To the Company's knowledge, none of the members of the Board of Directors have been convicted of fraud during the last five years. None of these people have participated as a manager in a bankruptcy, sequestration or liquidation during the past five years, and none of these people were subject to an incrimination and/or an official public sanction pronounced by a statutory or regulatory authority (including designated professional bodies). None of these people were prevented by a court from acting as a member of an administrative, management or supervisory body of an issuer, nor from taking part in the management or performance of business of an issuer during the past five years.

To the Company's knowledge there are not, as of the date of this registration document, any potential conflicts of interest between the duties of the members of the Board of Directors and the executive officers of the Company, as regards the Company and their private interests.

To the Company's knowledge, no pact or agreement has been entered into with any shareholders, customers, suppliers or other parties by virtue of which any member of the Board of Directors or executive officers of the Company has been appointed in such capacity.

As of the date of this registration document, no restrictions have been accepted by the members of the Board of Directors or the managing corporate officers of the Company as concerns the disposal of their interests in the Company's share capital, with the exception of the rules relating to the prevention of illegal insider trading and the recommendations of the AFEP-MEDEF Code imposing a share retention obligation.

2.4 Chairman's report on corporate governance, internal control and risk management procedures

Pursuant to Article L.225-37 of the French Commercial Code, the subject of this report is to report on the composition and functioning of the Board of Directors and its committees, any potential limitation in powers of general executive management, the application of a Corporate Governance Code prepared by the organisations representing the companies and the rules for determining compensation of corporate officers.

It is the responsibility of the Chairman of the Board of Directors to report on the internal control and risk management procedures set up by the Group, by detailing those regarding the preparation and processing of accounting information. COFACE SA (the "Company"), is subject to the legislative and regulatory provisions of the French Insurance Code. Furthermore, since January 1, 2016, the Group is subject to European Solvency II Directive and to its application regulations. This report presents an overview and is not intended to provide a detailed description of all the internal control mechanisms rolled out inside the Group and its subsidiaries. To the Group's knowledge, this information is currently accurate.

This report has been examined by the Audit Committee before being reviewed and approved by the Board of Directors on its meeting dated on February 8, 2017. It is attached to the Board of Directors' report and presented at the Annual General Shareholders' Meeting.

2.4.1 CORPORATE GOVERNANCE

◆ 2.4.1.1 Board of Directors

Composition (see Section 2.1.1)

Until the date of its meeting of February 8, 2017, the Board of Directors was composed of eleven members, 54% of which are women and 45% of which are independent [(1)]:

- Mr Laurent MIGNON, Chairman;
- Mr Jean ARONDEL;
- BPCE represented by Ms Marguerite BÉRARD-ANDRIEU [(2)];
- Mr Jean-Paul DUMORTIER;
- Mr Éric HÉMAR;
- Ms Linda JACKSON;
- Ms Sharon MACBEATH;
- Ms Martine ODILLARD;
- Ms Isabelle RODNEY, coopted to the seat of Mr Pascal MARCHETTI, who resigned;
- Ms Anne SALLÉ-MONGAUZE, coopted to the seat of Mr Laurent ROUBIN, who resigned;
- Mr Olivier ZARROUATI.

(1) As the Company is controlled by Natixis as set out under Article L.233-3 of the French Commercial Code, the recommendation of Article 8.3 of the AFEP-MEDEF Code which requires this board to include at least one third independent members has therefore been met.

(2) BPCE, represented by Marguerite Bérard-Andrieu, resigned on February 8, 2017. In this respect, at its meeting of February 8, 2017, the Board of Directors co-opted Mr Daniel Karyotis, CEO of Banque Populaire Auvergne Rhône Alpes, as director.

Operations

The Board of Directors has drafted a Charter of internal regulations which can be consulted on the website http://www.coface.com/Group/Our-organisation in the tab on the Board of Directors.

Convening notice of the Board of Directors

The Board of Directors meets as often as is required in the interests of the Company, and at least once per quarter.

Board meetings are convened by the Chairman. However, directors representing at least one third of the Board members may convene a meeting of the Board, detailing the agenda, if there has been no meeting for more than two months. Where the duties of the Chief Executive Officer (CEO) are not performed by the Chairman, the Chief Executive Officer (CEO) may also ask the Chairman to convene a Board meeting to consider a fixed agenda.

Board meetings are held either at the registered office or any other location indicated in the convening notice. The convening notice is completed by simple letter or e-mail, sent to the Board members within a reasonable period of time before the date of the meeting scheduled. It is issued by the Board Secretary.

In case of an urgency, as defined below ("Urgency"), the following accelerated procedure may be applied.

An Urgency is defined as an exceptional situation (i) marked by the existence of a brief period of time, imposed by a third party on penalty of being time-barred, and for which a failure to comply could result in damage for the Company or one of its subsidiaries or (ii) which requires a quick response from the Company which is incompatible with the application of the Board of Directors' usual time frame for a convening notice.

In case of Urgency, the convening notice may be transmitted using all appropriate methods, even verbally, and the time frames for the convening notice and for holding the meeting of the Board of Directors shall not be subject to the provisions described above, insofar as the Chairman of the Board of Directors of the Company has:

(i) first sent notice to the directors providing the basis for the Urgency per the definition above; and

(ii) sent all directors, with the convening notice for said Board, all elements needed for their analysis.

Holding of the Board of Directors' meetings

Meetings of the Board of Directors are presided over by the Chairman of the Board of Directors or, in his absence, by the eldest director, or by one of the Vice-Chairmen if as the case may be.

In accordance with the legal and regulatory provisions, and except when adopting decisions relating to the review and closing of the annual corporate and consolidated financial statements, the directors participating in the Board meeting by video conference or telecommunication are deemed to be present for the purpose of calculating the quorum and majority, thereby satisfying the technical criteria set by the current legislative and regulatory provisions.

Each meeting of the Board of Directors must be of a sufficient duration to have a useful and in-depth debate on the agenda. Decisions are made by a majority of the votes of the directors who are present or represented. In the event of a tie, the vote of the Chairman of the Board of Directors shall prevail.

In the event of a malfunction in the video conference or telecommunications system, as noted by the Chairman of the Board of Directors, the Board may validly deliberate and/or move forward with just the members who are physically present, provided that the quorum conditions have been met.

Informing the Board of Directors

Pursuant to the terms of Article 21 of the Company's Articles of Association, and pursuant to Article 3.4 of the Board of Director's Charter of internal regulations, said Board carries out the inspections and verifications which it judges necessary. The Chairman or the Chief Executive Officer (CEO) must send to each director all the documents and information needed for the accomplishment of his/her duties.

The directors must, prior to the meeting of the Board of Directors, and within a sufficient period of time, have access to the information that will allow them to make an informed decision. However, in the event of an emergency, or when respecting confidentiality so requires, and in particular when sensitive strategic, commercial or financial information is at issue, this information may be provided during the meeting. Directors shall likewise receive, if they so request, a copy of the minutes from the Board of Directors' deliberations.

Furthermore, the directors receive all useful information on the events or operations which are significant for the Company in between meetings.

The Company has set up a Group-level governance system based on a clear separation of responsibilities with an information transmission mechanism. This governance system includes the key functions below: risk management, verification of compliance, internal audit and actuarial functions. Each key function operates under the ultimate responsibility of the Board of Directors, to which it reports.

a) Information at the initiative of the Board of Directors.

The Board of Directors organises an audition, at its own initiative, each time it deems necessary and at least once a year, of key function managers. This audition can take place in the absence of the Chief Executive Officer (CEO) if the Board members consider it necessary. The Board of Directors may refer this audition to a specialised Board committee.

b) Information at the initiative of a key function manager.

Key function managers may inform the Board of Directors, directly and at their own initiative, when justified by the occurrence of certain events. They must do so immediately as soon as they encounter a major problem that falls within their purview. The key function manager must send a written report of the problem to the Chairman. The report must include a detailed explanation of the problem as well as all the elements required to understand it. The report must include recommendations for resolving the problem. The Chairman then communicates this report to the Board members.

Activity

The Board of Directors met nine times in 2016.

The average participation rate was 79.3%.

The main subjects reviewed by the Board of Directors in 2016 included the following in particular:

Financial position, cash and commitment of the Company	■ Approval of the 2015 annual financial statements (parent company and consolidated) ■ Review of quarterly and half-yearly financial statements
Internal control/Risks	■ 2016 audit plan ■ Solvency II: approval of the ORSA report, of the Risk appetite framework and the actuarial report, approval of written policies
Corporate governance	■ Termination of the duties of Jean-Marc Pillu and appointment of the new Chief Executive Officer, Xavier Durand ■ Self-assessment of the Board's work ■ Modification of the Audit Committee by-laws ■ Cooptation of two directors
Compensation	■ Conditions for the departure of Mr Jean-Marc Pillu, Chief Executive Officer ■ Directors' fees allocation principles ■ Compensation of the new Chief Executive Officer, Xavier Durand ■ Approval of the 2016 Long-Term Incentive Plan ■ Update of the compensation policy
Financial operations	■ Arrangement of a contingent equity line ■ Renewal of the share buyback programme ■ Final recording of the capital reduction by decreasing the par value ■ Transfer of the public guarantees management business line to Bpi ■ Negotiation of the rider to the management agreement with the French State for financial year 2016
Corporate strategy	■ Approval of the *Fit to Win* strategic plan

Self-assessment of the Board's work

For the second time, COFACE SA conducted an assessment of the work of its Board of Directors and its specialised committees, in accordance with the recommendations of the AFEP-MEDEF Corporate Governance Code for listed companies. Every three years, the assessment should be implemented with the assistance of an external consultant. A formal assessment will therefore be performed in 2017.

The assessment was carried out through a questionnaire, accompanied by meetings on a number of specific points.

The assessment mainly concerned:

- organisation, operation and composition of the Board;
- the relevance of the agenda and debates with important subjects for the Company;
- directors' relations with general management;
- assessment of the procedures of specialised committees;
- measurement of the Board's general performance.

Generally, the assessment is satisfactory or very satisfactory, especially with respect to the Board's performance (relationship of trust between the Board, the Chairman and the CEO; compliance with governance rules, etc.), the involvement of directors and the answers obtained to their questions.

The main ideas for improvement adopted for 2017 were as follows:

- directors' knowledge of the Charter of internal regulations and of the Company's business lines;
- time devoted to risk control and to major balance sheet items.

Training of directors

The Company has set up a training programme for new directors joining the Company. This training is provided over a half-day, with the main objectives of presenting the Group, its products strategy, its organisation and its commercial objectives, the main components of its balance sheet as well as key business indicators. In addition, the Company organised two training sessions for directors on the Solvency II Regulation.

◆ 2.4.1.2 Specialised committees, offshoots of the Board of Directors

Pursuant to Article 18 of the Company's Articles of Association, the Board of Directors may decide to form, with or without the participation of individuals who are not directors, committees or commissions to examine issues that itself or its Chairman refers for their assessment. These committees or commissions perform their duties under its responsibility.

Within this context, the Board of Directors has established an Audit Committee and an Appointments and Compensation Committee, whose composition, powers and rules of operation are described below.

Audit Committee

On the date of this report, the Audit Committee was composed of Mr Éric Hémar (Chairman), Ms Martine Odillard and Ms Sallé-Mongauze since November 3, 2016 (replacing Mr Pascal Marchetti).

Two thirds of the members of the Audit Committee are independent members of the Board of Directors. The recommendation of the AFEP-MEDEF Code, according to which this committee must have a majority of independent members, has thus been complied with.

Composition (Article 1 of the Audit Committee by-laws)

a. Members

The Audit Committee will be composed of three members having the necessary qualifications sufficient to exercise their functions effectively, in particular with competence in financial or accounting matters, appointed amongst the directors of the Company for the duration of their term as directors.

Two thirds of the Audit Committee will consist of independent members.

b. Chairman

The Chairman of the Audit Committee will be one of the members nominated by the Board of Directors amongst the independent members and for the duration of his/her term as a director.

The Chairman of the Audit Committee will exercise his/her functions in accordance with the by-laws of the Audit Committee.

The Chairman of the Audit Committee will set the dates, times and places of the meetings of the Audit Committee, establish the agenda and preside at its meetings. The convening notices for the meetings will be sent by the Audit Committee Secretary.

The Chairman of the Audit Committee will report to the Board of Directors on the opinions and recommendations expressed by the Audit Committee for the Board of Directors to consider.

The Chairman of the Audit Committee will ensure the monitoring of the preparation and due process of the work of the Audit Committee, between each of its meetings.

Duties (Article 3 of the Audit Committee by-laws)

The role of the Audit Committee is to ensure the monitoring of matters concerning the development and verification of accounting and financial information and to ensure the effectiveness of the monitoring of risks and internal operational control in order to facilitate the Board of Director's duties of control and verification.

In this connection, the Audit Committee will in particular exercise the following principal functions:

a. Monitoring of the preparation of financial information

The Audit Committee, must examine, prior to their presentation to the Board of Directors, the annual or half-year parent company and consolidated financial statements, to ensure the relevance and the consistency of the accounting methods used to prepare these financial statements. The Audit Committee will examine, where necessary, major transactions where a conflict of interest could exist.

The Audit Committee reviews in particular provisions and their adjustments and all situations that could create a significant risk for Coface, as well as all financial information or quarterly, half-year or annual reports on the Company's business, or produced as a result of a specific transaction (such as asset contribution, merger, or market transaction).

