# 3.1 Economic environment

In 2014, global growth reached 2.8%, representing a slight pick-up in activity over the previous year's reported 2.7% growth in GDP. Business recovery continued in advanced countries, although at an exceptionally slower pace.

Noteworthy events included the eurozone's exit from recession, achieving 0.8% growth, down compared to pre-crisis growth rates (2.1% between 1992 and 2007). European recovery was hampered by the burden of deleveraging public and private agents, a process further complicated by low inflation. Other obstacles to recovery included consumer and investor lack of confidence against the backdrop of sluggish or shrinking credit markets. However, these negative factors were offset by falling oil prices and the euro's depreciation as well as by the repeated commitment of the ECB which came up with innovative monetary policies on several occasions. Nevertheless, businesses were faced by much more sluggish demand than in the pre-crisis period. The Monetary Union showed divergent economic situations in member countries. Recovery was confirmed in the countries forced to apply severe economic adjustment measures such as Spain and to a lesser extent Portugal and Greece. We also observed a rally in Belgium and in the Netherlands, very open economies where investments are gradually picking up. Germany reported 1.4% growth, admittedly above average in the EMU, but confidence in the manufacturing sector was adversely impacted by the Russian-Ukrainian geopolitical crisis. Although Germany was affected by an external shock, the country managed to ward off recession thanks to its robust companies and the vigorous recovery of consumption. In France and Italy, supply side structural problems led to macro-economic hardships with growth of 0.4% and -0.3% respectively. The two countries have serious problems regarding the competitiveness of their productive tools while consumption continues to be hampered by difficulties on the employment market. The United Kingdom confirmed its vigorous recovery with 2.6% GDP growth. Japan was technically in recession owing to the negative impact of the VAT increase on the consumption and year on year growth totalled 0.1%. Lastly, despite the significant shock at the beginning of the year linked to the harsh winter, recovery in the US has been confirmed by the vigorous domestic demand but also by re-industrialisation driven by the shale gas revolution and the high earnings reported by businesses. The US reported 2.4% growth.

The economic situation of emerging countries confirmed the structural downturn in these countries. Admittedly, growth was still decent (4.2%) but down compared to the previous decade. China confirmed the soft landing of its economy at 7.4%. Investment remains very dynamic, even though various sectors, including metallurgy and construction, are suffering from overcapacity. Consumption is buoyant but has still not taken over from investment and exports as the engine for business growth, despite the efforts of the authorities in this respect. Growth remained fairly staunch (6.2%) throughout emerging Asia in general. The rise of middle classes, the still attractive nature of the Chinese market and the intra-regional trade represent powerful business drivers. Growth in Latin America, however, stagnated due to the structural competitive problems now impacting economic performance on the continent, and stayed at 1.3%. Brazil posted a particularly low growth rate (0.3%) owing to its recurring infrastructure problems which have finally impacted the economy. In emerging Europe, growth (2.6%) was boosted by the recovery in Western Europe. Russia (+0.6%) suffered from the geopolitical crisis in Ukraine. In spite of the political crises in sub-Saharan Africa and North Africa-Middle East, the two regions managed to maintain growth rates of 4.9% and 2.6% respectively. China's economic slowdown, although moderate, also had global consequences. This is because China is now a major commercial partner to numerous countries in Asia, as well as in sub-Saharan Africa and in Latin America. As such, the slowdown of Chinese demand directly impacted the growth of these countries. The downturn on Chinese markets also affected commodities markets, which plunged.

The global situation was also affected by political crises. The most serious consequence was certainly the conflict between Russia and Ukraine which led to the introduction of economic sanctions with their ensuing adverse effects on business and general defiance of investors towards the Russian market. Direct (such as the sanctions which affected trade) and indirect effects (affecting the confidence of economic players) were observed. There were other memorable crises such as the Iraqi and Libyan conflicts. The Ebola epidemic also affected several sub-Saharan African countries.

# 3.2 Significant events in the period

## 3.2.1 STOCK MARKET LISTING

Since 2011, the Coface Group has refocused on its core business of credit insurance, and has undertaken a series of structural reorganisations that have restored the Group's operating profitability. In this context, on June 27, 2014 the Group entered a new stage of its development with its successful stock market listing on compartment A of the Euronext Paris regulated market.

The listing was well received by the markets, with strong demand from French and international institutional investors resulting in a diversified ownership structure that reflects the multinational dimension of Coface.

The favourable reception from the markets led Natixis, acting as stabilising agent in the name and on behalf of the financial institutions that accompanied Coface throughout its stock market listing, to exercise the over-allotment option in full just four days after the initial listing.

Following the exercise of the full over-allotment option, the total number of Coface shares offered in connection with the stock market listing amounted to 91,987,426 shares, representing 58.65% of COFACE SA's capital and voting rights. Following the listing, the Coface Group's market capitalisation stood at approximately €1,631 million.

A concurrent employee offering was also launched in 19 countries, covering 80% of the Group's headcount. It was warmly welcomed by employees, as illustrated by the nearly 50% take-up rate. At December 31, 2014 and following the recognition of the capital increase reserved for employees, Natixis held 41.24% of the capital of Coface.

On December 22, 2014, the Coface Group's stock was listed on the SBF 120 stock index, one of the flagship indexes of the Paris Stock Exchange. This index combines the 120 top securities listed on Euronext Paris in terms of liquidity and stock market capitalisation. The stock was simultaneously added into the following Euronext Paris indexes: CAC Mid 60, CAC Mid and Small, and CAC All-tradable.

The costs linked to the stock market listing totalled €8.0 million, and were recorded under the item "other operating expenses".



## 3.2.2 CHANGES IN GOVERNANCE

### ◆ Executive Committee

Comprised of the members of the Group Management Board, the Group's strategy and operational control body, and of managers from the seven geographical regions, the Executive Committee has evolved in an effort to aid in the Group's development.

Nicolas Garcia was appointed Group Commercial Director on July 2, 2014 and became a member of the Group Management Board and Executive Committee on that date.

Hung Wong was appointed Asia-Pacific regional director and became a member of the Executive Committee on August 1, 2014.

### ◆ Board of Directors

Given the acceptance of Coface securities on a regulated market, the composition of the Board of Directors has evolved to reflect the rules of governance of the AFEP-MEDEF Code.

The Company's Combined Shareholders' Meeting of June 2, 2014 decided to appoint with effect from July 1, 2014, the following new members to the Board of Directors: Eric Hémar, Sharon Macbeath, Clara-Christina Streit, Olivier Zarrouati, thereby bringing the number of independent directors to six. The following non-independent members resigned, effective July 1, 2014: Bruno Deletré, Yvan de la Porte du Theil, Natixis (represented by Olivier Perquel), Nicolas Plantrou, Emmanuel Pouliquen.

Moreover, the following members resigned, and are currently being replaced: Laurence Parisot, effective October 17, 2014, and Nicole Notat, effective January 20, 2015.

The composition of the Company's Board of Directors is as follows: Laurent Mignon (President), BPCE (represented by Marguerite Berard-Andrieu), Jean Arondel, Jean-Paul Dumortier, Pascal Marchetti, Laurent Roubin, Eric Hémar, Sharon MacBeath, Clara-Christina Streit, Olivier Zarrouati.

## 3.2.3 IMPLEMENTATION OF A LIQUIDITY AGREEMENT

With effect from July 7, 2014, the Coface Group appointed Natixis to implement a liquidity agreement for Company shares traded on Euronext Paris, in accordance with the Charter of Ethics of the French financial markets association (Association française des marchés financiers – AMAFI) dated March 8, 2011 and approved by the AMF on March 21, 2011. The independence of the teams in charge of the mandate is ensured by the implementation of a suitable internal structure at Natixis.

€5 million were allocated to the liquidity agreement with Natixis, which is for a period of 12 months subject to tacit renewal. 80,819 COFACE SA shares or €4,147,971.71 were in the liquidity account on the settlement date of December 31, 2014.

The liquidity agreement is part of the share buyback programme decided by the Board of Directors' meeting of June 26, 2014 (see buyback program description in section 7.2.1.2). This decision was further to the authorisation that was given to the Combined Annual Shareholders' Meeting of June 2, 2014, delegating all of the powers needed for that purpose to it.

## 3.2.4 SUBORDINATED DEBT ISSUANCE

On March 27, 2014, COFACE SA completed the issue of subordinated debt in the form of bonds for a nominal amount of €380 million.

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

The leverage effect of debt thus amounted to about 19%. The ratio is obtained by dividing the subordinated debt by the sum of equity and subordinated debt.

The issuance was welcomed by a diversified and international basis of investors and was 10-times oversubscribed. This level of demand demonstrates the confidence in the profitable growth model put in place by the Group over the last three years based on bolstered operating and financial fundamentals.

Finance costs linked to this debt totalled €12.1 million at December 31, 2014.

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 25, 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. The annual interest rate applicable is 0.2% on the basis of the total amount (due by COFACE SA).

This subordinated guarantee is recorded in off-balance sheet items. Since it is classified as an intra-group transaction, it is eliminated in consolidation and is not disclosed in the notes to the consolidated financial statements.

On March 27, 2014, COFACE SA granted a subordinated intra-group loan to Compagnie française d'assurance pour le commerce extérieur in the amount of €314 million, maturing on March 26, 2024 (10 years) and bearing annual interest at 4.125%, payable at the anniversary date each year.

