended to ensure control of its development, profitability, risks and business operations. These mechanisms seek to ensure that i) risks of any kind are identified, assessed and controlled; ii) operations and behaviours are in accordance with the decisions made by the corporate bodies, and comply with the laws, regulations, values and internal rules of the Group; as concerns more specifically financial information and management, they aim to ensure that they accurately reflect the Group's position and business; and that iii) these operations are carried out with a concern for effectiveness and efficient use of resources.

Lastly, this system provides managers with access to information and tools – required for the proper analysis and management of these risks. It also ensures the accuracy and relevance of the Group's financial statements as well as the information disclosed to financial markets.

1.1 Structure of the mechanism

The internal control and risk management mechanism consists of:

- a governance structure, designed to allow supervision and appropriate management of the Group's activities; and
- management structures and control mechanisms, designed to enable the Group's managers to separately apprehend the main risks to which the Group is exposed, and to have the necessary tools for their analysis and prevention.

Governance structure

The Group has implemented a risk management and control system that revolves around clear governance supported by a dedicated organisation based on key functions. It has developed its governance by relying on the Board of Directors, its audit committee and specialised committees which define the Group's strategy, review and approve policies, identify, measure and manage risks identified according to risk appetite limits and indicators.
Governance revolves around level one operational committees and level two control committees. The Coface Group Risk Committee (CGRC) is the level two lead committee which relies on specialised sub-committees covering different risk scopes or categories as described in the diagram below.

Since 2016, the regional risk committees of the Group's seven global regions meet every quarter. They are chaired by the regional risk manager, keep the Group Risk Department informed of their proceedings and perform the same tasks as the CGRC.

Management structures and control mechanisms

The management structures and control mechanisms are based on the CGRC. The committee is chaired by the Chief Executive Officer and meets at least every quarter with the members of the Group Management Committee, the Group's strategic and operational management body, the Director of Group Risks, the Group Compliance Director, the Group Director of Audit and the Director of the Actuarial Department and, if necessary, the representatives of the operational or functional departments concerned, who are likewise represented according to the matters at hand.
The CGRC is tasked with:

- Reviewing the main risk management policies and procedures;
- Proposing risk appetite limits which will be submitted to the Board of Directors for approval;
- Monitoring risk appetite limits and associated indicators;
- Monitoring the Group's risk exposure, in all dimensions (credit, finance, operational and compliance, reinsurance, strategic policies);
- Reviewing the main conclusions drawn from sub-committees;
- Finding out about audits performed within the Group;
- Organising reporting to the Audit Committee or other bodies as appropriate;
- Reviewing ORSA[3] assumptions and results for the purpose of their approval by the Board of Directors;
- Ensuring that the control mechanism is effective;
- Communicating its decisions to the staff involved.

In 2017, a specific session was organised about the topics of IT security and Coface information systems. The CGRC delegated a number of responsibilities to the specialised sub-committees which report to it.
Each sub-committee has a clearly defined scope of responsibility concerning one or several types of risks and decision-making power on risk issues, in accordance with their charter.

[3] Own Risk and Solvency Assessment

1.2 Organization

The Group risk management system seeks to ensure the proper functioning of all the Group's activities and processes, by controlling and monitoring identified risks. This system is based on the CGRC.

In order to ensure risk management and prevention, and in accordance with the Solvency II Regulation, the Group has set up an effective governance system, which guarantees sound and prudent management of the business line. This governance system is built on a clear separation of responsibilities and is proportional to the nature, magnitude and complexity of the Group's operations.

The four key functions

The Solvency II Regulation grants the Chief Executive Officer and, if necessary, the Deputy Chief Executive Officer, the status of effective directors of a Group. It authorises the appointment by the Board of Directors of one or several other effective directors.

Each key function is under the authority of the Chief Executive Officer or the effective director and operates under the ultimate responsibility of the Board of Directors. It has direct access to the Board for reporting any major problem in their area of responsibility. This right is enshrined in the Board of Directors' Charter (published on the www.coface.com website).

The professional qualifications, knowledge and experience of persons with key functions should be adequate to enable sound and prudent management, and they must be of good repute and integrity.

Key functions are free of influences that may compromise their capacity to carry out the tasks assigned to them in an objective, loyal and independent manner.

Since 2017, regional audit, risk and compliance functions report to managers in charge of these functions at Group level. Similarly, subject to compliance with local regulations, the same reporting line by function has been established between country and regional managers.

Risk management function

The risk management function, headed by the Risk Director, is tasked with covering all of the Group's risks and consists in defining risk policies and monitoring their application, assessing the relevance and efficacy of the internal control system, tracking the business continuity plan, collecting the incidents and losses and updating the risk mapping.

The risk management function:

- implements and monitors the risk management system;
- monitors the Group's overall risk profile, identifies and assesses emerging risks;
- reports on risk exposure and advises the Board of Directors on risk management issues;
- defines and monitors the Group's appetite[4] towards these risks: risk appetite takes five dimensions into account through 14 indicators;
- contributes to improving and formalising level one control activities implemented by operational staff.

The risk management function is in charge of rolling out and coordinating Solvency II at the Group level. It reports its activities to the CGRC. It cooperates closely with the actuarial function.
The Group’s Risk Management Department leads a network of seven regional risk managers for each region. The latter also lead a network of correspondents in the countries within their geographic scope. These correspondents are specifically in charge of performing the centrally established level two controls at local level, verifying compliance with Group rules and monitoring the progress of the action plans decided upon.

[4] Risk appetite represents the risk levels which the Group wants and can accept, with the purpose of reaching its strategic objectives and achieving its business plan.

In accordance with regulatory requirement, risk policies are reviewed annually by general management, then approved by the Board of Directors. These policies are then communicated to all the Group's entities, thereby contributing to forging a common risk culture.

Compliance function

The compliance function consists of verifying compliance of operations with the rules and of ensuring the control of operational activities. The function is performed by the Group Compliance Department, which reports to the General Secretariat.
The compliance function is particularly in charge of implementing procedures ensuring that the Company complies at all times with the legislation applicable to it and of checking the effective application. In this respect, it ensures that the level one controls relating to compliance are properly implemented by the businesses, it defines and performs level two controls and issues recommendations intended to correct any shortcomings highlighted during such controls.
It provides advice on all issues relating to compliance with legislative, regulatory and administrative provisions associated with access to insurance activities and the practice thereof.

Internal audit function

The Group's internal audit department is placed under the responsibility of the Group Director of Audit, who is also in charge of the key internal audit function. He attends the Group General Executive Committees in an advisory capacity. He reports, by hierarchy, to the Group Chief Executive Officer (CEO) and by function, to the Natixis General Inspection department, as the internal audit function is integrated into the periodic control mechanism of Natixis, reference shareholder, and that of BPCE.

Since 2016, the structure of the internal audit function is based on a reporting line to the Group Director of Audit.
An internal audit policy defines the purview of the function. The key objectives of this function include evaluating, according to the scope of each mission, all or a selection of the points below, and reporting on them:

- the quality of the financial position;
- the level of risks effectively incurred;
- the quality of organisation and management;
- the coherence, relevance and smooth operation of risk evaluation and control mechanisms, and their compliance with regulatory requirements;
- the reliability and integrity of accounting information and management information, including information linked to Solvency II issues;
- compliance with laws, regulations and the Group’s rules (compliance). Auditing checks the quality and relevance of the procedures implemented to ensure compliance with laws, regulations and professional standards applicable to the audited activities, in France and abroad, and the policies, decisions of the Group’s corporate bodies, and internal rules;
- the quality, effectiveness and smooth operation of the permanent control mechanism in place and other components of the governance system;
- the quality and level of security offered by the information systems; and
- the effective implementation of the recommendations of prior audit missions, whether it concerns those from the proceedings of the Group’s audit segment, BPCE and Natixis General Inspections, in addition to the external controls of supervisory authorities.

The missions are defined in an audit plan approved by the Board of Directors and cover the entire Group scope over a limited number of financial years. An audit mission ends with a written report and recommendations which are implemented under the supervision of the audit function.
The independence of the audit function is inherent in its mission. There should be no interference in the definition of its field of action, in the fulfilment of its proceedings or in the disclosure of the results of those proceedings.
The Group Director of Audit has total leeway to approach the Chairman of the Audit Committee and has free access to the Audit Committee. If necessary, and after consulting the Chief Executive Officer and/or the Chairman of the Audit Committee, the Group Director of Audit may inform the ACPR of any breach that he might notice.

The Group Audit Department has no operational activity. It neither defines nor manages the mechanisms that it controls. The internal auditors have no other responsibility under any other function. Lastly, the Group Audit Department has access to all the information required to carry out its missions.

The actuarial function

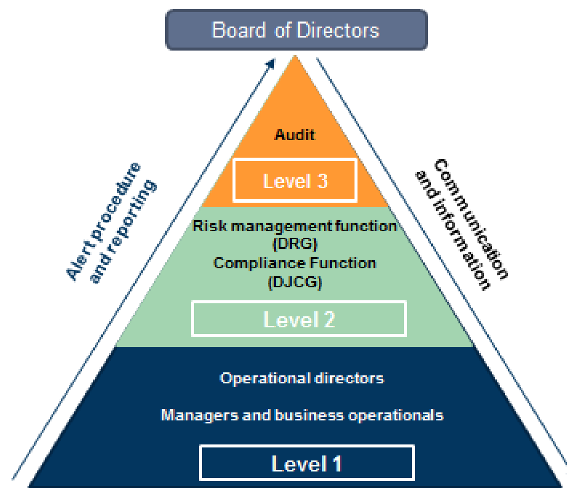
The actuarial function is performed by the Director of the Actuarial Department, who reports to the Chief Financial Officer since July 1, 2016. It is tasked with advising general management and supporting its efforts to guarantee the Group's long-term solvency and profitability and to oversee compliance with Solvency II requirements, such as reserving. To perform its missions, the actuarial function has direct access to Board meetings.
The actuarial function is the contact for numerous Group departments (Finance, Information, Commercial, Marketing or Debt Collection), of all Group entities on actuarial subjects, and informs, in particular, the Board of Directors on the appropriateness of the calculation of technical provisions.
in accordance with the requirements of the European Solvency II Directive, the actuarial function is in charge of the following tasks:

- coordinates the calculation of technical provisions and the methodology used, evaluates the quality of the data used in the calculation and compares the best estimates to reality;
- informs the Board of Directors of the reliability and appropriateness of the calculation of technical provisions;
- issues an opinion on reinsurance-related arrangements and on the overall commercial underwriting policy (including pricing);
- models the risks linked to the calculation of capital requirements;
- issues once a year, an actuarial report on the work that it conducts;
- contributes to the internal assessment of risks and solvency.

Internal control system

The internal control system relies on the same functions as the risk management system, it is used to verify the application of the rules and principles defined under the risk management system.
As an insurance company with a banking Group as its reference shareholder, the Company implements an internal control system compliant with the provisions of the Solvency II Directive and the decree of November 3, 2014 on the internal control of banking sector companies, payment services and investment services subject to the oversight of the ACPR.
The risk management mechanism consists of three lines of defence with well-identified players for each level. The first line of defence is represented by the businesses which are responsible for the processes, systems, products and employees used by each one and the ensuing risks.
The second line of defence is represented by dedicated risk and compliance functions which are responsible for supporting the first line of defence and defining tools and methods in order to assess, manage, control and report risks.
The third line of defence is represented by the internal audit function which provides independent assessment of the efficacy of the risk management mechanism and more broadly, of all the Group's activities and processes according to a multi-year audit plan.
Each line of defence implements the controls set up in the Group:

1. level one operational controls managed by businesses;
2. permanent level two controls managed by the Group Risk Department and the Group Legal and Compliance Department; and
3. periodic level three controls managed by the Group Audit Department.



The risk management mechanism consists of three lines of defence
with well-identified players for each level.

These controls are applicable to all of the Group's entities, in particular with respect to:

- the integration in the organisation: internal control procedures are integrated into the organisation, either induced by the distribution of the functions itself, or through the control actions specified in the different processes; and
- universality: no field is excluded. All processes, activities and structures are involved.

Similarly, within the Risk Department, the IS security manager manages a regional correspondents mechanism, commissions the performance of level two on-site controls to ensure compliance with the IT security policy.
Coface reviewed all of its operational risks and its level one controls in 2017. These controls covering all of the Group's processes were first rolled out over a provisional system then integrated into a risk management tool to facilitate analysis and tracking of controls made. Risks and controls are managed at the level of each legal entity to ensure compliance with regulators locally.

Accounting control system

The accounting control system assigns a portion of the responsibility for controls to the Chief Financial Officer (CFO) of each region.
In principle, the local CFOs are responsible for their scope: i) for the local accounting system (compliance with local regulation and with the Group's rules); ii) their IFRS accounts as reported in the Group's consolidation tool CACIS (compliance with IFRS regulation and Group rules); and iii) financial risks, specifically compliance with the principle of congruity between assets and liabilities in order to limit the financial risks on their balance sheet.
The Group CFO is responsible, at Group level, for i) the quality of financial reporting, ii) the definition and monitoring of the investment policy, iii) management of financial risks and the implementation of control rules for other risks, with the support of the Risk Department; and iv) the management of solvency, with Solvency II in particular.
The Group's Accounting and Tax Department provides regions with control and reporting tools and files which allow application of the methods defined by the Group and oversight of proper comparisons, especially between management applications and the accounting tool.
As part of level one controls, each entity sends at each closing date, the controls and comparisons made and used to validate the quality and integrity of the consolidated data.
This file, along with the supporting documentation, is sent to the regional CFO (or to the person appointed by the regional CFO to collect this data), who oversees the proper completion of all of these comparisons. A summary of these controls must then be sent to the Group's Technical Accounting Department.
This process allows a complete audit trail to be obtained, and produces data quality that is standardised and reliable within the Group.

Processing of accounting and financial information

The Group's Accounting and Tax Department, which reports to the Financial Department, guarantees the quality of financial reporting and is in charge of producing and controlling accounting information for the entire Group (consolidated financial statements; financial statements of the Company, parent company, and of its daughters Compagnie française d'assurance pour le commerce extérieur, Cofinpar, Fimipar and Cogeri; tax related declarations and controls).