The examination of the financial statements should be accompanied by a presentation by the Statutory Auditors indicating the key points not only of the results of the statutory audit, but in particular the audit adjustments and significant weaknesses in the internal control identified during the conduct of the audit, but also the accounting methods used, as well as a presentation by the Chief Financial Officer describing the Company's risk exposure and its material off-balance sheet commitments.

b. Monitoring the effectiveness of the internal control systems, internal audit and risk management relating to financial and accounting information

The Audit Committee must ensure the relevance, reliability and implementation of the internal control procedures, identification, hedging and management of the Company's risks in relation to its activities and the accounting and financial information.

The Audit Committee should also examine the material risks and off-balance sheet commitments of the Company and its subsidiaries. The Audit Committee should in particular listen to the internal audit managers and regularly review business risk mapping. The Audit Committee should in addition give its opinion on the organisation of the service and be informed of its working schedule. It should receive the internal audit reports or a summary of such reports.

The Audit Committee is informed of any loopholes in the internal control system and of the corrective actions implemented to correct them. It is informed of the actual implementation of these corrective actions.

c. Monitoring of the legal control of the individual and consolidated financial statements by the Company's Statutory Auditors

The Audit Committee should have regular discussions with the Statutory Auditors during the Audit Committee meetings dealing with the review of the procedures for preparing financial information and the review of the financial statements in order to report on their performance and the conclusions of their work.

The Audit Committee should also monitor the Company's Statutory Auditors (including with and without the presence of the executives), in particular, their working schedule, potential difficulties encountered in the exercise of their duties, modifications which they believe should be made to the Company's financial statements or other accounting documents, irregularities, anomalies or accounting irregularities which they may have discovered, uncertainties and material risks relating to the preparation and treatment of accounting and financial information, and material weaknesses in internal control that they may have discovered.

d. Monitoring the independence of the Statutory Auditors and compliance with the professional code of conduct

The Audit Committee shall meet the Statutory Auditors at least once a year without the presence of

the executives. In this respect, the Audit Committee should also review, with the Statutory Auditors, the risks affecting their independence and the preventive measures taken to mitigate such risks. It must, in particular, ensure that the amount of the fees paid by the Company and the Group, or the share of such fees in the revenues of the firms and networks, would not impair the independence of the Statutory Auditors.

On this occasion, the Statutory Auditors shall also present to the Audit Committee a report on the compliance with their obligations regarding the professional code of conduct for Statutory Auditors and with professional auditing standards.

To this end, the Audit Committee should in particular, ask to receive each year:

- the Statutory Auditors' statement of independence;
- the amount of the fees paid to the network of Statutory Auditors by the companies controlled by the Company or the entity controlling the Company in respect of services that are not directly related to the Statutory Auditors' mission; and
- information concerning the benefits received for services directly related to the Statutory Auditors' mission.

e. Selection and renewal of the Statutory Auditors

The Audit Committee must oversee the selection and renewal of the Statutory Auditors, and must submit the result of this selection to the Board of Directors. Upon expiration of the term of the Statutory Auditors, the selection or the renewal of the Statutory Auditors may be preceded, upon proposal of the Audit Committee and decision of the Board of Directors, by a call for tenders supervised by the Audit Committee that will approve the specifications and choice of firms consulted, and ensure the selection of the "best bidder" and not the "lowest bidder".

The Audit Committee reports regularly on the exercise of their duties to the Board of Directors and informs it without delay of any difficulties encountered.

Operation (Article 2 of the Audit Committee by-laws)

a. Frequency of meetings and procedures for convening meetings

The Audit Committee will be convened whenever necessary and at least four times a year. The Audit Committee will in particular meet prior to each Board meeting if the agenda consists of the examination of a matter related to their assignment and sufficiently in advance prior to any Board meeting for which it prepares the resolutions.

- Ordinary convening of meeting:

  The Audit Committee meets upon a written convening notice issued by its Secretary and sent to each of the members. The Chairman of the Company's Board of Directors may, as necessary, refer a matter to the Chairman of the Audit Committee and ask him to meet with said committee to discuss a specific agenda.

- Extraordinary convening of meeting:

  Two members of the Audit Committee may ask its Chairman to convene a meeting of the committee to discuss a certain agenda or to add one or more points to the agenda in accordance with the limits and powers of said committee. In the event that the Chairman of the Audit Committee does not grant this request within a period of 15 days, the two members may convene the Audit Committee and set the agenda thereof.

  The Company's Statutory Auditors may, if they consider there is an event which exposes the Company or its subsidiaries to a significant risk, ask the Chairman of the Audit Committee to convene a meeting of said committee.

- Form and timing of the convening of meeting:

  The convening notice of the Audit Committee is sent to the members of the Audit Committee with reasonable prior notice, and contains the detailed agenda for the meeting. The information allowing the members of the Audit Committee to issue informed advice during this meeting is sent to the members of said committee, to the extent possible, within a sufficient period prior to the meeting.

  In the event of urgency, the Audit Committee may be convened at any time by its Chairman, acting within the context of an exceptional procedure. In this case, the Audit Committee meeting does not need to comply with the time limits for the above convening notice insofar as the urgency declared in the convening notice and the information allowing the members of the Audit Committee to issue informed advice has been sent prior to the meeting.

b. Attendance at Audit Committee meetings

If any member is prevented from attending an Audit Committee meeting, such member may participate by telephone or video conference.

Only the members of the Audit Committee, as well as the Secretary of the Audit Committee, have the right to attend the Audit Committee meetings.

At the Chairman's proposal, the Audit Committee may invite any executive of the Company (including an executive of any of the principal subsidiaries), as well as the Statutory Auditors of the Company to attend any of its meetings, capable of having a bearing upon the work of the Audit Committee.

c. Quorum and majority rule

The Audit Committee may not validly express its opinions and recommendations unless at least half of its members (including the Chairman) are present.

No member of the Audit Committee may represent another member.

The opinions and recommendations of the Audit Committee will be adopted if the Chairman and the majority of members present at the meeting vote in favour of such opinions and recommendations.

d. Secretariat and minutes of meetings

The Secretary of the Company's Board of Directors will be responsible for the secretariat of the Audit Committee.

The opinions and recommendations of the Audit Committee will be written in a report, one copy of which will be addressed to all members of the Audit Committee and another, if required, by the Chairman to the executives of the Company.

Activity of the Audit Committee

The Audit Committee met five times in 2016. The average participation rate was 90%.

The main work notably addressed:

- approval of the annual financial statements for the year 2015;
- examination of the quarterly and half-yearly financial statements for the year 2016;
- examination and approval of the 2016 audit plan;
- examination of the main off-balance sheet commitments;
- Solvency II Directive: approval of the ORSA report, the Risk appetite framework, the actuarial report and written policies;
- modification of the Audit Committee by-laws;
- reinsurance structure.

The Appointments and Compensation Committee:

The principle of an Appointments and Compensation Committee was decided by the Board of Directors during its meeting of July 15, 2014. Since that date, and at the date of this report, the Appointments and Compensation Committee consists of Mr Olivier Zarrouati (Chairman), Ms Sharon MacBeath and Mr Laurent Mignon.

The Appointments and Compensation Committee is chaired by an independent director and two thirds of it consists of independent members of the Board of Directors. The recommendation of the AFEP-MEDEF Code, according to which this committee must have a majority of independent members, has thus been respected.

Composition (Article 1 of the Appointments and Compensation Committee by-laws)

a. Members

The Appointments and Compensation Committee will be composed of three members appointed from among the members of the Company's Board of Directors for the duration of their term as director.

The Appointments and Compensation Committee shall have a majority of independent members of the Board of Directors who are competent to analyze compensation-related policies and practices.

b. Chairman

The Chairman of the Appointments and Compensation Committee will be one of the members of the Appointments and Compensation Committee nominated by the Company's Board of Directors from among the independent members for the duration of his/her term of appointment as director.

The Chairman of the Appointments and Compensation Committee will convene the meetings of the Appointments and Compensation Committee, determine the agenda and chair the meetings.

The Chairman will (i) report to the Board of Directors on the proposals and recommendations put forward by the Appointments and Compensation Committee in order for the Board of Directors to consider and (ii) ensure the continuity of the preparation and due process of the work of the Appointments and Compensation Committee, between each of its meetings.

Powers (Article 3 of the Appointments and Compensation Committee by-laws)

a. Duties of the Appointments and Compensation Committee

In all matters relating to the appointment of executives (and separate from any difficulty related to their compensation), the Chief Executive Officer (CEO) will be involved in the work of the Appointments and Compensation Committee.

The Appointments and Compensation Committee shall prepare the resolutions of the Company's Board of Directors on the following topics:

(i) Compensation conditions

The Appointments and Compensation Committee is responsible for formulating proposals for the Company's Board of Directors concerning:

- the level and terms of compensation of the Chief Executive Officer (CEO), and, as the case may be, the Deputy CEO, including benefits in kind, retirement plans and pension contributions, as well as the potential grants of stock options;
- the rules for the distribution of directors' attendance fees to be allocated to the Company's directors and the total amount to be submitted to the approval of the Company's shareholders; and
- compensation policy.

(ii) Conditions for appointment

The Appointments and Compensation Committee:

- makes proposals to the Board of Directors regarding the appointment of members of the Board of Directors and of the members of the General Management;
- establishes and keeps an up-to-date succession plan for the key executives of the Company and the Group;
- issues proposals to the Board of Directors regarding the appointment of directors by the Annual Ordinary Shareholders' Meeting.

In its specific function of appointing members of the Board of Directors, the Appointments and Compensation Committee shall take the following criteria into account: (i) the desired balance in the composition of the Board of Directors with regard to the composition and evolutions of the Company's ownership; (ii) the desired number of independent Board members; (iii) the proportion of men and women required by current regulations; (iv) the opportunity to renew terms; and (v) the integrity, competence, experience and independence of each candidate. The Appointments and Compensation Committee must

establish a procedure for selecting future independent members and undertake its own evaluation of potential candidates before the latter are approached in any way.

The qualification of an independent member of the Board of Directors is discussed by the Appointments and Compensation Committee, which drafts a report on this subject for the Board. Each year, the Board of Directors will review, in the light of this report, prior to the publication of the annual report of directors, the situation of each of the directors with regard to the criteria of independence as defined by the Charter of internal regulations of the Board of Directors.

b. Resources and prerogatives of the Appointments and Compensation Committee

The Appointments and Compensation Committee leave at his disposal and upon the request of the Chief Executive Officer (CEO) all documents and information required for the completion of their tasks. It may, moreover, upon request of the Company's Board of Directors, order any study or analysis by experts outside of the Company relating to the compensation conditions of corporate officers from comparable companies in the banking sector.

Operations (Article 2 of the Appointments and Compensation Committee by-laws)

a. Frequency of meetings and procedures for convening meetings

The Appointments and Compensation Committee will be convened whenever necessary and at least once a year. The Appointments and Compensation Committee will in particular meet prior to each Board meeting if the agenda consists of the examination of a matter related to their assignment and sufficiently in advance prior to any Board meeting for which it prepares the resolutions.

- Ordinary convening of meeting:

  The Appointments and Compensation Committee meets upon a written convening notice issued by its Chairman and sent to each of the members. The convening notice for the meetings will be sent by the Appointments and Compensation Committee Secretary. The Chairman of the Company's Board of Directors may, as necessary, refer a matter to the Chairman of the Appointments and Compensation Committee and ask him to meet with said committee to discuss a specific agenda.

- Extraordinary convening of meeting:

  Two members of the Appointments and Compensation Committee may ask its Chairman to convene a meeting of the committee to discuss a certain agenda or to add one or more points to the agenda in accordance with the limits and powers of said committee. In the event that the Chairman of the Appointments and Compensation Committee does not grant this request within a period of 15 days, the two members may convene the Appointments and Compensation Committee and set the agenda thereof.

- Form and timing of the convening of meeting:

  The convening notice of the Appointments and Compensation Committee is sent to the members of the Appointments and Compensation Committee with reasonable prior notice, and contains the detailed agenda for the meeting. The information allowing the members of the Appointments and Compensation Committee to issue informed advice during this meeting is sent to the members of said committee, to the extent possible, within a sufficient period prior to the meeting.

In the event of urgency, the Appointments and Compensation Committee may be convened at any time by its Chairman, acting within the context of an exceptional procedure. In this case, the Appointments and Compensation Committee meeting does not need to comply with the time limits for the above convening notice insofar as the urgency declared in the convening notice and the information allowing the members of the Appointments and Compensation Committee to issue informed advice has been sent prior to the meeting.

b. Attendance at meetings of the Appointments and Compensation Committee

Only members of the Appointments and Compensation Committee may, as a matter of right, attend said committee's meetings. The Secretary of the Appointments and Compensation Committee also participates in these meetings.

If any member is unable to attend a meeting of the Appointments and Compensation Committee, he or she may participate in it by phone or video conference.

c. Quorum and majority rule

The Appointments and Compensation Committee cannot validly express its opinions and proposals unless half of its members (including the Chairman) are present.

No member of the Appointments and Compensation Committee may represent another member.

The opinions and proposals of the Appointments and Compensation Committee will be adopted if the majority of the members present, including the Chairman, vote in favour of adopting them.

d. Secretariat and minutes of meetings

The Secretary of the Company's Board of Directors is responsible for the secretariat of the Appointments and Compensation Committee.

The opinions and proposals of the Appointments and Compensation Committee will be noted in a minute, a copy of which will be addressed to all the members of the Appointments and Compensation Committee and, if necessary, to the directors of the Company.

Duties of the Appointments and Compensation Committee

The committee met three times in 2016. The average participation rate was 100%.

It examined and/or set:

- the components of the Chief Executive Officer's compensation, in particular the financial and qualitative objectives set for 2016;
- the components of a Long-Term Incentive Plan established for the Chief Executive Officer and certain employees, and in particular the performance conditions underlying the vesting of shares;
- the compensation policy, especially in light of the Solvency II Regulation;
- strengthening top management; and
- the cooptation of two new directors to the Board of Directors.

