

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2006



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CONSOLIDATED BALANCE SHEET

(€'000)

ASSETS	Notes	31/12/2006	31/12/2005
Goodwill	1	107 374	109 166
Other intangible assets	2	42 919	32 603
Intangible assets		150 293	141 769
Investment property	3	88 654	94 049
Financial investments	4	2 879 178	2 804 160
Derivatives	5	5 469	1 419
Investments- insurance businesses		2 973 301	2 899 628
Investments accounted for by the equity method	6	36 801	43 521
Share of assignees and reinsurers in the technical reserves and financial liabilities	17	411 965	544 912
Operating property and other property and equipment	7	151 356	155 511
Acquisition costs capitalised		33 536	39 159
Deferred tax assets	8	20 912	16 732
Inwards insurance and reinsurance receivables	9	413 604	405 091
Outwards reinsurance receivables	9	82 623	68 382
Corporation tax receivables		22 813	18 804
Other receivables	10	142 212	143 007
Other assets		867 056	846 686
Cash	11	334 964	221 678
TOTAL ASSETS		4 774 380	4 698 194

(€'000)

LIABILITIES	Notes	31/12/2006	31/12/2005
Capital stock		14 384	14 346
Additional paid-in capital		448 058	444 985
Reserves		968 088	825 162
Net income, group share		326 054	286 076
Revaluation reserve	12	124 910	142 463
Translation reserve		10 892	24 021
Shareholders' equity, group share		1 892 386	1 737 053
Minority interests	13	19 153	7 869
Total shareholders' equity		1 911 539	1 744 922
Provisions for risks and charges	14	99 715	98 049
Subordinated borrowings		-	140
Borrowings from banking sector businesses		-	110 244
Other borrowings		302 369	226 435
Borrowings	16	302 369	336 819
Gross non-life technical reserves	17	1 413 342	1 497 164
Liabilities related to contracts		1 413 342	1 497 164
Deferred tax liabilities	8	389 251	371 968
Inwards insurance and reinsurance liabilities	18	190 065	212 075
Outwards reinsurance liabilities	18	117 306	159 565
Corporation tax payables		65 174	28 980
Derivatives	5	-	1 220
Other	19	285 619	247 432
Other liabilities		1 047 415	1 021 240
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4 774 380	4 698 194

CONSOLIDATED INCOME STATEMENT

(€'000)

	Notes	31/12/2006	31/12/2005 pro forma *	31/12/2005 published
<i>Premiums written</i>		1 739 540	1 719 988	1 719 988
<i>Premiums refunded</i>		(81 274)	(80 580)	-
<i>Change in unearned premiums</i>		509	(30 527)	(30 527)
Earned premiums		1 658 775	1 608 881	1 689 461
Premium-related revenues		353 045	318 488	318 488
Turnover	20	2 011 820	1 927 369	2 007 949
Investment income		116 661	117 611	115 161
Investment management charges		(16 784)	(24 649)	(24 649)
Net gain (loss) on sales of investments less impairment and depreciation writebacks		52 584	36 922	37 895
Change in fair value of investments recognised at fair value through the income statement		1 715	188	-
Change in investment impairment provisions		(4 374)	(1 700)	(2 485)
Net investment income	21	149 802	128 372	125 922
Insurance services expense		(692 668)	(609 129)	(689 709)
Income from outwards reinsurance		(569 884)	(698 947)	(698 947)
expense from outwards reinsurance		382 142	449 025	449 025
Net outwards reinsurance income or expense	20	(187 742)	(249 922)	(249 922)
Contract acquisition expense		(284 027)	(284 002)	(284 002)
Impairment of portfolio securities and similar		-	(708)	(708)
Administration expense		(193 879)	(189 029)	(188 138)
Other ordinary operating income and expense	23	(313 395)	(276 307)	(274 748)
ORDINARY OPERATING INCOME		489 911	446 644	446 644
Other operating income and expense		-	-	-
OPERATING INCOME	20	489 911	446 644	446 644
Financing expense		(11 489)	(10 121)	(10 121)
Income from companies accounted for by the equity method	6	8 547	8 056	8 056
Corporation tax	24	(156 734)	(158 394)	(158 394)
CONSOLIDATED NET INCOME		330 235	286 185	286 185
Minority interests	13	(4 181)	(109)	(109)
NET INCOME, GROUP SHARE		326 054	286 076	286 076
Earnings per share	25	7,51	6,74	6,74
Diluted earnings per share		7,45	6,69	6,69

* The presentation changes corresponding to the pro forma income statement are set out in note 2.2 of the notes to the consolidated financial statements.

The notes to the consolidated financial statements were prepared on the basis of the pro forma income statement for the year ended 31 December 2005.

Revenues from ordinary activities include earned premiums, premium-related revenues, investment income, gains and losses on disposals of investments net of impairment and depreciation writebacks, and the change in fair value of investments recognised at fair value through the income statement. Revenues from ordinary activities for the year ended 31 December 2006 totalled €2,184 million compared with €2,083 million for the year ended 31 December 2005.

CONSOLIDATED CASH FLOW STATEMENT

	31/12/2006	31/12/2005
Group net income	326 054	286 076
Corporation tax	156 734	158 394
Financing expense	11 489	10 121
OPERATING INCOME BEFORE TAX	494 277	454 591
<i>Adjustments for non-monetary and non-operating items</i>		
Minority interests	4 181	109
Allocation to and writebacks of depreciation, amortisation and reserves	43 037	33 635
Change in technical reserves	50 627	31 925
Change in deferred acquisition costs	(2 505)	(6 470)
Change in fair value of financial instruments recognised at fair value through the income statement (excluding cash and cash equivalents)	(1 715)	(188)
Realised capital gains/(losses) net of writebacks	(52 555)	(30 320)
Unrealised foreign exchange gain (loss) in company accounts	4 196	(1 505)
Revenues and expenses linked to stock options and similar	3 204	4 308
Interest revenues received	(95 160)	(84 977)
Interest revenues cashed	94 362	87 889
Adjustment for elements included in operating income that do not correspond to cash flows and reclassification of financing and investment flows	47 672	34 406

<i>Operating activities:</i>		
Income (loss) of companies accounted for by the equity method	(8 547)	(8 057)
Dividends received from companies accounted for by the equity method	4 447	4 095
Change in liabilities and receivables relating to insurance and reinsurance transactions	(71 490)	(15 688)
Change in operating receivables and liabilities	16 026	(28 370)
Change in other assets and liabilities	(6 228)	(3 536)
Corporation tax	(103 640)	(98 627)
Cash flow from operating activities	372 517	338 814

<i>Investing activities</i>		
Acquisitions of subsidiaries and joint ventures, net of acquired cash	1 580	(15 915)
Disposals of subsidiaries and joint ventures, net of ceded cash	143	20 461
Merger	(4)	476
Others	-	3
Cash flow linked to changes in the consolidation scope	1 719	5 025
Disposals of AFS securities	1 337 085	575 623
Matured HTM securities	9 609	2 293
Disposals of investment properties	7 370	2 740
Disposals of securities held for trading	80	1 337
Cash flow linked to disposals and redemptions of investments	1 354 144	581 993
Acquisitions of AFS securities	(1 455 010)	(729 424)
Acquisitions of HTM securities	(43)	(2 213)
Acquisitions of investment properties	(936)	(3 554)
Acquisitions of securities held for trading	(991)	(3 916)
Cash flow linked to acquisitions of investments	(1 456 980)	(739 107)
Disposals of other investments and intangible assets	418 236	63 572
Acquisitions of other investments and intangible assets	(429 117)	(191 570)
Cash flow linked to acquisitions and disposals of other investments and intangible assets (see note below)	(10 881)	(127 998)
Cash flow from investing activities	(111 998)	(280 087)

<i>Financing activities</i>			
Increases and decreases in capital		3 336	1 265
	Increases in capital	3 482	1 265
	Decreases in capital	(146)	-
Change in treasury stock		6 928	11 027
Dividends paid		(153 695)	(13 487)
Cash flow linked to transactions with the shareholders		(143 431)	(1 195)
Changes in loans and subordinated securities		(40 445)	(18 079)
	Issue	70 106	135 717
	Repayment	(110 551)	(153 796)
Interest paid		(12 500)	(18 590)
Cash flow from group financing		(52 945)	(36 669)
Cash flow from financing activities		(196 376)	(37 864)
Impact of foreign exchange differences on cash and cash equivalents		(2 557)	7 664
Reclassification (see below)		57 151	-
Change of method		-	-
Other cash flows linked to restructuring operations		3 966	-
Other net changes in cash		58 560	7 664
Cash flows		122 703	28 527
Change in cash and cash equivalents		122 703	28 527
Cash and cash equivalents at start of year		279 715	251 188
Cash and cash equivalents at end of year		402 418	279 715

* A reconciliation between the amount of cash recorded on the balance sheet, which does not include cash equivalents, and that shown in the cash flow statement above is provided in note 11.

The cash flow statement presents the cash flows generated by operating activities, investing activities and financing activities. The Euler Hermes group has used the indirect method to present cash flows relating to operating activities, under which the net income is adjusted for transactions that have no cash flow impact, any lag or adjustment of operating cash inflows or outflows, past or future, relating to operations, and income and expense items relating to cash flows concerning investments or financing.

Explanatory notes

The reclassification of €57 million as at 31 December 2006 corresponds to the amount of cash pooling receivables concerning Allianz that were not recognised as cash as at 31 December 2005 (almost €51 million) and to cash equivalents that had not been identified as such (€6 million).

CHANGES IN SHAREHOLDERS' EQUITY

(€'000)

	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Other			Shareholders' equity, group share	Minority interests	Total shareholders' equity
					Translation reserve	Treasury shares	Total other			
Shareholders' equity at 31 December 2004, IFRS	13 794	353 912	1 009 595	103 702	(10 880)	(92 290)	(103 170)	1 377 833	24 883	1 402 716
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				38 000				38 000	(692)	37 308
Impact of transferring realised gains and losses to income statement										
Cash flow hedges				760				760		760
Gain / (loss) taken to shareholders' equity										
Impact of transferring realised profits and losses in the year to income statement										
Impact of transfers on the initial amount of hedges										
Impact of translation differences					34 901		34 901	34 901	30	34 931
Current and deferred tax taken directly to or transferred to shareholders' equity										
Net income recognised in shareholders' equity	-	-	-	38 760	34 901	-	34 901	73 661	(662)	72 999
Net income for the year			286 076					286 076	109	286 185
Total revenues and losses recognised for the year	-	-	286 076	38 760	34 901	-	34 901	359 737	(553)	359 184
Capital movements	552	91 073				9 318	9 318	100 943		100 943
Dividend distributions			(103 621)					(103 621)	(233)	(103 854)
Shareholders' equity component of share-based payment plans			1 747					1 747		1 747
Other movements			414					414	(16 228)	(15 814)
Shareholders' equity at 31 December 2005, IFRS	14 346	444 985	1 194 210	142 463	24 021	(82 972)	(58 951)	1 737 053	7 869	1 744 922
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				(18 340)				(18 340)	98	(18 242)
Impact of transferring realised gains and losses to income statement										
Cash flow hedges				787				787		787
Gain / (loss) taken to shareholders' equity										
Impact of transferring realised profits and losses in the year to income statement										
Impact of transfers on the initial amount of hedges										
Impact of translation differences					(13 129)		(13 129)	(13 129)	11	(13 118)
Current and deferred tax taken directly to or transferred to shareholders' equity										
Net income recognised in shareholders' equity	-	-	-	(17 553)	(13 129)	-	(13 129)	(30 682)	109	(30 573)
Net income for the year			326 054					326 054	4 181	330 235
Total revenues and losses recognised for the year	-	-	326 054	(17 553)	(13 129)	-	(13 129)	295 372	4 290	299 662
Capital movements	38	3 073				8 259	8 259	11 370	47	11 417
Dividend distributions			(151 821)					(151 821)	(1 874)	(153 695)
Shareholders' equity component of share-based payment plans			1 783					1 783	-	1 783
Other movements			(1 371)					(1 371)	8 821	7 450
Shareholders' equity at 31 December 2006, IFRS	14 384	448 058	1 368 855	124 910	10 892	(74 713)	(63 821)	1 892 386	19 153	1 911 539

At 31 December 2006, the capital stock of Euler Hermes consisted of 44,951,118 fully paid-up shares, including 1,411,359 treasury shares.