Its detailed tasks are broken down into:

- maintaining the general and ancillary accounts of these entities (France only): recording operations, control and justification of operations, closing the quarterly accounts, producing consolidated financial statements (accounting treatment of interests, reciprocal operations, etc.);
- producing reports and presentation of accounts: producing financial statements, internal reports, periodic regulatory statements (declarations to the supervisory, tax and corporate administrations), relations with the supervisory authorities and Statutory Auditors;
- preparing Group standards, regulatory oversight and strategic projects: definition of rules and writing of Group accounting rules, writing and following up of accounting procedures in conjunction with Natixis' Finance Department in the case of IFRS, overseeing the development of the accounting and tax regulations, assisting, training and providing technical support to subsidiaries and branches, analyses and impact studies on modifications in scope for the consolidated financial statements;
- the control system: tracking the proper application of the standards and procedures in the Group;
- Group taxation.

The structure with the various entities of the Group relies on the Group's functional matrix principles, delegating certain responsibilities to entities of the various countries with regard to their scope. To that end, the consolidated entities are responsible for producing, according to their local standards and IFRS: i) accounting information; ii) tax information; iii) regulatory information; and iv) corporation information.

They also monitor the production of consolidation bundles according to the Group's standards and procedures.

Common tool for general accounting, consolidation and management control

The monthly reporting of management control, quarterly financial statements in French GAAP and in IFRS are entered in the same tool. The quality of the information received is improved through automatic comparison statements.

Additional controls are carried out during quarterly inventory operations, especially from the analysis of accounts and comparisons with the management data. Consistency checks are carried out with the data received from management control reporting.

As part of consolidation operations, comprehensive controls are carried out: analytical review of the balance sheet and income statement, consolidated statement of changes in Group equity, verifications on consistency between the most significant entities and line items, consolidated statement of changes in net position for all consolidated entities; the verification of intra-group operations and their proper reconciliation, specific check on reinsurance income, specific check on the breakdown of charges by destination, analytical review allowing for a comprehensive control on consistency.

Inward reinsurance operations inside the Group are subject to a particular accounting control, which consists of verifying the exhaustiveness and compliance of the detailed accounts entered in the Reinsurance Department, and of the source data until they are properly integrated into the accounting.

Disclosure requirements for financial and accounting information

The Financial Communications Department, under the authority of the Group Financial Department, produces with the support of other departments, the financial information released to financial markets, analysts and investors. The departments concerned help the department, in particular through their contributions and reviews, to control risks of

material errors or release of erroneous information, delays in release and breach of confidentiality or equality between shareholders. This department is the special correspondent of the Autorité des marchés financiers (French Financial Markets Authority).

Outlook for change

Since 2016, Coface has launched a number of initiatives aimed at strengthening its internal control mechanism. First, the risk and compliance sectors have been strengthened in the regions where Coface operates. Particular attention was paid to strengthening the "risk" culture with the implementation of a training mechanism intended not only for the risk sector but also for regional and country managers. A training programme for all employees was launched at the end of 2017 and will continue to be rolled out in 2018. Lastly, the permanent control mechanism was harmonised across level one controls, with a gradual roll-out that began on the Group's largest entities. These works will continue in 2018 and will include the rollout of specific software to facilitate the analysis of level one and level two controls.

1.3 Defining and measuring risks

Strategic risks

Definition

Strategic risk stems from the Group's businesses and business lines worldwide. It can be defined as the risk affecting our results and our solvency due to changes in market conditions, poor strategic decisions or poor application of these decisions aimed at addressing the changes to market conditions. Changes to market conditions may, for example, be linked to regulatory or prudential developments or to the brokerage model implemented within Coface.

Measures

The Group’s Strategy and Development Department, created in 2016, manages the strategic planning process by working with the General Management Committee. They meet on a regular basis in order to assess the effectiveness of the plan and determine any modifications that might be necessary. The Board of Directors is definitively responsible for monitoring strategic risk, by adopting a strategic planning process and by determining any necessary modifications.

Credit risks

Definition

Credit risk is defined as the risk of loss, owing to non-payment by a debtor, of a receivable owed to a policyholder insured by the Group.
The credit risk may be aggravated due to the concentration of our exposures (countries, sectors, debtors, etc.) and is modelled as a premium risk, reserve risk and natural disaster risk. Classically, there is a distinction between frequency risk and severity risk:

- frequency risk represents the risk of a sudden and significant increase in unpaid receivables for a multitude of debtors;
- severity risk represents the risk of abnormally high losses being recorded for a single debtor or group of debtors, or of an accumulation of losses for a given country.

The Group manages credit risk through numerous procedures described below, which cover the validation of the terms of the policy relating to the products, pricing, following of credit risk coverage and portfolio diversification.

Control and follow-up of products

- Approval of new products: the Group relies on a Group Product Committee to ensure that the product offering is consistent with the business strategy. It validates the introduction of new products into the portfolio and

oversees the product offering in each region. It combines the marketing, sales, organisation, compliance, actuarial risk functions, and any other function according to the projects.

- Validation of product developments: any product development, whether in terms of the policy, pricing method, retail method, target (policyholder, country), must be conveyed to the Group's Marketing Department and to the Legal Department.
- Sales delegations: in order to ensure the profitability of the policies, the contractual parameters thereof that have a strong influence on the policy's performance or on risk management are covered by a delegation system with eight levels of responsibility.
- Pricing: the Group uses a common pricing tool (PEPS), allowing its users to create pricing projects with the help of simulation tools and to formulate pricing proposals that are consistent with the Group's profitability objectives.

Centralised credit risk management

Frequency and severity risks are tracked locally and regionally, and are likewise centralised and analysed by the head office.
Frequency risk is covered by technical provisions which are established using a statistical loss experience, which simulates the loss ratios using the developments observed and current loss experience data. This risk is measured for each region and country by tracking the instantaneous loss ratio [5] and the monthly indicator which determines changes in domestic/export credit by DRA and activity sector, by acceptance rate in the DRA scale, or by product line (surety bond, Single Risk, etc). With respect to the monitoring of exposures and portfolios, the Group has developed a more refined management of its risks through 38 sectors and five country risk levels (150 risk levels in total). Therefore, unpaid receivables are analysed weekly by the Group Management Committee, and monthly by the Group Risk Underwriting Committee. The loss ratios of the various commercial underwriting regions are likewise tracked at the Group consolidated level of the underwriting.
The Group reinsurance programme, centralised through Coface Re, aims notably at covering the risk of severity. In addition to the weekly and monthly monitoring by each region and country, a mechanism is established at the Group level, which relies on:

- centralisation of the provisions for claims exceeding a certain amount per debtor (currently, €0.5 million for all Group underwriting centres) which is then included in a post mortem analysis which enables the performance of the information, risk underwriting and recovery activity to be improved;
- at the risk underwriting level, monitoring beyond an amount outstanding according to the DRA causes a budget to be set and validated by the Group Underwriting Department; and
- a system to assess risks by the DRA, which covers all debtors.

Diversification of the credit risk portfolio

The Group maintains a diversified credit risk portfolio, to minimise the risks of debtor default, the slowdown of a specific business sector, or an unfavourable event in a given country, such that the impact is not disproportionate for the Group's total loss experience. The insurance policies furthermore include clauses allowing to cancel or modify the maximum covered outstanding amount on a given debtor (credit-limit) during the life of a contract.

Common interests with policyholders

The purpose of credit insurance is to prevent losses as much as possible, in the common interests of policyholders and the insurer. The service offered to the policyholder, before any indemnification of the losses suffered, is claims prevention and assistance in developing a solvent clientele. These common interests contribute to maintaining prudent management of credit risks, and are found in various aspects of the Group's management policy, as described below.

[5] The instantaneous loss ratio is a weekly indicator which allows the evolution of the loss ratio to be reconstituted. It is tracked for each region and each country, and is included in weekly reports within the Coface Group, notably allowing the risk underwriters to track the evolution of their portfolio and detect any deterioration, in order to establish remedial actions at an early stage.

Decision-making

The principle for the insurer is to approve, for each new client-debtor that is presented by the policyholder, the maximum amount of risks that the insurer is ready to accept for that debtor (credit-limit). The insurer likewise determines the maximum amount that it is ready to accept for a given debtor, for all of its policyholders (maximum outstanding limit per debtor).
The credit risks are primarily underwritten based on global policies (whole turnover policies) under which the policyholders entrust all of their revenue to the insurer in order to avoid the risks of adverse selection. The credit insurer may reduce or cancel its credit insurance coverage for new sales to the debtor concerned at any time. As an exception to this rule, and according to the policyholder's expertise, the Group may grant certain policyholders a degree of autonomy in setting the credit limits for receivables not exceeding an amount as established in the contract.

Consideration of risk quality for establishing the premium

The amount of premiums is set according to, on the one hand, the loss experience that is statistically noted for a population of policyholders which have similar characteristics and, on the other hand, the actual loss experience of the policyholder in question. The amount of the premium is revised when the policy is renewed, generally annually. It is calculated according to its effective loss experience and the quality of the risk associated with this policy at the time of renewal. Furthermore, certain policies provide for mechanisms to share benefits, in order to encourage insured companies to monitor the quality of their clients.

Sharing of risk between the Group and the policyholder

In general, 10% to 15% of the risk is the responsibility of the policyholder. Policies can provide for deductibles per claim, and sometimes for an overall annual deductible. An overall principle is likewise applied: most often the total revenue for a given business line is covered, and it is not possible for the policyholder to choose the individual risks to be covered.

Recovery management by the Group

The Group also asks the majority of its policyholders to put it in charge of recovering unpaid receivables. As soon as the policyholder declares an unpaid receivable, the Group starts recovery actions in an effort to limit the loss and allow the policyholder, to the extent possible, to maintain its commercial relationship with the debtor. Negotiations and, if necessary, litigation, are conducted by the world recovery network, which relies on the Group's internal resources and those of its partners in the Coface Partners network, along with collection agencies and a network of attorneys.

A fine-tuned risk underwriting system: ATLAS

Risk underwriting decisions are made by groups of risk underwriters in various underwriting centres, who work in real time and in network thanks to ATLAS. These risk underwriting decisions address the underwriting rules that are defined for the Group as a whole.
The Group Risk Underwriting Department is responsible for establishing a global risk underwriting policy. Moreover, the Group Risk Underwriting Committee has the goal of defining the risk policy by country, setting budgets and following the global risk underwriting activity within the context of the objectives set.
Inward reinsurance (in other words the reinsurance of policies sold by the Coface Partners network which have been accepted for reinsurance) is underwritten according to the same procedures as those used for direct insurance. The Group provides reinsurance which is contingent upon the prior approval in ATLAS for each type of risk ceded.

Measures

Evaluation of provisions

The Group establishes claims provisions which are designed to cover probable losses for its credit insurance operations. The claims that have arisen but not yet been declared/settled at the close of the year are included in specific provisions. The claims provisions recorded at a given moment are comprised of:

- provisions for claims declared, which rely on a file-by-file analysis, which is performed according to the characteristics of the policy and claim considered. These provisions are assessed on the amount of unpaid receivables declared, which have been noted in a indemnification request;
- IBNR (Incurred But Not Reported) provisions, which simultaneously cover the estimated hazards for provisions of declared and undeclared claims (in other words, claims that have occurred but which have not been declared at year-end); and
- forecasts of recoveries to take place on completed indemnifications.

The technical provisions for credit insurance are not updated. The estimated IBNR provisions are based on an estimate of a most recent loss experience through periodic actuarial analyses which are performed by the entities and controlled by the Group Actuarial Department.
The Group Actuarial Department also has the role of ensuring that the overall level of provisions of the Group is sufficient to cover future indemnifications, to establish and verify the correct implementation of actuarial principles, which the calculations on estimated reserve must respect.
To date, the actuarial methods used by the Group and its entities are methods based on claims triangles (Chain Ladder and Bornhuetter-Fergusson actuarial methods). These methods are completed by an estimation of the variability of the technical reserves at one year by the Merz and Wuthrich method which aims to determine a reasonable estimate range in which the Group Actuarial Department issues an opinion regarding an adequate ultimate loss ratio.
On the basis of the opinions issued by the Group Actuarial Department and other analyses, during the Loss Reserving Committee management determines the level of final reserves to be established for each quarterly closing. This committee is formed for each entity, and at the Group level. It meets at least quarterly, but may be convened in case of a major event which requires a significant revision of the reserves level (in particular in the event of a significant claim). The estimates are likewise refined based on economic information, risk underwriting information, and information on the recovery of receivables, evaluated during a quarterly committee meeting on “economic expectations”.

Loss ratio

The Group measures the loss experience, notably according to the loss ratio (total of claims expenses compared to the total gross earned premiums). This ratio, which was determined using figures from the consolidated financial statements, totalled 51.4% in 2017.
The table below shows the evolution of the average loss ratio recorded for a given year between 2012 and 2017:

Year	2017	2016	2015	2014	2013	2012
Loss ratio	51.4%	63.3%	51.0%	47.6%	51.1%	51.5%

The Group controls its level of ultimate loss thanks to its capacity to reduce or cancel its credit-insurance coverage, a corrective measure aimed at reducing its exposure in certain countries in response to the deterioration of the economic situation.
The variation of +/- one percentage point[6] of the gross accounting loss ratio at December 31, 2017, would have had an impact of €11 million on the claims expenses, of +/- €8 million on claims expenses net of reinsurance, of +/-€5 million on the net income and of +/- €5 million on equity. The Group believes that a variation of one percentage point in the gross accounting loss ratio is reasonable as compared to the loss ratio recorded in previous years. This sensitivity analysis is calculated on a straight line basis.

[6] In other words the variation of n% to (n+1)%.

Claims expenses recorded at the Group level

In the table below, the gross operations represent the claims expenses recorded in the Group's financial statements for direct business and inward. The outward reinsurance and retrocessionsrepresent the portion ceded for external reinsurance.