## 3.2.5 FINANCIAL STRENGTH CONFIRMED

In March and then December 2014, rating agencies Fitch and Moody's confirmed the Group's Insurer Financial Strength (IFS) Ratings at AA- and A2 (outlook stable), respectively, taking into account both the subordinated note issue and the €227 million special dividend paid to Natixis during the period.

## 3.2.6 NEW COMMERCIAL AND MARKETING STRATEGY

With the implementation of its new streamlined operating organisation and solid financial structure, the Coface Group is focusing efforts on rolling out its commercial strategy, aiming at generating profitable growth throughout the world.

This strategy, a spearhead of the Strong Commitment II strategic plan, relies on two major cornerstones: innovation, and the roll-out of a multichannel distribution model.

As such, in 2014, Coface's product offering was rounded out with the following innovative solutions:

- ***Easyliner,*** launched on March 27, 2014: a credit insurance offering designed for SMEs, subscriptions are available online and have been developed as a portal that can also be customised as part of distribution partnerships with, for example, banks or general insurers;
- ***CofaServe,*** launched on April 30, 2014: a secure electronic data exchange solution allowing customers to manage their credit insurance contracts in real time, directly from their own in-house IT systems;
- ***PolicyMaster*** and ***CashMaster,*** launched May 27, 2014: two complementary tools designed to simplify customers' daily management of their credit insurance cover and increase reliability. By analysing the customer's accounting data with regard to the credit-limit cover provided by Coface, ***PolicyMaster*** suggests actions aimed at optimising customer credit risk management. Based on ***PolicyMaster*** management data, ***CashMaster*** is a certification system covering the customer's financial partners.

The Group continued to extend its global presence this year. Coface obtained two new licences allowing it to sell credit insurance policies through its own sales forces in Colombia (January 2014) and in Morocco (December 2014). Such a license was also obtained in Israel in January 2015.

Obtaining these licences therefore rounds out the indirect distribution model that had been initiated for several years now in these countries through partnerships with local insurers.

In early May 2014, Coface opened a new sales representation office in the Philippines, as well as in Kazakhstan in January 2015.

In the United States, Coface continued to develop its sales network by increasing the number of its distribution agents.

Lastly, Serbia became the 98th country to distribute the credit insurance offering following the signing, in July 2014, of a technical partnership agreement with Axa Nezivotno Osiguranle e.d.o.

In addition to the geographical and innovation roll-out strategy, the Group is pursuing its actions in an effort to strengthen the effectiveness of its sales forces:

- in 2014, these actions were implemented by the roll-out, from October to December 2014, of the very first training programme common to all the sales and management teams of Coface customers worldwide;
- the commercial activity monitoring, tracking and steering systems were also enhanced in 2014 with the implementation of new monitoring and tracking indicators and procedures for sales actions throughout the customer's experience.

## 3.2.7 CONTINUATION OF EXCELLENCE EFFORTS IN THE MANAGEMENT OF UNDERWRITTEN RISKS



A major aspect of the strategic refocusing made by the Group in 2011, risk control remains a critical focus point for the Group.

In January 2014, four new enhanced information centres became operational in Bulgaria, Lithuania, Latvia and Thailand, contributing to stronger risk analysis in these countries. A new centre was also opened in Indonesia in 2014.

Collectively, the 46 enhanced information centres in place at December 31, 2014 performed nearly twice the number of tasks in 2014 compared to 2013. They provided the Group's underwriters with specific financial information and Debtor Risk Assessments (DRA) in continuous improvement.

During the year, the underwriting teams implemented several action plans to reduce the exposure of fragile companies with respect to specific criteria. These plans were carried out notably in Ukraine, Russia, China, Thailand, Turkey, South Africa, and in Brazil.

Lastly, the improvement of debt collection processes carried out under the Strong Commitment II strategic plan helped to improve the receivables debt collection rate by 2 percentage points, with this ratio increasing from 46% in 2013 to 48.7% of receivables under management in 2014.

## 3.2.8 CHANGES IN THE SCOPE OF CONSOLIDATION

At the end of September 2014, Coface Group created a new subsidiary in Lausanne, Switzerland, which joined the consolidation scope. At the end of December 2014, this company, known as Coface Re, obtained from the Swiss Regulator a licence to practice reinsurance, subject to compliance with the different conditions laid down by the regulator. From 2015 onwards, Coface Re is the interface between the external reinsurance market and the Group's entities and as such will replace Compagnie française d'assurance pour le commerce extérieur. By creating this company, the Group will be isolating its reinsurance business in a dedicated entity, and continuing the streamlining of coverage solutions for entities and partners of the Coface Group while expanding the range of services offered to its international customers.

Coface is already established in Israel through its BDI subsidiary. It has created another branch of Compagnie française d'assurance pour le commerce extérieur which is also included in the scope of consolidation.

During the second quarter of 2014, COFACE SA purchased the 0.26% minority interest in Compagnie française d'assurance pour le commerce extérieur that it did not already own, which had been previously held by Natixis. Compagnie française d'assurance pour le commerce extérieur is now wholly-owned by COFACE SA. As of late December 2014, the purchase had resulted in a €4 million change in non-controlling interests.

The Company has not acquired interests or control in the French companies.

## 3.2.9 CESSATION OF THE PUBLIC PROCEDURES MANAGEMENT BUSINESS LINE IN BRAZIL

The insurance subsidiary SBCE used to manage, on behalf of, and with the guarantee of, the Brazilian State, coverage on risks that are uninsurable by the private market. The agreement binding the Brazilian State and SBCE was not renewed on June 30, 2014 and this activity was transferred to the Brazilian State on July 1, 2014. This activity generated revenue of €5.6 million at December 31, 2013 and €2.6 million at June 30, 2014. The activity was terminated on that date.

Since July 1, 2014, SBCE continues its export credit risk insurance business for short-term operations.

### 3.2.10 EXIT FROM THE NATIXIS TAX CONSOLIDATION GROUP

Coface left the Natixis tax consolidation group with effect from January 1, 2014. In accordance with the tax consolidation agreement, Natixis paid Coface an amount of €50 million with respect to deferred tax assets recognised on tax loss carryforwards.

### 3.2.11 EVENTS AFTER DECEMBER 31, 2014

There has been no significant change to the Group's financial or commercial position since December 31, 2014.

## 3.3 Key financial performance indicators

### 3.3.1 FINANCIAL INDICATORS

#### ◆ Revenue

##### Composition of the Coface Group's consolidated revenue by business line

The revenue from credit insurance and related services of the Coface Group (representing 88% of the Coface Group's consolidated revenue in 2014, 88% in 2013 and 87% in 2012), combines the premiums from credit insurance policies and "Single Risk" policies ("Earned premiums net of cancellation"), the related service revenue ("Fee and commission income" and "Other related benefits and services"), and the revenue from management services for public coverage of export credit insurance carried out on behalf of the French government.

It allows the revenue from this core business line to be presented and to distinguish the surety bond activity which, at the operational level, represents a different kind of risk (in terms of underlying factors and duration of risk), even though this activity is compensated by a premium, as with the credit insurance activity, and to that end meets the definitions for insurance contracts provided by IFRS 4.

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

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

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

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

- premiums, corresponding to the amounts paid by the Coface Group's policyholders as consideration for the Coface Group's commitment to cover the risks provided for in their insurance policy: credit insurance (short-term), "Single Risk" (medium-term) and surety bond (medium term) which, in terms of the offer, is not a credit insurance product, although its compensation takes the form of a premium;
- revenue from services provided by the Coface Group: services related to credit insurance (information services on debtors, oversight of credit limits, management and debt collection of receivables), services to manage public coverage of export credit insurance on behalf of the French and Brazilian governments (the principle and terms of compensation of the French government are established in the "Financial Agreement" dated February 24, 2012 (see paragraph 1.2.1.2 "Public credit insurance procedures management" of this registration document)); and
- factoring fees which provide payment for the services related to management and debt collection of receivables, as well as the net fees from financing outstanding receivables (financing margin) and the fees for managing disputes that have been collected by the Coface Group as part of its factoring activities in Germany and Poland (corresponding to the "Net income from banking activities").

#### ◆ Earned premiums net of cancellations

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

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

### ◆ Fee and commission income

The fee and commission income consists of charges billed to policyholders for contracts for credit insurance related services, (such as information on debtors, fees for monitoring credit limits and receivables management and debt collection); to that end, fee and commission income is calculated under the credit insurance revenue.

### ◆ Net income from banking activities

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

### ◆ Cost of risk

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

### ◆ Revenue or income from other activities

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

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

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

### ◆ Claims expenses

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



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

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

### ◆ Expenses from banking activities, excluding cost of risk

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

### ◆ Expenses from other activities

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

Following the elimination of the holding company in Germany as part of the conversion into branches, the Coface Group reallocated all of its expenses according to a new methodology, which explains the bulk of changes in the entries "Contract acquisitions expenses", "Administrative expenses", and "Other operational charges" during the 2011-2013 period.

The total general expenses, excluding external acquisition costs (commissions), are analysed independently of the method for accounting for them by destination, in all of the Coface Group's countries. This presentation allows the Coface Group's economy to be better understood, and differs on certain points from the presentation of the income statement, which meets the presentation requirements of the accounting standards.