2.4.1.3 Limitations to the powers of the general management

The Board of Directors has established specific procedures in its Charter which are aimed at guiding the powers of the Company's general management.

Pursuant to the terms of Article 1.2 of the Board of Directors' Charter, the following are subject to the prior authorisation from said Board, ruling by a simple majority of the members present or represented:

- extension of the activities of the Company to significant businesses not performed by the Company; and
- any interest, investment, disposal or any establishment of a joint venture carried out by the Company or one of its significant subsidiaries, for a total amount that is greater than €100 million.

2.4.1.4 Code of corporate governance

The Company voluntarily refers to all recommendations of the Corporate Governance Code for listed companies of the AFEP and MEDEF (the "AFEP-MEDEF Code" [(1)]). The Company has on-going access to copies of the AFEP-MEDEF Code for the members of its corporate bodies.

Within the context of the rule to "apply or explain" provided for by Article L.225-37 of the French Commercial Code, and by Article 27.1 of the AFEP-MEDEF Code, the Company believes that its practices conform to the recommendations of the AFEP-MEDEF Code. However, on the date of publication of the registration document, certain recommendations are not applied, for the reasons presented in the following table:

The Board of Directors' rules must specify that any significant operation not covered by the Company's announced strategy must receive the prior approval of the Board (Article 3.2).	The wording of the Board of Directors' Charter of internal regulations although slightly different, results in a comparable outcome. It provides that the following are subject to the prior authorisation from the Board of Directors, ruling by a simple majority of the members present or represented: extension of the activities of the Company to significant businesses not performed by the Company; and any interest, investment, disposal or any establishment of a joint venture carried out by the Company or one of its significant subsidiaries, for a total amount that is greater than €100 million.
The Compensation Committee must not contain any managing corporate officer (Article 17.1).	The Chairman of the Board of Directors is a member of the Compensation Committee. The Chairman of the Board of Directors has no executive role. Furthermore, there is no risk of a conflict of interest, to the extent that the role of Chairman is not compensated, and that Mr Laurent Mignon does not collect directors' fees either as Chairman or as a member of the Compensation Committee.
The Board of Directors must periodically set a minimum quantity of shares that must be retained by the Chairman of the Board and the Chief Executive Officer in registered form, until the end of his duties (Article 22).	The Articles of Association set the number of shares that must be held by any director The LTIP plans set the number of shares that must be held by the Chief Executive Officer until the end of his duties.

2.4.1.5 Terms of participation at the Shareholders' Meeting

The conditions for shareholder participation at the Annual Shareholders' Meetings are governed by Article 23 of the Company's Articles of Association, and by the current regulations (see Section 7.1.5.5).

2.4.1.6 Factors that may have an impact in the event of a public offer

These factors are published in Section 7.4 "Factors that may have an impact in the event of a public offer".

(1) *This code may be consulted on the website www.afep.com.*

2.4.1.7 Rules for determining the compensation of corporate officers

The compensation policy for the Company's corporate officers was adapted to the standard practices of listed companies.

a. Members of the Board of Directors

The amount allocated to the Board of Directors is €400,000 for 2016.

The rules on distribution of directors' fees are as follows:

- for members of the Board of Directors:
  - fixed portion: €8,000 per year (*prorata temporis* of the term of mandate),
  - variable portion: €2,000 per meeting, capped at six meetings;
- for members of the Audit Committee:
  - Chairman
    - fixed portion: €17,000 per year (*prorata temporis* of the term of mandate),
    - variable portion: €2,000 per meeting, capped at six meetings;
  - Members of the Audit Committee
    - fixed portion: €5,000 per year (*prorata temporis* of the term of mandate),
    - variable portion: €1,000 per meeting, capped at six meetings;
- for members of the Appointments and Compensation Committee:
  - Chairman
    - fixed portion: €8,000 per year (*prorata temporis* of the term of mandate),
    - variable portion: €2,000 per meeting, capped at five meetings;
  - Members of the Appointments and Compensation Committee
    - fixed portion: €3,000 per year (*prorata temporis* of the term of mandate),
    - variable portion: €1,000 per meeting, capped at five meetings.

2016 – MAXIMUM GROSS AMOUNTS OF DIRECTORS' FEES

ON AN ANNUAL BASIS OF NINE BOARD MEETINGS; FIVE AUDIT COMMITTEES: THREE APPOINTMENTS AND COMPENSATION COMMITTEES	AMOUNT OF DIRECTORS' FEES	FIXED PORTION: %	VARIABLE PORTION AS A %
Member of the Board of Directors	€20,000	40	60
Member of the Board of Directors + Chairman of the Audit Committee	€47,000	53.2	46.8
Member of the Board of Directors + member of the Audit Committee	€30,000	43.3	56.7
Member of the Board of Directors + Chairman of the Appointments and Compensation Committee	€34,000	47	53
Member of the Board of Directors + member of the Appointments and Compensation Committee	€26,000	42.3	57.7

b. Chief Executive Officer (CEO)

At the start of each year, the Board of Directors, at the proposal of the Appointments and Compensation Committee, sets the various components of the Chief Executive Officer's (CEO) compensation. This includes a fixed and a variable portion, based on a certain number of objectives which are determined on an annual basis. Pursuant to the principles established in the Solvency II Directive, the variable compensation includes a deferred compensation component, according to the terms set by the Board of Directors (see Section 2.2.3).

2.4.2 RISK MANAGEMENT PROCEDURES AND INTERNAL CONTROL

COFACE SA, as a listed company, has decided to rely on the AMF reference framework with regard to risk management and internal control mechanisms, in addition to legislative and regulatory provisions of the French Insurance Code *(Code des assurances)*. Lastly, since January 1, 2016, the Group is subject to the European Solvency II Directive and to its regulations.

This report presents an overall vision and is not supposed to be a detailed description of all the internal control procedures and mechanisms deployed inside the Group and its subsidiaries. This information is accurate as of the publication date and in the Group's current state of knowledge.

Within the framework of the Group's activity, the risk taking translates the search for business opportunities and the will to develop the Company in an environment intrinsically submitted to possible unexpected events. The essential goal of the risk management function is to identify the risks facing the Group and to set up an effective internal control system to create value.

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

The Group defines the internal control system as a set of mechanisms intended to ensure control of its development, profitability, risks and business operations. These mechanisms seek to ensure that i) risks of any kind are identified, assessed and controlled; ii) operations and behaviours are in accordance with the decisions made by the corporate bodies, and comply with the laws, regulations, values and internal

rules of the Group; as concerns more specifically financial information and management, they aim to ensure that they accurately reflect the Group's position and business; and that iii) these operations are carried out with a concern for effectiveness and efficient use of resources.

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

2.4.2.1 Structure of the mechanism

The internal control and risk management mechanism consists of:

- a governance structure, designed to allow supervision and appropriate management of the Group's activities; and,
- management structures and control mechanisms, designed to allow the Group's managers to separately apprehend the main risks facing the Group and to have the right tools for analyzing and preventing them.

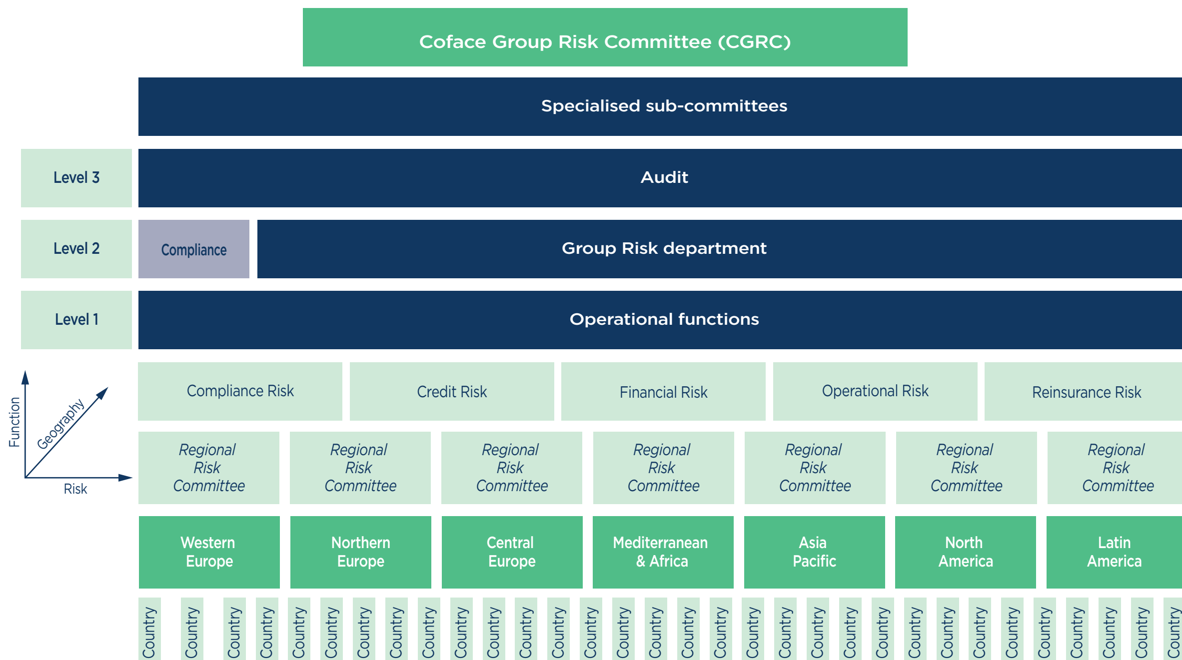
2.4.2.1.1 Governance structure

Coface Group has implemented a risk management and control system which revolves around a clear governance supported by a dedicated organisation based on key functions (see Section 2.4.2.2.2). It has developed its governance by relying on the Board of Directors and its specialised committees (see Section 2.4.1) and on the three general management specialised committees (see Section 1.7 and 2.1.2) which define the Group's strategy, the risk appetite limits and indicators and their control, review and approve policies, identify, measure and manage identified risks (see Section 2.4.2.2.1).

Governance revolves around level one operational committees and level two control committees. The Coface Group Risk Committee (CGRC) is the second level backbone which relies on specialised sub-committees covering different risk scopes or categories as described by the diagram below.

2

RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM PLAYERS AND SCOPE OF RESPONSIBILITY



In 2016, the regional Risk Committees of Coface's seven global regions were strengthened. They meet every quarter, are chaired by the regional risk manager and fulfil the same missions as the CGRC.

2.4.2.1.2 Management structures and control mechanisms

The management structures and control mechanisms are based on the CGRC. The committee meets at least every quarter and is presided over by the Chief Executive Officer (CEO) (see Section 1.7); the members of the Group Management Board – the strategic and operational control Board of the Group –, the Group Risk Director, the Group Corporate Secretary, the Group Compliance Director, as do, where applicable, the representatives of the operational or functional departments concerned, who are likewise represented according to the matters at hand.

The CGRC is tasked with:

- setting the risk policies;
- monitoring the Company's risk exposure;
- measuring the efficacy of the risk management mechanisms;
- validating and defining the audit and control plans;
- verifying the Company's capacity to confront crises (business continuity plan, solvency); and
- ensuring compliance of processes and organisation.

In 2016, specific sessions were organised to review the Group's risk mapping, by involving each Group entity, regional directors and the regional risk managers.

2.4.2.2 Risk management system

The Group's risk management system seeks to ensure the proper functioning of all of the Company's activities and processes, by controlling and monitoring identified risks. This system is based on the CGRC, described in Section 2.4.2.1.2.

2.4.2.2.1 Identification of risks

The Group has identified five main types of risks: strategic risks, credit risks, financial risks, operational and non-compliance risks and lastly reinsurance risks.

2.4.2.2.1.1 STRATEGIC RISKS

Strategic risk stems from Coface businesses and business lines worldwide. It can be defined as the risk affecting our results and our solvency due to changes in market conditions, poor strategic decisions or poor application of these decisions aimed at addressing the changes to market conditions.

Changes to market conditions may, for example, be linked to regulatory or prudential developments or to the brokerage model implemented within Coface.

2.4.2.2.1.2 CREDIT RISKS

Credit risk is defined as the risk of loss, owing to non-payment by a debtor, of a receivable owed to Coface or insured by Coface.

The credit risk may be aggravated due to the concentration of our exposures (countries, sectors, debtors, etc.) and is modelled as a premium risk, reserve risk and catastrophe risk.

As part of our factoring business lines, the risk of dilution will be handled as an operational risk.

2.4.2.2.1.3 FINANCIAL RISKS

Financial risks cover all risks linked to the management of assets and liabilities. They include: interest rate risk, foreign exchange risk, liquidity risk, real estate risk, spread risk, equity risk and counterparty risk:

- interest rate risk materialises due to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the interest rate curve or the volatility of interest rates;
- foreign exchange risk materialises due to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or the volatility of exchange rates;
- liquidity risk materialises through the impossibility of dealing with contract or contingent payment obligations;
- equity risk materialises due to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or the volatility of the value of equity markets;
- real estate risk materialises due to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or the volatility of the value of real estate markets;
- spread risk materialises due to the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or the volatility of credit spreads with respect to the curve of risk-free interest rates;
- counterparty risk materialises through the unexpected default, or credit quality deterioration, of the Company's counterparties and debtors.

2.4.2.2.1.4 OPERATIONAL AND NON-COMPLIANCE RISKS

Operational risk is a risk of losses due to an inadequacy or to a default that is attributable to procedures and people in all areas of business, to the internal systems or to outside events, including the risks of internal and external fraud.