	AT DECEMBER 31								
	2017			2016			2015		
(in millions of euros)	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET
Claims expenses – current year	-798	197	-601	-782	168	-614	-815	165	-650
Claims expenses – prior years	227	-41	186	76	-24	52	210	-44	166
CLAIMS EXPENSES	**-571**	**156**	**-415**	**-706**	**144**	**-562**	**-605**	**121**	**-484**

Status of technical provisions established at the Group level

In the table below, the unearned premiums reserves correspond to the portion of written premiums relating to the period between the year-end and the next premium payment date. They are calculated *prorata temporis* for each insurance contract. The provisions for profit sharing correspond to an estimate of the cost of the profit sharing not paid at the closing date. Profit sharing is a contractual stipulation which consists of paying a portion of the benefit, which might be generated on the contract based on its loss experience, to the policyholder at the end of a defined period.

	AS OF DEC. 31		
(in millions of euros)	2017	2016	2015
Unearned premiums reserves	271	276	286
Claims reserves	1,266	1,275	1,122
Provisions for profit sharing	145	127	107
Liabilities relating to insurance contracts	1,682	1,678	1,515
Unearned premiums reserves	-62	-48	-58
Claims reserves	-309	-267	-247
Provisions for profit sharing	-34	-26	-23
Reinsurers' share of liabilities relating to insurance contracts	-405	-341	-328
NET TECHNICAL PROVISIONS	**1,277**	**1,337**	**1,187**

Roll-out of claims provisions

The roll-out of claims provisions indicates the evolution of claims provisions for the last decade.
The following triangle, which presents the development of the ultimate loss ratios, details, for a given line N, the vision for each of the subsequent year-ends (N+1, N+2, etc.). The estimated final loss ratio varies according to the increasing reliability of information relating to claims still pending. The discrepancy between the initial loss ratio and the final loss ratio measures the excess or insufficiency of the provisions recorded at the source.

Triangle of development of ultimate loss ratios (before reinsurance and excluding claims handling expenses)

Occurrence year/development year (as a %)	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
2008	93.9	113.5	114.8	112.7	108.1	105.6	104.6	104.6	102.5
2009	77.2	65.9	60.3	61.6	57.8	56.5	55.8	56.3	55.7
2010	58.2	44.3	37.9	35.5	34.9	34.9	34.7	34.3	
2011	73.6	61.1	55.0	54.4	53.2	52.3	51.2		
2012	77.1	67.4	60.8	58.5	59.7	59.8			
2013	72.6	56.9	51.1	49.2	49.4				
2014	72.5	61.8	62.9	59.7					
2015	70.2	65.5	55.6						
2016	70.0	63.1							
2017	74.1								

The claims provisions estimate model used by the Group relies on classic reserving methods based on claims triangles. The Group's reserving instructions transmitted to entities ensure uniform reserving practices throughout the Group and aim to maintain the level of prudence historically used in claims provisions. In particular, the loss ratios used are higher than those recorded historically. Consequently, given the Group's proper control of its loss experience, liquidation profits from claims provisions have been recognised since 2009 (excess of claims provisions compared to the loss ratio actually recorded).
The table below illustrates the evolution of these profits over the 2014-2017 period:

PERIOD	LATEST LOSS RATIO BEFORE REINSURANCE AND EXCLUDING CLAIMS HANDLING EXPENSES OF EACH YEAR FOLLOWING THE 1ST YEAR OF DEVELOPMENT (AS A %)	ACCOUNTING LOSS RATIO BEFORE REINSURANCE AND EXCLUDING CLAIMS MANAGEMENT EXPENSES (AS A %)	PROFITS (AS A %)
2014	72.5	45.3	-27.2
2015	70.2	48.8	-21.4
2016	70.0	61.0	-9.0
2017	74.1	49.0	-25.1

The second table, entitled “Triangle of development of cumulative claims paid, net of recourse (before reinsurance)”, details, for each year of occurrence, the cumulative amount of payments relating to years of occurrence N and prior which have occurred since December 31, N. The process of declaring claims, indemnifying them and any recourse extends over several years. This requires tracking the claims per insurance period.

Triangle of development of cumulative claims paid, net of recourse (before reinsurance)

OCCURRENCE YEAR/ DEVELOPMENT YEAR *(in millions of euros)*	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8	N+9
2008	122	798	975	1,014	1,036	1,037	1,041	1,045	1,043	1,043
2009	164	453	517	533	538	545	545	547	553	
2010	60	274	345	358	365	369	379	389		
2011	67	458	566	597	626	608	596			
2012	117	446	562	575	580	593				
2013	83	400	491	523	527					
2014	74	417	572	613						
2015	62	370	474							
2016	55	327								
2017	58									

Debtor-Credit risk exposure

The Group insures the unpaid receivables risk for nearly 2.47 million debtors[7] worldwide. As of December 31, 2017, the average debtor risk was nearly €207.4 thousand. More than 82% of the debtors covered by credit insurance policies are located in OECD countries, primarily in Europe, notably in Germany, France, Italy and the United Kingdom, and in the United States.

The great majority of debtors, considered individually, constitute an insignificant risk with regard to the Group's total portfolio, since no debtor represents more than 1% of the Group's outstandings. The total outstanding covered by the Group was €512.6 billion, up by more than €20 billion against a background of increasingly high sensitivity of emerging countries and of specific sectors such as construction, metallurgy and the oil sector. The risks selectivity level was strengthened for a finer granularity.

The charts below analyse the debtor distribution as of December 31, 2015, 2016 and 2017 according to the outstanding amounts of cumulative credit risk outstanding carried by the Group for them. The analysis of the number of debtors by segment of outstandings demonstrates a weak risk concentration profile.

Segments of outstanding total debtor	Outstandings[8] (in €m)		
	2017	**2016**	**2015**
€1 - €100 thousand	39.263	39.581	39.169
€101 - €200 thousand	25.989	25.404	24.714
€201 - €400 thousand	35.955	34.833	33.836
€401 - €800 thousand	44.949	44.100	42.771
€801 - €1,500 thousand	46.755	45.778	43.894
€1,500 - €5 million	98.157	94.959	93.341
€5 million - €50 million	155.751	149.443	144.363
€50 million - €200 million	42.168	37.374	35.974
€200 million and more	23.585	21.185	17.358
Total	**512.570**	**492.657**	**475.419**

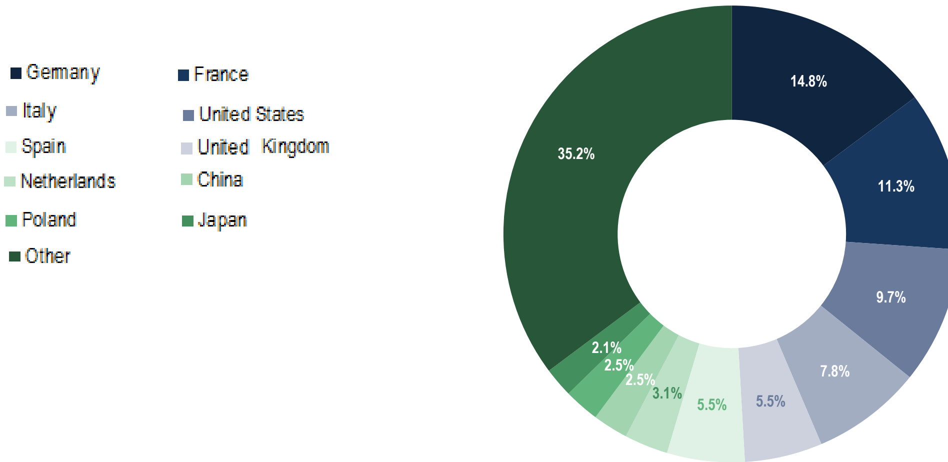
[7] The debtors mentioned are the clients of the Group's policyholders.

[8] The outstandings presented below are before reinsurance (direct business and accepted business) and correspond to the maximum covered amounts authorised by the Group for its policyholders. They do not correspond to the effective use thereof by the policyholders.

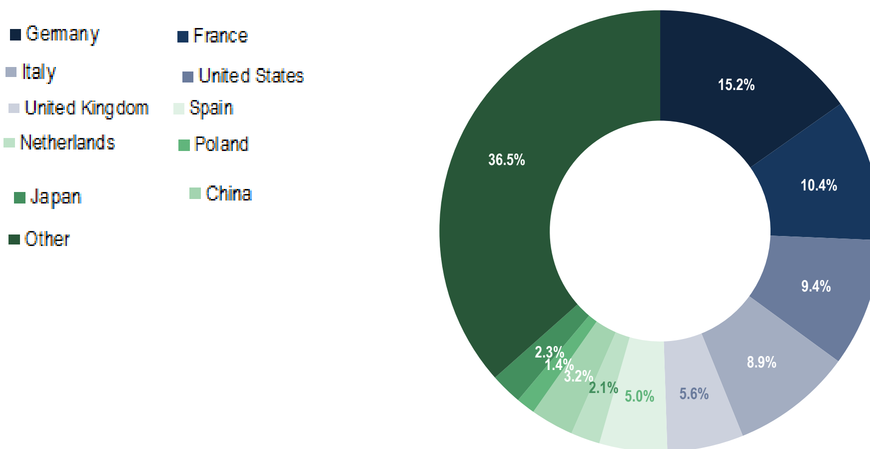
Geographical distribution of risks

The debtors covered by the Group's credit insurance policies are mainly located in Western Europe. In the medium term, the Group considers that the consequences of Brexit, in particular the negotiation of the trade agreement between the United Kingdom and the European Union, will determine the future evolution of the risks; Coface adjusts its monitoring of the risks accordingly. As of December 31, 2015, 2016 and 2017, the top ten countries represented respectively 64.2%, 64.3% and 64.8% of the Group's total exposure (€512,570 million), arising from its credit insurance activities:

As of December 31, 2017[9]:

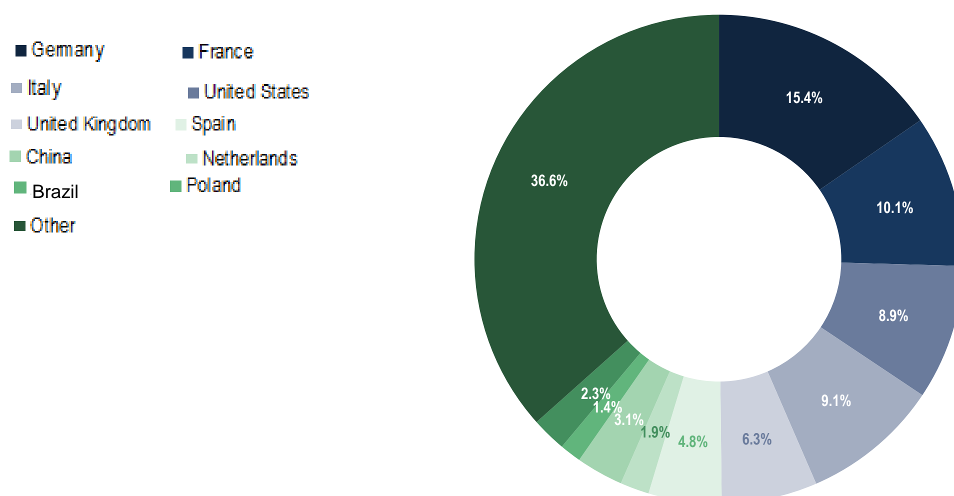


At December 31, 2016:



[9] The debtors mentioned above are customers of the Group's policyholders.

At December 31, 2015:



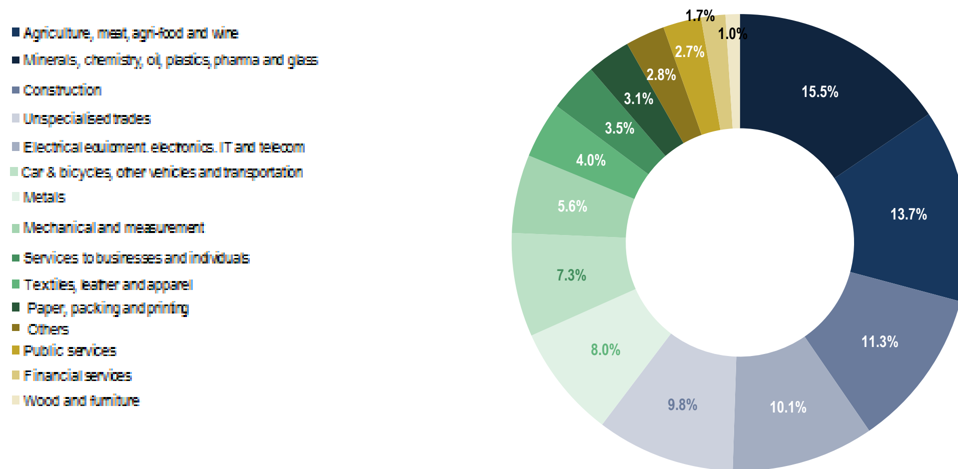
The following charts present the breakdown as at December 31, 2015, 2016 and 2017 of the Group's receivables outstanding grouped by geographic region:

Outside the Group	Outstandings[10] in millions of euros		
	2017	**2016**	**2015**
Western Europe	111,110	103,010	142,401
Northern Europe	106,698	104,324	88,362
Asia Pacific	65,968	63,734	61,905
Mediterranean & Africa	106,189	98,938	67,410
North America	46,861	50,626	49,806
Latin America	29,909	30,711	28,865
Central Europe	45,837	41,314	36,670
Total	**512,570**	**492,657**	**475,419**

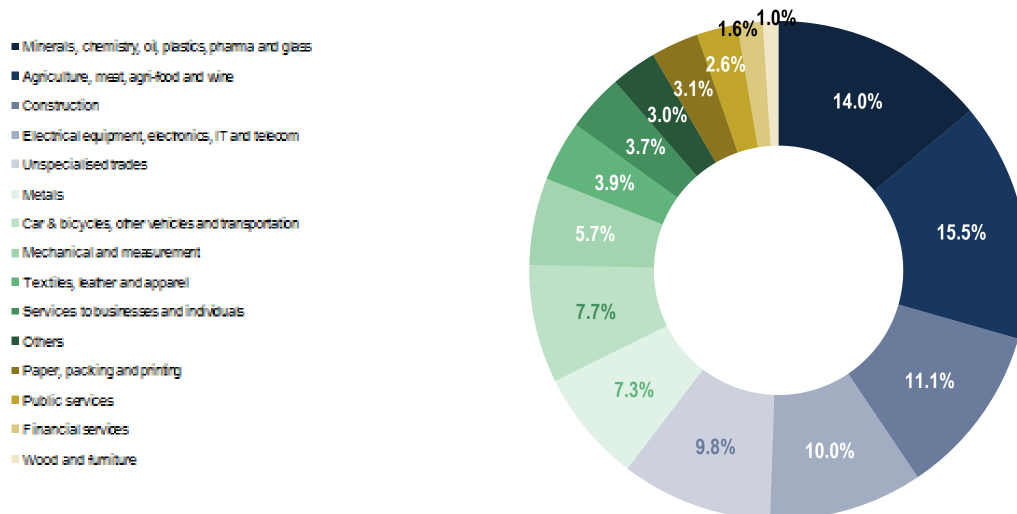
[10] The outstandings presented below are gross of reinsurance (direct business and accepted business) and correspond to the maximum amount of cover granted by the Group to its policyholders. They do not represent the actual use made by the insured.