### Income and expenses net of ceded reinsurance (reinsurance result)

The "Income and expenses net of ceded reinsurance" (reinsurance result) correspond to the amount of income from ceded reinsurance (claims ceded to reinsurers during the year for reinsurance treaties of the Coface Group, net of the change in the provision for claims net of recourse that was also ceded, plus the reinsurance commissions paid by reinsurers to the Coface Group for proportional reinsurance), and the charges from ceded reinsurance (premiums ceded to reinsurers during the year for reinsurance treaties of the Coface Group, net of the change in the provisions for premiums also ceded to the reinsurers).

### Underwriting income net of reinsurance

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

### Policy acquisition costs

The "Policy acquisition costs", consisting of external acquisition costs from policies, include all of the commissions paid to business finder insurance intermediaries (brokers and other intermediaries) based on the revenue contributed and the internal costs of acquiring the policies, essentially fixed costs corresponding to payroll costs related to policy acquisition (including services charged for establishing contracts) and the Coface Group's sales network fees. These costs primarily include the costs related to the credit insurance business. However, due to pooling, policy acquisition costs related to the Coface Group's other business lines are also included in this item.

### Administrative costs

"Administrative costs" correspond to the Coface Group's overheads, notably payroll expenses and IT management expenses related to policy administration. These costs primarily include the costs related to the credit insurance business. However, due to pooling, policy administration costs related to the Coface Group's other business lines are also included in this item.

### Other current operating expenses

The "Other current operating expenses" include the charges that cannot be either directly allocated, or allocated through the application of a distribution key to one of the destinations defined by the accounting plan (primarily the charges linked to the Coface Group's support functions).

### Operating income

The operating income corresponds to the "Underwriting income net of reinsurance", "Net investment income excluding the cost of debt" (finance costs) and "Other operating income and expenses".

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

### Income tax

The tax expenses includes the tax payable and the deferred tax that results from consolidation restatements and temporary tax differences, insofar as the tax position of the companies concerned so justifies (as more extensively described in Note 4.7 to the consolidated financial statements for the years ended December 31, 2013 and 2014).

### Net attributable income for the year

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

### Significant accounting principles and main estimates

#### Significant accounting principles

A description of the Coface Group's accounting methods is presented in Note 4 to the Coface Group's consolidated financial statements, which are presented in paragraph 4.1.1 "Consolidated financial statements of the Coface Group for the year ended December 31, 2014". In particular, the general principles which apply to the credit insurance activities, the services business and the factoring business, along with the distribution of income and expenses relating to the various businesses of the Coface Group are presented.

#### Main estimates

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

The accounting methods presented below, and more extensively described in Notes 4 and 5 to the Coface Group's consolidated financial statements, 4.1.1 "Consolidated financial statements of the Coface Group for the year ended December 31, 2014", are those requiring the most significant use of the estimates and judgements of the Coface Group's management.

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

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

Furthermore, the recording of deferred tax assets depends in part on estimates of the Coface Group's future profits. The accounting methodology for deferred taxes is presented in Note 19 to the Coface Group's consolidated financial statements, which are presented in paragraph 4.1.1 "Consolidated financial statements of the Coface Group for the year ended December 31, 2014" of this registration document.

## 3.3.2 OPERATING INDICATORS

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

### ◆ Production of new contracts

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

### ◆ Withholding rate

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

### ◆ Price effect of credit insurance policies

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

### ◆ Volume effect

The method for calculating premiums on the Coface Group's revenue, which is described in paragraph 1.2.1 "Credit insurance and related services" – pricing of credit insurance offers, produces its effects throughout the life of the policies, and not for a single year. When the volume of a policyholder's actual sales is higher than what was taken into consideration to determine the amount of premiums billed during the period covered by the policy, this difference produces a positive effect on the earned premiums recorded by the Coface Group with a one-year lag. Conversely, when the volume of the policyholder's sales is less than what was used as the basis for calculating the flat rate, this difference does not produce any effect on the Coface Group's revenue for the following year.

## Loss ratio

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

### Loss ratio before reinsurance

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

### Loss ratio after reinsurance

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

## Cost ratio

### Cost ratio before reinsurance

The cost ratio before reinsurance is the ratio of general expenses (as defined below) to gross earned premiums (as described above).

The cost ratio before reinsurance is used by the Coface Group to measure all the costs related to the acquisition and management of its portfolio of contracts in a given financial year.

The Coface Group's credit insurance business is supported by the services business such as corporate information and receivables debt collection. These services are inherent to the traditional credit insurance activity (related services) and the related expenses are included in the general expenses of the Coface Group. The general expenses are also increased by complementary businesses such as factoring (in Germany and Poland) and management of public procedures on behalf of the French and Brazilian States. However, in order for the cost ratio calculated by the Coface Group to be comparable to the cost ratio calculated by other main market players, revenue generated by the additional businesses (non-insurance) described above is deducted from general expenses.

### Cost ratio after reinsurance

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

### General expenses

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

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

## Combined ratio

The combined ratio measures the overall profitability of the Coface Group's business lines and its technical margin.

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

# 3.4 Comments on income at December 31, 2014

## 3.4.1 REVENUE

The Coface Group consolidated revenue was stable, from €1,440.3 million in 2013 to €1,440.5 million in 2014. Revenue was up by 1.6% like-for-like, in line with forecasts.

The -0.2 percentage point impact on consolidation structure is linked to the cessation on June 30, 2014 of the SBCE public credit insurance procedures management business line. The currency exchange effect of -1.4 percentage points, is primarily linked to devaluations of the Argentine peso (-48%), Brazilian real (-9%), Turkish pound (-15%), Russian rouble (-20%), Japanese yen (-8%) and the South African rand (-12%).

The table below shows the changes in the Coface Group's consolidated revenue by activity as of December 31, 2013 and 2014:

| | AS OF DECEMBER 31 | | CHANGE | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | 2014 | 2013 | *(in €m)* | *(as a %)* | *(as a % on a constant group structure and exchange rate basis)* |
| Insurance | 1,369.9 | 1,371.1 | -1.2 | -0.1 | 1.6 |
| *Gross earned premiums* | *1,132.7* | *1,128.5* | *4.2* | *0.4* | *2.0* |
| Services* | 237.2 | 242.6 | -5.4 | -2.2 | -0.5 |
| Factoring | 70.6 | 69.2 | 1.4 | 2.0 | 2.0 |
| **CONSOLIDATED REVENUE** | **1,440.5** | **1,440.3** | **0.2** | **0.0** | **1.6** |

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

### ◆ Insurance

Revenue for the insurance business line (including surety bonds and "Single Risk" insurance products) fell slightly by 0.1% as reported (up +1.6% like-for-like) from €1,371.1 million in 2013 to €1,369.9 million in 2014.

Revenue for credit insurance products and related services, amounted to €1,266.7 million, i.e. 88% of the Coface Group's consolidated revenue. In 2013, revenue for credit insurance products and related services amounted to €1,261.7 million, i.e. 88% of the Coface Group's consolidated revenue.

Gross earned premiums were up 0.4% (+2.0% like-for-like), jumping from €1,128.5 million in 2013 to €1,132.7 million in 2014. The recovery of sales momentum in 2014 generated €154 million in the annual value of new contracts, *i.e.* a 7% increase over 2013. Contract retention rate improved significantly from 86.8% in 2013 to 89.2% at December 31, 2014. The positive momentum of net production was partly offset by a drop in the prices of earned premiums to -1.0% (versus -0.1% in 2013) primarily driven by the improvement in the Coface Group's loss experience in 2014.

The services business revenue fell by -2.2%, from €242.6 million in 2013 to €237.2 million in 2014. On a like-for-like basis, the revenue for the services business was down by -0.5%, the exit from the public procedures scope of the Brazilian company SBCE represents 1.1 growth point, and currency exchange effects represent 0.6 growth points. The improved loss experience led to a drop in income linked to receivables debt collection.

### ◆ Factoring

Revenue for the factoring business (exclusively in Germany and Poland) rose from €69.2 million in 2013 to €70.6 million in 2014, i.e. +2.0% (+2.0% like-for-like). The German portfolio was up after the restructuring of the Coface Finanz (Germany) portfolio in 2013.

### Changes in revenue by region

The following table shows the changes in consolidated revenue by business (net of intra-group flows) within the Group's seven geographic regions for the periods ended December 31, 2013 and 2014:

| CONSOLIDATED REVENUE BY REGION OF INVOICING (IN MILLIONS OF EUROS) | AS OF DECEMBER 31 | | CHANGE | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | *in €m* | *as a %* | *AS A %* ON A CONSTANT EXCHANGE RATE BASIS | *AS A %* ON A CONSTANT SCOPE AND EXCHANGE RATE BASIS |
| Western Europe | 461.7 | 469.2 | -7.5 | -1.6 | -2.1 | -2.1 |
| Northern Europe | 352.0 | 366.8 | -14.8 | -4.0 | -3.3 | -3.3 |
| Mediterranean & Africa | 226.5 | 216.7 | 9.9 | 4.6 | 6.7 | 6.7 |
| North America | 113.7 | 101.7 | 12.1 | 11.9 | 13.4 | 13.4 |
| Central Europe | 113.3 | 110.0 | 3.3 | 3.0 | 3.3 | 3.3 |
| Asia-Pacific | 97.1 | 94.8 | 2.3 | 2.4 | 4.6 | 4.6 |
| Latin America | 76.1 | 81.2 | -5.1 | -6.2 | 7.8 | 11.5 |
| **CONSOLIDATED REVENUE** | **1,440.5** | **1,440.3** | **0.2** | **0.0** | **1.4** | **1.6** |

In the period ended December 31, 2014, all the regions of Coface Group reported improvement in their sales performance, with net production (production of new contracts less contract terminations) up with respect to the year ended December 31, 2013.