In accordance with IAS 39, available-for-sale (AFS) investments were remeasured at market value with the resulting gain or loss being taken directly to the revaluation reserve with no impact on the income statement. During the year, the reduction in the revaluation reserve totalled €17,553 thousand, including €787 thousand relating to the unwinding of a hedging swap taken out by Euler Hermes SA.

Variances in translation differences during the year concerned mainly the US dollar (+€18,177 thousand), the British pound (-€5,660 thousand) and the Swiss franc (+€1,764 thousand).

120,874 new shares were created as a result of the exercise of stock options during 2006. Following these transactions, the share capital and additional paid-in capital of Euler Hermes SA increased by €38 thousand and €3,073 thousand respectively.

The variance of €1,783 thousand corresponds to an expense in respect of stock option plans in accordance with the application of IFRS 2.

The variance in minority interests was due mainly to the revised consolidation method applied to Bürgerel Wirtschaftsunternehmen GmbH & Co. KG, which is now fully consolidated whereas it was previously accounted for by the equity method. Details of this movement are provided in note 13.

Non-distributable reserves include notably provisions for equalisation recognised in the statutory financial statements of the European insurance companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Significant events

The following significant events occurred in 2006:

Changes in the capital stock and share ownership

The Shareholders' General Meeting of 22 May 2006 approved the payment of a dividend of €3.50 per share. At 31 December 2006, the AGF group owned 30,744,048 shares out of a total of 44,951,118, i.e. 68.39% of the capital stock.

During 2006, 120,874 new shares were created following the exercise of options under the 1997, 1998, 1999, 2003 and 2004 stock option plans. At 31 December 2006, Euler Hermes' capital stock was composed of 44,951,118 shares, including 1,411,359 treasury shares.

International development

Euler Hermes acquired the credit insurance business of Lumley General Insurance in Australia and New Zealand. The portfolio of insurance policies represented 7 million Australian dollars, i.e. €4 million. Until a credit insurance licence is secured, the related financial data is taken into account by the fronting business of the German subsidiary Euler Hermes Kreditversicherungs AG.

On 27 October 2006, Euler Hermes UK acquired the credit insurance portfolio of Allianz Corporate Ireland for 6.9 million pounds sterling, i.e. €10.1 million.

Euler Hermes is developing its business in Argentina with the launch of Euler Hermes Argentina on January 2007. The office was opened on 1 November 2006. Euler Hermes Argentina will operate as a services company, working closely with AGF Argentine.

Increase in the retention

The average group premium retention rate was increased from 59% at 31 December 2005 to 67% at 31 December 2006. Net earned premiums on reinsurance grew by 18% between 2005 and 2006.

2 IFRS accounting and valuation rules

The financial statements of the Euler Hermes group at 31 December 2006 were approved by the Group Management Board meeting of 12 February 2007.

2.1 General principles

In accordance with European regulation no. 1606/2002 of 19 July 2002, the consolidated financial statements published for 2006 were prepared in accordance with the IFRS as adopted by the European Union. International accounting standards comprise IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), together with their interpretative texts.

The standards and interpretations applied stem essentially from:

- IAS/IFRS and their interpretative texts whose application is mandatory at 31 December 2006 and which have been adopted by the European Union;
- guidance provided in CNC recommendation no. 2006-R01 relating to the format of financial statements prepared by insurance firms under international accounting guidelines.

It is mandatory to apply the new standards, amendments to existing standards and subsequent interpretations for the year ended 31 December 2006 but these had no impact on the group's financial statements:

- Amendments to IAS 19: actuarial gains and losses, multi-employer plans and information to be disclosed (applicable to financial years starting on or after 1 January 2006). The group has decided to maintain the accounting method applied until now for the recognition of actuarial gains and losses;
- Amendments to IAS 39: amendment of the fair value option (applicable to financial years starting on or after 1 January 2006). This amendment has no impact on the classification and measurement of financial instruments classified at fair value through the income statement prior to 1 January 2006 as the group is able to comply with the amended conditions for the designation of a financial instrument at fair value through the income statement.

The following new standards, amendments to existing standards and subsequent interpretations have been published but are not applicable in 2006 and have not been adopted early:

- IFRIC 8: scope of application of IFRS 2 Share-based payments (applicable to financial years starting on or after 1 May 2006). Management is currently assessing the impact of IFRIC 8 on the group's activities;
- IFRS 7 Financial instruments – disclosures (applicable to financial years starting on or after 1 January 2007), amendments to IAS 1 Presentation of financial statements – information to be disclosed on the capital (comes into force with effect from 1 January 2007): after assessing the impact of IFRS 7 and the amendment to IAS 1, the group concluded that the main additional information to be disclosed will concern the sensitivity to market risk and information on the capital required under the amendment to IAS 1. The group will apply IFRS 7 and the amendment to IAS 1 to financial years starting on or after 1 January 2007.

The financial statements are presented in euros, rounded to the nearest thousand. They have been prepared on a historical cost basis except for asset and liability items relating to insurance policies, which are measured in accordance with the methods already applied by the group (see note 2.3.19.2) and financial instruments measured at fair value (financial instruments at fair value through the income statement and available-for sale financial instruments). Non-current assets and groups of assets intended to be sold and held with a view to being sold are measured at the lower of carrying amount and fair value less selling costs. The balance sheet is presented in increasing order of liquidity.

The preparation of annual financial statements that comply with IFRS requires management to apply judgements, estimates and assumptions that impact the application of accounting policies and the amount of the assets, liabilities, income and expenses. The estimates and assumptions are based on past experience and on other factors deemed to be relevant in view of the circumstances. They form the basis on which judgements regarding the carrying amount of assets and liabilities are based, when this cannot be directly deduced from other sources. The actual results may differ from these estimates.

The estimates and assumptions are reviewed regularly. The impact of any changes to accounting estimates are recognised in the financial year in which the change is made when this change concerns only the current financial year, or in the financial year to which the change applies and subsequent financial years when the change concerns both the current year and later years.

Judgements made by management in applying IFRS that have a material impact on the financial statements and key assumptions and other major sources of uncertainty relating to estimates on the balance sheet date, that present a significant risk of requiring a material adjustment to be made to the assets and liabilities during the period essentially concern impairment of goodwill, technical reserves and retirement commitments. These items are specifically covered in section 2.3.6.3 for goodwill impairment, 2.3.19.2 for technical reserves and 2.3.17 for employee benefits.

2.2 Changes in the presentation of the consolidated income statement

Premium refunds granted to policyholders are now presented in a separate line as a deduction from turnover. They totalled €31,274 thousand for the year ended 31 December 2006 and €80,580 thousand for the year ended 31 December 2005. They were previously recorded in insurance services expense.

Interest on cash pooling receivables is now presented in financial income whereas it was previously recorded in other ordinary operating income and expense. This interest totalled €3,530 thousand for the year ended 31 December 2006 and €2,450 thousand in 2005.

Claims handling expenses to be borne by reinsurers of €10,988 thousand were presented in the 2005 published financial statements partly in claims paid to be borne by reinsurers (€3,697 thousand) and partly in claims reserve expense to be borne by reinsurers (€7,291 thousand). Furthermore, €891 thousand was reclassified from other ordinary operating income and expense to administration expense in 2006.

€188 thousand corresponding to the change in fair value of investments recognised through the income statement was reclassified from gains and losses on disposals of investments net of impairment and depreciation writebacks (-€973 thousand) and from changes in impairment of investments (+€785 thousand) to change in fair value of investments recognised at fair value through the income statement.

2.3 Consolidation scope

2.3.1 Changes in the consolidation scope

The following changes in the consolidation scope occurred in 2006:

Companies joining the group

The following companies were consolidated for the first time in the financial statements at 31 December 2006 using the full consolidation method:

- Euler Hermes Credit Insurance Agency (S) Pte. Ltd (Singapore)
- Euler Hermes Credit Underwriters (Hong Kong)
- Euler Hermes Services Baltic UAB Vilnius (Lithuania)
- Euler Hermes Services SIA Riga (Latvia)
- Euler Hermes Services OÜ Tallinn (Estonia)
- Burgel Wirtschaftsinformationen GmbH & Co KG (Germany)
- Burgel Wirtschaftsinformationen Verwaltungs-GmbH (Germany)
- Anna Kozinska (Poland)
- Euler Hermes Servicii Financiare SRL (Romania)

Euler Hermes Credit Underwriters (Hong Kong) and Burgel Wirtschaftsinformationen GmbH & Co KG, which were included in the consolidated financial statements at 31 December 2005 using the equity method, were consolidated at 31 December 2006 using the full consolidation method. Burgel Wirtschaftsinformationen Verwaltungs-GmbH (Germany) and Euler Hermes Servicii Financiare SRL

(Romania), which were included in the consolidated financial statements at 30 June 2006 using the equity method, were consolidated at 31 December 2006 using the full consolidation method.

Companies leaving the group

The funds Hermes Allianz Investment 2-Fonds, Allianz Investment-1-Fonds and Dresdner Bank Investment-HK1-827-Fonds were wound up in the first half of 2006 following the decision to resume direct management of the financial portfolio. The liquidated funds contributed €18 million to consolidated earnings in 2006, including a contribution of €9 million to financial income.

Mergers

Euler Hermes Versicherungsbeteiligungen GmbH, Euler Hermes Beteiligungen GmbH and Hermes E-Business were merged with Euler Hermes Kreditversicherungs AG in February 2006 in order to rationalise the legal structures.

Other changes

On 29 May 2006, Euler Hermes SA purchased from Euler Hermes Credit Insurance Belgium SA the 628,022 shares (78.51%) that it held in Euler Hermes Kredietverzekering NV. Euler Hermes SA purchased from Euler Hermes Kreditversicherungs AG the 170,272 shares (21.29%) that it held in Euler Hermes Kredietverzekering NV. Euler Hermes Kredietverzekering NV is now a wholly-owned subsidiary of Euler Hermes SA.

Euler Hermes Kredietverzekering NV purchased from Euler Hermes Services Belgium SA (NV) the 46,288 shares (51%) that it held in Euler Hermes Services BV.

Codinf Services purchased the holdings of its minority shareholders. This company is now a wholly-owned subsidiary of Euler Hermes Sfac.

Euler Hermes Sfac acquired a further 10% of the Greek company Phoenix Credit Insurance S.A.

2.3.2 List of consolidated companies

French companies	Consolidation	31-déc-06		31-déc-05	
	method	% control	% interest	% control	% interest
Euler Hermes S.A. (1) 1, rue Euler - 75008 Paris Siren: 552 040 594	68.39% held by AGF	Parent company	Parent company	Parent company	Parent company
Bilan Services SNC 25, boulevard des Bouvets - 92000 Nanterre Siren: 333 192 631	Full	66,00	50,00	66,00	50,00
Codinf Services SA 29, rue de Délézy - 93500 Pantin Siren: 341 693 778	Full	100,00	100,00	81,13	81,13
Euler Hermes Asset Management SA 1, rue Euler - 75008 Paris Siren: 422 728 956	Full	100,00	100,00	100,00	100,00
Euler Hermes Services SAS 1, rue Euler - 75008 Paris Siren: 414 960 377	Full	100,00	100,00	100,00	100,00
Euler Hermes SFAC SA 1-3-5 rue Euler - 75008 Paris Siren: 348 920 596	Full	100,00	100,00	100,00	100,00
Euler Hermes SFAC Crédit SAS 1, rue Euler - 75008 Paris Siren: 388 236 853	Full	100,00	100,00	100,00	100,00
Euler Hermes SFAC Recouvrement SAS 1, rue Euler - 75008 Paris Siren: 388 238 026	Full	100,00	100,00	100,00	100,00
Euler Hermes Tech SAS 1, rue Euler - 75008 Paris Siren: 388 237 091	Full	100,00	100,00	100,00	100,00
Euro Gestion EURO VL - Immeuble Colline Sud - 10 passage de l'Arche 92034 Paris La Défense FR0007047568	Full	100,00	100,00	100,00	99,99
Euler Gestion CIC Asset Management - 4 rue Gaillon - 75002 Paris FR0007434980	Full	100,00	100,00	100,00	100,00

(1) Proportion held is based on a total of 44,951,118 shares (before restatement of treasury shares).