Exposure by activity sectors of the debtor

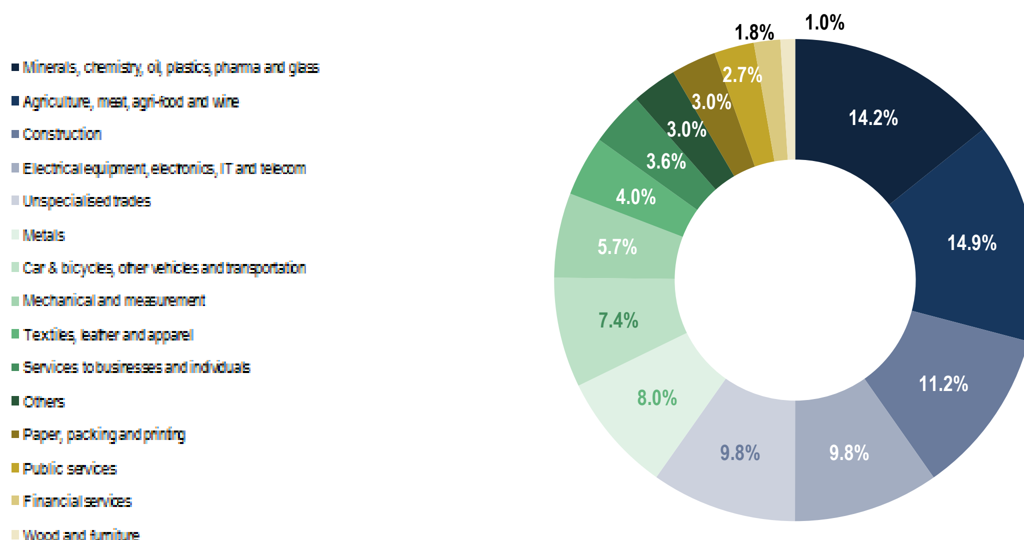
At December 31, 2017:



At December 31, 2016:



At December 31, 2015:



Term of risks

More than 95% of the Group's outstandings consist of short-term risks. The maximum credit term mentioned in its policies rarely exceeds 180 days.

Level 2 controls ensure that the Group's rules on credit risk are well-respected.

Financial risk

Definition

Financial risk covers all risks related to the management of assets and liabilities. They include: interest rate risk, currency risk, liquidity risk, real estate risk, spread risk, equity risk and counterparty risk:

- interest rate risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes in the yield curve or the volatility of interest rates.
- foreign exchange risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of exchange rates;
- liquidity risk represents the inability to meet contractual or contingent payment obligations;
- equity risk arises from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the value of equity markets;
- real estate risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of the value of real estate markets;
- spread risk represents the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of credit spreads compared to the risk-free yield curve;
- counterparty risk represents the unexpected default, or deterioration in the credit quality, of the company's counterparties and debtors.

The Group has introduced an investment policy that takes into account the management of financial risks through the definition of its strategic allocation, the regulations applicable to insurance companies, and the investment constraints resulting from the management of its liabilities. The investment strategy applied must enable the Group to honour its

commitments to its policyholders, while optimising the investments and their performance within a defined risk framework.
The Group's investment policy is reviewed twice a year and covers, in particular, strategic asset allocation, the asset classes and products eligible for investment, the target maturity of the portfolio, the management of any hedges and the policy for managing the Group's revenue. The allocation defined each year is based on an analysis of the liabilities, on simulations and stress tests of the returns or risks of the various classes of assets in the portfolio and on compliance with the defined parameters related to the Group's business and its commitments: target sensitivity, capital consumption, maximum loss depending on the behaviour of financial markets, and on the quality and liquidity of the investment portfolio.
The control of financial risk is based on a rigorous system of constantly reviewed standards and controls.

Measurements

As an insurance company, the Group maintains an allocation that is mainly focused on fixed income products offering it recurrent and stable revenue.

	AS OF DECEMBER 31,					
	2017		**2016**		**2015**	
INVESTMENT PORTFOLIO (FAIR VALUE) [(1)]	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Equities	207	7.5%	126	4.8	219	8.7
Bonds	1,785	21.7%	1,797	68.3	1,685	66.7
Loans, deposits and other financial investments	549	19.9%	570	21.7	512	20.3
Investment property	219	7.9%	138	5.2	112	4.4
TOTAL	**2,760**	**100%**	**2,631**	**100**	**2,527**	**100**

[(1)] *Excluding unconsolidated subsidiaries.*

As at December 31, 2017, bonds represented 64.7% of the total investment portfolio.

As part of the defined strategic allocation, the Group has increased its exposure to equities, as well as European unlisted real estate, while decreasing its exposure to the sovereign debt of the main issuers in the financial markets.

BREAKDOWN BY TYPE OF DEBT IN THE BOND PORTFOLIO (FAIR VALUE)	**AS OF DECEMBER 31,**					
	2017		**2016**		**2015**	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Sovereign and similar	882	49.4%	923	51.3	815	48.4
Non-sovereign	903	50,6%	874	48.7	870	51.6
TOTAL	**1,785**	**100%**	**1,797**	**100**	**1,685**	**100**

These investments are all made within a strictly defined risk framework; the credit quality of issuers, the sensitivity of issues, the spreading of risk on issuers and geographic regions are subject to precise rules defined in the various management mandates granted to the Group's dedicated asset managers.
Specific limits that apply to the entire investment portfolio are defined in terms of portfolio pricing, and by counterparty and country limits. Regular monitoring is also conducted on the liquidity of the credit portfolio, on the changes in spreads and on the Group's aggregate exposure to the main asset/liability risks. Lastly, hedges are made, when appropriate:

they are systematic on exchange rate risk and discretionary on interest rate and spread risk. As of December 31, 2017, part of the sovereign bond portfolio is hedged using interest rate futures.

As at December 31, 2015, 2016 and 2017, the main features of the bond portfolio were as follows:

DISTRIBUTION BY GEOGRAPHIC ZONE OF THE BOND PORTFOLIO (FAIR VALUE)	AS OF DECEMBER 31,					
	2017		2016		2015	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Asia – Developed countries	230	12.9%	259	14.4	154	9.1
Emerging countries [(1)]	171	9.6%	164	9.1	159	9.4
Eurozone	779	43.6%	821	45.7	788	46.8
Europe outside the eurozone [(2)]	144	8.1%	145	8.1	136	8.1
North America	461	25.8%	408	22.7	448	26.6
TOTAL	**1,785**	**100%**	**1,797**	**100**	**1,685**	**100**

[(1)] Countries where the Group is present, primarily Brazil and Mexico.
[(2)] Primarily the United Kingdom, Switzerland, Sweden and Norway.

The investment portfolio is mainly exposed to developed countries in the eurozone and North America. Exposure to the sovereign debt of Portugal and Greece is still nil. In 2017, the Group continued to increase its international diversification, particularly in North American developed countries, in order to profit from higher rates of return and track the various increases in rates.
The bond portfolio remains primarily invested in investment grade[11] companies and countries.

BREAKDOWN BY RATING (1) OF BONDS IN THE BOND PORTFOLIO (FAIR VALUE)	As of December 31,					
	2017		2016		2015	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
AAA	341	19.1%	354	19,7	329	19,5
AA - A	663	37.1%	675	37.6	540	32.1
BBB	587	32.9%	576	32.1	558	33.1
BB - B	193	10.8%	186	10.3	256	15.2
CCC and lower	1	0.1%	6	0.3	2	0.1
TOTAL	**1,785**	**100%**	**1,797**	**100**	**1,685**	**100**

[(1)] Average rating between Fitch, Moody's and Standard & Poor's.

[11] According to Standard & Poor's rating classification, all bonds rated at least BBB- are considered investment grade, and bonds with a rating of less than or equal to BB+ are considered to be high yield.

Also, investments in corporate bonds represent 50.6% of the bond portfolio and more of 85% of this is in investment grade companies. These investments were made within the framework of a strictly defined risk policy, and particular care was given to the quality of the issuers, the sensitivity of the issues, the spread of issuers' positions and geographic regions in the various management mandates granted to the Group's dedicated managers.
The Group's interest rate risk on its financial portfolio is limited, since the maximum authorised sensitivity for the bond asset class is deliberately capped at 4[12]. The sensitivity of the bond portfolio was 3.6 as of December 31, 2017.
Finally, the Risk Committee's semi-annual meetings systematically review the portfolio's spread and liquidity risks.

Hedging policy
The Group's Investment Department, responsible for directing its investments and managing its investment portfolio, may authorize the use of hedges against the risk of interest rate hikes, through forward financial instruments (*swaps*, futures, options) on regulated markets or, over-the-counter, with counterparties rated A- or higher.
These transactions are carried out exclusively for hedging purposes and in strict compliance with the regulations applicable to insurance companies. The nominal amount of the hedge is then strictly limited to the amount of underlying assets held in the portfolio (equities or rates products) in order to hedge assets actually held in the portfolio.
As at December 31, 2017, the Company and Coface Re were partially hedged against the risk of a rate hike and the risk of a fall in the equity markets. The first hedge is based on exposure to the rates of French government bonds in the investment portfolio through futures; the second aims to hedge the equity exposure of the investment portfolio, particularly using out of the money long-term put options. The level and management of these hedges are defined and reviewed depending on the market conditions and management of the levels of unrealized gains and losses at the monthly Investment Committees meetings between the Group's management and the manager of the Amundi investment platform.

Foreign exchange risk
As of December 31, 2017, 36.5% of the Group's consolidated revenue was earned outside the eurozone, and thus subject to exchange rate risk.
Subsidiaries or branches whose accounts are drawn up in euros and which subscribe in other currencies must comply with the same principles of congruence (matching between assets and liabilities denominated in a currency other than that used as a reference for the issuing of accounting statements). Exceptionally, open positions in other currencies may be hedged. The Group does not make foreign currency investments for speculative purposes.
The great majority of the Group's investment instruments are denominated in euros. Exposure of the investment portfolios to exchange rate risk is limited: as of December 31, 2017, more than 70% of investments were denominated in euros.

BREAKDOWN BY CURRENCY IN THE INVESTMENTS PORTFOLIO	AS OF DECEMBER 31,					
	2017		2016		2015	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
EUR	1,942	70.4%	1,833	69.6	1,743	69.0
USD	423	15.3%	410	15.6	514	20.3
Other (1)	395	14.3%	388	14.8	270	10.7
TOTAL	**2,760**	**100%**	**2,631**	**100**	**2,527**	**100**

(1) Mainly Singapore dollar, pound sterling, Brazilian real and Canadian dollar.

Moreover, for greater part of the portfolio, which includes all of the Group's European entities, currency risk is systematically hedged for foreign currency investments that do not apply the principle of congruence. Therefore, as of December 31, 2017 investments in bonds denominated in US dollars, pound sterling, Canadian dollars or Australian dollars in this portfolio were systematically hedged against the euro by the managers responsible for the portfolios concerned. Foreign currency transactions carried out by subsidiaries are monitored by the Group in order to decide, on a case-by-case basis, on the need to put in place the associated hedges.

[12] The sensitivity of a bond measures the loss of value of the bond in the event of a rise in interest rates. Thus, a bond with a sensitivity of 4 will see its market value fall by 4% if interest rates increase by 1%.

Sensitivity to exchange rate risk of the net income of entities denominated in foreign currencies

	Average exchange rate (December 2 017)	Net income (group share) in thousands of euros as of Dec. 31, 2017	Net income (group share) in thousands of foreign currency as of Dec. 31, 2017	Assumption – 10% variation in the exchange rate	Net income (group share) in thousands of euros after exchange rate changes	Rate difference between real rate and exchange rate changes 10%
Brazilian Real	0,2772	172	619	0.3049	189	17
Canadian dollar	0.6828	-1,832	-2,683	0.7511	-2,015	-183
Swiss franc	0.8997	-6,074	-6,752	0.9896	-6,682	-607
Pound sterling	1.1413	3,034	2,658	1.2555	3,338	303
Hong Kong dollar	0.1136	66	585	0.1249	73	7
Mexican peso	0.0469	-3,900	-83,210	0.0516	-4,290	-390
Polish zloty	0.2349	5,461	23,247	0.2584	6,007	546
Romanian leu	0.2189	2,498	11,412	0.2408	2,748	250
Russian rouble	0.0152	690	45,481	0.0167	759	69
Singapore dollar	0.6417	2,670	4,162	0.7059	2,938	267
US dollar	0.8853	5,294	5,980	0.9738	5,824	529
Other		-6,895			-7,584	-689
Euro		82,027			82,027	
Total		**83,213**			**83,331**	**119**

Liquidity risk

The Group's bond portfolio has a short maturity, in line with its liabilities. The breakdown of bond maturities is presented below:

BREAKDOWN BY MATURITY OF THE BOND PORTFOLIO	AS OF DECEMBER 31,					
	2017		2016		2015	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
< 1 year	366	20.5%	452	25.1	368	21.9
1 year < > 3 years	562	31.5%	480	26.7	547	32.5
3 years < > 5 years	366	20.5%	374	20.9	423	25.1
5 years < > 10 years	451	25.3%	444	24.7	312	19.3
> 10 years	40	2.2%	47	2.6	34	2.0
TOTAL	**1,785**	**100%**	**1,797**	**100**	**1,685**	**100**

52% of the securities in the bond portfolio have a maturity of less than three years as of December 31, 2017.
The liquidity position of an insurance company is valued by standards which measure the Company's ability to meet its financial obligations.