In Western Europe, the impacts of commercial reorganisations launched, particularly in France have started bearing fruit, after a 7% drop in the region's revenue in 2013, the 2014 drop was limited to 1.6% (-2.1% like-for-like, due to the favourable exchange rate effect of €2.5 million of which €2.3 million for the pound sterling and €0.2 million for the Swiss franc).

Northern Europe reported a -4% drop in business in 2014 (-3.3% like-for-like). The German entity was commercially restructured in 2014 to boost credit insurance sales and improve the quality of customer service. Revenue for factoring (Germany) was up in 2014, powered by the portfolio's vibrant growth.

In the Mediterranean & Africa region, revenue grew by 4.6% (+6.7% like-for-like, due to an unfavourable currency exchange effect from the Turkish pound) driven by the robust commercial performance of the credit insurance market.

Revenue for North America was up 11.9% as reported (up +13.4% like-for-like linked to the dollar's revaluation). The 50% growth in the number of agents distributing Coface credit insurance policies boosted new contract production.

In Central Europe, revenue was up 3.0% on a reported basis (up +3.3% like-for-like), driven by the commercial performance of credit insurance in Poland, Romania and the Czech Republic. The net banking income generated by the factoring business line in Poland fell by -3.5% like-for-like, as a result of commercial redeployment to smaller-sized contracts which require less equity.

In the Asia-Pacific region, revenue grew by 2.4% (+4.6% like-for-like, due to an adverse foreign exchange impact from the Japanese yen and to a lesser extent, the Singaporean dollar). Business activity rallied especially in South Korea, Taiwan and China.

In Latin America, revenue fell by -6.2% as reported (up +11.5% like-for-like) during the period. The unfavourable scope effect of €2.7 million, or 3.7 percentage points, is linked to SBCE's exit from the Brazilian public credit insurance procedures business line on June 30, 2014. Impacts of unfavourable exchange rates of €11.3 million, i.e. 13.9 percentage points, are linked to sharp devaluations of the Argentine peso, -48% and the Brazilian real, -9%.

## 3.4.2 UNDERWRITING INCOME

### Underwriting income before reinsurance

Underwriting income before reinsurance has risen by €41.1 million as reported, rising from €193.9 million in 2013 at €235.0 million in 2014. This improvement was primarily driven by the significant control over loss experience (€37.5 million, up by 6.5%). Restated to take account of the head office's relocation costs in 2013, underwriting income before reinsurance was up by €32.7 million in 2014.

The combined ratio before reinsurance amounted to 78.4%, up by 3.9 percentage points, reflecting the fall in loss experience (-3.5 percentage points) and containment of costs (-0.3 percentage points). Excluding head office relocation costs in 2013, the combined ratio before reinsurance improved by 3.1 percentage points in 2014.

## Loss experience

Loss ratio before reinsurance improved by 3.5 percentage points, moving from 51.1% in 2013 to 47.6% in 2014. This change stems from the continuation of the measures taken in 2013, contributing to the sharp fall in the loss experience level in Western Europe, in the Mediterranean & Africa region and in Latin America as well as active monitoring of risks in Turkey, Russia, South Africa given the macro-economic environment in these countries.

This improvement was also driven by the increase in the liquidation surplus from prior years by 3.1 percentage points and an ultimate loss ratio (before reinsurance and excluding claims handling expenses) in the period under review, slightly down to 72.5%.

### LOSS EXPERIENCE

| | AS OF DECEMBER 31 | | CHANGE | |
|---|---|---|---|---|
| *(in millions of euros and %)* | **2014** | **2013** | *(in €m)* | *(as a %)* |
| Claims expenses incl. claims handling costs | 538.7 | 576.3 | -37.5 | -6.5% |
| Loss ratio before Reinsurance incl. claims handling costs | 47.6% | 51.1% | - | -3.5 pts |

The loss ratio in Western Europe confirmed its fall, coming out at 34.8% (down -7.2 percentage points), especially in France, where the positive impacts of measures taken in 2013 on certain sectors or debtors continued into 2014 and pushed down the ratio.

In Northern Europe, the loss experience level observed since the beginning of the year is being confirmed with a loss ratio of 52.2% at December 31, 2014 (up 2.7 percentage points).

The loss ratio for the Mediterranean & Africa region fell by 10.4 percentage points to 59.8%. This improvement was the result of measures that were primarily taken in Italy in 2013, and in early 2014.

The loss ratio is still low in North America, at 24.1% despite the 4.8 percentage point increase during the year.

Central Europe reported a loss ratio slightly up at 67.8% specifically linked to the recording of more severe losses.

Asia-Pacific reported a loss ratio of 51.4% after a very low ratio of 26.0% in 2013. This change in the loss experience also includes a substantial loss in the region which occurred in the fourth quarter.

The fall in the level of loss experience in Latin America observed this year continued, with the region reporting the sharpest drop in loss ratio, i.e., down by -45.3 percentage points to reach 59.9%. This stems from actions undertaken (review of exposures) in 2013.

3

### LOSS EXPERIENCE BY REGION OF INVOICING

| | AS OF DECEMBER 31 | | CHANGE |
|---|---|---|---|
| *(in %)* | **2014** | **2013** | *(% POINTS)* |
| Western Europe | 34.8 | 42.0 | -7.2 pts |
| Northern Europe | 52.2 | 49.5 | 2.7 pts |
| Mediterranean & Africa | 59.8 | 70.2 | -10.4 pts |
| North America | 24.1 | 19.3 | 4.8 pts |
| Central Europe | 67.8 | 66.5 | 1.2 pts |
| Asia-Pacific | 51.4 | 26.0 | 25.4 pts |
| Latin America | 59.9 | 105.2 | -45.3 pts |
| **LOSS RATIO BEFORE REINSURANCE** | **47.6** | **51.1** | **-3.5 PTS** |

## General expenses

Contract acquisition commissions were up 5.1% (+6.5% like-for-like), jumping from €134.9 million in 2013 to €141.9 million in 2014. The increase in Coface Group's revenue was achieved in countries with brokerage-based commercial structures, such as in the US, Italy, Turkey, Spain and South America. There is no commission on net refunds, which were up due to the drop in loss experience.

General internal expenses, including claims management costs, were down by -3.0% (-1.5% like-for-like), from €567.5 million in 2013 to €550.7 million in 2014.

Excluding Coface Group's head office relocation costs, which amounted to €8.3 million in 2013, general internal expenses were down -1.5% (0.0% like-for-like) and lower than the 1.6% recorded for premium growth.

Payroll expenses fell back -2.4%, from €305.2 million in 2013 to €297.9 million in 2014 with the -2% drop in full-time equivalents. IT costs remained stable over the period at €54.9 million, +0.2% like-for-like. Other expenses (indirect taxes, information purchases, rental expense, etc.) were down by -4.6% from €207.4 million to €197.9 million, especially on rental expense following the relocation of the Coface Group's head office and on information purchases. The control over general expenses obtained through productivity efforts in all regions allowed Coface Group to invest in emerging zones, such as Asia, Latin America and the Mediterranean & Africa region, and in the sales forces generally.

Cost ratio, before reinsurance, improved by 0.3 percentage points, moving from 31.2% in 2013 to 30.9% in 2014. Excluding relocation costs, it fell by -0.4 percentage points, from 30.5% in 2013 to 30.9% in 2014, primarily due to the change in external policy acquisition costs, since revenue was primarily up in brokerage-based regions. Furthermore, revenue from the services business, which is factored into the calculation of this ratio, fell this year especially due to the discontinuance of the procedures management business line on behalf of the Brazilian State and the fall in loss experience (fall in recovery expenses billed to policyholders).

In Western Europe, general expenses were down -2.0% as reported (down -2.5% like-for-like), as a result of the operating process and costs streamlining plan launched in 2013, and the savings on rental expense following the relocation of the Coface Group's head office and from the share of relocation costs recognised in 2013.

In Northern Europe, general expenses were down 2.6% (down 2.2% like-for-like). Payroll expenses fell by -2.4% reflecting the lower workforce and especially the ongoing commercial restructuring in Germany. IT costs were down following operational streamlining and Group-level centralisation of IT tools.

General expenses in the Mediterranean & Africa region were up 2.5% as reported (up +4.4% like-for-like), following the operational enhancement, backbone of sales development in the region and inflation in Turkey to a lesser extent. The enhanced information function was strengthened through the region's loss experience reduction action plan.

In North America, general expenses were up 1.4% (+2.6% like-for-like) driven by strengthened sales procedures which pushed revenue up by 11.9%.

In Central Europe, general expenses were slightly down -0.4% as reported (down -0.2% like-for-like).