Operational risk also includes the notion of legal risk, including the risk of a dependency situation. The Coface Group does not consider its business or profitability to be dependent on any trademarks, patents or licenses. Indeed, within the context of its activity selling credit insurance solutions and additional services, the Group does not hold any patent. The name Coface is protected by a filed trademark, notably in France. Lastly, the Group has filed a certain number of trademarks, logos and domain names worldwide within the context of its business.

Non-compliance risk is an operational risk, in the same way as model risk and dilution risk:

- non-compliance risk is defined as the risk of judicial, administrative or disciplinary sanctions, a significant financial loss or impact on reputation, which arises out of a failure to comply with the specific provisions on insurance, sale of information, debt collection, or factoring business lines, whether they are legislative or regulatory in nature, or concern professional and ethical standards, or instructions from the executive body. The main areas of non-compliance are: legislations on the fight against financial delinquency (anti-money laundering or terrorism financing legislation), personal data protection, the professional rules of ethics and the regulation applicable to the insurance business;
- model risk is defined as a risk on a result arising from unsuitable or poorly-used models, owing to poor design, poor monitoring or poor use;
- dilution risk is included in operational risks for the factoring business (resulting in particular from disputes or falsified invoices). This risk consists of all of the causes that render invoices technically valueless, regardless of the debtor solvency: disputes, compensations, prepaid invoices, double cession for example.

2.4.2.2.1.5 REINSURANCE RISK

Considering its risk appetite, COFACE is reinsured against potential extreme risks.

Reinsurance generates four types of risks:

- residual insurance risk that may stem from discrepancies between the reinsurance needs and the actual cover specified in the treaty;
- the counterparty risk resulting from the incapacity or potential refusal of the reinsurer, or a stakeholder to the treaty, to meet its obligations to the ceding insurer;
- the liquidity risk arising from the possible time period between the payment of the benefit by the insurer to its insured and the receipt of the reinsurance benefit;
- operational risk linked to the execution of the treaty.

2.4.2.2.2 Organisation of risk management

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

The Solvency II Regulation grants the Chief Executive Officer (CEO) and the Deputy CEO if existing, the status of effective directors of a Group. It authorises the appointment by the Board of Directors of one or several other effective directors. It also defines the following four key functions:

- the risk management function, which consists of defining the risk policies and monitoring their application, validating the risk indicators and monitoring them, assessing the pertinence and efficacy of the internal control system, tracking the business continuity plan, collecting the incidents and losses and updating the risk mapping. This function is assumed by the Group Risk Director;
- the compliance function is tasked with verifying the risk of non-compliance, defined in Section 2.4.2.2.1.4. It is performed by the Compliance Department, which became an independent department of the Legal Department in 2016. The Group Compliance Department regularly informs the Coface Group's management bodies of the status of the risk of non-compliance; quarterly, within the context of the CGRC, and occasionally, directly to the Coface Group's general management in case of major incidents;
- the internal audit function, which is particularly in charge of assessing the adequacy and efficacy of the Group's internal control system and the other elements of the Group's governance system. This function is exercised objectively and independently of operational functions by the Group Audit Director; and
- the actuarial function, which is specifically in charge of coordinating the calculation of technical provisions and the methodology used, evaluating the quality of the data used in the calculation and comparing the best estimates to reality, informing the Board of Directors of the reliability and appropriateness of the calculation of technical provisions, issuing an opinion on the provisions linked to reinsurance and on the comprehensive subscription policy, modelling the risks linked to the calculation of capital requirements and contributing to the internal assessment of risks and solvency. This function is assumed by the Group Actuarial Director.

Each key function is under the authority of the Chief Executive Officer or the effective manager and operates under the ultimate responsibility of the Board of Directors. It has direct access to the Board for reporting any major problem in their area of responsibility. This right is enshrined in the internal rules of the Board of Directors.

The professional qualifications, knowledge and experience of persons with key functions should be adequate to enable sound and prudent management, and they must be of good repute and integrity (see Section 2.1.1.4 "Fitness and probity policy").

Key functions are free of influences that may compromise their capacity to carry out the tasks assigned to them in an objective, loyal and independent manner. In 2016, the actuarial function was separated from the risk management function, with these two functions reporting directly to an effective director.

In December 2016, in order to strengthen the control sectors, it was decided that regional managers of audit, risk and compliance functions would report to managers in charge of these functions at Group level. Similarly, subject to compliance with local regulations, the same chain of command is established between managers at regional level and those at country level.

2.4.2.2.2.1 RISK MANAGEMENT FUNCTION

The risk management function is designed to cover all of the Group's risks and consists in defining risk policies and monitoring their application, assessing the pertinence and efficacy of the internal control system, tracking the business continuity plan, collecting the incidents and losses and updating the risk mapping.

The risk management function:

- implements and monitors the risk management system;
- monitors the Group's overall risk profile, identifies and assesses emerging risks;
- reports on risk exposures and advises the Board of Directors on risk management issues;
- defines and monitors the Group's appetite [(1)] towards these risks: risk appetite takes five dimensions into account through 14 indicators.

(1) *Risk appetite represents the risk levels which the Group wants and can accept, with the purpose of reaching its strategic objectives and achieving its business plan.*

The risk management function is in charge of rolling out and coordinating Solvency II at the Group level. It reports on its activity to the CGRC which meets every quarter. It cooperates closely with the actuarial function, which is in charge of tests, documentary monitoring and the analysis of the performances of the partial internal model. It communicates the results of the model with users and informs the Board of Directors on the improvements to be made.

The Group's Risk Department leads a network of seven regional risk managers for each region. The latter are in charge of leading a network of correspondents in the countries within their geographic scope. These correspondents are in charge of performing the centrally established level two controls at the local level, verifying compliance with Group rules and monitoring the progress of the action plans decided upon.

Pursuant to regulations, the risk policies are reviewed annually by the Group Risk Department, and then approved by the Board of Directors. These policies are then communicated to all the Group's entities, contributing to forging a common culture of risk.

2.4.2.2.2.2 COMPLIANCE FUNCTION

The compliance function consists of verifying compliance of the operations with the rules and of ensuring the control of operational activities. The function is performed by the Group Compliance Department, which reports to the General Secretariat.

The compliance function is particularly in charge of implementing procedures ensuring that the Company complies at all times with the legislation applicable to it and of checking the effective application. In this respect, it ensures that level 1 controls are effectively implemented by business lines, it defines and performs level 2 controls and issues recommendations on how to correct any shortcomings identified during such controls. It provides advice on all issues relating to the legislative, regulatory and administration provisions related to access to insurance activities and their conduct.

2.4.2.2.2.3 INTERNAL AUDIT FUNCTION

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

Since 2016, the structure of the internal audit function is based on hierarchical attachment to the Group Director of Audit.

An internal audit policy defines the purview of the function. The key objectives of the function include evaluating, according to the scope of each mission, all or a selection of the points below, and reporting on them:

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

The missions are defined in an audit plan approved by the Board of Directors and cover the entire Group scope over a limited number of financial years. An audit mission ends with a written report and recommendations which are under the oversight of the audit function.

The independence of the audit function is inherent in its mission. There should be no interference in the definition of its field of action, in the fulfilment of its proceedings or in the disclosure of the results of those proceedings.

The Group Director of Audit has total leeway to approach the Chairman of the Audit Committee and has free access to the Audit Committee. If necessary, and after consulting the Chief Executive Officer and/or the Chairman of the Audit Committee, the Group Director of Audit may inform the ACPR of any breach that he might notice.

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

2.4.2.2.2.4 ACTUARIAL FUNCTION

The actuarial function is performed by the Director of the Actuarial Department, who reports to the Chief Financial Officer since July 1st, 2016. Its mission is to advise the executive management or the supervisory body and to support its efforts to ensure the solvency and profitability of the Group over the long term and to ensure compliance with the requirements of Solvency II including on reserving. To fulfil its mission, the actuarial function has direct access to Board meetings.

The actuarial function is the contact of numerous Group departments (Finance, Information, Commercial or Debt Collection), entities of the Group on actuarial subjects, and informs the Board of Directors on the adequacy of the calculation of technical provisions.

The actuarial function:

- coordinates the calculation of technical provisions and the methodology used, evaluates the quality of the data used in the calculation and compares the best estimates to reality;
- informs the Board of Directors of the reliability and appropriateness of the calculation of technical provisions;
- issues an opinion on the provisions linked to reinsurance and on the comprehensive subscription policy;
- models the risks linked to the calculation of capital requirements;
- issues once a year, an actuarial report on the work that it conducts;
- reviews DRA ratings and the price-setting model;
- contributes to the internal assessment of risks and solvency.

The actuarial function works in the following committees in particular: CGRC, DRA Provisioning Committee, New Products Committee, Economic Anticipations Committee and Pricing Committee.

2.4.2.2.3 Risk measuring: quantitative and qualitative annexes

For each of the five major types of risk mentioned in Section 2.4.2.2.1, Coface has developed risk metrics, used to assess the risks and to determine the appropriate resources for controlling them.

2.4.2.2.3.1 MEASURING STRATEGIC RISK

Strategic risk is the risk that the strategic plan defined by the Group might be inefficient, not properly implemented or not suitable for changes in the economic and commercial environment.

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

2.4.2.2.3.2 MEASURING CREDIT RISK

Credit risk may be aggravated due to the concentration of our exposures (countries, sectors, debtors, etc.) and is modelled as a premium risk, reserve risk and disaster risk. Classically, there is a distinction between frequency risk and peak risk:

- frequency risk represents the risk of a sudden and significant increase in outstanding payments for a multitude of debtors;
- peak risk represents the risk of abnormally high losses being recorded for a single debtor or Group of debtors, or of an accumulation of losses for a given country.

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

Control and follow-up of products

- Approval of new products: the Group relies on a Group Product Committee to ensure that the product offer is consistent with the business strategy. It validates the introduction of new products into the portfolio and oversees the product offer in each region. It combines the marketing, sales, organisation, compliance, actuarial risk, and any other function according to the projects. In addition, the marketing of new products is examined and approved in compliance with the applicable regulatory procedure. In this case, the committee sits with a specific composition of members, linking the managers of different risk categories. It produces minutes attesting to its decision.
- Validation of product developments: any product development, whether in terms of the policy, pricing method, retail method, target (insured, country), must be conveyed to the Group's Marketing Department and to the Group Compliance Department.
- Sales delegations: in order to ensure the profitability of the policies, the contractual parameters thereof that have a strong influence on the policy's performance or on risk management are covered by a delegation system with eight levels of responsibility.
- Pricing: the Group uses a common pricing tool (PEPS – see Section 1.5.1.2), allowing its users to create pricing projects with the help of simulation tools and to formulate pricing proposals that are consistent with the Group's profitability objectives.

Centralised credit risk management

Frequency and peak risks are tracked locally and regionally, and are likewise centralised and analysed by the head office.

Frequency risk is covered by technical provisions which are established using a statistical loss experience, which simulates the loss ratios using the developments observed and current loss experience data. This risk is measured for each region and country by tracking the instantaneous loss ratio (1) and the monthly indicator which determines changes in domestic/export credit by DRA and activity sector (see Section 1.5.1.3), by acceptance rate in the DRA scale, or by product line (bond, Single Risk). With respect to the monitoring of exposures and portfolios, the Group has developed a more refined management of its risks through 38 sectors and five country risk levels (150 risk levels in total). Therefore, outstanding payments are analysed weekly by the Group Risk Underwriting Committee, and monthly by the Group Committee. The loss ratios of the various underwriting regions are likewise tracked at the consolidated level of the underwriting.

Peak risk is covered by Coface Ré reinsurance (see Section 2.4.2.2.3.5 "Measuring reinsurance risk – Sharing of intra-group and reinsurance risks"). In addition to the weekly and monthly monitoring by each region and country, a mechanism is established at the Group level, which relies on:

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

Diversification of the credit risk portfolio

The Group maintains a diversified credit risk portfolio, to minimise the risks of debtor default, the slowdown of a specific business sector, or an unfavourable event in a given country, such that the impact is not disproportionate for the Group's total loss experience. The insurance policies furthermore include clauses to modify the contractual limits on outstanding amounts.

Debtor risk exposure

The Group insures the risk of payment defaults for nearly 2.71 million debtors worldwide. As of December 31, 2016, the average debtor risk was nearly €181.7 thousand. More than 80% of the debtors covered by credit insurance policies are located in OECD countries, primarily in Europe, notably in Germany, France, Italy and the United Kingdom, and the United States.

The great majority of debtors, considered individually, constitute an insignificant risk with regard to the Group's total portfolio, since no debtor represents more than 1% of the Group's outstandings.

The total outstanding covered by the Group was €492.6 billion, up by more than €17 billion against a background of increasingly high sensitivity of emerging countries and of specific sectors such as construction, metallurgy and the oil sector. The risks selectivity level was strengthened for a finer granularity.

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

The charts below analyse the debtor distribution [(1)] as of December 31, 2014, 2015 and 2016 as a function of the outstanding amounts of cumulative credit risk outstanding [(2)] carried by the Group for them. The analysis of the number of debtors by segment of outstandings demonstrates a weak risk concentration profile.

SEGMENTS OF OUTSTANDING TOTAL DEBTOR	OUTSTANDINGS (IN €M)		
	2016	2015	2014
€1 - €100 thousand	39,581	39,169	39,985
€101 - €200 thousand	25,404	24,714	24,578
€201 - €400 thousand	34,833	33,836	33,727
€401 - €800 thousand	44,100	42,771	43,282
€801 - €1,500 thousand	45,778	43,894	45,696
€1,500 - €5 million	94,959	93,341	97,953
€5 million - €50 million	149,443	144,363	159,713
€50 million - €200 million	37,374	35,974	42,078
€200 million and more	21,185	17,358	21,025
TOTAL	**492,657**	**475,419**	**508,037**

Geographical distribution of risks

The debtors covered by the Group's credit insurance policies are essentially located in Western Europe. The Group is taking into account the consequences of Brexit, in particular the negotiation of the trade agreement between the UK and the European Union, and is adjusting its risk monitoring accordingly.