Equity risk

Equity markets are characterized by volatility which creates a significant risk for an insurer subject to specific rules in terms of provisions (provisions for long-term depreciation) and capital consumption (Solvency II Directive).

In this context, the Group once again reviewed its equity exposure in 2017 through work on the review of its strategic asset allocation. Its potential equity exposure is thus strictly limited to less than 10% of its portfolio and is concentrated in the euro zone, in line with its core business. The Group has no specific concentration of its equity risk on one or more economic sectors. Management is calibrated against the MSCI EMU benchmark.[13] These investments are also subject to a discretionary hedge put in place to mitigate any potential extreme shocks. The hedging strategy is dynamic: its level, its scope and its magnitude are defined by the Investment Department working with the manager responsible for the management platform.

As of December 31, 2017, stocks represented 7.5% of the investment portfolio, 6.4% of which are stocks listed on a market in the eurozone. These investments were the subject of a hedge on 30% of the invested portfolio through the purchase of put options maturing in June 2018 at an out of the money exercise price of approximately 20% on the Eurostoxx index. These hedges may be adjusted according to the investments and the amount of the unrealised losses or gains on the shares held.

Real estate risk

Under the Group's strategic allocation, real estate represents a limited portion of the Group's assets of less than 8%, due to the low liquidity of this asset class. The Group’s current portfolio consists of property used within the context of its operating activities, as well as funds with underlying real estate.

The real estate risk is the risk of seeing a reduction in market value, thereby impacting the unrealised profits recorded for this real estate, or even of recording unrealised losses.

As of December 31, 2017, the Group had real estate exposure with a fair value of €279.6 million, consisting of €60.8 million in commercial property and €218.8 million in non-listed real estate.

Concentration risk/default of a counterparty

The Group has put in place an investment policy that defines a comprehensive counterparty risk management framework. The approach consists in defining limits for bond investments and consolidating all exposures across all financial instruments in order to circumscribe the potential total loss of the Group following the default or bankruptcy of the counterparty concerned.

A maximum limit of exposure to the same counterparty has been set as a percentage of the investment portfolio. This is set at 5% of assets under management, with possible exceptional and temporary derogations for exposures related to short-term investments.

As of December 31, 2017, the 10 main exposures of the bond portfolio were €660 million, or 37% of the fair value of the bond portfolio.

More generally, the Group has implemented management rules within its investment portfolio and for all asset classes that require geographic and sectoral diversification of risks in order to protect or mitigate a potential default.

The tables below, which enable the sensitivity of the portfolio to be measured using the so-called IFRS 7 benchmark method, show that the portfolio, excluding the impact of equity rate hedges is, at December 31, 2017, slightly more sensitive to the combined effects of a 100 bps increase in bond rates and a 10% fall in the equity market than it was on December 31, 2016. This can be explained by the significant rise in our equity exposure.

Sensitivity of the portfolio to changes in stock and bond markets as of December 31, 2017

(in millions of euros)	MARKET VALUE AS OF DECEMBER 31, 2017	IMPACT OF A 100 BPS RISE IN INTEREST RATES (1)	IMPACT OF A 10% FALL IN EQUITY MARKETS (2)	IMPACT OF A 20% FALL IN EQUITY MARKETS (2)
Bonds	1,785	- 63.47	-	-
Equities	207	-	- 20.68	- 41.36
TOTAL	**1,992**	**- 63.47**	**- 20.68**	**- 41.36**

(1) Average sensitivity of the bond portfolio at end 2017: 3.6
(2) Excluding any hedging impact.

[13] Published by Morgan Stanley Capital International, the MSCI EMU index is an index weighted by the free float-adjusted market capitalisation, designed to measure the performance of stock markets in the eurozone countries.

Sensitivity of the portfolio to changes in equity and bond markets as of December 31, 2016

(in millions of euros)	MARKET VALUE AS OF DECEMBER 31, 2016	IMPACT OF A 100 BPS RISE IN INTEREST RATES (1)	IMPACT OF A 10% FALL IN EQUITY MARKETS (2)	IMPACT OF A 20% FALL IN EQUITY MARKETS (2)
Bonds	1,797	-64.7	-	-
Equities	126	-	-12.7	-25.3
TOTAL	**1,923**	**-64.7**	**-12.7**	**-25.3**

(1) *Average sensitivity of the bond portfolio at end 2016: 3.6*
(2) *Excluding any hedging impact.*

Sensitivity of the portfolio to changes in equity and bond markets as of December 31, 2015

(in millions of euros)	MARKET VALUE AS OF DECEMBER 31, 2015	IMPACT OF A 100 BPS RISE IN INTEREST RATES (1)	IMPACT OF A 10% FALL IN EQUITY MARKETS (2)	IMPACT OF A 20% FALL IN EQUITY MARKETS (2)
Bonds	1,685	-54.3	-	-
Equities	219	-	-21.9	-43.8
TOTAL	**1,903**	**-54.3**	**-21.9**	**-43.8**

(1) *Average sensitivity of the bond portfolio at end 2015: 3.6*
(2) *Excluding any hedging impact.*

To the extent that shares and bonds are accounted for in the *available-for-sale* category, sensitivity would have an impact on "other comprehensive income", to which shareholders' equity is sensitive. Unrealized gains and losses on these financial securities have no impact on net income, except for any impairment recorded. In the event of a sale, the resulting profit or loss would have an effect on the operating result in the income statement.

Operational and non-compliance risks

Definition

Operational risk is defined as the risk of direct or indirect losses, due to an inadequacy or failure attributable to procedures and persons in all business areas, and to internal systems or external events, including the risk of internal and external fraud.
Operational risk also includes the notion of legal risk, including the risk of dependency. The Group does not consider that its business or profitability is dependent on any trademarks, patents or licenses. Indeed, as part of its business selling credit insurance solutions and additional services, the Group does not hold any patent. The name Coface is protected by trademark registration, including in France. Finally, the Group has registered a number of trademarks, logos and domain names used in its businesses worldwide.
Non-compliance risk is an operational risk, in the same way as modelling risk and dilution risk:

- non-compliance risk is defined as the risk of judicial, administrative or disciplinary sanctions, a significant financial loss or damage to reputation that results from a failure to comply with specific legislative or regulatory provisions applicable to the insurance, sale of information, debt collection or factoring businesses, whether they concern professional rules or mandatory internal regulations. The main areas of non-compliance are: the fight against financial crime (anti-money laundering legislation, anti-terrorist financing, fraud prevention and anti-corruption), the protection of personal data, the rules of professional ethics and the regulations applicable to the insurance, factoring and debt recovery businesses;
- modelling risk is defined by the risk of results arising from inappropriate or misused models, due to poor design, poor monitoring or misuse;
- dilution risk is included in operational risks for the factoring business (resulting, in particular, from disputes or falsified invoices). This risk consists of all of the causes that render invoices technically valueless, regardless of the solvency of the debtor: disputes, compensation, prepaid invoices and double issuance, for example, and even the issuing of false invoices in the most serious cases.

Measurements

Mapping of operational risks
In order to improve the understanding of its operational risks, the Group is carrying out a mapping in accordance with so-called "qualitative" methodology.
For each business process or support, a list is made of the significant risk situations which may affect this business or support.
The risk assessment performed by each entity is based on an assessment of its frequency and intensity of impact, as well as the effectiveness of level one controls. A four-level assessment scale is applied (low, medium, significant, high).
Each risk situation is the subject of a detailed description incorporating an assessment of the inherent risk (i.e. before level one controls), to a description and evaluation of the level one controls, and to an evaluation of the residual risk and potential action plans.

All the operational risks of Coface are identified within these seven categories.

Reporting incidents and losses
An incident is the occurrence of an operational risk that could result in, or could have resulted in, a financial loss, an unjustified profit, or in other non-financial consequences.
An inventory is made of operational incidents and losses. A summary is produced each month and distributed during the CGRC.
The incidents reported are corrected and are taken into account when updating the operational risk map.

Action plans and reporting
The purpose of implementing the measures described above is to fully identify the operational risks. When necessary, preventive or corrective action plans for the reduction or control of operational risks are defined and deployed.
The Group Risk Department is responsible for *reporting* to the CGRC and the Group's management bodies.

Business continuity
Each Group entity has a business continuity plan **(BCP)** to deal with any temporary or permanent unavailability of its premises, information systems or staff.
The BCP is prepared based on Group rules, and supplemented by rules on mutual assistance between entities and remote work, for which three tests were conducted in 2017. These rules constitute the Group's business continuity policy. Each entity carries out its business continuity plan locally. User needs and resources are identified using a business impact analysis.
The overall approach is in line with the principal standards for business continuity. The main operational components of the BCP are the crisis management plan and the professional continuity plans. The backing-up of the main data and IT applications used by the Group is ensured by two separate data processing centres located in the Paris region, distant from each other and functioning in "active-active" mode.

Risks related to cybersecurity (see also "Risks related to cybersecurity")

Coface has developed security standards for Information Systems which include a set of policies, rules, procedures and standards applicable at the various levels of the organisation.
Several measures have been introduced to minimise the risk of malicious acts, data theft, hacking the information system, deletion of *corporate websites*, alteration of information, premature stoppage of services (distributed denial of service, or DDoS[14]) by saturation of networks or websites. These measures include:

- General maintenance of infrastructure at the latest software version level;
- Distribution of security patches according to a recurring procedure;
- Search for weaknesses in our infrastructure by implementing a permanent process of vulnerability management;
- Evaluation of the robustness of our infrastructure by the implementation of simulated attacks carried out by specialized firms;
- Evaluation of the resilience of our internal applications to attacks by specialised firms through implementation of a code audit;
- Reduction of the human risk through awareness-raising campaigns on IT system security in the form of e-learning, communication by email, or the distribution of posters or brochures;
- Implementation of a control program aimed at preventing risks.

Information Systems Security is managed by a quarterly committee.

Reinsurance risks

Definition

Given its risk appetite, the Group reinsures itself against the extreme risks that it could suffer.
Reinsurance generates four types of risk:

- the residual insurance risk that may arise from differences between the requirement for reinsurance and the actual coverage provided for in the treaty;
- the counterparty risk that results from the potential inability or refusal of the reinsurer or a treaty party to meet its obligations to the ceding insurer;
- the liquidity risk arising from the possible delay between the payment of the benefit by the insurer to its insured and the receipt of the reinsurance benefit;
- the operational risk related to the execution of the treaty.

Measurements

Intra-group risk sharing and reinsurance
In order to optimize its cover against an abnormal deviation of the loss experience, the Group centralizes the purchasing of its reinsurance according to a sophisticated risk-sharing mechanism.
The pivotal company, which centralises this purchasing function, negotiates on behalf of the Group's insurance entities a cover against the frequency and severity risks that best meet their operational needs. The Company held this role until the end of 2014 and was replaced by Coface Re as of January 2015.
The objective of setting up Coface Re SA is to isolate the Group's reinsurance flows in a dedicated entity, to continue streamlining the coverage plans of the Group's entities and partners, and to increase the range of services made available to its international customers.
In 2017, the external reinsurance program for the subscription year is as follows:

- a quota share treaty with a transfer rate of 26% instead of 20% in 2016;
- two excess loss treaties, one per risk and the other per country (only on Single Risk) protecting the Group's retention after quota share transfer so that no unit loss represents, after tax, more than 3% of the Group's equity; and

[14]DDoS: a distributed denial of service; an attack aimed at rendering a server, service or infrastructure unavailable.

- a treaty in excess of annual loss, or "Stop Loss", protecting the Group's retention after share and excess of loss, against excessive deviation of the frequency loss.

The Group's 2017 reinsurance treaties were signed with a pool of 22 reinsurance companies. All these reinsurance companies on the 2017 panel are rated between A- and AA by one of the major international rating agencies.
The Group continues to require systematic reinsurance from its reinsurers (cash, securities, letters of credit) on all proportional treaties including "IBNR". This objective is 100% achieved as of December 31, 2017 for all counterparties of its master treaty. The collateral requirements apply on a case-by-case basis to excess claims based on the Group's assessment and are updated annually. Under the 2017 reinsurance treaty, the Group's top three reinsurers represent a 39.50% share of the reinsured risks.
The Group has never had to face a claim which surpassed an excess loss reinsurance treaty since these treaties were established in 1990.
Since 2015 Coface Re is a reinsurer as regards entities of the Group and members of the *Coface Partners* network, and transmits the externally purchased coverage through the programs described below. It also ensures that the conditions offered to the entities concerned prompt them to control their loss experience as best as they possibly can.

Measuring risks linked to the factoring business

Factoring is a means of financing by which a company assigns the receivables it holds on its clients to a financial organisation, called a factor, under the terms of a contract entered into between the two parties. The company assigns its rights (subrogation) to the factor in return for rapid financing of its receivables, in consideration for a fee (commission on the services and interest on the financing).
The factor thus finances the company in advance, which enables the company to optimise its cash flow, and is in turn reimbursed through settlement by the debtors, either by direct collection (*factoring* with recourse) or via a credit insurance policy taken out by the company (factoring without recourse), in the event of non-payment or insolvency of the latter.
When the contract is negotiated, the type of product, the analysis of the customer's creditworthiness, the quality of the receivable and the portfolio of debtors, as well as the terms and pricing applied, condition the risk on the financing of the receivables.
The risks are covered by guarantee funds or reserves (withholding of guarantee applied on the financing portion) on each contract, to which can be added a specific reserve fund, and based on an evaluation that is upstream of:

- the technical risk: the total non-payment of the invoices financed by the factor, other than by reason of the insolvency of the debtors (dilution risk)
- the customer risk: potential irrecoverable losses in the event of the customer's insolvency or default (*Loss Given Default*).