In Asia-Pacific, general expenses shot up 9.8% as reported (up +12.9% like-for-like). Personnel expenses surged 9.5% like-for-like, reflecting the 12% increase in the region's work force owing to the Coface Group's sales investment in the area.

In Latin America, general expenses were down -11.9% as reported (up +11.7% like-for-like). The exit of the public credit insurance procedures entity SBCE on June 30, 2014 had an impact of €2.5 million, i.e. 8.9 percentage points on the consolidation scope. Foreign exchange (mainly the Argentine peso and Brazilian real) had an impact of 14.7 percentage points. Staff increased 6.9% (excluding the impact of SBCE) in an effort to assist in the sales development.

### Underwriting income after reinsurance

Underwriting income after reinsurance grew by €38.6 million, from €127.7 million in 2013 to €166.3 million in 2014, as a result of the increase in underwriting income before reinsurance (up €41.1 million).

Reinsurance cost rose 3.7%, up from €66.2 million in 2013 to €68.7 million in 2014. It is advancing significantly slower than the company's underwriting income given the increase in retention rate, from 72.0% in 2013 to 76.5% in 2014 and the improvement in the commissions collected by reinsurers from 34.2% in 2013 to 35.8% in 2014.

This increase in reinsurance cost stems from the improvement in the Coface Group's loss experience which through proportional ceded reinsurance, albeit down, is required to transfer the gains from prior years to its reinsurers. It is mostly offset by the improvement in the commission thus obtained as well as by the significant drop in non-proportional reinsurance cost. The latter can be explained first by a base effect since the purchase in 2013 of additional cover for country risks no longer requiring renewal in 2014 and second, an improvement of conditions stemming from the improvement in loss experience.

At the end of September 2014, Coface Group created a reinsurance company located in Lausanne, Switzerland. Coface Re SA obtained its licence under certain conditions from the Swiss Regulator at the end of December 2014. From 2015 onwards, Coface Re will be the interface between the external reinsurance market and the Group's entities and as such will replace Compagnie française d'assurance pour le commerce extérieur SA. By creating this company, the Group will be isolating its reinsurance business in a dedicated entity, and continuing the streamlining of coverage solutions for entities and partners of the Coface Group while expanding the range of services offered to its international customers (see paragraph 5.2.2.8 "Sharing of intra-group and reinsurance risks").

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

### Financial markets

In 2014, the economic context was very volatile particularly in the second part of the year. Global economic growth, driven by the US after a difficult start to the year, stimulated fears of an end to the recovery announced in 2013. From the second quarter onwards, the US economy significantly rebounded and at the end of the year confirmed the growth turnaround thanks in particular to the fall in oil price which was the driver for higher consumption and lower inflation. The Federal Reserve, which in October 2013 terminated its asset buying policy, began in the second quarter to prepare the markets for a potential key interest rate hike in 2015. Against this background, US sovereign rates fell again during the year with the 10-year yield rate falling from 3% at the end of 2013 to less than 2.2% at the end of 2014.

In the eurozone, the overall macroeconomic situation remained disappointing throughout the year with inflation falling sharply in the second half. The geopolitical crisis in Ukraine during the second quarter impacted German figures which began stoking fears about the scope of the gradual recovery expected during the year. Investors were reassured by only two countries in the eurozone, Spain and Ireland, where the launched reforms have begun showing the first encouraging signs. In response to the widespread sluggishness across Europe, the European Central Bank launched a host of conventional and non-conventional monetary policy measures and began hinting increasingly loudly in September 2014 at the possibility of a sovereign bond purchase programme in 2015. Indeed such a programme has become necessary given the sharp drop in oil price in summer 2014 with the barrel tumbling over 30% within a few months. In this context, rates remained downward oriented and the differences in 10-year yield rates between Germany on one hand and Italy, Spain and France on the other hand, also shrank in 2014. These actions and economic news sent European rates tumbling to record lows (Bund below 0.6% in December 2014 and the 10-year OAT at 0.82) and were clearly positive for this asset class which once again reported significantly high performance levels. Meanwhile equities markets recorded a rather erratic performance, slightly positive as they reeled from the impact of growing geopolitical risks and the lacklustre economic context in the eurozone; however thanks to the persistent positive growth in the eurozone and the fall in oil price, 2014 ended on a slightly positive note (up +4.6% for the Eurostoxx reinvested dividend).

In the emerging world, the situation largely differed from one country to another, primarily marked in the second half by an increasingly difficult situation for oil-exporting countries, victims of sharply-contracting barrel prices, with the asset class adversely impacted by the negative trend of the region's major countries.



### Financial income

Against this economic backdrop, the Coface Group, as part of its defined strategic allocation policy, raised its exposure in the first half to the sovereign debt of major issuers on financial markets and maintained its exposure to the equities asset class (eurozone mostly). In the second half of 2014, the Coface Group launched an indirect exposure to European unlisted property assets by purchasing units in collective undertakings in this universe.

All these investments were made within a strictly-defined risk framework; the quality of issuers, sensitivity of issues, dispersal of issuer positions and geographic areas are governed by strict rules defined in the different management mandates granted to the Coface Group's dedicated managers.

The portfolio's market value increased sharply in the year mainly thanks to the integration of the amount linked to the issuance of the subordinated debt at the beginning of the second quarter as well as to the robust performance of corporate bond asset classes.

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

#### MARKET VALUE

| | AS OF DECEMBER 31 | |
|---|---|---|
| *(in millions of euros)* | 2014 | 2013 |
| Listed shares | 178 | 80 |
| Unlisted shares | 12 | 20 |
| Bonds | 1,788 | 1,343 |
| Loans, deposits and UCITS money-market funds | 550 | 662 |
| Property | 31 | 1 |
| **TOTAL INVESTMENT PORTFOLIO** | **2,558** | **2,106** |
| Associated and non-consolidated companies | 121 | 103 |
| **TOTAL** | **2,679** | **2,209** |

In 2014, the diversification of the investment portfolio initiated in 2013 allowed, despite the historically low rate of return, the Coface Group to maintain a stable accounting rate of return. Investment income came off at €44.5 million (i.e.1.9% of 2014 average outstanding) comparable with the €40.8 million excluding non-recurring realised gains in 2013 (1.9% of average outstanding in 2013).

### INVESTMENT PORTFOLIO INCOME

| | AS OF DECEMBER 31 | |
|---|---|---|
| *(in millions of euros)* | 2014 | 2013 |
| Shares | 10.0 | -0.8 |
| Fixed-income instruments | 34.5 | 69.1 |
| *o/w realised gains* | 1.7 | 30.3 |
| Investment property | 0.0 | 0.3 |
| **TOTAL INVESTMENT PORTFOLIO** | **44.5** | **68.6** |
| Associated and non-consolidated companies | 3.5 | 8.5 |
| Net foreign exchange gains | -0.7 | -2.6 |
| Financial and investment charges | -4.6 | -7.0 |
| **TOTAL** | **42.8** | **67.5** |
| **TOTAL EXCLUDING NON-RECURRING REALISED GAINS** | **42.8** | **39.7** |

After income from investments in companies, foreign exchange result, financial expense and investment costs, financial income for 2014 came off at €42.8 million.

## 3.4.4 OPERATING INCOME

| | AS OF DECEMBER 31 | | CHANGE | | |
|---|---|---|---|---|---|
| (IN MILLIONS OF EUROS) | 2014 | 2013 | *(in €m)* | *(as a %)* | *(as a % on a constant group structure and exchange rate basis)* |
| **OPERATING INCOME INCLUDING FINANCE COSTS** | **184.1** | **193.9** | **-9.7** | **-5.0%** | **-3.9%** |
| Other operating income and expenses | -9.9 | 1.7 | -11.7 | N/A | N/A |
| **CURRENT OPERATING INCOME INCLUDING FINANCE COSTS** | **194.1** | **192.2** | **1.9** | **1.0%** | **2.1%** |
| Reallocation costs | | -8.3 | | | |
| Realised gains | | 27.8 | | | |
| Interests costs | -12.1 | | | | |
| **CURRENT OPERATING INCOME INCLUDING FINANCE COSTS AND EXCLUDING RESTATED ITEMS** | **206.2** | **172.7** | **33.4** | **19.4%** | **20.7%** |

Current operating income, including finance costs and excluding restated items, rose from €33.4 million, i.e. by 19.4% (+20.7% like-for-like, in line with forecasts), from €172.7 million in 2013 to €206.2 million in 2014.

The net combined ratio, including non-recurring items, improved by 3.8 percentage points, rising from 83.5% in 2013 to 79.7% in 2014, in line with forecasts.

Other operating income and expenses amounted to €9.9 million and primarily reflected the non-recurring costs linked to the Coface Group's stock market listing (€8 million) and also include the set up costs for establishing the Coface Re reinsurance entity (€1.8 million).

2013 included €27.8 million in non-recurring financial income linked to the restructuring of the investment portfolio and gains realised on a portion of the portfolio. 2014 included €12.1 million in non-recurring financial expense incurred on the Group's hybrid debt issuance.