As of December 31, 2014, 2015 and 2016, the 10 most important countries represented respectively 63.0%, 64.2% and 64.3% of the Group's total exposure (€492,657 million), arising from its credit insurance activities:

AS OF DECEMBER 31, 2016 [(3)]

(*) Belgium (1.9%) leaves and China (2.1%) returns.

AS OF DECEMBER 31, 2015

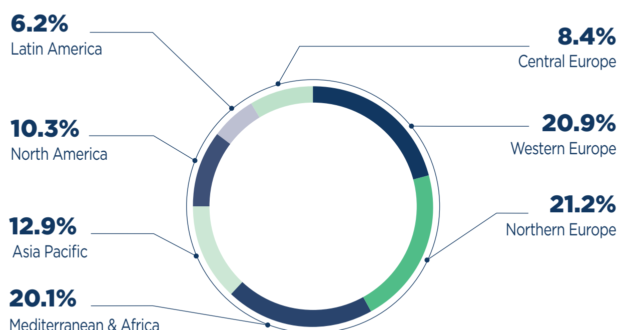
(*) Brasil (1.4%) and China (1.9%) leave [(4)].

AS OF DECEMBER 31, 2014

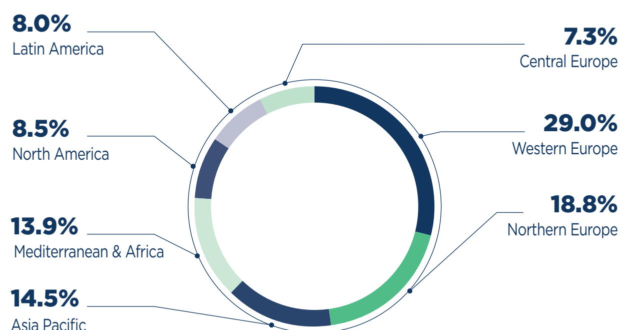
(1) The debtors mentioned above are the clients of the Group's insureds.
(2) The outstandings presented below are gross of reinsurance (direct business and accepted business) and correspond to the maximum covered amounts authorised by the Group for its insureds. They do not correspond to the effective use thereof by the insureds.
(3) Belgium no longer forms part of the 10 countries in terms of exposure. While China has returned to the top 10.
(4) At the publication of the 2015 registration document, the figures indicated were 1.3% for Brazil and 1.7% for China. These percentages were based on the short term credit insurance exposure over these countries.

The charts [1] below show the distribution as of December 31, 2014, 2015 and 2016 of the Group's debtor outstandings, grouped by geographical region:

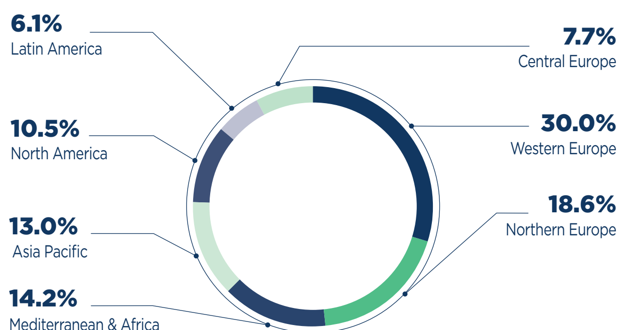
AS OF DECEMBER 31, 2016



AS OF DECEMBER 31, 2014



AS OF DECEMBER 31, 2015



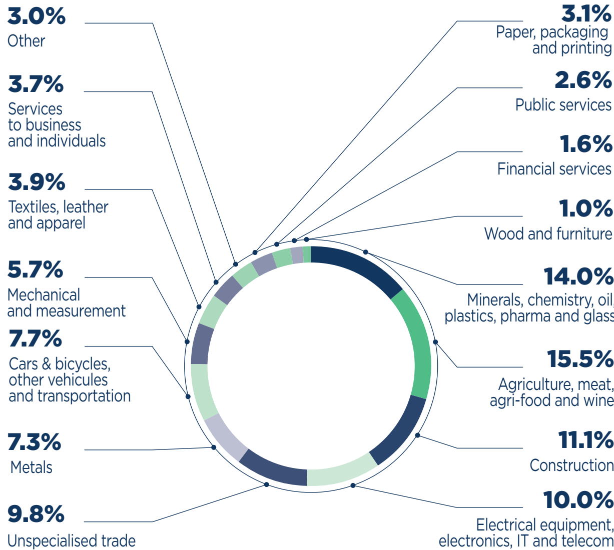
	OUTSTANDINGS* (IN €M)		
GROUP REGION	2016	2015	2014
Western Europe	103,010	142,401	147,145
Northern Europe	104,324	88,362	95,362
Asia-Pacific	63,734	61,905	73,733
Mediterranean and Africa	98,938	67,410	70,657
North America	50,626	49,806	43,234
Latin America	30,711	28,865	40,569
Central Europe	41,314	36,670	37,336
TOTAL	**492,657**	**475,419**	**508,036**

* *The outstandings presented below are gross of reinsurance (direct business and accepted business) and correspond to the maximum covered amounts authorised by the Coface Group for its policyholders. They do not correspond to the effective use thereof by the policyholders.*

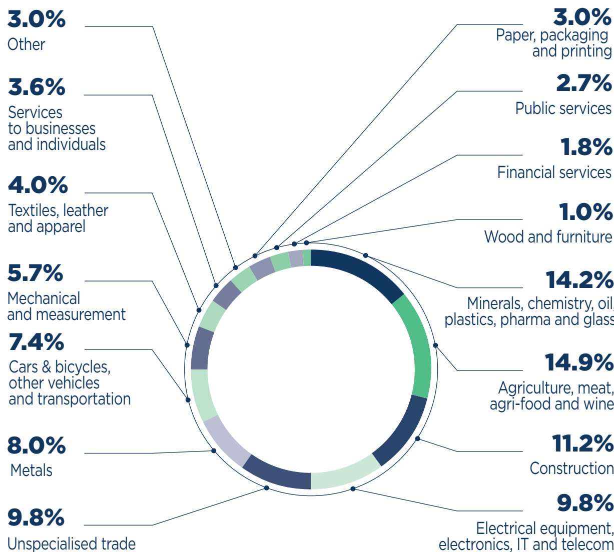
(1) *The breakdown was modified with respect to the previous year: Spain and Portugal have been placed in the Mediterranean & Africa region instead of Western Europe and Russia has been moved from the Northern Europe region to Central Europe.*

Exposure by sector of business of the debtor

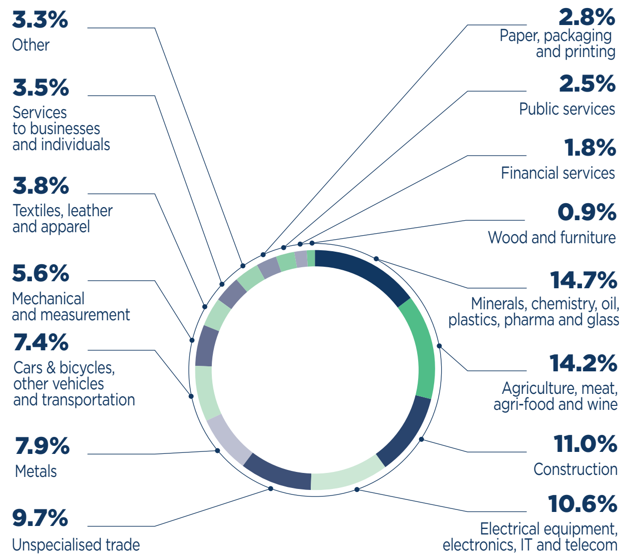
AS OF DECEMBER 31, 2016



AS OF DECEMBER 31, 2015



AS OF DECEMBER 31, 2014



Duration of risks

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

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

Common interests with policyholders

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

Decision-making

The principle for the insurer is to approve, for each new debtor that is presented by the insured, the maximum amount of risks that the insurer is ready to accept for that debtor. The insurer likewise determines the maximum amount that it is ready to accept for a given debtor, for all of its policyholders.

The credit risks are primarily underwritten based on global policies under which the policyholders entrust all of their revenue to the insurer in order to avoid the risks of adverse selection. The credit insurer may reduce or cancel its credit insurance coverage for new sales to the debtor concerned at any time. As an exception to this rule, and according to the insured's expertise, the Group may grant certain insureds a degree of autonomy in setting the credit limits for receivables not exceeding an amount as established in the contract.

Consideration of risk quality for establishing the premium

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

Sharing of risk between the Group and the insured

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

Recovery management by the Group

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

A fine-tuned risk underwriting system: ATLAS

Underwriting decisions are made by groups of risk underwriters in various underwriting centres, who work in real time and in network thanks to ATLAS (see Section 1.8). These risk underwriting decisions address the risk underwriting rules that are defined for the Group as a whole.

The Group Risk Underwriting Department is responsible for establishing a global risk underwriting policy. Moreover, the Group Risk Underwriting Committee has the goal of defining the risk policy by country, setting budgets and following the global risk underwriting activity within the context of the objectives set.

The accepted reinsurance (in other words the reinsurance of policies sold by the Coface Partners network which have been accepted for reinsurance) is underwritten according to the same procedures as those used for direct insurance. The Group provides reinsurance which is contingent upon the prior approval in ATLAS for each type of risk ceded.

Evaluation of provisions

The Group establishes claims provisions which are designed to cover probable losses for its credit insurance operations.

The claims that have arisen but not yet been declared/settled at the close of the year are included in specific provisions.

The claims provisions recorded at a given moment are comprised of:

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

The technical provisions for credit insurance are not updated.

The estimated IBNR provisions are based on an estimate of a most recent loss experience through periodic actuarial analyses which are performed by the entities and controlled by the Group Actuarial Department.

The Group Actuarial Department also has the role of ensuring that the overall level of provisions of the Group is sufficient to cover future indemnifications, to establish and verify the correct implementation of actuarial principles, for which the calculations on estimated reserve must respect.

To date, the actuarial methods used by the Group and its entities are methods based on claims triangles (Chain Ladder and Bornhuetter-Fergusson actuarial methods). These methods are completed by an estimation of the variability of the technical reserves at one year by the Merz and Wuthrich method which aims to determine a reasonable estimate range in which the Group Risk Department recommends choosing an ultimate loss ratio.

Based on this range calculated by the actuaries, their recommendations and other actuarial or non-actuarial analyses, management decides, through a committee (Loss Reserving Committee) on the level of reserves to be withheld for each quarter's closing. This committee is formed for each entity, and at the Group level. It meets at least quarterly, but may be convened in case of a major event which requires a significant revision of the reserves level (in particular in the event of a significant claim). The estimates are likewise refined based on economic information, risk underwriting information, and information on the recovery of receivables, evaluated during a quarterly committee meeting on "economic expectations".

Loss ratio

The Group measures the loss experience, notably as a function of the loss ratio (total of claims charges compared to the total gross premiums earned). This ratio, which was determined using figures from the consolidated financial statements, totalled 63.3% in 2016.

The table below shows the evolution of the loss ratio including claim management fees before reinsurance recorded for a given year between 2011 and 2016:

YEAR	2011	2012	2013	2014	2015	2016
Loss ratio	51.7%	51.5%	51.1%	47.6%	51.0%	63.3%

The Group conducts its risk management policy thanks to its capacity to reduce or cancel its credit-insurance cover, a corrective measure aimed at reducing its exposure in certain countries in response to the deterioration of the economic situation.

The variation of +/- one percentage point [(1)] of the gross accounting loss ratio at December 31, 2016, would have had an impact of +/- €11 million on the claims expenses net of reinsurance, of +/-€6 million on the net income and of +/- €6 million on equity. The Group believes that a variation of one percentage point in the gross accounting loss ratio is reasonable as compared to the loss ratio recorded in previous years.

CLAIMS EXPENSES RECORDED AT THE GROUP LEVEL (NOTE 25, CHAPTER 4)

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

	AS OF DEC. 31								
	2016			2015			2014		
(in millions of euros)	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET	GROSS	OUTWARD REINSURANCE AND RETROCESSIONS	NET
Claims expenses – current year	-782	168	-614	-815	165	-650	-787	164	-623
Claims expenses – prior years	76	-24	52	210	-44	166	248	-61	188
CLAIMS EXPENSES	**-706**	**144**	**-562**	**-605**	**121**	**-484**	**-539**	**104**	**-435**

STATUS OF TECHNICAL PROVISIONS ESTABLISHED AT THE GROUP LEVEL (NOTE 19 CHAPTER 4)

In the table below, the provisions for unearned premiums corresponds to the portion of written premiums relating to the period between the year-end and the next premium payment date. They are calculated *prorata temporis* for each insurance contract. The provisions for profit sharing correspond to an estimate of the cost of the profit sharing not paid at the closing date. The profit sharing is a contractual stipulation which consists of refunding a portion of the benefit, which the savings on the contract could generate, to the policyholder at the end of a defined period.

	AS OF DEC. 31		
(in millions of euros)	2016	2015	2014
Provisions for unearned premiums	276	286	286
Claims provisions	1,275	1,122	1,092
Provisions for profit sharing	127	107	94
Liabilities relating to insurance contracts	**1,678**	**1,515**	**1,472**
Provisions for unearned premiums	-48	-58	-57
Claims provisions	-267	-247	-249
Provisions for profit sharing	-26	-23	-23
Reinsurers' share of technical insurance liabilities	**-341**	**-328**	**-329**
NET TECHNICAL PROVISIONS	**1,337**	**1,187**	**1,143**

(1) *In other words the variation of n% to (n+1)%.*

ROLL-OUT OF CLAIMS PROVISIONS

The roll-out of claims provisions indicates the evolution of claims provisions for the last decade.