The customer risk is assessed by:

- an analysis of customers' financial position using internal rating tools;
- an on-site audit to check the reliability of internal procedures (tools, receivables, deliveries, payments, recovery, etc.) for any new or existing customer;
- daily checks of the invoices and financing;

The debtor risk is managed in two ways, by a contract with or without recourse;

- without recourse: a Group credit insurance policy is taken out by the customer to protect it against the risk of unpaid accounts receivable;
- with recourse: the factor alone does not assume the risk of insolvency of the purchasers and has recourse against his Customer for the unpaid invoices.

The factoring business is governed by specific Group rules, authorizing two Group companies, Coface Finanz (Germany) and Coface Factoring Poland (Poland), to market factoring products.
A single tool (Magellan) structures the factoring business and concentrates all the data relating to the life of the contracts: customer data, buyers, invoices, contracts.

The factoring outstandings are recorded in the Group tool (ATLAS) enabling consolidated management of its exposure to a buyer or a group of buyers.
A specific organization and internal control procedures have been put in place in the subsidiaries for the daily monitoring of transactions (financing flows, late payment by debtors).
Since April 2017, a new organization has been set up at Group level with the creation of the Group Commercial Underwriting Department, and a dedicated team that oversees the Factoring business.
In addition to a level two control to ensure compliance with Group rules on the factoring business, there are three monitoring levers:

- delegations granted to entities that require, in addition, an agreement between the Group's Arbitration Department and the Group's Subscription Department;
- a risk committee organized by the Group Arbitration Department and the Group Subscription Department, bringing together the factoring risk managers of the entities;
- monthly reports for each entity with a summary of the portfolio and the risk indicators selected on the basis of how discriminating they are.

Factoring activities are covered by the Group's reinsurance treaty (buyer risks by credit insurance section and ceding risks by a dedicated factoring section).

2. Risk factors

The Group operates in a rapidly evolving environment that leads to numerous external risks, in addition to the risks inherent in the conduct of its businesses. This chapter identifies the significant risk factors to which the Group believes it is exposed and their management.

2.1 Risks relating to the economic, competitive and regulatory environment of the Group's business sector

Risks related to the macroeconomic situation

The Group is present in 66 countries and markets its services in nearly 100 countries and in the many sectors of the economy in which its policyholders operate. Given the nature of its business, its activity is directly influenced by the economic environment and by business activity at both a local and a global level. Although the diversity of the sectors and regions in which the Group operates gives it some resistance to the various economic cycles, its activity is sensitive to changes in general macroeconomic conditions, global trade, the level of investment and consumption, as well as any changes in economic policies affecting its policyholders.

Risk on premiums collected

The premium on a credit insurance policy is assessed on the revenue earned by the policyholder during the period covered by the policy, on an insured risk on client receivables or on a capped insured receivable, which are themselves a function of the turnover realised by the policyholder during the period covered by its credit insurance policy. The total volume of premiums collected by the Group thus depends on the turnover of its policyholders, namely the sales volume effectively realised by them during the periods covered by their respective credit insurance policies, and covered by these policies.
The Group's credit insurance policies include a minimum lump sum premium, calculated on the basis of an estimate of the volume of sales that will be realized by an insured person over the period covered by these policies. This minimum is generally invoiced according to a quarterly schedule, the first payment being due on the date when the policy comes into effect. The volume of sales actually made by the policyholder, which allows the final premium to be determined, is only known at the end of the period covered by the policy. The amount of the final premium, assessed on the volume of sales made by the policyholder, is generally higher than the amount of the minimum fixed premium already invoiced. An adjustment premium, representing the difference between the lump sum premium already invoiced and the final premium, is then invoiced to the insured. However, if the total premium calculated on the basis of the volume of sales made by the policyholder is lower than the amount of the fixed premium, this difference is retained by the Group.
Although a deterioration in the economic environment may lead to an increase in the level of premiums received by the Group, resulting from the signing of new policies (either by new policyholders seeking cover or by existing policyholders extending their cover) or from an increase in the insurance premium rates, an economic slowdown, in particular within

the eurozone where a large portion of the Group's policyholders are located, could also result in a reduction in the volume of insurance premiums, due to a slowdown in business experienced by policyholders.

Risk on the level of loss

Difficult economic conditions, in particular in the eurozone where the majority of policyholders are based, may cause an increase in payment delays and bankruptcies and thus in the frequency of claims. They could also lead to severity risks, in other words, abnormally high losses due to a single debtor or group of debtors, or even due to an accumulation of losses in a single country.
Although the Group's broad geographical spread and its diverse portfolio strengthen its resistance to regional or segment-specific economic shocks through a dilution effect across its entire business, the growing interconnection of economic sectors and financial mechanisms on a global scale exposes it, like all credit insurers, to the risk of having to cope with a global-scale economic crisis, which would limit the benefit of this dilution factor.
An unfavourable change in the economic and commercial environment could in the future have a material adverse effect on the Group's business, financial position, solvency margin, results or outlook.

Risks related to the competitive environment

The Group operates in a highly competitive credit insurance market, with a large number of players of varying sizes and status, including Export Credit Agencies (ECAs) created by governments to encourage their exports. The global market is nevertheless dominated by three major players, including the Group, who are the only ones to have a global network and a significant footprint. In certain markets the Group competes with export credit agencies, leading players in their market, who have very significant or even monopolistic market shares. Although it believes that the credit insurance market has strong entry barriers for new global players, the Group cannot rule out the possibility that new players, including those of significant size, will modify their strategy in order to enter certain markets on which it is present, thereby accentuating already intense competition. Likewise, in certain regions, it has to cope with competition from regional players which are smaller but benefit from a significant local presence.
There are also a number of alternative products to credit insurance, such as irrevocable and confirmed documentary credits or stand-by letters of credit or factoring, in certain markets, offering alternative coverage solutions to policyholders, who could decide to favour them over the services of the Group. Moreover, an important source of competition comes from the companies themselves, which may opt to self-insure their credit risks, and to manage their receivables internally. An increase in credit insurance costs and in the terms on which the Group offers its other services, and more generally unfavourable business practices in the credit insurance sector, could strengthen this trend and worsen the competitive environment.
Factoring, a market where the Group is present in Germany and Poland, is a less concentrated market than credit insurance and is shared among banking players and non-banking players.
In recent years, the Group has experienced strong competitive pressure, particularly in terms of price in all its business segments and a broadening of the scope and nature of insurance coverage delivered mainly in Western Europe. The competitors in its various sectors of business could, due to their size, have larger financial, commercial, technical and human resources, or a greater capacity for innovation, than those of the Group. These competitors could in the future continue to adopt aggressive pricing policies, to diversify or expand service offerings or their supply chains, to develop strategic or contractual relationships in markets in which the Group is present or seeks to expand, and thus increase competitive pressure.
In this regard, the Group may need to adapt its services and tariffs or its underwriting risk policy, which could affect its profitability and/or lead to a loss of market share. Similarly, in the face of such competition the Group may struggle to implement its strategy for sustainable and profitable growth if it fails to offer prices, innovative products, services or a quality of service at least comparable with those of its competitors. The more intensive competition could have a material adverse effect on its business, financial position, operating results or prospects.

Risks related to the regulatory environment (legal and accounting)

Risks related to national and international policies and regulations applicable to the Group's activities

The Group operates in a strongly regulated environment, which differs according to the countries in which it conducts its business. Its insurance business is subject to the control of local regulators, which may sometimes differ depending on the country in which it is established.
The Group is headquartered in France; its activity is to a large extent governed by European directives and by French domestic regulations on non-life insurance. The supervisory and regulatory authority for its activities in France and in the European Union is the Prudential Supervisory and Resolution Authority (the Autorité de contrôle prudentiel et de résolution, or “ACPR”).
Most countries in which the Group operates apply the laws and regulations which govern, particularly the solvency standards, the level of capital and reserves, the multiplicity and diversification of financial investment portfolios, the conduct of business (particularly the granting of relevant licenses and approvals), distribution practices, the anti-money laundering and terrorism financing rules and the Know Your Customer protection rules.
These various regulations and supervisory measures have been strengthened in the wake of the 2008 financial crisis, both at the European level and outside the European Union. Some countries have adopted or are in the process of adopting measures that constitute significant changes to the current framework, notably to strengthen the solvency of insurance companies. In this context, the amendments to the regulations applicable to the Group’s insurance activities since January 1, 2016 have led to new restrictions or conditions on the conduct of its business. They have, particularly by introducing stricter capital and liquidity requirements, increased its financing costs and operating expenses, which could restrict the scope of its activities or more generally, hamper its development (see also "Risks related to hedging the Group’s solvency" – SCR ratio below).
The Group also has factoring businesses in Germany, where it is subject to specific regulations, and in Poland. In both these countries, a modification in the existing laws and regulations on factoring, particularly in terms of capital and liquidity requirements specific to non-banking factoring activities, could impact the operation of these businesses and the financial position of the Group.
A significant portion of the Group’s business is subject to obtaining approvals and licences issued by the public authorities in charge of supervising and controlling credit insurance and factoring activities. As part of its sustained and profitable growth strategy, the Group plans to continue establishing operations in new countries and will be required to obtain all the necessary approvals, licences and authorisations to carry out such business activities. Any major difficulty encountered in obtaining such authorisations could delay or jeopardise its establishment in these new countries. Similarly, the non-renewal, suspension or loss of these authorisations could have a material adverse effect on its business, operating results, financial position and prospects.
Lastly, due to the rapid changes to the regulatory environment and the strict interpretation and application of the regulations by the regulatory authorities, the Group has become particularly vigilant about compliance. Despite implementing measures to comply with applicable regulations, it may become subject to regulatory investigations and possible sanctions which could affect its activity, results, financial position, outlook and reputation.
More generally, the Group cannot guarantee that rapid and/or significant changes in current regulations will not, in the future, have an adverse effect on its business, financial position, solvency margin, dividend policy, operating results or prospects.

Risks relating to tax regulations

As an international group operating in many countries, the Group is subject to multiple tax regulations and conducts its business lines globally in light of the various regulatory requirements, of its sales, and of financial and tax objectives.
To the extent that the current tax regulations in the various countries where the Group operates do not always provide clear or definitive guidelines, the structure of the Group, the conduct of its business and the tax system may be based, in certain circumstances, on its interpretation of the applicable tax regulations. The Group cannot guarantee that these interpretations will not be challenged by the relevant tax authorities, or that the applicable regulations in some of these countries will not be subject to changes, fluctuating interpretations and contradictory applications. More generally, any breach in the tax regulations of countries in which the Group or its companies are located or operate, may result in adjustments, or the payment of late interest, fines and penalties. These factors could have a negative impact on the Group’s effective tax rate, cash and operating results.

Risks relating to changes in accounting standards (see also the section on "Accounting principles and methods") in the Notes to the consolidated financial statements)

The Group's consolidated financial statements are prepared in accordance with international standards, as adopted by the European Union. The international accounting standards include the IFRS (International Financial Reporting Standards), the IAS (International Accounting Standards) as well as their respective interpretations, as presented in the Group's consolidated financial statements.
IFRS 17 “Insurance Contracts” which deals with the recognition of insurance contracts will enter into force in 2021, but should be implemented as of 2020 to obtain one year of historical data for comparison, and will replace IFRS 4 phase 1 (in force since the application of the International Financial Reporting Standards in 2005).
The amendment of IFRS 4 concerning the joint application of IFRS 9 “Financial Instruments” with IFRS 4 "Insurance Contracts", with specific provisions for financial conglomerates, was adopted on 3 November 2017 and is applicable as of January 1, 2018, This European regulation enables European financial conglomerates to elect to postpone application of IFRS 9 for their insurance sector to January 1, 2021 (application date of the new IFRS 17 "Insurance Contracts") on the following conditions:

- that they do not transfer financial instruments between the insurance sector and any other sector of the conglomerate (other than financial instruments measured at fair value through the profit or loss account);
- that they state which insurance entities are applying IAS 39; and
- that they disclose specific additional information in the notes to their financial statements.

The Coface Group plans to apply this provision for its insurance companies and those providing services related to insurance, which will remain subject to IAS 39. Only the factoring companies will apply IFRS 9 as of January 1, 2018.
These two important draft standards could have a significant impact on the recognition of liabilities linked to insurance policies and the classification of financial assets.

Risks related to the occurrence of exceptional events (acts of terrorism, natural disasters, pandemics, etc.)

Unforeseen events such as acts of terrorism, conflicts, the spread of pandemics such as the Ebola virus, a serious natural disaster, the potential consequences of global warming, or any other emergency situation, could adversely affect the business and financial condition of the Group due to the economic and financial consequences of indemnifying the resulting claims.
These events could also cause a temporary disruption to the Group's business operations and result in significant losses to the extent they would not be, or would be insufficiently covered, by any relevant insurance policy, and if the Group's business continuity plans did not alleviate the consequences. Such losses may relate to physical assets, financial assets, market positions or key employees. These events could likewise generate additional costs and an increase in expenses for the Group (in particular increased insurance and reinsurance premiums). Although it has not experienced such events in the past, it cannot be excluded that such events may occur in the future and have a material adverse effect on its business, financial position, market value, operating results or prospects.