Foreign companies	Country	Consolidation method	31-déc-06		31-déc-05	
			% control	% interest	% control	% interest
Bürgel Wirtschaftsinformationen (4)						
GmbH & Co. K.G.						
Gasstraße 18 - Hamburg	Germany	Full	50,10	50,10	50,10	50,10
Bürgel Wirtschaftsinformationen Verwaltungs-GmbH (4)						
Gasstr.18 D-22761 Hamburg	Germany	Full	50,40	50,40	50,40	50,40
Euler Hermes Beteiligungen GmbH (2)						
Friedensallee 254 - Hamburg	Germany	Merger-absorption	0,00	0,00	100,00	100,00
Euler Hermes Gesellschaft für Finanzdienstleistungen GmbH						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Forderungsmanagement GmbH						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Gesellschaft Für Informations Dienstleistungen mbH						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Rating GmbH						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Kreditversicherungs A.G.						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Risk Management GmbH						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Euler Hermes Versicherungsbeteiligungen GmbH (2)						
Friedensallee 254 - Hamburg	Germany	Merger-absorption	0,00	0,00	100,00	100,00
Hermes E-Business GmbH (2)						
Friedensallee 254 - Hamburg	Germany	Merger-absorption	0,00	0,00	100,00	100,00
Hermes Risk Management Hamb.						
Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
Dresdner Bank Investment-HK1-827-Funds (3)						
DE0009758276 60329 - Frankfurt	Germany	Liquidation	0,00	0,00	100,00	100,00
Hermes Allianz Investment-1-Funds (3)						
DE0009787150 - dit - Deutscher Investment Trust	Germany	Liquidation	0,00	0,00	100,00	100,00
Hermes Allianz Investment-2-Funds (3)						
DE0006231798 - Mainzer Landstrasse 11-13	Germany	Liquidation	0,00	0,00	100,00	100,00
Prisma Kreditversicherungs A.G.						
Heiligenstadter Strasse 201 - Vienna	Austria	Equity	49,00	49,00	49,00	49,00
Euler Hermes Credit Insurance Belgium SA (N.V.)						
15, rue Montoyer - 1000 Brussels Brussels RC: 31 955	Belgium	Full	100,00	100,00	100,00	100,00
Euler Hermes Services Belgium S.A. (N.V.)						
15, rue Montoyer - 1000 Brussels Brussels RC: 45 8033	Belgium	Full	100,00	100,00	100,00	99,99
Graydon Belgium (N.V.)						
Uibreidingstraat 84 Bus 1 - 2500 Berchem	Belgium	Equity	27,50	27,50	27,50	27,50
Euler Hermes Seguros de Crédito S.A						
Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100,00	100,00	100,00	100,00
Euler Hermes Serviços Ltda						
Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100,00	100,00	100,00	100,00
Euler Hermes Do Brasil Exportação						
Alameda Santos 2335 Conj. 51 Cerqueira César 01419-002 - São Paulo	Brazil	Full	100,00	100,00	100,00	100,00
Euler Hermes Crédito Compañía de Seguros y Reaseguros S.A.						
Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid	Spain	Full	100,00	100,00	100,00	100,00
Euler Hermes Servicios SL						
Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid	Spain	Full	100,00	100,00	100,00	100,00
Euler Hermes Services Estonia OÜ Tallinn (4)						
Tina str 9, 10126 Tallinn	Estonia	Full	100,00	100,00	100,00	100,00
Euler Hermes A.C.I. Inc						
800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
Euler Hermes A.C.I Collections Services Inc						
800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00

- (2) Merger-absorption with Euler Hermes Kreditversicherungs AG
(3) Full consolidation of 2006 earnings to the liquidation date
(4) Full consolidation for the first time in 2006 (see § 2.3.1)

Foreign companies	Country	Consolidation method	31-déc-06		31-déc-05	
			% control	% interest	% control	% interest
Euler Hermes A.C.I Holding Inc 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
Euler Hermes A.C.I Services, LLC 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
Euler Hermes Emporiki SA 109-111, Messogion Ave - Politia Business Center - 115 26 Athens	Greece	Full	60,00	60,00	50,00	50,00
Euler Hermes Emporiki Services Limited 109-111, Messogion Ave - Politia Business Center - 115 26 Athens	Greece	Full	60,00	60,00	50,00	50,00
Euler Hermes Credit Underwriters Hong Kong Ltd (4) 09/F 1 Int. Finance Centre 1, Harbour View Street - Hong Kong	Hong Kong	Full	100,00	100,00	100,00	100,00
Euler Hermes Services (HK) Ltd 09/F Int. Finance Centre 1, Harbour View Street - Hong Kong	Hong Kong	Full	100,00	100,00	100,00	100,00
EH Magyar Követeléskezelő Kft Kiscelli u.104 - 1037 Budapest	Hungary	Full	74,90	74,90	74,90	74,90
Euler Hermes Magyar Hítelbiztosító Rt Kiscelli u.104 - 1037 Budapest	Hungary	Full	74,89	74,89	74,89	74,89
Euler Hermes SIAC Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
Euler Hermes Siac Services S.r.l Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
Dimensione S.R.L. Piazza Stia, 8 - 00138 Rome	Italy	Full	100,00	100,00	100,00	100,00
Logica S.R.L. Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
Euler Hermes Credit Services (Japan) Ltd 08-07, Kyobashi 1-chome, Chuo-Ku - Tokyo	Japan	Full	100,00	100,00	100,00	100,00
Euler Hermes Services Latvija SIA (4) Skolas 9-5, LV-1010 Riga	Latvia	Full	100,00	100,00	100,00	100,00
Lietuvos Draudimo Kreditu Draudimas Jasinskio 16, Vilnius	Lithuania	Equity	51,00	51,00	51,00	51,00
UAB Euler Hermes Services Baltic (4) Jasinskio 16, Vilnius	Lithuania	Full	100,00	100,00	100,00	100,00
Euler Hermes Ré 6 B, Route de Trèves - 02633 Senningerberg	Luxembourg	Full	100,00	100,00	100,00	100,00
Euler Hermes Acmar 243, boulevard Mohammed V - 20000 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
Euler Hermes Acmar Services 243, boulevard Mohammed V - 20000 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
Euler Hermes Seguro de Crédito S.A. Blvd Manuel Avila Camacho #164, 8° piso Col. Lomas de Barrilaco - Mexico, DF CP 11010	Mexico	Full	100,00	100,00	100,00	100,00
Euler Hermes Servicios SA Blvd Manuel Avila Camacho #164, 8° piso Col. Lomas de Barrilaco - Mexico, DF CP 11010	Mexico	Full	100,00	100,00	100,00	100,00
Euler Hermes Interborg NV Hoogoorddreef 5 - Postbus/ PO 1100 AL Amsterdam	Netherlands	Full	95,00	95,00	95,00	95,00
Euler Hermes Kredietverzekering NV Pettelaarpark 20 - Postbus 70571 NL-5201 CZ's-Hertogenbosch	Netherlands	Full	100,00	100,00	99,80	99,80
Euler Hermes Services BV Pettelaarpark 20 - Postbus 70571 NL-5201 CZ's-Hertogenbosch	Netherlands	Full	100,00	100,00	100,00	99,90
Graydon Creditfink B.V. Hullenbergweg 260 - 1101 BV Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
Graydon Holding N.V. Hullenbergweg 260 - 1101 BV Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
Graydon Nederland B.V. Hullenbergweg 260 - 1101 BV Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
Kisys Krediet Informatie Systemen B.V. Hullenbergweg 270 - 1101 BV Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
MarkSelect B.V. Diemerhof 26 - Postbus 22969 - 1100 DL Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
N.V. Interpolis Kredietverzekeringen Pettelaarpark 20 - 5216 PD's Hertogenbosch	Netherlands	Proportional	45,00	45,00	45,00	44,91

(4) Full consolidation for the first time in 2006 (see § 2.3.1)

Foreign companies	Country	Consolidation method	31-déc-06		31-déc-05	
			% control	% interest	% control	% interest
Euler Hermes Zarzadzanie Ryzkiem Sp. Z.o.o. ul. Chocimska, 17 - 00 791 Warsaw	Poland	Full	100,00	100,00	100,00	100,00
Towarzystwo Ubezpieczen Euler Hermes S.A. ul. Chocimska, 17 - 00 791 Warsaw	Poland	Full	100,00	100,00	100,00	100,00
Euler Hermes, Anna Kozinska-Kancelaria Prawna Sp.k (4) ul. Chocimska, 17 - 00 791 Warsaw	Poland	Full	99,98	99,98	99,98	99,98
Companhia de Seguro de Creditos SA (COSEC) Avenida de Republica, 58 1069-057 Lisbon	Portugal	Equity	41,43	41,43	41,43	41,43
Euler Hermes Cescob, uverova pojist'ovna, a.s. Molakova 576/11, 186 00 Prague 8	Czech Republic	Full	100,00	100,00	100,00	100,00
Euler Hermes Cescob Service, s.r.o. Zahrebska 23-25 - 120 00 Prague 2	Czech Republic	Full	100,00	100,00	100,00	100,00
Euler Hermes Servicii Financiare SRL (4) Str. Maltopol, nr. 9, 011047, Sector 1, Bucharest	Romania	Full	79,97	79,97	79,97	79,97
Euler Hermes UK plc 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
Euler Hermes Collections UK Ltd 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
Euler Hermes Guarantee plc Surety House, Lyons Crescent - Tonbridge Kent TN9 1EN	United Kingdom	Full	94,86	94,86	94,86	94,86
Euler Hermes Holdings UK plc 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
Euler Hermes Risk Services UK Ltd 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
Euler Hermes International Ltd 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
Graydon U.K. Limited Hyde House, Edgware Road - Colindale - London NW9 6LW	United Kingdom	Equity	27,50	27,50	27,50	27,50
Euler Hermes Credit Insurance Agency (S) Pte. Ltd (4) 3 Temasek Avenue - # 08-01 Centennial Tower Singapore 039130	Singapore	Full	100,00	100,00	100,00	100,00
Euler Hermes Credit Insurance Nordic A.B. Klara Norra Kyrkogata 29 - SE 101 34 Stockholm	Sweden	Full	100,00	100,00	100,00	100,00
Euler Hermes Services - AG General Wille strasse 10 - 8002 Zurich	Switzerland	Full	99,50	99,50	99,50	99,50
Euler Hermes Reinsurance AG Tödistrasse 65 - 8002 Zurich	Switzerland	Full	100,00	100,00	100,00	100,00

NB: Percentages of control and interest are determined on the last day of the financial period.

(4) Full consolidation for the first time in 2006 (see § 2.3.1)

2.4 Consolidation principles and methods

2.4.1 Consolidation policies

Euler Hermes consolidates entities within its scope using the consolidation method that must be applied according to the type of control that it exercises over the entity. The group uses the acquisition method for recognising purchases of subsidiaries. The acquisition cost is measured as the fair value of the assets received, of shareholders' equity instruments issued and of liabilities incurred or committed to as at the transaction date plus any costs that are directly attributable to the acquisition. Any excess of the acquisition cost over the fair value of the group's share of the identified net assets acquired is recorded as goodwill. For companies accounted for by the equity method, this goodwill is not recognised separately, but instead is included in the amount of investments accounted for by the equity method. If the acquisition cost is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

◆ Subsidiaries

Subsidiaries are entities that are controlled by Euler Hermes. Control is the power, direct or indirect, to direct the financial and operational policies of an entity in order to obtain benefits from its activities. In assessing whether or not control exists, potential voting rights and conversion options that can be exercised during the period in question are taken into account. The financial statements of a subsidiary are incorporated into the group's consolidated financial statements from the date on which the parent company acquires control of the subsidiary until the date on which it ceases to exercise such control.