The following triangle, which presents the development of the ultimate loss ratios, details, for a given line N, the vision for each of the subsequent year-ends (N+1, N+2, etc.). The estimated final loss ratio varies as a function of the increasing reliability of information relating to claims still pending.

The discrepancy between the initial loss ratio and the final loss ratio measures the excess or insufficiency of the provisions recorded at the source.

TRIANGLE OF DEVELOPMENT OF ULTIMATE LOSS RATIOS (GROSS OF REINSURANCE AND EXCLUDING CLAIMS MANAGEMENT EXPENSES)

OCCURRENCE YEAR (N)/ DEVELOPMENT YEAR *(as a %)*	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8
2007	62.0	61.1	66.6	66.8	66.9	63.7	64.3	63.7	63.8
2008	93.8	113.5	114.5	112.6	108.0	105.5	104.4	104.4	102.3
2009	77.1	65.9	60.3	61.8	57.8	56.5	55.8	56.3	
2010	58.2	44.3	37.9	35.6	35.0	34.9	34.7		
2011	73.6	61.1	54.9	54.3	53.2	52.2			
2012	77.3	67.5	61.0	58.7	59.9				
2013	72.6	56.9	51.1	49.2					
2014	72.5	61.8	62.9						
2015	70.2	65.4							
2016	70.0								

The claims provisions estimate model used by the Group is based on a history of data which notably includes 2008. This year is characterised by an 8.5-point insufficiency of provisions (between 93.8% estimated in 2008 and 102.3% re-evaluated in 2016). Consequently, this provision model has historically led the Group to estimate, out of prudence, higher loss ratios than the loss ratios actually recorded. Given the Group's proper control of loss experience, it has systematically recorded profits since 2009 (excess of claims provisions compared to the loss ratio actually recorded).

The table below illustrates the evolution of these profits over the 2013-2016 period:

PERIOD	LATEST LOSS RATIO GROSS OF REINSURANCE AND EXCLUDING CLAIMS MANAGEMENT EXPENSES OF EACH YEAR FOLLOWING THE FIRST YEAR OF DEVELOPMENT *(as a %)*	ACCOUNTING LOSS RATIO BEFORE REINSURANCE AND EXCLUDING CLAIMS MANAGEMENT EXPENSES *(as a %)*	PROFIT *(as a %)*
2013	72.6	48.4	-24.1
2014	72.5	45.3	-27.2
2015	70.2	48.8	-21.4
2016	70.0	61.0	-9.0

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

TRIANGLE OF DEVELOPMENT OF CUMULATIVE CLAIMS PAID, NET OF RECOURSE (GROSS OF REINSURANCE)

OCCURRENCE YEAR (N)/ DEVELOPMENT YEAR *(in millions of euros)*	N	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8	N+9
2007	77	382	514	551	560	583	589	592	593	595
2008	122	798	973	1,013	1,034	1,035	1,039	1,043	1,042	
2009	164	453	517	533	538	545	545	547		
2010	60	274	345	359	366	370	379			
2011	67	458	566	597	626	608				
2012	118	448	564	577	582					
2013	83	400	491	523						
2014	74	417	572							
2015	62	370								
2016	55									

2.4.2.2.3.3 MEASURING FINANCIAL RISKS

Financial risks are described in Section 2.4.2.2.1.3 and cover all risks linked to the management of assets and liabilities. They include: interest rate risk, foreign exchange risk, liquidity risk, real estate risk, spread risk, equity risk and counterparty risk.

The Group has established an investment policy which considers the management of financial risks through the definition of its strategic allocation, the regulations applicable to insurance companies, and the investment constraints resulting from the management of its liabilities. The investment strategy implemented must allow for addressing the Group's commitments to its policyholders, and to do so while optimising investments and performance in a defined risk framework.

The Group's investment policy, which is reviewed twice a year, notably covers the strategic allocation of assets, asset classes and products eligible for investment, the target portfolio maturity, management of potential hedging and the income control policy of the Group. The allocation that is defined each year relies on an analysis of the liabilities, simulations and stress on performance/risk behaviours of various asset classes of the portfolio, and on compliance with the defined parameters linked to the Group's business and commitments: target sensitivity, consumption of equity, maximum loss as a function of the behaviour of financial markets, quality and liquidity of the investment portfolio.

The control of financial risks thus relies on a rigorous mechanism of standards and controls which is constantly reviewed.

Internal investment management control mechanism

Since May 2013, Coface has centralised management of its investments, and delegates a large portion of the management to various delegates under the aegis of a sole investment provider, the Amundi management company. The Group's reinsurance captive Coface RE, created in September 2014, has also delegated the management of its investments to various agents under the aegis of the management company Amundi.

An administrative management platform thus combines all investments from the Group's various insurance entities with the following services:

- advice on strategic and tactical allocation of assets;
- reporting (economic, risks, regulatory (Solvency II) and accounting); and
- back-office and middle-office functions.

This platform allows the Group's global portfolio to be managed according to a targeted distribution of various asset classes, determined by integrating (i) the constraints on risk and liquidity, (ii) the regulatory and insurance-specific constraints, (iii) the cost in capital and adequacy of investments, in terms of risk and duration, with the Group's liabilities.

This organisation allows the Group access to diversified asset classes and management techniques, with the objective of seeking, for its investment portfolio, stable long-term performance, while maintaining strong quality and liquidity of the underlying assets. It also ensures best monitoring of financial risks, reduces the operational risks and enables more responsive and refined management of the Group's financial income within a controlled general risk framework, and in compliance with the current and future regulatory requirements.

Management of risks related to asset allocation

Investment assets

As an insurance company, the Group's investment maintains an allocation that is heavily weighted towards fixed-income instruments, which provide it with recurring and stable revenues.

INVESTMENT PORTFOLIO (FAIR VALUE) [1]	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Shares	126	4.8	219	8.7	189	7.4
Bonds	1,797	68.3	1,685	66.7	1,788	69.9
Loans, deposits and other financial investments	570	21.7	512	20.3	550	21.5
Real estate investment	138	5.2	112	4.4	31	1.2
TOTAL	**2,631**	**100**	**2,527**	**100**	**2,558**	**100**

(1) Excluding unconsolidated subsidiaries.

As of December 31, 2016, bonds represented 68.3% of the total investment portfolio.

Within the framework of the defined strategic allocation, the Group increased its exposure to the sovereign debt of leading issuers of the financial markets, as well as to European unlisted real estate while reducing its exposure to European equities.

DISTRIBUTION BY TYPE OF DEBT IN THE BOND PORTFOLIO (FAIR VALUE)	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Sovereign and assimilated	923	51.3	815	48.4	763	42.7
Non-sovereign	874	48.7	870	51.6	1,025	57.3
TOTAL	**1,797**	**100**	**1,685**	**100**	**1,788**	**100**

These investments are all made within a strictly defined risk framework; the quality of the issuers, the sensitivity of issues, the dispersal of issuer positions and geographical zones are subject to precise rules that have been defined in the various management mandates granted to the Group's dedicated asset managers.

Specific limits applying to the entire investment portfolio are moreover defined in terms of portfolio pricing, and limits by counterparty and country. Regular monitoring is likewise conducted in terms of credit portfolio liquidity, the evolution of spreads and the Group's cumulative exposure to the main asset/liability exposures. Hedging is then ultimately completed, where applicable: it is systematic based on the exchange rate risk, and discretionary, as concerns the yield and spread risk.

As of December 31, 2014, 2015 and 2016, the main characteristics of the bond portfolio were as follows:

DISTRIBUTION BY GEOGRAPHIC ZONE OF THE BOND PORTFOLIO (FAIR VALUE)	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
Asia – Developed countries	259	14.4	154	9.1	73	4.1
Emerging countries [1]	164	9.1	159	9.4	135	7.5
Eurozone	821	45.7	788	46.8	1,036	58.0
Europe outside the eurozone [2]	145	8.1	136	8.1	151	8.4
North America	408	22.7	448	26.6	393	22.0
TOTAL	**1,797**	**100**	**1,685**	**100**	**1,788**	**100**

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

The investment portfolio is primarily exposed to areas in developed countries of the eurozone and North America. The risk related to sovereign issuers of the eurozone was significant in 2013, and began decreasing in 2014 thanks to the various actions of the European Central Bank. The continuous improvement of the economic situations of Spain, Ireland and Italy has allowed us to improve our investments in the sovereign securities of these countries since 2014, however exposures remain limited due in particular to the significant political risk. Conversely, exposures to the sovereign debt of Portugal and Greece are still null. In 2015 and 2016, the Group increased the international diversification of its bond portfolio, particularly in developed countries in Asia, in order to benefit from higher rates of return and follow the various interest rate rises.

The bond portfolio remains essentially invested in companies and countries that have been rated as investment grade [1].

DISTRIBUTION BY RATING [1] OF THE BONDS IN THE BOND PORTFOLIO (FAIR VALUE)	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
AAA	354	19.7	329	19.5	227	12.7
AA – A	675	37.6	540	32.1	636	35.6
BBB	576	32.1	558	33.1	576	32.2
BB – B	186	10.3	256	15.2	347	19.4
CCC and less	6	0.3	2	0.1	2	0.1
TOTAL	**1,797**	**100**	**1,685**	**100**	**1,788**	**100**

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

Incidentally, investments in company bonds represent 48.7% of the bond portfolio and are more than 85% concentrated on investment grade companies [1]. These investments were made within the context of a strictly defined risk policy, and particular care was given to the quality of the issuers, the sensitivity of the issues, the dispersal of the issuers' positions and the geographical zones in the various management mandates granted to the Group's dedicated managers.

The rate risk carried by the Group on its financial portfolio is limited, the maximum authorised sensitivity for the bond asset class being deliberately capped at 4 [2]. The sensitivity of the bond portfolio was 3.6 as of December 31, 2016.

Lastly, the semi-annual Risk Committee systematically reviews the spread and liquidity risks of the portfolio.

Coverage policy

The Group's Investment Department, in charge of controlling investments and managing the investment portfolio, can authorise the use of hedging on the risk of a rise in rates, through liquid financial forward instruments (swaps, futures, options) on a regulated market, or by negotiation with counterparties rated A- or higher.

These operations are exclusively performed for hedging purposes, and in strict application of the regulations applicable to insurance companies. The nominal amount of the hedge is thus strictly limited to the amount of underlying assets held in the portfolio (shares or rate products) in order to cover assets actually held in the portfolio.

As of December 31, 2016, only Compagnie française d'assurance pour le commerce extérieur and Coface Re had developed a hedging strategy for the equity exposure of the investment portfolio, by using out-of-the-money long-term maturity put options. The level and control of this hedging strategy on eurozone-listed equities are defined and reviewed according to the market circumstances and the control of the levels of unrealised gains and losses during the monthly Investment Committees between the Group and the Amundi investment platform manager.

Foreign exchange risk

As of December 31, 2016, 36.7% of the Group's consolidated revenue was earned outside of the eurozone, and thus subject to exchange rate risk.

The subsidiaries or branches whose financial statements have been prepared in euros, and who underwrite in other currencies must respect the same principles of congruity (matching between assets and liabilities denominated in a currency other than the one used as reference for issuing accounting statements). As an exception, positions opened in other currencies may be hedged. No investment in foreign currencies has been made by the Group for speculative purposes.

The great majority of the Group's investment instruments are denominated in euros. Exposure to the exchange rate risk is limited for investment portfolios: as of December 31, 2016, 69% of investments were thus denominated in euros.

(1) According to the Standard & Poor's rating agency scale, all bonds rated at least BBB- are considered investment grade, and bonds with a rating of less than or equal to BB+ are considered to be high yield.

(2) The sensitivity of a bond measures its loss in value in the event that interest rates rise. Thus, a bond with a sensitivity of 4 will have its market value decrease by 4% if the interest rates increase by 1%.

DISTRIBUTION BY CURRENCY OF THE INVESTMENT PORTFOLIO	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
EUR	1,833	69.6	1,743	69.0	1,791	70.0
USD	410	15.6	514	20.3	504	19.7
Other [1]	388	14.8	270	10.7	263	10.3
TOTAL	**2,631**	**100**	**2,527**	**100**	**2,558**	**100**

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

Furthermore, as concerns the majority of the portfolio which includes the European entities of the Group, the exchange rate risk is systematically covered for investments in foreign currency which departs from the matching principle. Therefore, as of December 31, 2016, investments in bonds denominated in US dollars, pound sterling, Canadian dollars or Australian dollars in this portfolio were the subject of systematic hedges against the euro by the managers in charge of the portfolios concerned.