2.2 Risks relating to financial markets and to the Group's financial strength

Risks related to world financial market conditions

The Group's business lines are sensitive to changes in the financial markets in France, Europe and the rest of the world. Numerous factors, including uncertainties about the solvency of certain sovereign issuers, the stability and solvency of financial institutions, the risk of future inflation or deflation in certain markets, as well as geopolitical tensions, have led to a liquidity shortage and increased the volatility of the financial markets. They could in the future continue to weigh on the markets and the overall economy, and thus on the business activities and prospects of the Group. Furthermore, a liquidity shortage and the volatility of financial markets could have a material effect on the Group's investment portfolio, and more broadly, on its financial income, primarily due to the size of the investment portfolio, which mainly comprises financial instruments whose value depends on the performance of the financial markets (see also the paragraph on "Financial risks" and the paragraph on "Risks related to the investment portfolio”).
Adverse changes in the financial markets could, in the future, have a material adverse effect on the business, the Group's financial position, solvency margin, share price trends, operating results, market value or prospects.

Risks related to exchange rate fluctuations

Due to the international nature of its activities, the Group distributes policies in around 100 countries and in approximately 50 currencies other than those of the accounts of the issuing entities (premiums collected and claims paid). Similarly, its credit insurance policies may cover invoices in various currencies. Consequently, its entities which carry exchange rate risks on their balance sheets when they issue policies with premiums collected in a currency different from their accounting currency, record liabilities that are indexed to a currency other than the one used in the rest of their balance sheet.

Furthermore, the Group, which releases its financial statements in euros, could be exposed to exchange rate risks, mainly due to the activities of certain foreign subsidiaries that operate in foreign currencies. Its capital is therefore subject to fluctuations in these exchange rates when consolidating the net positions of the various entities of the Group.

Finally, financial assets in a foreign currency that are in the Group's investment portfolio may be affected by fluctuations in the exchange rates of the currencies in which they are denominated (see also the paragraph on "Financial risk measures"). These fluctuations could significantly affect its financial income.

Although it can seek to reduce its exposure to foreign currency fluctuations through hedging activities via the matching principle, fluctuations in exchange rates and any related losses as part of its hedging activities could have a material adverse effect on its financial position, operating results and solvency margin.

Risks related to the investment portfolio

The Group holds an investment portfolio primarily comprised of financial instruments. The fair value of this investment portfolio as of December 31, 2017 totalled €2,760 million (excluding cash equivalents and investments in unconsolidated subsidiaries). The Group implements a diversification policy for its investment portfolio that aims to comply with the current legal and regulatory provisions, as well as obtain an optimal balance between risk and return (see also the paragraph on "Financial risks"). The occurrence of any of the risks described below could nevertheless have a material adverse effect on its current and future revenue, the net income, cash and financial position.

Interest rate risk

A significant portion of the Group's investment portfolio is invested in bonds. As of December 31, 2017, bonds represented 64.7% of the total fair value of its investment portfolio. The Coface Group is thus subject to interest rate risk, including both interest rate and spread risk which is particularly relevant to bonds. During a period when the rates fall, there is a risk that the average portfolio interest rate will fall (reinvestment occurring at lower rates), or that the duration of the portfolio will increase (making the portfolio more sensitive to a future change in rates). Conversely, during a period when interest rates rise, there is a risk that the market value of the bond portfolio will all, in which case the Group would have to record unrealised losses. Any significant variation in the value of its bond portfolio, as a result of a change in interest rates, could have a material adverse effect on its net income, cash, solvency margin and financial position. With this in mind, the Group has implemented a asset-liability management policy.

Counterparty risk

As of December 31, 2017, more than 89% of the bonds held by the Group had a rating of BBB or higher, given by at least one internationally recognised rating agency. At the same date, the exposure of its investment portfolio was primarily geared towards countries in the eurozone, with the exception of Greece. Despite this risk selection policy, it cannot exclude that its investment portfolio might experience significant changes in value due to persistent current and potential future tensions on the financial markets, in particular with regards to sovereign debt. These defaults or fears of defaults by public or private issuers, or of any other third party, counterparties, financial institutions, clearing houses or stock markets, could disrupt the market, cause increased volatility of financial instruments, result in a chain reaction of defaults, or even lead to general illiquidity, and could lead the Group to record losses or impairments of invested assets, or unrealised losses that are significant or make it unable to meet future funding needs to honour its commitments. Such losses or impairments could harm the value of its investments and reduce its profitability, having a material adverse effect on its current and future revenue, net income, cash, solvency margin and financial position.

Equities risk

As of December 31, 2017, 7.5% of the Group's investment portfolio was invested in equity mutual funds and stocks, exposing it to upward and downward changes in the stock market which in turn depend on many exogenous factors. In the event of a drop in the values to which its portfolio is exposed, it could be obliged to record unrealised losses, or even significant impairments of assets, which could have a material adverse effect on its current and future revenue, net income, cash and its financial position.

Risks related to the Group's financing needs

The liquidity requirements of the Group correspond, on the one hand, to coverage of its operating expenses, the settlement of claims and financial expenses and, on the other hand, to the liquidity needs of the factoring business in Germany and Poland. The main sources of liquidity for the insurance business are the insurance premiums received and the net income from investments. Liquidity to cover the financing requirements of the factoring business totalled €2.2 billion at December 31, 2017 and corresponded to drawdowns under bilateral credit lines of a maximum amount of €877.3 million, to issuances made under its commercial paper programme for a total maximum amount of €600 million and a factoring receivables securitisation programme in Germany for a total maximum amount of €1.195 billion. Any early termination of the securitisation programmes or related financing, in the event of a failure to comply with commitments or default could have a material adverse effect on its financial position.
As part of its financing policy, the Group accessed and should continue to access the capital and loan markets. In this regard, it cannot guarantee that it will have sufficient financing or that the capital or loan market conditions, particularly the interest rates, and the perception on these markets of its financial condition and prospects, will be favourable enough to access the funding (bank financing or fundraising on financial markets) required to develop its business, in particular to cover its operating expenses, claims settlement and financial expenses. The capital market has suffered, and could continue to suffer, from high volatility or from disturbances limiting the availability of market financing. Such insufficient liquidity and/or prolonged restrictions in access to these forms of funding could have a material adverse effect on its business, financial condition, results of operations or prospects.

Risks related to hedging the Group's solvency (SCR ratio)

Solvency II, which has been applicable since January 1, 2016, seeks in particular a better understanding of insurers' risks. In this respect, these regulations include Solvency Capital Requirements (SCR) that sets capital adequacy requirements for insurers for the purpose of absorbing a major shock. These SCR may be calculated based on a standard formula set by the regulations or by a complete or partial internal model developed by the insurer and validated by the prudential regulator.
In preparation for Solvency II, the Group, like the majority of other European insurers, has nevertheless had to make a certain number of strategic choices. The Group has chosen the standard model as regulatory calculation method. It has, however, decided to continue working on an internal model to be submitted to the ACPR.

Risks related to rating revision

The ratings on the ability to settle claims and of financial soundness are important factors when assessing the competitive position of insurance companies. The rating agencies regularly review their ratings and methodologies, and consequently may, at any time, modify the ratings that they have assigned. In the current economic environment, some rating agencies have downgraded their outlook for the insurance sector, and have downgraded the ratings of a growing number of companies. As of today, the Group has maintained its ratings of AA- from Fitch and A2 from Moody's, which were confirmed in November and August 2017 respectively, with stable outlooks.
However, even a potential downward revision of the outlook and/or of these ratings, could have negative effects for the Group, and cause: a deterioration in its competitive position; difficulties in distributing new credit insurance policies; the termination of certain existing credit insurance policies; an increase in reinsurance costs; significant financing difficulties or increasing financing costs, linked in particular to its securitisation programme and its related financing; the need to grant additional coverage for certain contracts; a negative effect on its relations with its creditors, commercial counterparties and distributor partners, in particular the fronters; a significant negative effect on public trust and on its reputation.
A downgrading in the outlook and/or ratings could consequently have a negative impact on its business, liquidity level, financial position, net income, solvency margin, market value and prospects.

Financial links related to the effect of climate change

The risks related to the effects of climate change may be physical risks or risks regarding the transition towards a low-carbon economy. The physical risks consist of damage caused by extreme weather events. Coface could be exposed through its customers and their counterparties. These physical risks would ultimately correspond to credit, market and liquidity risks. The risk of transition to a low-carbon economy could directly result in the reduction of the likelihood and scale of physical damage. Initially, the impact would primarily concern sectors linked to the exploitation of fossil fuels as well as the chemical and metallurgy sectors. The transport and construction sectors would also be affected. As for the physical risk, therefore, Coface would face credit, market and liquidity risks. Thanks to its diversified credit risk portfolio, Coface is not directly affected by such risks to any significant extent.
In connection with Article 173 of the Law of August 17, 2015 on Energy Transition for Green Growth applicable to Coface, the Group defined in 2016 its responsible investment policy and the goals pursued in coherence with its role as credit insurer and the protection of its reputational risk.
Thus, in partnership with Amundi, Coface set up in 2016, a mechanism to address the regulatory requirements and to measure the carbon footprint of its portfolios with a view to reducing it. Accordingly, calculating and disclosing information on Coface's carbon exposure is the foundation of its commitment in this field.

- ESG factors (Environment, Social, Governance): integrate sensitivity to these factors while maintaining a primary logic of risk and reputation management. Amundi produces a report on the average ESG rating of the Coface portfolio (A to G rating).
- Voting rights and Commitment: taking part in voting at the Shareholders' Meetings of companies held in the portfolio through the delegated managers and encouraging dialogue with their management on best practices by relying on the practices implemented on these topics.
- Measuring the carbon footprint: Protecting the Group against carbon risk and participating in international environmental protection and energy and ecological transition endeavours.

The Group's initiatives to reduce its environmental footprint are described in detail in Chapter 6.

2.3 Risks related to the Group's business activity

Risks related to the solvency of debtors and policyholders, its assessment and the reliability of information relating to this solvency

The core business of the Group is credit insurance. The Group also has factoring activities in Germany and Poland. Assessing the credit risks related to these activities is an essential component of its business.
The credit risk includes:

- for credit insurance, the underwriting risk, inherent in the insurance business (namely, short-term credit insurance, special risks including Single Risk and surety bonds) under the Solvency II Directive; in other words, the risk of losses or of an unfavourable change in the value of insurance commitments, due to inadequate assumptions in terms of pricing and provisioning; and
- for the factoring business as defined by the regulations issued on November 3, 2014, i.e. the risk incurred in the event of default by a counterparty or counterparties considered to be a single beneficiary.

The quality and reliability of information regarding debtor solvency are essential for managing the pricing policy and the risk underwriters' decision process. The Group, as with other players in the market, cannot exclude that it will face, in certain markets, difficulties in obtaining reliable and accurate information or debtor solvency data from the service providers that it may use.
Any lack of information or use of unreliable information regarding a debtor or the environment in which it operates, or a delay in the provision of such information, is likely to distort the evaluations and assessments used by the Group, and therefore the estimate of the related potential claims risk. Such risks relating to solvency assessments could have a material adverse effect on its business, financial position, operating results, solvency margin and prospects.
Furthermore, if the credit insurance or factoring products that it develops and sells seek to respond to the needs of policyholders (or customers in the case of factoring activities) and their evolution in terms of coverage, the Group must likewise control the risks in terms of exposure, and thus of profitability. A poor assessment of debtor solvency (and, in cases of factoring and guarantee activities, of the Group's customers) at the time of underwriting, and for credit insurance during the lifetime of the product, or even at the time of its renewal, could result in poor compatibility between

the premium, the commitments made and the Group's management, and thus bring about a potentially significant risk of loss.

Risks related to the establishment of insurance technical provisions, depreciations and the assumptions used

The insurance policies managed by the Group's insurance subsidiaries meet the definitions of insurance contracts provided by IFRS 4. These policies give rise to the recognition of technical provisions on the liabilities side of the balance sheet, which are measured based on French GAAP. A liability adequacy test is performed to verify that the insurance liabilities, as they appear in the consolidated financial statements, are sufficient to cover the future cash flows estimated at that date (see also the paragraph on "Credit risk" - "Definition and measurement of risks").
The Group makes estimates when establishing technical provisions which are primarily based on statistics and assumptions about changes in events and circumstances related to the policyholders and their debtors, as well as their economic, financial, social, regulatory and also political environment. These estimates may turn out to be different or insufficient when compared to the actual events and circumstances subsequently observed, especially if they simultaneously affect its main portfolios. The use of these assumptions requires a high degree of judgement by the Group's management bodies, which may affect the level of the provisions recognised and therefore may have a material adverse impact on the Group's financial position, operating results and solvency margin.
The Group holds financial investments for which there is no active market or the observable values are either limited or unrepresentative. Their fair value is then measured using valuation techniques based on assumptions that require a high degree of judgement. The valuations and estimates are revised when new information becomes available. In light of this information and in accordance with these accounting principles and methods, as described in Group's consolidated financial statements, its management bodies use their judgement to analyse the causes of any decrease in the estimated fair value of securities, its prospects of short-term recovery and the level of provisions that is considered adequate for the resulting impairments. The impairments or additional provisions could have a material adverse effect on the Group's operating results, financial position and solvency margin.

Risks related to the geographic and sectoral distribution of debtors covered by the Group's insurance policies and its policyholders

The Group insures payment default risk for more than 40,000 policyholders in around 100 countries worldwide. The debtor risks covered by the Group's credit insurance policies are mainly located in Western Europe, notably in Germany, France, Italy and the United Kingdom. As at December 31, 2017, these four countries accounted for 41% of the Group's overall exposure from its credit insurance activities, while the whole of Western Europe represents 52.2% of the Group's total exposure. On the same date, debtors from non-OECD countries represented less than 18% of the Group's overall exposure. The Group is therefore particularly exposed to the risks and economic situation of countries in the eurozone and in Western Europe in general.
The persistence of a difficult economic situation, or the occurrence of new difficulties in these countries, and more generally in Western Europe, could increase the difficulties and worsen the financial position of the Group's debtors and policyholders operating in such countries. These factors could in return cause a considerable change in the Group's risk profile, and thus have a material adverse effect on its business, financial position, operating results or prospects.
In 2017, the Group maintained a selective risk underwriting policy and close monitoring due to the persistently tense global economic situation observed in all the so-called emerging countries. The Group's debtor receivables insurance portfolio covers a broad range of business sectors. However, as of December 31, 2017, the construction, agro-food and chemicals sectors represented 40.4% of the Group's total exposure. A presentation of the breakdown of the Group's guaranteed debtor receivables by business sector appears in the paragraph (see also the paragraph on "Credit risk" - "Definition and measurement of risks").
Similarly, the risks for some more sensitive sectors were revised in 2017 in continuity with what was done in 2016, to anticipate the deterioration of the solvency of the most vulnerable players of these markets (metal industry, sectors linked to the oil industry, etc.). Despite the diversity of the business sectors of the Group's policyholders and debtors covered by its credit insurance policies, the Group cannot disregard the fact that a significant deterioration in the economic conditions in any given sector may impact its overall risk levels, as well as the volume of premiums received, and result in a material adverse effect on its business, financial position, operating results or prospects. This monitoring is permanent and enables an adjustment that closely matches anticipations.