The group currently has holdings of less than 20% in certain mutual funds that are not consolidated. Holdings of more than 50% in other mutual funds are consolidated using the full consolidation method. This concerns the following mutual funds:

- Euler Gestion
- Euro Gestion

The Euler Hermes group owns 100% of these mutual funds.

◆ Companies accounted for by the equity method

Companies accounted for by the equity method are entities, including those without a legal status such as certain partnerships, over whose financial and operational policies the group exercises significant influence without having control. The consolidated financial statements incorporate the group's share of the results of such companies using the equity method, from the date on which the parent company acquires significant influence until the date on which it ceases to have such influence. When the group's share of the losses of an associate is equal to or more than its interest in the associate, the carrying amount of the interest is reduced to zero and the group ceases to recognise its share of any future losses, except when the group has a legal or implied obligation or has made payments in the name of the associate. The amount of the group's investments accounted for by the equity method includes any goodwill (net of accumulated impairment) identified at the time of the acquisition.

Holdings in such companies are accounted for using the equity method. These companies are:

- Prisma Kreditversicherungs A.G.;
- Graydon Holding N.V.;
- Companhia de Seguro de Creditos SA (COSEC).

At present, only Lietuvos Draudimo Kreditu Draudimas is accounted for using the equity method even though it is exclusively controlled, as the company is currently being wound up. In the financial statements at 31 December 2006, Euler Hermes Credit Underwriters Hong Kong and BURGEL Wirtschaftsinformationen GmbH & Co KG are now consolidated using the full consolidation method.

◆ **Entities under joint control (joint ventures)**

Entities under joint control are those over whose economic activity the group exercises joint control by virtue of a contractual agreement. The financial statements of a joint venture are incorporated into the consolidated financial statements using the proportional consolidation method, by means of which the group's share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined, line by line, with the corresponding items in the group financial statements, from the date on which the parent company acquires joint control until it ceases to have such control.

NV Interpolis Kredietverzekeringen is controlled jointly by Euler Hermes Kredietverzekering NV, which owns 3,742 shares out of a total of 8,315 shares, and Interpolis Verzekeringen NV, which owns 4,573 shares out of a total of 8,315 shares. Each share represents one voting right. An executive director is appointed by each party and all decisions are subject to agreement.

There are no other jointly controlled companies.

2.4.2 Eliminations on consolidation

Income and expenses arising on intra-group transactions are eliminated during the preparation of the consolidated financial statements. Income and expenses arising on transactions with companies accounted for by the equity method or joint ventures are eliminated to the extent of the group's share in the company concerned.

2.4.3 Financial year and year-end dates

The financial year for all consolidated companies is a 12-month period ending on 31 December.

2.4.4 Translation

2.4.4.1 Translation of transactions denominated in a foreign currency

In accordance with IAS 21, transactions denominated in foreign currencies (currencies other than the operating currency) are translated into the currency used by the group for operating and presentation purposes at the exchange rate prevailing on the transaction date; for practical reasons, an average rate is used, i.e. the average of the month-end exchange rates. The entity's operating and reporting currency is the euro.

At each closing, the entity must translate balance sheet items denominated in a foreign currency into its operating currency by means of the following procedures:

- monetary items (notably bond investments, receivables and liabilities and technical insurance reserves) are translated at the closing exchange rate and any resulting gains and losses are recognised in the net income for the year,
- non-monetary items that are measured at historical cost (notably property investments) are translated at the exchange rate prevailing on the transaction date, and,
- non-monetary items that are measured at fair value (notably equity investments) are translated at the exchange rate prevailing on the fair-value valuation date.

2.4.4.2 Translation of the financial statements of foreign companies

The financial statements of foreign subsidiaries are prepared in their operating currency. At each closing, the income statement and the balance sheet of each entity are translated into euros to facilitate the presentation of the consolidated financial statements, using the following procedure:

- the assets and liabilities of each balance sheet presented are translated at the closing rate;
- the income and expense of each income statement (including comparatives) are translated at the exchange rates prevailing on the individual transaction dates (in practice, an average exchange rate is used, which is equal to the average of the monthly closing rates for the period, except on the case of significant fluctuations in the exchange rate).

The group's share of any translation differences arising on shareholders' equity is recorded within shareholders' equity under "Translation differences", while the portion relating to third parties is recorded under "Minority interests".

The main exchange rates applied on consolidation for currencies outside the euro zone were as follows:

Exchange rate (to euros:

	31 December 2006		31 December 2005	
	closing	average	closing	average
Pound sterling	0.6715	0.68190	0.6853	0.683042
US dollar	1.3170	1.26299	1.1797	1.237983
Swedish krona	9.0404	9.25333	9.3885	9.299733
Brazilian real	2.81240	2.73856	2.7416	2.986192
Hong Kong dollar	10.24090	9.81224	9.1474	9.627233
Swiss franc	1.60690	1.57676	1.55510	1.54783

2.4.5 Sectoral data

A sector of activity is a distinct component of a business that is engaged in the supply of products or services exposed to risks and profitability that differ from those of other sectors of activity. A geographic sector is a distinct component of a business engaged in the supply of products or services in a given economic environment that are exposed to risks and profitability that differ from those of other geographic sectors.

2.4.6 Goodwill and other intangible assets

2.4.6.1 Goodwill

All business combinations made with effect from 31 March 1998 are recognised by applying the acquisition method. Goodwill represents an amount arising on the acquisition of subsidiaries, equity-accounted companies or joint ventures. It corresponds to the excess of the cost of the business combination over the share of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. The values of the identifiable assets and liabilities acquired may be adjusted within a period of 12 months commencing on the acquisition date.

For business combinations made prior to 31 March 1998, goodwill is recognised on the basis of the presumed cost, which corresponds to the carrying amount calculated by reference to the accounting rules used prior to the date of transition to IFRS.

Goodwill is recognised at acquisition cost less any accumulated impairment write-downs.

With effect from 1 January 2004, goodwill is no longer amortised in accordance with IFRS 3, but instead is subject to impairment testing, either annually or more frequently if events or changes in circumstances suggest that impairment may have occurred (see § 2.4.6.3).

If the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination (i.e. negative goodwill), a further review is undertaken of the identification and measurement of the identifiable assets, liabilities and contingent liabilities and of the assessment of the cost of the combination. Any excess identified after this review is recognised immediately in the income statement.

For the purposes of impairment testing, goodwill is allocated to Cash Generating Units or to groups of Cash Generating Units (see § 2.4.6.3 for the impairment test procedures).

At each closing, the carrying amount of the Cash Generating Unit (or groups of Cash Generating Units) to which the goodwill relates is compared with its recoverable value, which represents the higher of the fair value of the Cash Generating Unit less any selling costs and its value in use. The value in use is defined as the present value of future cash flows as identified in the business plans of the subsidiary concerned. Details of the method used to calculate the value in use are presented in note 1 Goodwill.

Goodwill arising from the acquisition of a holding in equity-accounted companies is not presented separately, but is included within the amount of the investments in companies accounted for by the equity method.

2.4.6.2 Other intangible assets

An intangible asset is a non-monetary asset that has no physical substance and which is identifiable, i.e. it meets one of the following two conditions: it is separable (i.e. it can be sold, transferred, conceded, rented out or exchanged), or it arises from contractual or legal rights, regardless of whether or not these rights are separable.

Other intangible assets acquired by the group are recognised at cost less any accumulated amortisation and write-downs. Subsequent expenditure relating to recognised intangible assets is capitalised only to the extent that it contributes to increasing, and not simply maintaining, the future economic benefits represented by the intangible asset to which it relates. All other expenditure is recognised as an expense in the income statement when incurred.

Intangible assets with a defined useful life are amortised on a straight-line basis over their estimated useful lives. The amortisation charge is recognised in the income statement.

The group records under this heading software that is developed in-house or acquired externally and contract portfolios.

Software developed in-house or acquired externally is amortised over its estimated useful life.

Costs relating to the development phase are capitalised provided that the entity can demonstrate the technical feasibility of the project, its intention to complete and use the intangible asset, its capacity to use it, how the intangible asset will generate future economic benefits, the availability of resources to complete the development and its capacity to reliably measure the costs associated with the intangible asset.

2.4.6.3 Impairment

Goodwill

In accordance with IFRS 3, goodwill is not amortised but is subject to an annual impairment test for each Cash Generating Unit (CGU) or group of CGUs to which the goodwill relates. The CGUs correspond to the main subsidiaries presented in the sectoral analyses. An impairment of goodwill is recognised when the higher of the Cash Generating Unit's value in use (present value of future cash flows) and fair value less any selling costs is less than its carrying amount (share of net assets and goodwill).

The main assumptions used to determine the value in use are as follows: indefinite renewal of policies, growth rate to infinity of between 0% and 2% depending on the CGU concerned, and a discount rate of 8.20%. With effect from 2006, the discount rate used is determined by geographic region. The model is based on the projected 3-year budget prepared by management with a final year based on normalised management ratios (combined ratios and target retention rates) using a minimum rate of 83% for the combined ratio. Furthermore, as part of the setting up of a captive reinsurance company, the scope of the Cash Generating Units has been extended to include

reinsurance assignments made to this new company as well as the share of related shareholders' equity. Lastly, the valuation model has been fine-tuned to incorporate specific treatment of capital surpluses actually available for distribution.

The impairment recognised in the income statement is allocated in priority to goodwill, if goodwill has been allocated to the Cash Generating Unit, while the balance is allocated on a pro rata basis to other assets comprising the Cash Generating Unit. Such impairment is never written back.

Other intangible assets

All other intangible assets are subject to an impairment test if there is any evidence of impairment. Any impairment recognised for an asset other than goodwill is written back if the estimate of the recoverable value has increased since the recognition of the last impairment. However, the write back cannot be such that the carrying amount of the asset exceeds the carrying amount that would have been determined, net of amortisation, if impairment had not been recognised.

2.4.7 Property assets

2.4.7.1 Distinction between investment property and operating property

An investment property is a property asset (land or building) owned by the group for the purpose of generating rental income or capital appreciation, as opposed to being for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business. Investment property is recognised in the balance sheet under "Investments – insurance businesses".

The group's operating property is included within property and equipment.

2.4.7.2 Recognition and measurement

The Euler Hermes group recognises property (held for investment or operating purposes) in accordance with the cost method. This means that each property asset must be recorded at an amount equal to the cost on the acquisition date (purchase price, including non-recoverable taxes and other expenses directly attributable to the acquisition such as transfer taxes and legal fees) plus any subsequent expenditure that can be capitalised under IAS16 and less any accumulated depreciation calculated in accordance with IAS 16 and any impairment relating to the application of IAS 36.

The Euler Hermes group has identified four categories of property assets that apply to both investment property and operating property:

- Housing;
- Warehouses and commercial premises;
- Offices;
- High-rise buildings.

The depreciable balance sheet amount corresponds to the historical acquisition cost (including expenditure that can be capitalised) less any residual value, where applicable, and any impairment. When the historical acquisition cost determined in this manner exceeds the residual value, a depreciation charge is recognised. The residual value corresponds to the amount that the business would currently obtain by selling an asset that has already reached the age and condition of the asset at the end of its useful life, net of any costs relating to its disposal.

For each category of property assets, the group has identified six significant components, in addition to land, each of which has a different useful life and must therefore be subject to a depreciation schedule according to their respective useful lives. The table below shows, for each category of property assets, the general allocation rules for each component, and the depreciation period and the residual value, where applicable. Acquisition expenses of properties are allocated to the components and depreciated over the same period.