SENSITIVITY TO EXCHANGE RATE RISKS OF NET INCOME OF ENTITIES DENOMINATED IN FOREIGN CURRENCIES

	AVERAGE EXCHANGE RATE (DECEMBER 2016)	NET INCOME FOR THE YEAR (ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT) IN THOUSANDS OF EUROS AS OF DEC. 31, 2016	NET INCOME FOR THE YEAR (ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT) IN THOUSANDS OF FOREIGN CURRENCY AS OF DEC. 31, 2016	ASSUMPTION - 10% VARIATION OF THE EXCHANGE RATE	NET INCOME FOR THE YEAR (ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT) IN THOUSANDS OF EUROS AFTER CHANGE IN EXCHANGE RATE	RATE VARIANCE BETWEEN ACTUAL EXCHANGE RATE, VARYING 10%
Brazilian real	0.2589	-817	-3,155	0.2848	-899	-82
Canadian dollar	0.6820	-3,374	-4,947	0.7502	-3,712	-337
Swiss franc	0.9175	1,664	1,814	1.0092	1,830	166
Pound sterling	1.2207	8,969	7,348	1.3428	9,866	897
Hong Kong dollar	0.1164	-10,257	-88,082	0.1281	-11,283	-1,026
Mexican peso	0.0484	749	15,485	0.0532	824	75
Polish zloty	0.2291	7,357	32,107	0.2521	8,093	736
Romanian leu	0.2227	2,211	9,929	0.2449	2,432	221
Russian rouble	0.0135	2,936	217,857	0.0148	3,229	294
Singapore dollar	0.6547	-43,893	-67,043	0.7202	-48,282	-4,389
US dollar	0.9039	-9,069	-10,033	0.9943	-9,976	-907
Others		-2,101			-2,311	-210
Euro		87,156			87,156	
TOTAL		**41,531**			**36,968**	**-4,563**

Equity risk

The stock markets are marked by volatility which causes a significant risk for an insurer, which is moreover subject to specific rules in terms of provisioning (provision for permanent impairment) and consumption of own funds (Solvency II Directive).

To that end, the Group has reviewed its equity exposure in 2016 through its work reviewing its strategic allocation. Its potential equity exposure is thus strictly limited to less than 10% of its portfolio and concentrated in the eurozone, in line with its core business. The Group has no specific concentration of its equity risk in one or more specific economic sectors. Management is benchmarked according to the MSCI EMU [1] reference index. These investments are moreover the subject of discretionary coverage established to mitigate any extreme shocks. The hedging strategy is dynamic: its level, scope and size are defined by the Investment Department in line with the asset manager that is in charge of the asset management platform.

As of December 31, 2016, stocks represent 4.8% of the investment portfolio, 4.3% of which are stocks listed on a market in the eurozone. These investments were the subject

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

of a hedge on 50% of the portfolio that was invested through the purchase of put options maturing in June 2018 at an exercise price of approximately 20% out of the money on the Eurostoxx index. These hedges may be adjusted according to investments and the amount of the unrealised losses or gains on the shares held.

Risk of concentration/default of a counterparty

The Group has established an investment policy which defines an overall counterparty risk management framework. The approach consists of defining the limits on bond investments, and consolidating all exposures through all financial instruments in order to delimit the Group's total potential loss following the default or bankruptcy of the counterparty in question.

A maximum limit of exposure for a single counterparty has thus been determined as a percentage of the investment portfolio. This is set at 5% of outstandings managed with possible, temporary exceptions to be made on individual exposures which are linked to short-term investments.

As of December 31, 2016, the 10 main exposures of the bond portfolio were €668 million, or 37% of the fair value of the bond portfolio.

More generally, the Group implemented rules imposing geographic and sector-specific risk diversification within its investment portfolio and for all asset classes, in an effort to protect itself or mitigate any default.

Real estate risks

Within the context of the Group's strategic allocation, property represents a limited portion of the Group's assets, less than 7% due to the low liquidity of this asset class. The Group's current portfolio consists of property used within the context of its operating activities, as well as underlying real estate funds.

The real estate risk materialises due to a reduction in market value, thereby impacting the unrealised profits recorded for this property, or even recording unrealised losses.

As of December 31, 2016, the Group had real estate exposure with a fair value of €198.3 million, consisting of €60.4 million in operating property and €137.9 million in non-listed real estate.

Sensitivity testing

Monthly simulations are moreover performed on the portfolio invested, and presented during the Investment Committee meetings. They cover the maximum loss anticipated in terms of economic performance over various periods, from asset class to asset class, devoting particular attention to the spread risk.

These sensitivity tests cover all asset classes in which the Group has invested, and allow the overall risk to which the portfolio is exposed in case of an adverse scenario to be assessed each month, and potential measures to be taken to reduce this risk, as applicable (reduction of exposure to certain risk factors, hedging strategies, protection of economic result for a given period, etc.).

It is hoped that the results will represent the various risks linked to investments made, and that they will also present, as with any quantitative analysis, limited related to the data and models used.

Risk on stocks and bonds in the portfolio as of December 31, 2014, 2015 and 2016

The tables below show that the portfolio, excluding hedging effect on shares, is, as of December 31, 2016, more sensitive to the combined effects of a 100 basis point rise in the bond rates and to a 10% drop in the stock market than it was as of December 31, 2014. This can be explained, despite the significant drop in our equity exposure, by the Group's higher exposure to bond markets and the slight increase in sensitivity.

SENSITIVITY OF THE PORTFOLIO TO STOCK AND BOND MARKET VARIATIONS AS OF DECEMBER 31, 2016

(in millions of euros)	MARKET VALUE AT DEC. 31, 2016	IMPACT FROM THE 100 BASIS POINT RISE IN RATE [1]	IMPACT FROM THE 10% DROP OF FINANCIAL MARKETS [2]	IMPACT FROM THE 20% DROP OF FINANCIAL MARKETS [2]
Bonds	1,797	-64.7	-	-
Shares	126	-	-12.7	-25.3
TOTAL	**1,923**	**-64.7**	**-12.7**	**-25.3**

(1) Average bond portfolio sensitivity in late 2016: 3.6
(2) Excluding any hedge effect.

SENSITIVITY OF THE PORTFOLIO TO STOCK AND BOND MARKET VARIATIONS AS OF DECEMBER 31, 2015

(in millions of euros)	MARKET VALUE AS OF DEC. 31, 2015	IMPACT FROM THE 100 BASIS POINT RISE IN RATE [1]	IMPACT FROM THE 10% DROP OF FINANCIAL MARKETS [2]	IMPACT FROM THE 20% DROP OF FINANCIAL MARKETS [2]
Bonds	1,685	-54.3	-	-
Shares	219	-	-21.9	-43.8
TOTAL	**1,903**	**-54.3**	**-21.9**	**-43.8**

(1) Average bond portfolio sensitivity in late 2015: 3.2
(2) Excluding any hedge effect.

SENSITIVITY OF THE PORTFOLIO TO STOCK AND BOND MARKET VARIATIONS AS OF DECEMBER 31, 2014

(in millions of euros)	MARKET VALUE AS OF DEC. 31, 2014	IMPACT FROM THE 100 BASIS POINT RISE IN RATE (1)	IMPACT FROM THE 10% DROP OF FINANCIAL MARKETS (2)	IMPACT FROM THE 20% DROP OF FINANCIAL MARKETS (2)
Bonds	1,788	-54.4	-	-
Shares	189	-	-18.9	-37.8
TOTAL	**1,977**	**-54.4**	**-18.9**	**-37.8**

(1) Average bond portfolio sensitivity in late 2014: 3.0
(2) Excluding any hedge effect.

To the extent that the stocks and bonds are recorded in the available-for-sale category, sensitivity would have an effect on the "other elements of comprehensive income", to which shareholder's equity is sensitive. Unrealised gains and losses on these financial instruments had no effect on net income, with the exception of any depreciation recorded. In case of sale, the resulting profit or loss would have an effect on the operating income in the income statement.

Liquidity and capital risks

Management of the liquidity risk related to credit insurance activities

The insurance activity functions with a reverse production cycle: premiums are cashed before payment of claims. Moreover, the liquidation term for a provision is less than three years, and the total of these provisions is covered by liquid assets. Consequently, the risk of liquidity linked to insurance activity is considered to be marginal.

The liquidity risk is monitored through an analysis by the Group's Treasury Department of the available assets and cash flow projections of the various entities for the entire scope of consolidation. This data is consistently analysed, which allows liquid assets to be managed for monetary or financial investment needs, in cases of recurring excess liquidity.

The majority of the other fixed income instruments and all of the Group's portfolio stocks are listed on OECD markets and present a liquidity risk which has been deemed to be weak at this time.

The liquidity of the portfolio with OECD credit bonds, and sovereign bonds of emerging countries, is monitored on a regular basis *via* market indicators (evolution of flows, spreads, purchase and sale spreads) and the manager performs regular analyses on the time limits and liquidation costs of the lines in portfolios (term of partial and complete liquidation, cost of instantaneous liquidity and under market stress conditions, etc.).

The Group's bond portfolio presents short-term maturity, in line with its liabilities. The distribution of bond maturities is presented below:

DISTRIBUTION BY MATURITY OF BOND PORTFOLIO	AS OF DEC. 31					
	2016		2015		2014	
	(in €m)	*(as a %)*	*(in €m)*	*(as a %)*	*(in €m)*	*(as a %)*
< 1 year	452	25.1	368	21.9	418	23.4
1 year < >3 years	480	26.7	547	32.5	646	36.1
3 years < >5 years	374	20.9	423	25.1	356	19.9
5 years < >10 years	444	24.7	312	18.5	344	19.3
>10 years	47	2.6	34	2.0	24	1.3
TOTAL	**1,797**	**100**	**1,685**	**100**	**1,788**	**100**

More than 52% of the bond portfolio instruments have a maturity of less than three years as of December 31, 2015.

The position of an insurance company, in terms of liquidity, is evaluated by standards which measure the Company's capacity to confront its financial commitments.

In addition, Coface established with BNP Paribas Arbitrage on February 9, 2016, a contingent capital line of €100 million, for a period of three years (that can be reduced to two years at the discretion of Coface), available in one tranche and that can be exercised in the event of the occurrence of certain extreme events (significant increase in the loss or deterioration of the solvency ratio). In the event one of the extreme events planned for in the documentation occurs, Coface would benefit from a capital increase for a maximum amount of €100 million.

The contingent capital line supplements the existing capital management and solvency tools. It is part of a conservative capital management strategy in connection with pillar 2 of Solvency II and allows the Group to reinforce its financial strength to protect its business against extreme risks (see also the press release of February 9, 2016, available on the website www.coface.com).

Management of the liquidity risk related to factoring activity

The average term for factoring receivables is very short (less than six months), which reduces the liquidity risk related to factoring activities.

In order to ensure the refinancing of the factoring business, the Group has established several financing programs: a securitisation program of its factoring trade receivables, for a maximum amount of €1,195 million in bilateral credit

lines with various partners, for a maximum amount of €740.5 million, as well as a commercial paper program in the maximum amount of €600 million.

Management of the interest rate risk related to factoring activities

The Group, through its factoring activity, purchases and finances the trade receivables of its clients. These essentially concern short-term credit risks of a commercial nature (less than six months). The rate risk linked to factoring receivables is limited.

In order to ensure the refinancing of this activity, the Group has established several programs: a securitisation program for its factoring trade receivables, a commercial paper program and bilateral credit lines with various partners, as described above.

The cost of the sources of financing depends on the evolution of short-term rates, in particular the 1-month Euribor rate, with the exception of commercial paper issuances which are between one and six months. This cost essentially consists of the 1-month Euribor rate increased by a fixed margin. In terms of assets, the Group collects from its factoring clients compensation which consists of two parts: on the one hand, a factoring commission based on outstanding receivables throughout the term of the contract and, on the other hand, a financing cost which is indexed to the 3-month Euribor rate. Furthermore, it should be noted that, as for other activities of the Group, there is a principle for matching foreign currency between the needs and sources of financing.

2.4.2.2.3.4 MEASURING OPERATIONAL AND NON-COMPLIANCE RISKS

Mapping of operational risks

In an effort to improve knowledge of its operational risks, the Group has set up a risk mapping according to a qualitative methodology. In 2016, the Risk Department launched an overhaul of this mapping and developed a dedicated tool integrating effective reporting functionalities. This allows the roll-out of a homogeneous level two control programme for all entities.

For each business or support process, a list was set up for situations that could affect such business or support process.

The risk assessment, performed by each entity, is based on the assessment of its frequency and the intensity of its impact and on the effectiveness of level one controls. A four-level assessment scale was used (weak, average, significant, high).

Each risk situation is covered in a detailed description including the assessment of the inherent risk (*i.e.* before level one controls), describing and assessing level one controls, assessing residual risk and any action plans.

Collection of incidents and losses

An incident is the occurrence of an operational risk which could lead to or could have led to a financial loss, unjustified profit, or to other non-financial consequences.

An inventory of the operational incidents and losses is carried out. A summary is made each month and released at the Group Risks Committee (CGRC).

The incidents compiled are the subject of corrective measures, and are considered when updating the operational risk mapping.

Action plans and reporting

The purpose of implementing the approaches described above is to fully identify the operational risks. When approach is necessary, preventative or corrective action plans intended to reduce or control operational risks are defined and rolled out.

The Group Risk Department is in charge of reporting to the CGRC and the Group's management Board.

Business continuity

Each entity of the Group has a business continuity plan **(BCP)** to confront a temporary or permanent unavailability of its premises, information systems or staff.

The BCP is prepared based on Group rules, and supplemented by rules on mutual assistance between entities and remote work, and for which three tests were performed in 2016. These rules provide a concrete example of the Group business continuity policy. Each entity carries out its business continuity plan locally. User needs and resources are identified within a business impact analysis.

The overall process is in line with the standard principles on business continuity. The main operating elements of the BCP are the crisis management plan and the professional continuity plans. The back-up of the main data and IT applications used by the Group is ensured by two separate data processing centres located in the Paris region, which function in "active-active" mode (see Section 1.8).

Risks linked to cybersecurity

Coface has developed Information Systems security standards, which contain a set of policies, rules, procedures and standards prepared to the different levels of the organisation.

To minimise the risk of malicious acts, data theft, hacking on the information system, deletion of corporate websites, alteration of information, premature interruption of services (distributed denial of service or DDoS [1]) by saturation of networks or websites, several measures have been implemented:

- general maintenance of the infrastructure at the latest software version;
- distribution of security patches according to a recurring process;
- search for weaknesses on our infrastructures by implementing a permanent process of vulnerability management;
- assessment of the robustness of our infrastructures by specialised firms through implementation of attack simulations;

(1) DDoS: distributed denial of service; an attack aimed at rendering unavailable a server, service or infrastructure.