Risks related to overexposure to debtors or dependence on major policyholders

As of December 31, 2017, no debtor represented more than 1% of the Group's exposure and no policyholder accounted for more than 1% of the total premiums collected. Although it considers that the level of risk exposure regarding a major debtor is fairly limited, given their number and the diversity of risks that they present and the reinsurance underwritten, the occurrence of any significant risks linked to certain important debtors could affect the amount of indemnifications that it may have to pay, and have a material adverse effect on its financial position and operating results.

Risks related to the Group's international activities

The Group markets its services in 100 countries located in Europe, North America, Latin America, Asia, and a number of African countries. The diversity of its geographical locations exposes it to various and sometimes unstable economic, financial, regulatory, commercial, social and political environments which could have an influence on the solvency of its policyholders' debtors or, to a lesser extent, on the solvency of its policyholders themselves, its methods of intervention and marketing, as well as the management and monitoring of risks related to its credit insurance products.
It could be obliged to face a number of external risk factors, such as: fluctuations in exchange rates and currency devaluations; capital transfer restrictions; imposed restrictions related to embargoes; changes in legal and tax systems, including the regulations regarding transfer pricing and withholding tax on payments made by the entities of the Group; increase in interest rates; inflation, potential recessions and financial market volatility; or even, political instability and the risk of terrorism and war.
In this context, the Group may face significant difficulties and its strategy may be affected by the environment in certain countries in which it operates, leading to a material adverse effect on its business, financial position, operating results or prospects. Furthermore, the Group is present in countries where the legal systems are very diverse, and where the legal and dispute resolution systems sometimes present characteristics or levels of maturity different from those of its most important markets in Europe. In this context, it could encounter difficulties with regard to taking legal action or enforcing rulings.

Risks related to intermediated distribution of the Group's credit insurance policies

Although the Group has various distribution channels, and its own sales teams, for its credit insurance policies, around two thirds of its sales activity is brokered, and depends on the existence and quality of its relationships with various partners who distribute credit insurance policies on its behalf, especially in countries where it does not have a direct presence (fronting) or does not have its own licence. Its network of partners is composed of insurance brokers, financial institutions and non-specialised business facilitators, with whom it often maintains long-term relationships that are not exclusive.
Any significant difficulty encountered in the management of its partnerships or in their development could have a direct impact on its competitiveness and the implementation of its strategy for sustainable and profitable growth. The Group cannot, therefore, rule out a drop in its business related to the breach or a renewal under less favourable terms of partnership contracts with third parties such as brokers, banks and multiple line insurers, or the bankruptcy of these partners. These difficulties, if they occur to a large extent, could have a material adverse effect on its financial position, operating results or prospects.

Risks related to relations with reinsurers, the capacity of the reinsurance market and reinsurance costs

The theoretical level of exposure assessed by the Group is incompatible with the Group's available capital alone. This theoretical level of exposure is based primarily on the fact that a certain number of claims derived from this exposure will be passed on to reinsurers under a quota share treaty, bearing in mind that this transfer of risk to reinsurance companies does not exempt the Group from its commitments to pay its policyholders. The Group has also implemented a reinsurance strategy against any potential extreme risks it may incur through non-proportional "excess claim and excess loss" cover (see also the paragraph on "Credit risks" - "Definition and measurement of risks). In terms of its relations with reinsurance companies, the Group is subject to the insolvency risks of its reinsurers and the risk that it might be unable to obtain reinsurance treaties or obtain them on acceptable pricing terms.
Although, despite the financial crisis, no defaults among the Group's reinsurers have been found, one or more reinsurers of the Group could no longer be able to meet their financial obligations, which could lead to increased losses for the Group. Furthermore, the reinsurance capacities on the market and the prices of reinsurance treaties depend on the general economic situation and on many other factors, and could vary significantly. Therefore, even though such a situation has never occurred, the Group could have difficulties in obtaining reinsurance on commercially or financially acceptable terms, thereby increasing the risk of potential losses. In turn, this could lead the Group to change its pricing structures or its risk underwriting policy, which could negatively impact its profitability and competitiveness. The

occurrence of any of these risks could have a material adverse effect on the Group's financial position, operating results, solvency margin, business and prospects.

Risks related to operational failures or inadequacies

The business of the Group relies very heavily on a set of complex processes, involving risks of operational malfunctions linked to many internal or external factors. These factors may be human, organisational, material, natural or environmental, including risks of inadequate procedures, errors, fraud or malicious acts by employees, policyholders or brokers, or non-compliance with internal and external regulations, intrusion or hacking. Although the Group pays particular attention to the quality of its services, the rigour of its internal processes and systems, and compliance with strict ethical values in the conduct of its business, it cannot exclude the occurrence of such failures (see also the paragraph on "Operational risks" - "Definition and measurement of risks").
Potential claimants could try to hold the Group's employees, officers or companies responsible for such occurrences. The Group could be forced to pay damages and interest or be subject to significant fines, and unfavourable media coverage. The occurrence of such events could affect the Group's reputation for reliability and integrity and thus affect its ability to retain the confidence of its policyholders and to attract new policyholders, causing a material adverse effect on its business, financial position, operating results and prospects.

Risks related to information systems

The Group's business relies very heavily on its information systems. The Group manages complex information systems (in particular for the collection and management of information on the creditworthiness of companies, the management of product sales and services, the centralisation of its risk (pricing, invoicing, debt collection, management of claims disputes) and for its bookkeeping and *reporting*), which are essential for the conduct of its credit insurance business and additional services related to business information, factoring and debt management.
IT tools and information systems are indeed essential components for all its business, in terms of the development and the quality of its commercial offers (business information, management and collection of debts, credit insurance offers, in particular pricing and underwriting decisions of the Group risk underwriters), as well as for management, back office, *reporting* and internal control procedures. Despite a policy to strengthen the back-up of its information systems and infrastructure, particularly in the context of Solvency II, and the availability of information systems back-up for all its databases and emergency plans for its activities including priority information systems, it cannot be guaranteed that the tools, systems and the databases will not be destroyed or damaged as a result of an incident or failure of IT tools and information systems.
Any failure of IT tools or information systems, including as a result of hacking, could have a material adverse effect on the business, financial position, operating results or prospects of the Group.
In addition, in order to manage certain information systems that are essential to its business, the Group depends on a limited number of suppliers, particularly with regard to the databases related to its information systems. The contracts to supply these services are renewed or renegotiated periodically. An unfavourable change in the relationship with one of the suppliers, hardening of required conditions, a failure to comply with commitments specified in the contracts, non-renewal of these contracts, or a renewal under less favourable conditions than those previously applicable, a potential default by one of the suppliers or a potential increased concentration of providers, could bring about delays or significant costs, and generally have a material adverse impact on the business, financial position, operating results or prospects of the Group.

Risks related to cybersecurity

The risks related to cybersecurity are a concern for the Group and the management of such risks is essential for its businesses and customers. Techniques used to steal information and data, hack, disrupt, degrade quality or sabotage the information systems are constantly evolving. The Group may be subject to targeted attacks on its IT networks. It could be forced to face business interruptions, losses or damage to its databases, misappropriations of confidential information for which it could be held liable, particularly involving litigation or in a way that could negatively affect its reputation and image. The Group is therefore implementing a monitored and controlled Security policy to make the appropriate changes to its system enabling it to protect itself against such hacking techniques, pre-empt and manage any crises and swiftly set up an effective and appropriate system of response.

Risks related to digital transformation

The digitisation of the economy and in particular of trade presents Coface with certain challenges, particularly in terms of customer expectations, distribution, security and operating model. Coface is constantly investing in these areas to make its services digital, easy and intuitive to use, integrated into customers' environments and secure, and to ensure its operations are competitive and support the digitisation of its offering. These investments constitute a significant part of its *Fit To Win* strategic plan.

Risks related to the Group's factoring business

As part of its factoring activity, the Group finances the trade receivables of companies by acquiring their trade receivables, either insuring or not these receivables against the risk of debtor's insolvency, and collecting them on its own account. In some cases, the Group has a right of recourse against the ceding company. For the financial year ended December 31, 2017, the factoring business represented €72.08 million in net banking income and €2.5 billion in purchased receivables. In this regard, the Group could bear risks related to invoice quality (risk of invoice dilution) in the case of disputed or falsified invoices; client insolvency (i.e. ceding risk) where the client is unable to repay the cash advance made on outstanding invoices; or the solvency of buyers of products and services (see also Notes 4 and 24 to the Group's consolidated financial statements).
If these risks occur in any significant manner, they could have a material adverse effect on the financial position, solvency margin, operating results and thus prospects of the Group.

2.4 Other risks related to the Company

Risks related to the control of the Company and its relations with Natixis

The Company's main shareholder is Natixis, which holds 41.24% of the Company's capital and 41.38% of voting rights as of December 31, 2017. Consequently, Natixis could significantly influence the Group's strategic decisions, and/or have all resolutions that are submitted for the approval of the Company's shareholders at the Ordinary or Extraordinary Annual Shareholders' Meetings accepted or rejected, particularly with regard to the appointment of members of the Board of Directors, the approval of the annual financial statements and the distribution of dividends, as well as the authorisation to proceed with capital increases or other issues of securities, merger or contribution operations, or any other decision requiring the approval of the Company's shareholders.
The Company has in the past benefited from Natixis' financial support. Even though the Company considers itself to be financially independent, it cannot be guaranteed that the Company will not need additional support in the future, or that Natixis will continue to provide such financial support, given that Natixis has publicly announced its intention to reduce its shareholding in the Company.
Furthermore, it cannot be excluded that Natixis could find itself in a situation where its own interests and those of the Group or of other shareholders are in conflict.

Risks related to the Company's holding structure

The Company is a holding company which conducts its business indirectly through operating subsidiaries, the Compagnie française d'assurance pour le commerce extérieur and its subsidiaries, and has no credit insurance business or service of its own. As a holding company, its main sources of funds come from dividends paid by its subsidiaries, and the proceeds of debt or equity issues as well as sums borrowed under bank or other loan facilities. The Group's operating subsidiaries hold its assets, and are the source of almost all of its profits and cash flows. If the profits of these operating subsidiaries were to fall, its profits and cash flows would be affected by this, and the affected subsidiaries could be unable to honour their obligations, or pay, in part or in full, the dividends expected by the Company.
The capacity of the Group's operating subsidiaries to make these payments depends on economic, commercial and contractual considerations, as well as on legal and regulatory constraints, which are linked to the solvency margin, thereby restricting the use of capital and in particular the distribution of dividends. It could also be affected by the various risk factors described in this paragraph. Were the equity of the Company and/or one of its subsidiaries to fall below the regulatory requirements, the insurance business regulators have significant means available to them to take action. For example, they may restrict or prohibit the signing of new contracts, prohibit the distribution of dividends and/or, in the most serious cases, require reorganisation or insolvency proceedings, in particular the opening of involuntary reorganisation or liquidation proceedings for such a subsidiary in France.

Moreover, if its subsidiaries were not able to maintain an adequate level of equity with regard to the regulatory requirements and/or their competitive positions, the Company could be forced to support them financially, which could have a significant impact on the status of its liquidity position, consolidated net income and financial position. Any fall in profits or the impossibility or inability of its subsidiaries to make payments to other subsidiaries of the Group could have a material adverse effect on its ability to distribute dividends, repay debt and fulfil its other obligations, which could have a material adverse effect on its business lines, solvency margin, operating results, financial position and prospects.

Risks related to potential judicial, administrative or arbitral proceedings

In the normal course of business, the Group's entities could be involved in a number of judicial, administrative or arbitral proceedings, particularly following claims for compensation. Although, as of today, no procedures of this type are likely to affect its business, financial position or operating results, there is no guarantee that in the future new procedures might not be brought against the Company or its subsidiaries. If applicable, claims for a significant amount could be made against the Company or its subsidiaries, and the outcome of these procedures could result in a significant degree of liability for the Group. In such a case, although it maintains a prudent level of provisions to guard against the cost of litigation, these proceedings could have a material adverse effect on its business, reputation, financial position, operating results and prospects.

Risks related to deferred tax assets

The Group records deferred tax assets for future tax savings resulting from the differences between deficits carried forward and the timing differences between the values of asset items in the consolidated financial statements, and those allocated when the taxable income is established. The effective realisation of these assets in future years depends on the tax laws and regulations, the outcome of current or future controls and disputes, and the expected future operating results of the entities concerned (see Note 18 of the Group's consolidated financial statements).

Risks related to the evaluation of goodwill and intangible assets

The occurrence of future events with an adverse impact on the Group may cause an impairment of certain intangible assets and/or goodwill. Any substantial impairment may have an adverse impact on the Group's financial position and operating results for the year in which such expenses are recognised (see Note 1 of the Group's consolidated financial statements).

3. Insurance policy

Since January 2015, the Group has set up its own insurance programme offering levels of cover that it considers commensurate with the risks inherent in its business operations, with leading insurance companies to cover its general and specific risks (professional civil liability, civil operating liability, director civil liability, material damage to operating assets, business travel accidents, cyber risks, etc.). The Group supplements this insurance cover locally, according to its needs or the specific regulatory requirements of certain countries.