The rise in the Coface Group's operating income primarily came from improvement of the loss experience (Latin America, Western Europe). All regions contributed positively to operating income, except for Asia-Pacific which was impacted by the rise in loss experience at year end.

| *(in millions of euros)* | AS OF DECEMBER 31 | | CHANGE | SHARE OF ANNUAL TOTAL AT DECEMBER 31, 2014 |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Western Europe | 104.0 | 95.0 | 9.0 | 44% |
| Northern Europe | 61.1 | 71.0 | -10.0 | 26% |
| Mediterranean & Africa | 20.7 | 16.5 | 4.2 | 9% |
| Central Europe | 22.7 | 32.5 | -9.7 | 10% |
| North America | 28.1 | 23.4 | 4.8 | 12% |
| Latin America | 4.7 | -22.2 | 26.9 | 2% |
| Asia-Pacific | -3.7 | 13.8 | -17.5 | -2% |
| **TOTAL (EXCLUDING INTER-REGIONAL FLOWS AND HOLDING COST NOT REBILLED)** | **237.6** | **229.9** | **7.7** | **100%** |



## 3.4.5 NET ATTRIBUTABLE INCOME FOR THE YEAR

The Coface Group's effective tax rate came out at 34.8%, i.e., 2 percentage points lower than in 2013 (32.8%).

Net attributable income for the period dropped -1.8% from 127.4 in 2013 to 125.1 in 2014.

Restated from items related to the Group's hybrid debt issuance (interest cost), exceptional and non-recurring items (costs related to the Coface Group's stock market listing, the creation of Coface Re in 2014, relocation to Bois-Colombes and realised gains in 2013), net attributable income surged 23.2% to €139.9 million like-for-like in the period under review, from €114.8 million in 2013.

## 3.4.6 PARENT COMPANY NET INCOME

The 2014 net income for COFACE SA was -€2,779,036 compared to €68,779,474 in 2013. This loss is explained, on the one hand, by the lack of payment of dividends by Compagnie française d'assurance pour le commerce extérieur, the Group's operating subsidiary and, on the other, by the issue costs of the hybrid debt issued in 2014 and the expenses connected to the stock market listing. COFACE SA, with its sufficient level of distributable premiums and subject to the conclusions of the Ordinary Annual Shareholders' Meeting, is in a position to propose a special cash dividend (6th resolution).

# 3.5 Group cash and capital

Information in this section is derived from the statement of cash flows in the consolidated financial statements and from Note 12 "Cash and cash equivalents" in the Company's consolidated financial statements, as reported in paragraph 4.1.1 "Consolidated Financial Statements of the Coface Group for the period ended on December 31, 2014" of this document. The cash flows presented below include the cash related to discontinued activities.

| | AS OF DECEMBER 31 | |
|---|---|---|
| *(in millions of euros)* | 2014 | 2013 |
| Net cash generated from operating activities | 273.4 | 164.9 |
| Net cash flows generated from investment activities | -400.3 | -99.5 |
| Net cash generated used in financing activities | 134.3 | -65.4 |

| | AS OF DECEMBER 31 | |
|---|---|---|
| *(in millions of euros)* | 2014 | 2013 |
| Cash and cash equivalents at beginning of year | 273.9 | 257.0 |
| Cash and cash equivalents at end of year | 278.6 | 273.9 |
| Net change in cash and cash equivalents | 4.7 | 16.9 |

## 3.5.1 DEBT AND SOURCES OF FINANCING OF THE COFACE GROUP

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

| | AS OF DECEMBER 31 | |
|---|---|---|
| *(in millions of euros)* | 2014 | 2013 |
| Subordinated borrowings | 386.9 | - |
| Obligations under finance leases | 7.9 | 10.6 |
| Bank overdrafts and other borrowings | 0.3 | 4.6 |
| **SUB-TOTAL FINANCIAL DEBT** | **395.1** | **15.1** |
| Amounts due to banking sector companies | 300.7 | 406.8 |
| Debt securities | 1,538.1 | 1,348.8 |
| **SUB-TOTAL OPERATING DEBT** | **1,838.8** | **1,755.6** |

### ◆ Financial debt

For the period ended December 31, 2014, the Coface Group's financing liabilities, totalling €395.1 million, primarily include the subordinated borrowings issued for €386.9 million.

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

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

These bonds 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.

### ◆ Operating debt linked to the factoring business

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

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

Amounts due to banking sector companies; which corresponded to drawdowns on the bilateral credit lines (see below "bilateral credit lines") set up with various banking partners of Coface Finanz and Coface Factoring Poland, amounted to €301 million for the period ended on December 31, 2014.

The borrowings represented by the securities amounted to €1,538.1 million for the period ended on December 31, 2014 including:

- the Senior units issued by the Vega securitisation mutual fund under the factoring receivables securitisation programme (see paragraph below "securitisation programme") of Coface Finanz, in the amount of €1,186.1 million; and
- commercial paper issued by COFACE SA (see paragraph below "commercial paper programme") to finance the activity of Coface Finanz in the amount of €352.0 million.

### ◆ Coface Group's main sources of operational financing

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

- a programme to securitise its trade factoring receivables in the maximum amount of €1,195 million;
- a commercial paper programme for a maximum amount of €500 million; and
- bilateral credit lines for a maximum total amount of €884 million.

Since 2011, the amount of Coface Group's operational financing has fallen sharply. In 2012, the Coface Group took a first step towards achieving financial autonomy by implementing in February a factoring receivables securitisation programme dedicated to financing the business of Coface Finanz (Germany) and implemented a commercial paper programme dedicated to factoring financing.

In 2013, the Coface Group continued moving away from Natixis by proceeding to an extension of its commercial paper programme.

In 2014, a structural addition was introduced into the securitisation programme, which allowed the maximum amount of the programme to be increased to €1,195 million (recall that the initial amount was €1,100 million).

At December 31, 2014, the amount of the Coface Group debt linked to its factoring business amounted to €1,839 million, including €166 million borrowed from Natixis under a bilateral credit line (see below).

#### (a) Securitisation programme

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



At December 31, 2014, €1,186 million had been used under the programme.

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

- payment default of Coface Finanz or of Compagnie française d'assurance pour le commerce extérieur for any sum due under the securitisation mutual fund;
- the cross default of any Coface Group entity pertaining to debt above €100 million;
- closure of the asset-backed commercial paper market for a consecutive period of 180 days;
- liquidation proceedings against Coface Finanz, Coface Factoring Poland, the Company or Compagnie française d'assurance pour le commerce extérieur;
- the discontinuance or substantial change to the activities practised by Coface Finanz or by Compagnie française d'assurance pour le commerce extérieur;
- a downgrading of the financial rating of Compagnie française d'assurance pour le commerce extérieur to below BBB- for the main funding (maximum amount of €1,100 million) and to below A for additional funding (maximum amount of €95 million); as well as in cases of
- non-compliance with one of the covenants linked to the quality of the reinsured portfolio of factoring receivables.

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

The three covenants set by the securitisation programme include:

| COVENANT | DEFINITION | TRIGGER THRESHOLD |
|---|---|---|
| Receivables default rate | Sliding average on 3 months of payment defaults beyond 60 days after their due date | > 2.24% |
| Past due payment rate | Moving average over 3 months of the rate of receivables outstanding beyond 30 days after their due date | > 5.21% |
| Dilution ratio | Sliding average over 3 months of the dilution ratio | > 9.71% |

As of December 31, 2014, the Coface Group had complied with all of these covenants.

## (b) Bilateral credit lines

In connection with the refinancing of its factoring business, the Coface Group also introduced, mainly through its subsidiaries, a certain number of bilateral credit lines and bank overdrafts for a total maximum amount of €884 million.

- bilateral credit lines and bank overdrafts concluded with nine German banks (the "German credit lines") and two Polish banks (the "Polish bank overdrafts") for a maximum amount of €384 million. These bilateral credit lines and bank overdrafts were concluded for a maximum period of one year. Some German credit lines contain the usual clauses, such as: borrower compliance with a specified net asset level; borrower change of control clause and benefit for the lender of the strictest financial covenant granted by the borrower to other financial institutions. The Polish Overdraft Facilities contain the standard commitments. At December 31, 2014, €118 million had been drawn down under the German credit lines and €18 million had been used under the Polish bank overdrafts;
- two bilateral credit lines that had been entered into with Natixis, for a maximum amount of €500 million (including €200 million for Coface Finanz in Germany and €300 million for Coface Factoring Poland in Poland), maturing December 31, 2015, of which €166 million had been drawn as of December 31, 2014.

## (c) Commercial paper programme

Furthermore, the Coface Group has a commercial paper programme for a maximum of €500 million. Under this programme, the Company frequently issues securities with due dates ranging generally between one and three months. At December 31, 2014, the total amount of securities issued through this commercial paper programme stood at €352 million. Moody's and Fitch have rated the commercial paper programme at P-2 and F1 respectively.

Should the commercial paper market shut down, the Coface Group has six lines of credit, currently unused and granted for a period of one year (due in October 2015) covering the maximum amount of the commercial paper issue programme (€500 million). The agreements regulating these bilateral credit lines contain the usual restrictive clauses (such as a negative pledge, prohibition from assigning the assets outside the Coface Group above a specified threshold or restrictions related to the discontinuance or any substantial change in the Coface Group's business activities) and early repayment (non-compliance with the use of the funds (reserved in the event of unavailability of the commercial paper programme), payment default, crossed default, non-compliance with representations, warranties and commitments (including the covenants below), significant adverse change affecting the Company and its capacity to meet its obligations under these bilateral credit lines, insolvency and liquidation procedure or again downgrading of the Company's credit rating below BBB+ (by Fitch) or Baa1 (by Moody's)), in line with market practices.