- assessment of the resilience of our internal applications to attacks by specialised firms through implementation of a code audit;
- reduction of the human risk through awareness raising campaigns on information systems security in the form of e-learning, communication by email or distribution of posters or brochures;
- implementation of a control program aimed at preventing the risks;
- management of the information systems security by a quarterly committee.

Non-compliance risk

This risk is managed by the Group Compliance Department, as relayed at the regional and country level by the compliance correspondents. This department also provides regulatory oversight, prepares and coordinates the level two controls performed in the areas of its expertise, which notably include, in addition to the regulations applicable to the insurance business, legislation relating to anti-money laundering, corruption prevention, and more generally to fight against financial delinquency.

2.4.2.2.3.5 MEASURING REINSURANCE RISK

Sharing of intra-group and reinsurance risks

In order to optimise its coverage against an abnormal deviation of the loss experience, the Group centralises the purchase of its reinsurance according to a sophisticated risk sharing mechanism.

The pivotal company, which centralises this purchase function, negotiates on behalf of the Group's insurance entities coverage against the frequency and peak risks, best responding to their operational needs. Compagnie française d'assurance pour le commerce extérieur had this role until the end of 2014, and was then replaced by Coface Ré as of January 2015.

This company, located in Lausanne, Switzerland, was formed in late September 2014. In late December 2014, it obtained a license from the Swiss Regulator to conduct business as a reinsurer, subject to compliance with various conditions indicated by the regulator.

The purpose of establishing Coface Re SA was to isolate the Group's flows of reinsurance within a dedicated entity, to pursue the streamlining of the coverage schemes of the Group's entities and partners, and to increase the range of services available to its international clients.

The external reinsurance programs for the 2016 underwriting years are comprised as follows:

- a quota-share treaty for which the cession rate is 20%; and
- two excess loss treaties, one by risk and the other by country (solely on Single Risk), protecting the Group's retained risks following cessions made under the quota-share treaty, such that no unitary claim represents, after taxes, more than 3% of the Group's equity, and
- a stop loss treaty that covers the Group retention, after quota-share and excess loss treaties, against a serious deviation of the frequency risk.

In 2007, the external reinsurance programme for the commercial underwriting year is comprised as follows:

- a quota-share treaty for which the cession rate is 26%; and
- two excess loss treaties, one by risk and the other by country (solely on Single Risk), protecting the Group's retained risks following cessions made under the quota-share treaty, such that no unitary claim represents, after taxes, more than 3% of the Group's equity, and
- a stop loss treaty that covers the Group retention, after quota-share and excess loss treaties, against a serious deviation of the frequency risk.

The 2017 reinsurance treaty of the Group was entered into with a pool of 22 reinsurance companies. All of the reinsurance companies presented in the 2017 panel are rated between A- and AA by one of the main international rating agencies.

The Group continues to require systematic collateral securities from its reinsurers (cash, securities, letters of credit) on all proportional treaties, including "IBNRs". This objective was met 100% as of December 31, 2016 for all counterparties of its master treaty. The collateral requirements concern excess losses, on a case-by-case basis, according to the Group's assessment, and are updated every year. For the 2017 reinsurance treaty, the top three reinsurers of the Group represent a quota share of 39.50% of the reinsured risks.

The Group has never had to face a claim which surpassed an excess loss reinsurance treaty since these treaties were established in 1990.

Since 2015, as concerns entities of the Group and members of the Coface Partner network, Coface Re is a reinsurer, and transmits the externally purchased coverage through the programs described below. It likewise sees to it that the conditions offered to the entities concerned prompt them to control their loss experience as best as they possibly can.

- Global coverage of entities through the establishment of:
  - proportional protection on gross underwriting, which takes the form of a quota share treaty and aims to absorb frequency claims;
  - the retention after quota-share of the Group's entities is protected by an excess loss treaty and a stop loss treaty in the wake of the Group's programme.
- Specific coverage of certain entities:
  - In order to meet the *ad hoc* regulatory needs of certain subsidiaries and branches of the Group, Compagnie française d'assurance pour le commerce extérieur likewise underwrites stop-loss treaties. This coverage aims to protect these entities against what is considered abnormal rises in their claims expenses by transferring any additional loss experience above the threshold set in the treaty to the reinsurer.
- Accepted reinsurance of the Coface Partner network:
  - there are acceptance schemes only in the countries where the Group conducts its business through fronters, in other words in countries where it has no license to perform its credit insurance activities. In this context, risk underwriting and management and

provisioning rules are the same as those applied for directly-underwritten policies.

2.4.2.2.3.6 MEASURING RISKS LINKED TO THE FACTORING BUSINESS

The risks are covered by guarantee funds or reserves. These guarantees represent a retention rate linked to the determination of two elements: the assessment of the potential technical risk of non-payment by the debtors of the invoices purchased by the factor, for different reasons than the debtor insolvency; the assessment of the ceding risk: potential expected loss on the client in case the client becomes affected by an insolvency proceeding with the aim to cover all amounts the client owes to the Factor as a result of an undervaluation of the technical risk noted above and/or of invoices financed without credit insurance cover in cases of a debtor's payment default. An exceptional reserve rate related to elements of seasonal dilution (for example to face up to end-of-year discounts and refunds negotiated by the client with its debtors) may be specifically added to this permanent contractual retention rate.

The management of the ceding risk is based on the assessment for each client of the probability of the occurrence of the risk and of the amount of the potential loss. Different procedures have been established for this:

- analysis of the clients' financial position, notably through internal pricing tools;
- on-site audit to check the reliability of the data on receivables during the acquisition phase of a new client, or during the monitoring phase of an existing client;
- regular checks to ensure the existence of the receivables acquired;
- specific procedures during the recovery phase.

The credit risk borne by the Group is determined during the contact negotiation and based on the type of product, the client and/or debtor's solvency analysis as well as the conditions and the pricing applied.

During the life time of the contract, the invoice acceptance process based on a solvency analysis of the buyers is similar to credit insurance risk underwriting. The financing of the receivables determines the credit risk and fixes the risk exposure of the Group. In case of non-recourse factoring contract, an underwriting risk is assumed by the Coface Group of the assignor's buyers.

As for all of the Coface Group's sensitive activities, the factoring business is framed by specific Group rules.

Only two companies of the Group are authorised to distribute and manage factoring products: Coface Finanz in Germany and Coface Factoring Poland in Poland.

Limited product types are authorised to be sold by these two entities:

- in-house factoring with or without recourse;
- full factoring;
- maturity factoring and reverse factoring.

The limits on buyers for factoring activities are approved and managed by the risk underwriting departments according to the same rules and delegations applicable to the credit insurance activities. These procedures allow an appropriate management of the Group's total exposure for its factoring activities and provide an identical level of expertise.

A single tool (Magellan) structures the factoring activity. It is already operational in Germany and is currently being rolled out in Poland. It contains all the contracts related data on clients, buyers and invoices.

The factoring exposure is recorded in ATLAS, allowing the Coface Group to have a consolidated management of its exposure at buyer or group of buyers' level

Internal control procedures have been established in the main subsidiaries for follow-up cases, late payments and claims. More precisely, regarding late payments and claims:

- for factoring contracts having credit insurance coverage, late payments from debtors are managed directly by credit insurance's claims department, including for litigation. In the absence of credit insurance, unpaid invoices are restored to the client (assignor) by a debit from its current account.
- in the case of ceding risk (amounts to be collected from the factoring client), the recovery, including through litigation if needed, is provided by the factoring company.

In addition to a level-two control to ensure compliance with the Group rules on factoring activity, there are three other monitoring components:

- limited delegations granted to entities above which an approval from the Group Risk Underwriting Department is required along with the favorable opinion from the Group Risk Department;
- a quarterly Risk Committee is organised by the Group Risk Underwriting Department and the Group Risk Department, gathering the respective Risk Managers of the factoring entities: this committee selects and studies sensitive cases eligible for examination.
- a risk indicators database (prevention aspect) for each entity, both at global level (portfolio summary to assess its quality and evolution) and at individual level (all the clients): the risk indicators used have been selected for their discriminating nature in terms of early detection of difficulties encountered by certain clients.

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

2.4.2.3 Internal control system

As an insurance company with a banking Group as its reference shareholder, Coface implements an internal control system compliant with the provisions of the Solvency II Directive and the decree of November 3, 2014 on the internal control of banking sector companies, payment services and investment services subject to the oversight of the ACPR.

The risk control mechanism implemented in the Group revolves around three levels of control:

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

The internal control system relies on the same functions as the risk management system (see Section 2.4.2.2.2), it allows the application of the rules and principles defined within the context of the risk management system.

The internal control system ensures adequate safety for risks inherent to these activities, in particular with regard to the efficiency of the operational processes, reliability of the financial report and the respect of legal standards and internal directives. It is based in particular on a body of rules enacted at Group level and an organisational structure that clearly defines the roles and responsibilities for each person. In 2016, the follow up and communication mechanisms for the Board of Directors and the Management Committee were again strengthened with the creation of *ad hoc* committees.

The control activities address all of the risks to which the Group is exposed.

These controls are performed based on procedures which define who the controllers are, the frequency of the controls, the methodology (preparation of samples, documents used, terminology, control items), as well as the procedures for reporting detected anomalies and following up on the resulting action plans. Following the controls, action plans are established to remedy any dysfunctions identified. The corrective actions immediately decided upon locally are implemented in cooperation with the operational managers, under the responsibility of the country and regional manager.

Quarterly reporting allows the various levels (Group, region, country) to track achievement: results of control plans, progress of remediation plans. A summary of the results of the controls is communicated quarterly by each correspondent to the Group Risk Department, which reports to the CGRC.

These controls are applicable inside Compagnie française d'assurance pour le commerce extérieur and within all Group entities, specifically with respect to:

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

Similarly, within the Risk Department, the IS security manager manages a regional correspondents mechanism, conducts level 2 on-site controls to ensure compliance with the IT security policy.

2.4.2.3.1 Accounting control system

The accounting control system assigns a portion of the responsibility for controls to the Chief Financial Officers (CFOs) of each region.

In principle, the local CFOs are responsible for their scope: i) for the local accounting system (compliance with local regulation and with the Group's rules); their IFRS accounts as reported in the Group's consolidation tool CACIS (compliance with IFRS regulation and Group rules); financial risks, specifically compliance with the principle of congruity between assets and liabilities in order to limit the financial risks on their balance sheet.

The Group CFO is responsible, at Group level, for i) the quality of financial reporting, ii) the definition and monitoring of the investment policy, iii) management of financial risks and the implementation of control rules for other risks, with the support of the Risk Department, and iv) the management of solvency, with Solvency II in particular.

The Group's Accounting and Tax Department provides regions with a control and reporting tool which allows oversight of proper reconciliations between management applications and the accounting tool.

Each entity sends at each closing date the controls and reconciliations performed, which allow the quality and integrity of the consolidated data to be validated. A reporting file, identifying the controls to be performed as well as the instructions on the details and supporting documentation requested is sent to them each quarter.

This file, along with the supporting documentation, is sent to the regional CFO (or to the person appointed by the regional CFO to collect this data), who oversees the proper completion of all of these comparisons. A summary of these controls must then be sent to the Group's Technical Accounting Department.

This process allows a complete audit trail to be obtained, and produces data quality that is standardised and reliable within the Group.

2.4.2.3.2 Processing of accounting and financial information

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

Its detailed tasks are broken down into:

- maintaining the general and ancillary accounts of these entities (France only): recording operations, control and justification of operations, closing the quarterly accounts, producing consolidated financial statements (accounting treatment of interests, reciprocal operations, etc.);
- producing regulatory and presentation of accounts reports: producing periodic regulatory statements in compliance with scheduling constraints (declarations to the supervisory, tax and corporate administrations),

relations with the supervisory authorities and Statutory Auditors;

- preparing Group standards, regulatory oversight and strategic projects: definition of rules and writing of Group accounting rules, writing and following up of accounting procedures in conjunction with Natixis' Finance Department in the case of IFRS, overseeing the development of the accounting and tax regulations, assisting, training and providing technical support to subsidiaries and branches, analyses and impact studies on modifications in scope for the consolidated financial statements;
- the control system: tracking the proper application of the standards and procedures in the Group;
- Group taxation.

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

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

2.4.2.3.3 Common tool for general accounting, consolidation and management control

Since January 2014, the monthly reporting on management control, the French GAAP and quarterly IFRS bundles have been entered into a common tool which allows for automatic comparison statements to be developed, and for the quality of information received to be improved.

Within the context of the quarterly inventory operations, supplementary controls are performed, in particular using account analyses and comparisons to management data. Consistency controls are performed with the data coming from the reporting on management control.

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

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

2.4.2.3.4 Disclosure requirements for financial and accounting information

The Financial Communications Department, under the authority of the Group Financial Department, produces with the support of other departments, the financial information released to financial markets, analysts and investors. The departments concerned help the department, in particular through their contributions and reviews, to control risks of material errors or release of erroneous information, delays in release and breach of confidentiality or equality between shareholders. This department is the special correspondent of the Autorité des marchés financiers (French Financial Markets Authority).

2.4.2.4 **Conclusion**

The Group applies a continuous improvement process for its risk management and internal control systems. In 2016, the process led to the clarification of the role of the different committees and the creation of new control committees, the separation of actuarial and risk management functions and the placing of regional risk managers under the authority of the Group Risk Director. Lastly, the process also led to the review of risk appetite to make it consistent with the new strategic plan *Fit to Win*.