	Housing	Warehouses and commercial premises	Offices	High-rise buildings
Component	Depr. period	Depr. period	Depr. period	Depr. period
Load-bearing structures and walls	100 years	30 years	100 years	70 years
Non-load-bearing windows and facades, roofs and terraces, internal constructions	40 years	30 years	40 years	40 years
A/C engineering, plumbing and networks, electrical engineering	25 years	20 years	25 years	25 years
Centralised technical management, fire safety and other safety features	25 years	20 years	25 years	25 years
Lifting gear	25 years	20 years	25 years	25 years
Major maintenance work	10 years	10 years	10 years	10 years

Properties are valued periodically by independent experts. The fair value of buildings is estimated based on market prices, adjusted, where applicable, to take into account the nature, location or other specific features of the building concerned. The fair value is presented in the notes to the balance sheet (see note 3).

2.4.7.3 Impairment

Investment property

The value in use of property is calculated at each balance sheet date using the discounted future cash flows method. A provision for impairment of property is recognised where required to reduce the value of the property to the higher of the value in use and the expert valuation. This provision may be written back through the income statement in the event of an increase in value.

Property for own use

When a property's expert valuation is less than its carrying amount, the value in use of the Cash Generating Unit (CGU) to which the property belongs must be determined. A provision for impairment is recognised in order to reduce the value of the operating property to the higher of the value in use and the expert valuation. In the event of an increase in value, this provision may be written back through the income statement.

2.4.8 Other property and equipment

Other property and equipment are recognised at cost less accumulated depreciation and impairment write-downs. The depreciation methods and useful lives are generally as follows.

- IT equipment	straight-line	3 years
- Furniture/fittings	straight-line	10 years
- Motor vehicles	straight-line	5 years

2.4.9 Financial instruments

2.4.9.1 Financial investments

In accordance with IFRS, financial investments are analysed between the following categories: financial instruments at fair value through the income statement, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification is determined on initial recognition of the instrument according to its nature and/or the group's ownership intention.

Euler Hermes' financial investments are mainly classified as available-for-sale investments. The group has not elected for the option enabling it to value its financial investments at fair value through the income statement.

◆ **Available-for-sale assets (AFS)**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or which are not classified within the other three categories of financial instruments as defined below:

Initial recognition

Available-for-sale assets are recognised at fair value plus any transaction costs directly related to the acquisition (referred to hereafter as the purchase price). The difference between the purchase price and the redemption value of fixed-income securities is recognised in the income statement on an actuarial basis over the remaining term of the securities using the effective interest rate method.

Measurement

On the balance sheet date, available-for-sale assets are measured at their fair value. The difference between the fair value of the securities and their purchase price less the actuarial amortisation is recognised in "available-for-sale assets", with a corresponding entry in the revaluation reserve, with no impact on the income statement.

Impairment

When objective evidence exists of impairment of an available-for-sale asset, the accumulated loss recognised directly in shareholders' equity is removed from shareholders' equity and recognised in the income statement.

The criteria deemed to indicate impairment of available-for-sale shareholders' equity instruments are as follows:

- significant impairment is presumed when the fair value of an available-for-sale equity instrument is more than 20% below the average acquisition cost of the securities at the quarter end;
- lasting impairment is presumed when the fair value is less than the acquisition cost for more than 9 months.

The amount of the accumulated loss removed from shareholders' equity and recognised in the income statement is equal to the difference between the acquisition cost (net of any capital repayment and any write-downs) and the current fair value, less any impairment of this financial asset previously recognised in the income statement.

Impairment recognised on a shareholders' equity instrument is never written back to the income statement prior to de-recognition of the instrument.

For debt instruments, the impairment, which is equal to the difference between the fair value and the amortised cost, is recognised through the income statement.

In addition, any subsequent decrease in the fair value of a security already written down results in the recognition of an additional impairment charge through the income statement.

Disposal

In the event of disposal, the amounts recognised in the revaluation reserve are recognised in the income statement.

◆ **Held-to-maturity assets (HTM)**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which the group has the clear intention and the capacity to hold until their maturity.

Initial recognition

On initial recognition, HTM assets are recognised at fair value plus any transaction costs directly related to the acquisition.

Measurement

On the balance sheet date, held-to-maturity investments are measured at their amortised cost using the effective interest rate method. Premiums and discounts are included in the calculation of amortised cost and are recognised in the income statement on an actuarial basis over the term of the financial asset.

◆ **Assets held for trading purposes**

A financial asset is classified as held for trading purposes if it is:

- acquired or held principally with a view to being sold or redeemed in the short term, or,
- part of a portfolio of identified financial instruments that are managed as a whole and for which there is evidence of a recent pattern of short-term profit taking, or,
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Initial recognition

Assets held for trading purposes are recognised at fair value on the acquisition date.

Measurement

Assets held for trading purposes are measured at fair value. Any change in the fair value of securities held for trading purposes during the period is recognised in the income statement for the period.

◆ **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market, except for instruments classified at fair value through the income statement or as available for sale.

Recognition and measurement

Loans are recorded at fair value plus any directly attributable transaction costs. On the balance sheet date, they are measured at amortised cost using the effective interest rate method. Financial income for the period is recorded by applying the effective interest rate to the amortised cost of the transaction.

Impairment

When objective evidence of impairment exists (e.g. a deterioration in the financial situation of the issuers), the amount of the loss is equal to the difference between the carrying amount of the asset and the value of estimated future cash flows, discounted at the original effective interest rate of the financial asset.

2.4.9.2 Derivatives

A derivative is a financial instrument, or another agreement falling within the scope of application of IAS 39, that has the following three features: (a) its value fluctuates as a function of changes in an interest rate, in the price of a financial instrument, in the price of a specific commodity, in an exchange rate, in a price or rate index, in a credit rating or a credit index, or in another variable (the

“underlying”); (b) it requires no net initial investment or a net initial investment that is less than that which would be required for other types of contracts that can be expected to react similarly to changes in market conditions; and (c) it is settled in the future.

All derivatives are classified at fair value through the income statement except when it concerns a designated and effective hedging instrument. In the latter case, the instrument is still measured at fair value but the recognition of the gain or loss follows the procedures applicable to the hedging relationship to which it relates.

Within the Euler Hermes group, derivatives correspond mainly to interest rate swaps. Interest rate swaps are hedging agreements that concern underlyings of the same amount and same maturity.

Derivatives eligible for fair value hedge accounting (i.e. those used to hedge changes in the fair value of an asset or liability) are recognised as follows:

- the hedging instrument is recognised at fair value and any changes are recognised through the income statement;
- the carrying amount of the hedged item is adjusted for any gain or loss on the hedged item attributable to the risk hedged, the change being recognised through the income statement;
- the hedged item is remeasured at market value in respect of the component relating to the risk hedged.

Derivatives eligible for future cash flow hedge accounting are recognised at fair value, with the portion of the change in fair value of the hedging instrument that is considered to constitute an effective hedge being recognised through shareholders' equity. The ineffective portion of the hedge is recognised immediately through the income statement.

Derivatives that are not eligible for hedge accounting are recognised as free-standing derivatives in the category of assets held for trading purposes. The fair value of free-standing derivatives is therefore recognised on the balance sheet in assets or liabilities, with any changes in the fair value being recognised through the income statement.

2.4.10 Insurance and reinsurance receivables and liabilities

This heading essentially comprises receivables and liabilities arising on insurance and reinsurance transactions, earned premiums not yet written and premium cancellations, net of reinsurance.

2.4.11 Acquisition costs capitalised

Acquisition costs capitalised relate to insurance policies. They mainly comprise brokerage commissions and expenses incurred by the sales and marketing departments. The capitalised amount is calculated using the same method as for the provision for unearned premiums. As the period covered by contracts is one year at most, these acquisition costs are deferred to the following year. The movement in acquisition costs capitalised is included in acquisition expense reported in the income statement. Where applicable, acquisition costs capitalised are written down as part of the application of tests on the adequacy of liabilities.

2.4.12 Current and deferred tax

The tax charge comprises current tax and deferred tax resulting from timing differences between the taxable base and the carrying amount of assets and liabilities. Deferred tax is calculated using the balance sheet liability method based on the taxation conditions known at the year end. Deferred tax assets are recognised provided that it is likely that they will be collected. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of consolidated subsidiaries except when the parent company is in a position to control the date on which the timing difference will reverse and when it is probable that it will not reverse within the foreseeable future. In practice, a deferred tax liability is recognised only on dividends whose distribution has been approved. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of companies accounted for by the equity method. Deferred tax is recognised on the difference between the consolidated value and the tax value of securities of consolidated entities that are in the process of being sold. A deferred tax liability is recognised on the adjustment to the

capitalisation reserve, even when the low probability of selling at a loss securities of this reserve that are liable for tax makes it unlikely that the existing stock will be taxed.

2.4.13 Other receivables and operating liabilities

Other receivables and other operating liabilities essentially comprise tax-related receivables and liabilities (other than corporation tax), amounts due to employees, amounts due to suppliers, and receivables and liabilities due from/to the Allianz group.

2.4.14 Other assets and other liabilities

These essentially comprise prepaid expense accounts.

2.4.15 Cash and cash equivalents

Cash consists of cash in hand and demand deposits. Bank overdrafts repayable on demand are considered as cash equivalents when they form an integral part of the company's cash management procedures.

2.4.16 Provisions for risks and charges

2.4.16.1 Provisions

Provisions for risks and charges essentially comprise provisions for retirement commitments (see § 2.3.17). Other provisions are measured using the rules set out in IAS 37, which require the existence of a present obligation arising from a past event, the probability that an outflow of resources representing economic benefits will be necessary to settle the obligation, and a reliable estimate of the amount of the obligation. They are discounted in the event that the impact proves to be significant.

2.4.16.2 Contingent liabilities and contingent assets

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or otherwise of one or more uncertain future events, that are not under the full control of the business, or a present obligation arising from past events but which is not recognised, either because an outflow of resources is unlikely or because the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset arising from past events and whose existence will be confirmed only by the occurrence or otherwise of one or more uncertain future events that are not under the full control of the business.

The group has not identified any contingent assets or liabilities corresponding to the above-mentioned definitions and requiring presentation in the notes to the financial statements.

Group companies may be concerned by disputes inherent in the exercise of their normal business. However, no exceptional events, disputes or arbitration procedures currently exist that are likely to have a material impact on the group's activity, results or financial situation.

2.4.17 Employee benefits

The group contributes, in accordance with the laws and practices of each country, to the constitution of retirement benefits for its employees. The benefits offered to group staff derive either from defined contribution plans or from defined benefit plans.

- ◆ Defined contribution plans involve payments to bodies that release the company from any future commitments in respect of employees. As such, only the contributions paid or payable

in respect of the period are included in the group's financial statements. Such plans are in place in France, the United States, the United Kingdom and Scandinavia.

- ◆ In the case of defined benefit plans, an amount of benefits is paid to the employee upon retirement, this amount generally being determined by one or more factors such as age, number of years' service and salary. Such plans are in place in the following countries: France, Germany, Belgium, the Netherlands, Italy and the United Kingdom. In France, these concern retirement benefits paid in the form of an annuity or capital.

The related commitments are measured in accordance with IAS 19, by independent actuaries. The commitment is recognised in the balance sheet using the projected unit credit method, based on the group actuarial assumptions, which are reviewed each year. This method involves assigning an additional unit of rights to benefits for each period of service, with each of these units being measured separately to calculate the final commitment.

The group has put in place specific assets to cover certain plans. In this case, the commitment is reduced by the amount of the fair value of these assets. The commitment amount recognised as a liability is also adjusted for any actuarial variances and the past service cost.