The bilateral credit lines do not contain a clause on change of control with regard to the Company, but rather restrictions relating to a change in control of Compagnie française d'assurance pour le commerce extérieur and of the factoring companies that would result in their exit from the Coface Group.

A financial covenant is fixed by these credit lines:

| COVENANT | TRIGGER THRESHOLD |
|---|---|
| Consolidated solvency margin | >100% |

The consolidated solvency margin taken into account to calculate the commercial paper covenants refers to the definition given by the Solvency I prudential rules, currently applied by the regulator.

As of December 31, 2014, the Coface Group had complied with all of these covenants.

## 3.5.2 ECONOMIC CAPITAL

At December 31, 2014, as illustrated in the table below, the Coface Group's solvency margin represented around seven times the minimum required under the Solvency I Regulation.

| | POSITION AT DÉCEMBRER 31, 2014 | | POSITION AT DÉCEMBRER 31, 2013 | |
|---|---|---|---|---|
| | IN MILLIONS OF EUROS | HEDGE RATE | IN MILLIONS OF EUROS | HEDGE RATE |
| **Own Funds (Group Share) IFRS** | **1,717** | | 1,780 | |
| Restatement French GAAP | -450 | | -377 | |
| **Own Funds (Group Share) French GAAP** | **1,267** | | 1,404 | |
| Losses, inamortised incorporation expenses and other intangible assets | -195 | | 207 | |
| Capital gains resulting from undervalued assets | 146 | | 106 | |
| Issue of subordinated notes on March 27, 2014 (eligible for inclusion in solvency margin up to 25% of the margin requirements) | 42 | | 0 | |
| Estimated dividend distribution in 2015 | -75 | | 0 | |
| **TOTAL AMOUNT OF ITEMS COMPRISING SOLVENCY 1 MARGIN** | **1,186** | **7.1** | **1,302** | **8.3** |
| **Effect of events occurring in 2014:** | | | | |
| Issue of subordinated notes on March 27, 2014 (eligible for inclusion in solvency margin up to 25% of the margin requirements) | 0 | | 39 | |
| Estimated exceptional share premium distribution | 0 | | -227 | |
| **TOTAL AMOUNT OF ITEMS COMPRISING SOLVENCY 1 MARGIN INCLUDING SUBORDINATED NOTES ISSUE** | **1,186** | **7,1** | **1,114** | **7.1** |
| **Margin Requirement** | **167** | | **157** | |

The Coface Group also measures its financial strength based on an economic capital (capital required to hedge its managed risks). The change in economic capital depends on numerous factors and parameters linked to changes in the loss ratio, underwriting volumes, risk volatility, the sequencing of loss settlement and the asset types invested in the Company's balance sheet.

For the insurance business, the Coface Group's economic capital model evaluates the risks linked to pricing, underwriting, accrual of reserves, as well as market risks and operational risks. It takes account of frequency risks and severity risks. It is known as point in time and takes account of the correlations between the various risks linked to underwriting. This calculation is calibrated to hedge the risk of loss corresponding to 99.5% quantile. At December 31, 2014, the Coface Group's economic capital amount amounted to €1,029 million.

The Coface Group also calculates the economic capital for the factoring business line. As of December 31, 2014, the economic capital for factoring amounted to €195 million. It is estimated by applying a 9% rate to the risk-weighted assets (or **RWA**). RWAs are calculated on the basis of the factoring assets, by applying weighting as a function of the probability of default and the expected loss in case of default, determined according to the method in line with the method used by Natixis. The Coface Group intends to implement a conservative estimate, given that:

- the percentage applied by the Coface Group (9%) is higher than the rate currently required by banking regulation (8%); and
- German and Polish local regulators (the two countries in which the Coface Group operates its factoring business) have not defined specific mandatory capital requirements for factoring companies.

The amount of the economic insurance capital and the economic factoring capital of the Coface Group is comparable with the available capital which totalled, as of December 31, 2014, €1,761 million.

The economic capital hedge rate evolved in 2014 in comparison to the previous year. In 2013 this ratio was calculated solely on the insurance scope: the equity available at Group level was restated for the required amount to cover the economic capital for factoring and then recorded under the insurance economic capital amounts. With the method used in 2014, the economic capital hedge ratio corresponds to the ratio between all the available Coface Group capital and its total economic capital (the sum of the insurance economic capital and of the factoring economic capital). The 2013 hedge ratio, recalculated using this method and after taking into account the subordinated securities issue in March 2014 and the non-recurring distribution taken from the "additional paid-in capital" item made in the first half of 2014, rose to 145%. At the end of 2014, this ratio was almost stable and stood at 144%.

The table below presents the calculation elements of the Coface Group's economic capital:

| *(in millions of euros)* | AS OF DECEMBER 31, 2014 | 2013 |
|---|---|---|
| Total equity | 1,725 | 1,793 |
| Goodwill and other intangible assets | -232 | -240 |
| +/- Other adjustments* | -32 | 41 |
| Estimation of dividend distribution in 2015 | -75 | -227 |
| + subordinated debt | 375 | 375 |
| **=AVAILABLE CAPITAL (A)** | **1,761** | **1,742** |
| Economic capital - insurance (B) | 1,029 | 1,015 |
| Economic capital - factoring (C) | 195 | 190 |
| **ECONOMIC CAPITAL (D)=(B)+(C)** | **1,224** | **1,205** |
| **HEDGE RATE (E)=(A)/(D)** | **144%** | **145%** |

* *Primarily related to the revaluation of certain balance sheet items.*

Furthermore the Coface Group is currently working on a partial internal model as part of the implementation of Solvency II. Talks are in progress with the ACPR to validate its partial internal model designed to calculate, depending on the management of risks specific to Coface Group, its equity needs under Solvency II (see also paragraph on "Risks linked to the implementation of Solvency II" in this document).

## 3.5.3 RETURN ON EQUITY

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

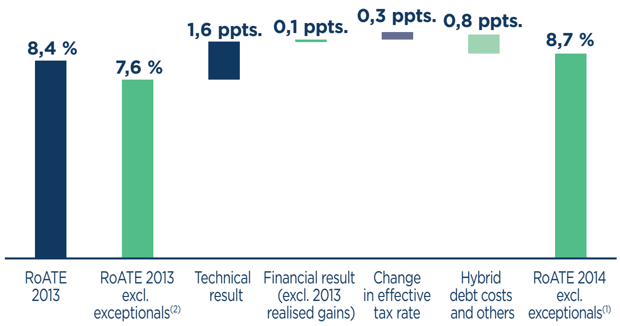
The table below presents the elements used to calculate the Coface Group's RoATE over the 2013-2014 period:

| *(in millions of euros)* | AS OF DECEMBER 31 | |
|---|---|---|
| | **2014** | **2013** |
| Accounting equity (attributable to owners of the parent) – A | 1,718 | 1,780 |
| Intangible assets – B | 232 | 240 |
| Tangible equity – C (A-B) | 1,486 | 1,540 |
| Average tangible equity – D ([$C_n$+$C_{n-1}$]/2) | 1,513 | 1,526 |
| Net attributable income for the year – E | 125 | 127 |
| RoATE – E/D | 8.3% | 8.4% |



In order to analyse the evolution in the profitability of equity between 2013 and 2014, this ratio was recalculated based on the net income, excluding exceptional items:

| *(in millions of euros)* | AS OF DECEMBER 31 | |
|---|---|---|
| | **2014** | **2013** |
| Accounting equity (attributable to owners of the parent) – A | 1,718 | 1,780 |
| Intangible assets – B | 232 | 240 |
| Equity, net of intangible assets, recalculated based on the net income excluding exceptional items – C (A - B + F - E) | 1,493 | 1,527 |
| Average equity, net of intangible assets recalculated based on the net income excluding exceptional items – D ([$C_n$+$C_{n-1}$]/2) | 1,510 | 1,519 |
| Net attributable income for the year – E | 125 | 127 |
| Net attributable income for the year excluding exceptional items – F | 132(1) | 115(2) |
| RoATE excluding exceptional items – F/D | 8.7% | 7.6% |




(1) Net attributable income for 2013 restated for relocation costs and gains realised on disposals of financial assets from the establishment of the centralised investment management platform.
(2) Net attributable income for 2014, restated for costs of stock market listing and other exceptional items.

### 3.5.4 OFF-BALANCE SHEET COMMITMENTS

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

The table below presents the details of the Coface Group's off-balance sheet commitments for the 2013-2014 period:

| *(in thousands of euros)* | AS OF DECEMBER 31 2014 | 2013 |
|---|---|---|
| **COMMITMENTS GIVEN** | **419,655** | **38,600** |
| Guarantees and letters of credit | 410,100 | 29,000 |
| Property guarantees | 7,500 | 7,500 |
| Financial commitments in respect of equity interests | 282 | 210 |
| Obligations under finance leases | 1,773 | 1,890 |
| **COMMITMENTS RECEIVED** | **1,086,961** | **626,780** |
| Guarantees and letters of credit | 115,737 | 116,828 |
| Guarantees | 134,724 | |
| Credit lines linked to commercial paper | 500,000 | 500,000 |
| Credit lines linked to factoring | 334,000 | |
| **Financial commitments in respect of equity interests** | **2,500** | **9,952** |
| **GUARANTEES RECEIVED** | **305,323** | **349,488** |
| Securities lodged as collateral by reinsurers | 305,323 | 349,488 |
| **FINANCIAL MARKET TRANSACTIONS** | **36,829** | **237,133** |

The commitments given, and in particular the guarantees and letters of credit, totalling €410 million for the year ended December 31, 2014, mainly relate to a joint guarantee for investors with COFACE SA subordinated bonds for €380 million (10-year term).