Actuarial variances correspond to the change in the discounted value of the commitment or in the fair value of the assets, as a result of differences between the demographic and financial assumptions used in the calculations and the actual level of demographic and financial variables for the period (experience effect) and due to changes in the actuarial assumptions (IAS 19.7). These variances are recognised in the income statement using the corridor method. When the variances reach or exceed 10% of the higher (IAS 19.92) of the discounted value of the commitment or of the market value of the plan assets (the "corridor"), the amount by which these variances exceed the higher of these two values is spread over the expected average residual length of service of the plan beneficiaries.

Past service cost denotes the increase or decrease in the present value of the commitment in respect of defined benefits for services rendered during prior years, arising as a result of the introduction of a new retirement benefits plan or changes to plan arrangements during the current year. For benefit rights that have already been earned, the corresponding amount must be expensed immediately. For benefit rights that are not yet earned, the charge or income is spread on a straight-line basis over the average remaining length of service to be completed for the rights to be earned.

The Euler Hermes group also accrues commitments relating to other long-term benefits (long-service awards, etc.) granted to employees. The provision corresponds to the present value of the commitment and is calculated annually by the group.

2.4.18 Share-based payments

IFRS 2 is applied to all measures concerned that are granted after 7 November 2002.

Benefits granted to group employees involving the delivery of instruments representing shareholders' equity in group companies on preferential terms are now considered as additional remuneration and are recognised as an expense at their fair value on the allocation date with a corresponding entry to reserves. Where appropriate, this charge is spread over the vesting period. These benefits notably include discounts granted on the issue price of shares under capital increases reserved for employees as well as the fair value of stock purchase or subscription options granted to group employees.

Allianz has put in place stock option plans for the benefit of executives of the Euler Hermes group. On exercising their rights, these executives receive a cash amount corresponding to the difference between the market value and the subscription price (Stock Appreciation Rights plans - SAR), or shareholders' equity instruments (this action is possible under Restricted Stock Units plans - RSU).

The fair value of options granted is calculated using the Cox Ross Rubinstein valuation model.

2.4.19 Insurance and reinsurance contracts

Contracts considered as insurance or reinsurance contracts under French accounting standards are analysed in accordance with IFRS between the following categories of contracts:

- insurance and reinsurance contracts falling within the scope of IFRS 4;
- investment contracts with discretionary participation falling within the scope of IFRS 4;
- investment contracts without discretionary participation falling within the scope of IAS 39.

Following a detailed review of its insurance and reinsurance contracts, it was evident that the Euler Hermes group only has contracts in the first category, which covers insurance and reinsurance contracts falling within the scope of IFRS 4. This review also highlighted the absence of any embedded derivatives.

2.4.19.1 Definition of insurance contracts

Insurance contracts are contracts under which the insurer accepts significant insurance risk. Insurance risk is a risk, other than a financial risk, that is transferred by the policyholder to the policy issuer (a financial risk is a risk of possible future changes in interest rates, in the price of a marketable security, in an exchange rate, etc.).

Credit insurance contracts are included in IFRS 4 phase I (paragraph B18 (g) of the standard), this standard being applied pending the standard on "Financial Guarantee Contracts and Credit Insurance". The exposure draft relating to this new standard was issued in July 2004 and was open for comments through to 8 October 2004. The purpose of this exposure draft was to produce a single standard for the treatment of financial guarantees and credit insurance. The responses to the exposure draft were discussed at the IAS Board meetings in January, February and March 2005.

In April 2005, the IAS Board concluded that the issuers of financial guarantee or credit insurance contracts that have clearly indicated that their contracts corresponded to the definition of an insurance contract under IFRS 4 and had recognised them using the accounting methods specific to insurance contracts, could elect to apply either the accounting methods provided for in IFRS 4, or those provided for in the exposure draft.

On 18 August 2005, the sections of IFRS 4 and IAS 39 relating to financial guarantees were amended. The amendments were essentially aimed at ensuring that issuers of financial guarantee contracts measure these at fair value for the initial amount and subsequently at the higher of the amount determined in accordance with IAS 37 and the amount recognised initially less, where applicable, accumulated amortisation in accordance with IAS 18. However, as companies that have been confirmed as issuers of insurance contracts may continue to use the accounting treatment proposed under IFRS 4, these amendments do not call into question the decision taken by the Euler Hermes group to apply IFRS 4 to credit insurance contracts.

2.4.19.2 Measurement of insurance contracts

Other than in the case of the specific exceptions defined in the standard, IFRS 4 permits the continued use of previous accounting principles for the recognition of insurance and reinsurance contracts. Euler Hermes has thus continued to apply the standards defined by CRC 2000-05 taking into account the following points, which are covered by specific provisions introduced by IFRS 4:

- Removal of provisions for equalisation
- Performance of a test for the adequacy of liabilities
- Impairment testing of reinsurance assets
- Identification and separation of embedded derivatives

For all other aspects, the methods already applied by the group, in accordance with CRC Regulation no. 2000-05, have been retained for the measurement of insurance contracts.

Analysis by function of expenses relating to contracts

Expenses relating to insurance contracts are initially recognised according to their nature and then analysed by function in the income statement headings by means of analysis keys based on objective

business criteria. Claims settlement expenses are included in contract service charges. Contract acquisition expenses and administration expenses are included in the income statement.

Premiums

Premiums correspond to premiums written excluding taxes, before reinsurance and net of cancellations. They are recognised on the date on which the guarantee takes effect and include an estimate of premiums still to be written for the portion earned during the financial year and an estimate of premiums that will be cancelled after the balance sheet date.

Premiums recognised in turnover stem from the guarantees given to policyholders to cover their trade receivables that arise in the same period as that for which the premium is paid. Given settlement delays, the lag between the triggering event, i.e. bankruptcy of the debtor, and notification of the claim, there is also a lag between recording the premiums and the related claims. This lag is taken into account through the recognition of provisions for claims incurred but not reported (IBNR).

Premium refunds granted to policyholders are now presented on a separate line as a deduction from earned premiums. Up to 31 December 2005, they were recognised in insurance service expense.

Provisions for unearned premiums

A provision for unearned premiums, gross of commissions and expenses, is established contract by contract as a function of the time left to run between the balance sheet date and the premium due date.

Claims

Claims comprise the following items:

- claims settled during the period relating to the current period or to prior periods, net of recoveries received;
- claims settlement expense, notably settlement service expense and commissions allocated to claims handling.

Reserves for claims payable

These technical reserves are designed to cover probable losses relating to:

- claims reported but not yet settled at the balance sheet date;
- claims occurring during the period but reported after the balance sheet date and, in respect of trade receivables existing at the balance sheet date and covered by a policy on such date, claims that will occur and will be reported during subsequent periods. These so-called “unknown” or “incurred but not reported” claims are estimated using statistical models that are essentially based on the level of claims observed during prior years.

Claims reserves are increased by a provision for administration charges.

Additional information on the measurement of claims reserves is provided in section 3.8 under risk management.

Estimated recoveries

Recoveries are the result of actions taken by the company against defaulting debtors in order to fully or partially recover claims paid to policyholders.

Estimated recoveries are a prudent estimate of potential recoveries on settled claims and are recognised as a reduction in the amount of the reserves for claims payable. They take into consideration a provision for administration charges determined in accordance with actual observed expenses.

Other technical reserves

A provision for current risks is established by risk category in addition to the provision for unearned premiums when claims likely to arise after the balance sheet date and relating to contracts underwritten before that date and the related acquisition costs and administration charges are not covered by the provision for unearned premiums.

Test for the adequacy of liabilities

At each closing, insurance contract liabilities net of related assets (acquisition costs capitalised and portfolio securities) are subject to a test for the adequacy of liabilities. The methods previously applied by the group and retained under IFRS 4 (including notably the measurement of claims reserves on the basis of the non-discounted ultimate cost and the methods for establishing the provision for current risks) constitute a satisfactory test for the adequacy of liabilities given the minimum requirements specified by IFRS 4.

2.4.19.3 Reinsurance contracts

Acceptances

Insurance acceptances (inwards reinsurance) are recognised on a case-by-case basis based on the actual or estimated results for the year. Technical reserves correspond to the amounts advised by the assignors.

Assignments

Assigned reinsurance contracts (outwards reinsurance) are recognised in accordance with the terms of the various treaties. The share of assignees in the technical reserves is measured in the same way as technical reserves gross of reinsurance appearing in liabilities.

Cash deposits received from reinsurers are recognised in liabilities arising on assigned reinsurance transactions. Receivables due from reinsurers are not subject to impairment write-downs as they offer satisfactory financial guarantees and are authorised by the Allianz group.

2.4.20 Borrowings

Borrowings are contractual obligations that require the group to transfer cash or a financial asset to another entity, or to exchange with another entity a financial asset on potentially unfavourable terms.

The measurement and recognition of borrowings are defined by IAS 39. With the exception of derivatives (see §2.3.9.2), borrowings and other financial liabilities are recognised at fair value less any related transaction costs, and are subsequently measured at amortised cost calculated using the effective interest rate.

Borrowings include, within the meaning of IAS 39, borrowings, other financing and bank overdrafts, derivatives and amounts due to suppliers and social security liabilities included in "operating liabilities".

2.4.21 Income from ordinary activities

Income from ordinary activities can comprise items measured and recognised in accordance with IFRS 4, IAS 18 or IAS 39. This aggregate has a broader meaning than turnover as it also incorporates investment income.

Turnover comprises earned premiums and commissions and other operating revenues.

2.4.21.1 Premiums

Credit insurance premiums included in turnover correspond to written premiums excluding taxes, less premiums cancelled during the period and an estimate of written premiums that will be cancelled after the balance sheet date. They are increased by an estimate of the portion of premiums to be written that are earned during the period and adjusted by the movement in provisions for unearned premiums, which correspond to the share of written premiums covering the period after the balance sheet date. As from 2006, premium refunds granted to policyholders are now presented on a separate line as a deduction from turnover.

Premium-related revenues comprise enquiry and monitoring charges invoiced in respect of risk management and prevention on behalf of policyholders, and fees for the collection of disputed receivables. They also include income relating to the export guarantee activity managed on behalf of the German State and other technical income.

2.4.21.2 Investment income

Investment income is recognised in accordance with IAS 39, IAS 17 or IAS 18 depending on its type.

Investment income net of management expense

This income comprises notably the following categories of revenue:

- net income from property
- net income from securities
- other financial income (bank credit interest, income from other investments)
- foreign exchange gains and losses
- investment management charges

Capital gains and losses on disposals of investments

Capital gains and losses on disposals of securities or property are recognised in the income statement. The group generally uses the FIFO method (First In, First Out). Shares exchanged under a public share exchange offer result in the recognition of a capital gain on exchange.

Change in fair value of investments recognised at fair value through the income statement

Differences in fair value recorded for the current period less any differences from the previous period are recognised. These essentially concern the remeasurement of derivatives.

Change in investment impairment charges

The impairment charges notably concern write-downs of investments and write-backs following a disposal, and charges for the depreciation and impairment of investment property.

2.4.22 Insurance services expense

Insurance services expense includes the net cost of claims, i.e. claims settled during the period less recoveries received, the movement in claims reserves net of projected recoveries, bonuses and expenses incurred or to be incurred for the management of claims payments and collections. The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.4.19.2 (Measurement of insurance contracts).

2.4.23 Net outwards reinsurance income or expense

This heading comprises the share of assignments and retrocessions of earned premiums, claims paid, changes in claims reserves, bonuses and commissions received from reinsurers. The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.4.19.3.

2.4.24 Administration expense

Administration expense mainly comprises salary costs and costs relating to the IT systems.

2.4.25 Other ordinary operating income and expense

Other ordinary operating income and expense comprises:

- Other technical expenses;
- Employee profit-sharing and incentive plans;
- Other net non-technical income;
- Provisions for risks and charges;
- Other income and expenses;
- Interest on arrears relating to the retail credit activity managed by Euler Hermes Credit Insurance in Belgium.

Other ordinary operating income and expenses correspond to charges not allocated by function relating to the services activity of the Euler Hermes group.

2.4.26 Other operating income and expense

These revenue and expense items arise from a major event that occurred during the accounting period and are such that they would distort the interpretation of the group's performance. They therefore consist of very few items that are unusual in nature and occur infrequently, and are for a material amount.

2.4.27 Financing expense

The recognition principles applied to this item are those set out in IAS 39.

Financing expense consists of expenses relating to the following items:

- long-term financial liabilities: capital borrowings from the general public, e.g. in the form of bonds, or from banks or financial institutions (medium- or long-term loans, leases, etc.);
- short-term financial liabilities of the same type as above including issues of short-term negotiable debt securities to investors;
- fair-value hedging instruments recorded in the balance sheet and relating to liabilities representing the gross borrowings described above;
- accrued interest on balance sheet items representing gross borrowings.

2.4.28 Earnings per share

Earnings per share are calculated by dividing the group share of the net income or loss by the weighted average number of ordinary shares in issue during the year. An ordinary share is a shareholders' equity instrument that is subordinated to all other categories of shareholders' equity instruments.

Dilution implies a reduction in the earnings per share as a result of the assumption that convertible instruments are converted, equity options and subscription warrants are exercised, and ordinary shares are issued if certain specific conditions are met.

3 Risk management

Through its activities, the Euler Hermes group is exposed to various types of financial risks: insurance risks, market risks (exchange risk, interest rate risk and equity market risk), credit risk and liquidity risk.

To monitor such risks adequately, the Euler Hermes group has implemented a risk control function within the finance department that aims to control the main risks to which the group is exposed.

3.1 The risk control function

3.1.1 Objective and principles of risk control

In a rapidly changing environment, the perception of risk, as well as the realisation of certain major risks, has heightened risk awareness among all company staff. Risk control and measurement have become a major component of the Euler Hermes group's strategy. In optimising this component, the objective is to reduce earnings volatility and facilitate the optimum allocation of capital, a source of lasting and steady growth. This approach forms part of an overall mechanism that is in keeping with the requirements of the key shareholders.

Responsibility for risk management lies with the various group companies. The group risk control function monitors, in conjunction with the control structures of each subsidiary, changes in risk and risk measurement. The latter measures any changes or build up in risk that is likely to impact the group's results.

In order to properly fulfil its mission, risk control applies a principle of independence and does not manage any operational function.

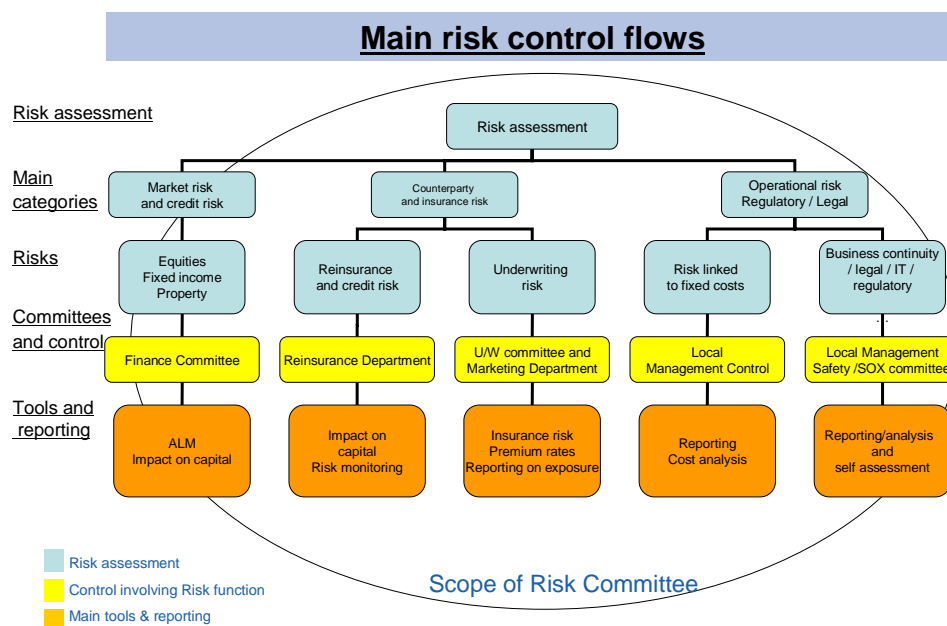
3.1.2 Risk control activity

This function is responsible for understanding, measuring and controlling all the types of risks that the group may face. To achieve this, it relies on each entity and the cross-company functions of the group to monitor and consolidate the information provided to management. This coordination provides detailed information on local situations, which in turn is used to prepare a consolidated view for submission to the group's senior management.

This enables the group's management to optimise the allocation of resources. As such, the investment policy may be heavily influenced by these measures in an environment of uncertain financial returns. The underwriting policy, in terms of both its commercial and risk aspects, may guide certain choices such as the contractual terms proposed to policyholders or the concentration of certain risks. Through precise control of these risks, Euler Hermes pursues its policy of preserving margins while at the same time maintaining a balance between the creditworthiness of the group and its subsidiaries and the allocation of available resources.

The main functions and subsidiaries have their own organisational structures with local committees and group committees whose tasks include risk monitoring, with independent oversight by the risk control function. The Group Risk Committee supervises the group's risk management and risk strategy using summaries of information reported by the entities and consolidated analyses. The Group Risk Committee comprises the group's management. Certain measurement tools are more specific to certain functions. The control and support mechanism also involves risk modelling and regular analysis of information that is more specific to the various risk categories. The models follow the business as closely as possible with regular parameter updates and the development of new instruments adapted to reflect changes in the environment.

The various types of risk, identified and regrouped by category and function together with the related control flows, are presented in the following diagram:



In addition to the structure shown above, the risk control function may place increased emphasis on the analysis or control of certain functions or subsidiaries. As such, besides the need to quantify and analyse the various types of risk, the complexity of the credit insurance business has prompted the risk function in 2006 to strengthen certain measurement tools covering the underwriting of insurance risks and management of financial investments.

3.2 Insurance risk

3.2.1 Insurance risk

The management of technical risk arising on credit insurance is based on a highly developed risk culture associated with the management of contracts and client service. As well as the management of contract underwriting, the group provides a service to policyholders to reduce the risks associated with their trade receivables.

As such, during the policy period, each request from policyholders for cover on one of their debtors is analysed in accordance with clearly defined debtor creditworthiness criteria (financial analysis, previous claims made on this debtor). Such cover is therefore underwritten on the basis of the risk profile of the commercial transaction relating to the application. Effectively, through the management of risk cover based on the creditworthiness of policyholders' customers, Euler Hermes actively modulates the transfer of policyholders' customer risk. To achieve this, each group entity has a dedicated management team that, through contact with the policyholder, monitors and analyses policyholders' positions and requests. These teams are coordinated by a cross-disciplinary function at group level, which ensures that consistent underwriting rules are applied to such cover and, in particular, that an equivalent rating is given across the entire group. In addition, insurance risk underwriting committees within each entity and at group level determine the commitments as a function of the level of the debtors' creditworthiness, particularly for the more sensitive risks.

On the commercial front, a cross-company function coordinates contractual changes and all the group's sales and marketing initiatives.

3.2.2 Credit insurance contracts

Credit insurance contracts are fairly homogenous in form within the group, their objective being to cover the risk of non-payment by policyholders' customers. However, certain contracts restrict the cover to the formal bankruptcy of the debtor only. The underlying risk is dependent upon local bankruptcy laws that offer the debtor varying degrees of latitude. The insurance company must thus anticipate the behaviour and practices stemming from these laws in order to maximise control of its own risk.

The credit insurance contract specifies the management conditions and the parameters (excess, maximum liability, etc.) that vary according to the risk profile of each policyholder. It also requires that the policyholder declares payment defaults within a given timeframe. During the policy period, there is ongoing collaboration with the policyholder, notably through the provision of the necessary cover for his customers. The principle of providing global coverage for policyholders' turnover is an important element in increasing risk diversification but also in limiting the effects of non-selection. The Euler Hermes group also offers a debt collection service that enables it to check the amounts to be collected from debtors and to act as quickly as possible to collect these amounts.

3.2.3 Insurance portfolio and diversification

Through its position as leader in its main markets, Euler Hermes' exposure is spread across many debtors. In addition, the Euler Hermes group's geographical coverage provides diversification of risk across many countries, bearing in mind that the group incorporates into its underwriting the notion of country risk. This diversification takes into account not only the location of the policyholders but more especially that of their customers.

The theoretical gross exposures in credit insurance correspond to the maximum amount of commitments that the group agrees to cover on its policyholders' applications. The actual amounts of policyholders' transactions that are covered are much less, in line with the actual turnover recorded by the policyholder at a given date. Like transfers of reinsurance risk, excesses and liability limits also reduce the group's final exposure.

The table below sets out the theoretical exposures not by country of the group entities, rather, in order to present a truer picture of the geographic split of risks, by country of the debtor (i.e. the policyholders' customers).

Gross theoretical exposures by the debtor's country at 31 December 2006

€000	2006	%	2005 pro forma	%
Total Europe	497 795	88,2%	455 347	88,5%
of which:				
France	187 312	33,2%	187 670	36,5%
Germany	94 753	16,8%	84 800	16,5%
United Kingdom	60 247	10,7%	51 407	10,0%
Italy	56 516	10,0%	48 192	9,4%
Eastern Europe	19 556	3,5%	13 864	2,7%
Spain	15 598	2,8%	13 133	2,6%
Scandinavia	15 106	2,7%	13 002	2,5%
Netherlands	14 777	2,6%	13 714	2,7%
Belgium and Luxembourg	13 925	2,5%	12 370	2,4%
Rest of Europe	20 005	3,5%	17 195	3,3%
Total Americas	49 703	8,8%	43 079	8,4%
of which:				
United States	36 708	6,5%	32 755	6,4%
Canada	5 762	1,0%	5 178	1,0%
Latin America	7 233	1,3%	5 146	1,0%
Asia-Pacific	11 624	2,1%	12 545	2,4%
Near and Middle East	2 669	0,5%	2 003	0,4%
Africa	2 349	0,4%	1 640	0,3%
Total	564 140	100,0%	514 614	100,0%

As illustrated in this table of the geographical split of gross exposures, the debtors of a given policyholder may be located in very different geographical locations and this split contributes to risk diversification, which, at the group portfolio level, limits the effects of bankruptcy of individual companies or clearly defined groups of companies or even of sectors of activity.

The second table shows the gross exposures by sector of activity. The sectoral breakdown presents another effect of diversification, i.e. a reduced impact of individual bankruptcies. Regular sectoral analyses are prepared using group applications that are continually being improved. The 2006 split by sector benefited from these enhancements through more refined allocations (amounts allocated to "Other" and "Construction" were reduced with reallocations to "Wood", "Chemicals", "Metals" and "Services").

Gross exposures by the debtor's sector of activity at 31 December 2006

€000	2006	%	2005	%
Metallurgy	97 935	17,4%	88 215	17,1%
Agrifood	77 005	13,7%	73 526	14,3%
Construction	71 138	12,6%	83 799	16,3%
Textiles / leather	32 607	5,8%	29 911	5,8%
Electronics	48 290	8,6%	46 278	9,0%
Services	89 980	16,0%	74 888	14,6%
Wood - Paper	35 315	6,3%	20 020	3,9%
Chemicals	44 003	7,8%	24 379	4,7%
Other	67 866	12,0%	73 598	14,3%
Total	564 140	100,0%	514 614	100,0%

3.2.4 Management of underwriting risk

In recent years, the Euler Hermes group has developed a specific organisational structure and IT applications to optimise its handling of insurance risk. This organisation and applications have gradually been extended to all group entities. The system holds policyholders' applications, stores details of cover underwritten together with debtor positions and controls all information received and sent.

Underwriting of cover draws on an optimised organisation based on a single IT system consisting of a database used specifically for underwriting of cover. Thanks to the risk rating system and its use by specialised staff, responses to applications for cover are assessed and submitted to clients very quickly. This tool facilitates the monitoring, either locally or centrally, of cover based on numerous criteria. Details of cover can thus be more readily analysed by sector of activity or by country.