Credit lines amounting to €834 million for the year ended December 31, 2014, correspond to the bilateral credit lines established through the Coface Group commercial paper issuance programme (see paragraph 3.5.2 "Debt and financing sources of the Coface Group" of this document) as well as to other unused bilateral credit lines with Natixis to finance the factoring activity in the amount of €334 million.

## 3.6 Events after December 31, 2014

On February 23, 2015 the French government announced its intention to reflect on the future of the public guarantee scheme for exports and indicated that would study the possibility of transferring management of public guarantees to the Bpifrance group. Since 1946, Coface has managed the export credit insurance business for the State and received compensation for its costs as part of this undertaking that stood at €59.9 million in 2014, equivalent to approximately 4% of its overall revenue. Coface will engage in discussions with the government on the appropriateness of this choice, as well as all the legal, social, financial and operational consequences of taking this direction, should they decide to go down this route.

This announcement did not have an impact on Coface's financial statements for December 31, 2014.

# 3.7 Outlook

## 3.7.1 ECONOMIC ENVIRONMENT

Global growth should pick up for the second consecutive year in 2015 (+3.1% after 2.8%), without however returning to its pre-crisis level.

Advanced economies should receive a boost, particularly from fallen oil prices which will positively impact household consumption by raising the purchasing power of families. Central banks will also continue implementing accommodating policies in a low inflation context. Coface expects business to be particularly buoyant in the United States (+2.9%), where household consumption will be driven by lower unemployment and by a modest wage increase. Businesses in the US should continue reaping high earnings, partly thanks to lower production costs (energy costs from the shale gas boom, contained wage increase in recent years).

The rally should continue in the eurozone (+1.2% expected in 2015) but at a slower pace. With its reported +1.7 growth, the Spanish economy, now driven by stronger domestic demand, will be, on the same level as Germany (+1.5%), the star pupil of the eurozone. In France (+0.8%), consumption will still be hampered by high unemployment and household savings, while companies gradually return to investing thanks to the expected increase in their margins. For similar reasons, growth will be low in Italy (+0.4%).

Growth in emerging countries will stay relatively buoyant. Activity will continue slowing down gradually in China (+7.0% after +7.4%) against a background of structural contraction of credit and investment growth, especially in the sectors afflicted with overcapacities (steel, real estate). India (+6.0%) will be bolstered by the early effects of the reforms implemented by Prime Minister Modi and by the decline in oil price. However, low oil prices will be a burden for numerous countries, particularly economies in the Middle East, Latin America and Africa. Combined with numerous internal structural deficiencies, the drop in oil price also explains the negative growth outlook in Brazil (+0.8%) and especially in Russia (-3.0%).



## 3.7.2 OUTLOOK FOR THE COFACE GROUP

Coface intends to continue strengthening its profitability, enhancing its offering and services as well as its development through its Strong Commitment II strategic plan. Just as the Strong Commitment I plan implemented between 2011 and 2013 which led to the Group's restored operational performance, this new plan includes a range of structural actions, aimed at building on prior achievements, especially in the area of risk control and cost reduction and enhancing them through commercial development.

Considering the macro-economic environment of moderate growth and a global credit insurance market which the Coface Group does not consider to be saturated, the Group intends to continue its profitable growth strategy, actively participate in the development of credit insurance worldwide, while maintaining its investment level in order to continue optimising risk management and costs, while strengthening its operating margin.

As such, the Group stands by the objectives announced at the time of the stock market listing:

- generate average revenue growth (like-for-like) between 3% and 5% over the 2014-2016 period;
- generate two-digit average growth in current operating income over the next three years between 2013 and 2016;
- contain the growth of costs significantly below the growth of gross earned premiums over the period by implementing an internal general expenses control policy in order to reach a combined ratio after reinsurance of around 75% by December 31, 2016;
- achieve a RoATE target above 12% by December 31, 2016;
- pay out annual dividends representing around 60% of consolidated net attributable income while maintaining a single-A minimum financial rating with Fitch and Moody's.

The Coface model has delivered results in 2014 in a macroeconomic environment that is more favourable but still fragile. This model allows us to face the challenges that 2015 will bring, requiring a certain amount of vigilance:

- Remaining close to the companies and proactive decision making will remain the rules for risk management;
- Our product innovation and multi-channel distribution policy will allow us to widen our customer base and, more generally, our credit insurance scope, whilst protecting our portfolio profitability;
- As a result of the Group extending its geographical coverage, Coface will capture the growth on the most dynamic markets.

These are the components of Coface's strategy, aimed at its profitable development.

# 3.8 Appendix – Operating indicators at December 31

In the course of its business, and in addition to the financial information published in accordance with IFRS, the Coface Group tracks certain key operating ratios that provide an understanding of the Coface Group's performance and profitability of its products. They are described at paragraph 3.3.2 OPERATING INDICATORS of this registration document.

## 3.8.1 CALCULATION OF RATIOS AS OF DECEMBER 31

| | | AS OF DECEMBER 31 | |
|---|---|---|---|
| *(in thousands of euros)* | NOTE | 2014 | 2013 |
| Gross earned premiums excluding policyholders' bonuses and rebates | *24* | 1,231,036 | 1,204,107 |
| Premium refunds | *24* | -98,309 | -75,564 |
| **Gross earned premiums** | *24* | **1,132,727** | **1,128,543** |
| Fee and commission income | *24* | 134,014 | 133,120 |
| *of which Fees and commission income* | *24* | *124,755* | *123,410* |
| *of which Other related benefits and services* | *24* | *9,259* | *9,710* |
| Remuneration for public procedures management services | *24* | 62,541 | 65,577 |
| Services | *24* | 40,631 | 43,879 |
| *of which Information and other services* | *24* | *25,264* | *25,194* |
| *of which Receivables management* | *24* | *15,367* | *18,685* |
| Net income from banking activities (Factoring) | *24* | 70,623 | 69,210 |
| **Revenue** | *24* | **1,440,536** | **1,440,330** |
| **Claims expenses** | *25* | **-538,721** | **-576,263** |
| **Income from ceded reinsurance** | *28* | **198,013** | **249,652** |
| *of which Ceded claims* | *28* | 102,497 | 138,644* |
| *of which Commissions paid by reinsurers* | *28* | 95,515 | 111,009* |
| **Expenses from ceded reinsurance** | *28* | **-266,673** | **-315,855** |
| *of which ceded premiums* | *28* | *-260,233* | *-314,762* |
| *of which Change in ceded premiums provisions* | *28* | *-6,440* | *-1,093* |
| Policy acquisition costs | *27* | -262,854 | -256,867 |
| Administrative costs | *27* | -269,106 | -263,891 |
| Other current operating expenses | *27* | -74,455 | -83,112 |
| Investment management expenses | *27* | -2,039 | -5,025 |
| *of which Insurance* | *27* | *-2,039* | *-2,848* |
| Claims handling expenses | *27* | -25,738 | -29,787 |
| Expenses from banking activities, excluding cost of risk | *26* | -11,066 | -11,884 |
| Expenses from other activities | | -47,338 | -51,884 |
| **General expenses including expenses from other activities** | | **-692,596** | **-702,450** |
| *of which employee profit-sharing* | *27* | -7,497 | -5,819 |
| *of which relocation costs* | *27* | | -8,345 |

* *Reallocation of ceded claims into reinsurance commissions at end of 2013.*

**RATIOS RELATING TO CREDIT INSURANCE AND SURETY BONDS GROSS EARNED PREMIUMS NET OF CANCELLATION**

| | AU 31 DÉCEMBRE | |
|---|---|---|
| *(en %)* | 2014 | 2013* |
| Loss ratio before reinsurance | 47.6% | 51.1% |
| Loss ratio after reinsurance | 50.4% | 53.8% |
| Cost ratio before reinsurance | 30.9% | 30.5% |
| Cost ratio after reinsurance | 29.3% | 28.7% |
| Combined ratio before reinsurance | 78.4% | 81.5% |
| Combined ratio after reinsurance | 79.7% | 82.5% |

** Excluding the Company's relocation costs (-€8.3 million)*

## 3.9 Appendix - investments outside the investment portfolio



Since 2011, the Coface Group has mainly made investments in property, plant and equipment (particularly relating to the organization or arrangement of the office properties used, as well as the investments in IT equipment or licences. For the years ending December 31, 2011, 2012, and 2013, these investments, corresponding to property, plant and equipment and intangible assets, excluding deposits, 66 surety bonds and buildings used in the business, increased to €22.1 million, to €10.4 million and €20.5 million respectively (of which €15 million is linked to the arrangement of the new Coface Group head office).

During the financial year ended December 31, 2014, the Coface Group continued with one-off investments relating to its property plant and equipment for amounts considered not significant.