While risks are underwritten locally, a central control is used to check the application of written underwriting rules and changes in exposure on a real-time basis. The central risk underwriting function thus has considerable resources available to monitor sensitive risks and risk concentrations and to limit these, both centrally and locally, according to changes in creditworthiness. The internal audit department has primary responsibility for regularly controlling the application of these rules.

All debtors, on which policyholders make applications for cover, are subject to a creditworthiness assessment accompanied by the issue of a rating (on a scale ranging from 1, for the most creditworthy, to 10, in cases of bankruptcy) on the capacity of the debtor to honour his commitments to suppliers.

In this assessment, information quality and the proximity of the risks are key factors:

- analysis of internal information is given priority;
- each group entity monitors and underwrites its policyholders' cover. Each entity also provides a service for the other entities whose policyholders work with debtors located in the geographical region that it covers.

When an assessment is performed for another entity, the communication of this information is based on rules set centrally and the determination of a creditworthiness rating for each debtor. Depending on the rating, the entity that has underwritten the insurance contract provides the export cover to its clients with the maximum amount of detail. This organisation provides clients with high service quality and facilitates close control of the underwriting risks.

Certain debtors, especially large groups, whose rating reflects a very high degree of creditworthiness, offer higher theoretical gross exposures. The 50 largest debtors or groups of debtors fall within the strongest rating categories. To assess the impact of this concentration, the solidity of these individual debtors must be taken into account, as well as the group's capacity to reduce insurance cover in the short term, the application of insurance contract parameters and the protection offered by reinsurance. As shown by internal stress tests, any potential claim net of reinsurance on these exposures should not exceed 5% of shareholders' equity. It should also be emphasised that the dynamic management of Euler Hermes' exposure during the bankruptcies of major groups with a significant theoretical gross exposure has enabled the group to avoid the impact resulting from the domino effects of bankruptcies. It is the permanent balance between the terms and conditions of the insurance policies and the management of cover or risk transfer that ensures a steady cash flow at group level. The policy terms and conditions are adapted according to the risk of each customer. Besides the service it provides, management of insurance cover means that the risks borne by the group can be modified according to individual cases but also to reflect changes in the environment. If there is an adverse change in the environment, cover is reduced on the least creditworthy debtors in order to maintain the ratio of claims to premiums paid. The capacity and reaction time of the Euler Hermes group in such situations have also improved considerably with the new group application for the management of underwriting cover on debtors having been rolled out to the main group subsidiaries during the year.

Theoretical gross exposures, managed on an ongoing basis, may be reduced at any time if the risk is deemed to be higher following an assessment of the debtor's creditworthiness. The actual exposure

depends on the utilisation, which varies over time, of this cover by the policyholders and the parameters of each contract (excesses, maximum liability, etc.). Lastly, in the event of a claim, a varying proportion of the loss is shared with the reinsurer by virtue of the use of proportional and non-proportional reinsurance contracts, which contribute to reducing Euler Hermes' final exposure.

The progression from the gross exposure at a given point in time on a debtor to the potential claim amount is thus complex and variable. Similarly, the determination of the amount of exposures net of reinsurance can be calculated only after applying policyholders' liability limits and excesses.

3.3 Market risk

Each group entity has a financial portfolio, investment of which is managed locally in accordance with the investment policies recommended by the group. Applied locally, these policies are controlled within each entity by a finance committee that reviews the portfolio results and approves any new investments.

At group level, governance is provided by an investment management function and a group finance committee that sets the short- and medium-term guidelines for management of the portfolio.

Market trends and ongoing management are the primary management criteria. However, in its strategic choices, the finance committee draws on measures of risk and asset/liability management to make the most appropriate decisions according to the resources available, while also taking into account constraints regarding the cover provided by technical reserves and long-term provisions.

The risk control function fine-tunes asset/liability management tools to assess the impact of changes in investment policy. This approach is also supported by the calculation of what-if scenarios based on the choices envisaged.

The financial portfolio is diversified, by both investment type (although preference is given to bonds) and issuer. The risk concentrations on a given issuer are very limited and the weak correlation between the various assets enables the overall risk on the financial portfolio to be reduced.

Credit insurance is a short-term activity. On average, the overall duration of the liquidity of liabilities is just over one year. However, the very good continuity of the insurance business through the renewal of contracts means that account can be taken of a recurring factor, i.e. investment needs, thereby extending the term of the invested assets to increase returns on the financial portfolio. In addition, the group's short-term cash and cash equivalents cover its insurance commitments net of reinsurance and only a very sharp deterioration in the combined ratio (which would also fully offset financial income), over more than one year, could bring about a reduction in the financial portfolio. Past experience shows that the group is able to respond in the face of a deterioration in the economic environment without having to reduce its financial portfolio.

3.3.1 Description of the portfolio

Given its international positioning, Euler Hermes has investments through the various local entities. Within each entity, investments in government bonds dominate, although their weighting may fluctuate slightly from one entity to another depending on the proportion invested in equities and property.

Financial portfolio at market value

	31/12/2006		31/12/2005	
	€m	%	€m	%
Bonds	2 022	60%	2 015	64%
Equities	623	19%	495	16%
Investment property	135	4%	118	4%
Loans, deposits and other financial investments	235	7%	294	9%
Total financial investments	3 014	90%	2 922	93%
Cash	335	10%	222	7%
Total financial investments + cash	3 349	100%	3 144	100%

3.3.2 Equity market risk

The Euler Hermes group had invested around 19% of its financial portfolio in equities at the end of 2006. This policy stems from a cautious approach as well as the good performance by the markets in 2006. Investments are concentrated in major securities of the main financial markets. In fact, equities are considered as a risky asset whose weighting follows the strict rules of the finance committee with regard to allocation. The simulation of a fall in the markets has a relatively limited impact on the earnings of the group as a whole and means that this type of investment can be considered as providing substantial additional returns for the portfolio as a whole.

Invested mainly in the euro zone, equity investments benefited once again in 2006 from the rise in the markets. The group's policy is to maintain the equity proportion at no more than its current level.

3.3.3 Interest rate risk

Interest rate risk management, while recognising the short duration of the liabilities, also takes into account the continuity of activity in order to increase the duration of investments and thus achieve higher returns on investments in fixed-income products. The main interest rate risk stems from a rise in interest rates, which, assuming that fixed-income bonds are maintained in the portfolio, corresponds to lower remuneration over the remaining term compared with the market interest rate.

Bonds by maturity

	31/12/2006		31/12/2005	
	€m	%	€m	%
Less than 1 year	270	13%	324	16%
1 to 3 years	548	27%	569	28%
3 to 5 years	430	21%	439	22%
5 to 7 years	480	24%	297	15%
7 to 10 years	244	12%	293	15%
more than 10 years	49	2%	94	5%
Total	2 022	100%	2 015	100%

The yield on the bond portfolio is highly dependent on changes in interest rates and the portfolio duration. The average bond yield for 2006 was 3.3%, close to the rate offered for the current duration of the bond portfolio, i.e. around 4.1 years. Amounts represented by securities reaching maturity are

replaced by equivalent securities with maturities that are slightly longer than the average portfolio duration in order to maintain a limited level of risk and stable income from bonds.

Borrowings are mainly by the holding company, Euler Hermes SA, and, on an ancillary basis, by the entity located in Belgium. The borrowings of Euler Hermes SA are primarily contracted with the core shareholder, AGF, and have maturities of less than three years.

3.3.4 Property risk

Investment property continues to represent a limited proportion of the group's investment portfolio and is held mainly by the French entity.

In France, the investment consists of various residential properties, in Paris and the inner suburbs, with management of the property portfolio being outsourced. The turnover rate is limited, with portfolio properties being held for an average of 10 years. New acquisitions are concentrated on medium-sized properties offering profitability levels in line with the market average.

As most of these investments are held in the portfolio for a relatively long time, they offer unrealised capital gains and profitability similar to that of the financial portfolio. Fluctuations in property prices, which may demonstrate significant correlation with interest rate and equity risk, cannot be ruled out, but their impact on the group's results would remain marginal.

3.3.5 Liquidity risk

At 31 December 2006, almost 80% of the group's assets consisted of listed marketable securities. Equity investments are made in large caps listed on the main markets in Europe, the USA and Japan. Similarly, group companies select bonds of major public or private issuers that are listed on highly liquid markets, thus enabling such investments to be traded at short notice.

Each entity monitors the main payments falling due and, on the other side, cash and cash equivalents, which offer an adequate safety margin. The local finance committee reviews the liquidity position on a regular basis.

In the event of an exceptional need, Euler Hermes could also consider making a call on the market or its core shareholder.

In view of the levels of short-term cash and cash equivalents and bonds maturing in less than one year, the Euler Hermes group considers its liquidity risk as being very low.

3.3.6 Exchange risk

The group's exchange risk is practically limited to the location of entities in regions using currencies other than the euro. Each entity effectively underwrites contracts in its local currency and thus generates a liability in local currency. The congruence rules required by the local regulators are applied rigorously.

The assets of these companies are invested mainly in local investment assets. An analysis of the financial portfolio of each entity shows that amounts in a currency other than the euro represent less than 20% of the total. These assets are held mainly by group companies operating in the regions that use these currencies.

Group financial portfolio by currency

	31/12/2006		31/12/2005	
	€m	%	€m	%
EUR	2 395	79,5%	2 321	79,4%
GBP	304	10,1%	299	10,2%
USD	244	8,1%	249	8,5%
Other	72	2,4%	52	1,8%
Total	3 014	100%	2 922	100%

A one-eurocent change in the US dollar or British pound exchange rate would impact the consolidated profit in proportion to the contribution of these geographic regions.

Foreign exchange risk €'000	2006			2005		
	United States	United Kingdom	GROUP	United States	United Kingdom	GROUP
Net income, group share in €000 - 2006	28 102	39 738	326 055	29 198	35 061	286 076
Closing exchange rate	0,7593	1,4892		0,8477	1,4592	
Net income, group share in local currency ('000)	37 010	26 684		34 445	24 027	
Impact of a 100 basis-point exchange rate movement	0,7493	1,4792		0,8377	1,4492	
Net income, group share in €000 after the exchange rate movement	27 732	39 471	325 418	28 854	34 821	285 491
Change relative to initial net income (%)	-1,32%	-0,67%	-0,20%	-1,18%	-0,69%	-0,20%

* United States refers to the USD-denominated component of consolidated income, United Kingdom refers to the GBP component. Income denominated in currencies other than the USD and GBP is considered to be not material.

3.4 Credit risk

Credit risk has become an essential component of risk management following the spectacular bankruptcies of certain major groups. It is thus vital that this type of concentration is monitored regularly nowadays.

Euler Hermes matches each bond portfolio line with the issuer's rating. The breakdown of the portfolio by rating, apart from providing control over the creditworthiness of securities held in the portfolio, demonstrates that securities with a AAA rating represent 82% of the portfolio, mainly in government securities, and less than 1% of securities have no rating at all or a rating below A.

Concentration risk is very limited as no corporate bond security held in the portfolio exceeds 0.8% of the total bond portfolio.

Breakdown of bonds by rating

	31/12/2006		31/12/2005	
	€m	%	€m	%
AAA	1 650	82%	1 580	78%
AA+	86	4%	79	4%
AA	198	10%	97	5%
AA-	40	2%	191	9%
A+	22	1%	11	1%
A	8	0%	20	1%
Other	17	1%	36	2%
Total	2 022	100%	2 015	100%

3.5 Reinsurance and reinsurance counterparty risk

3.5.1 Reinsurance: a risk management tool

Reinsurance is an essential part of risk management through which Euler Hermes transfers part of its commitments to reinsurers, in exchange for the payment of a premium or the assignment of a portion of its premiums. Through reinsurance, the group covers high-frequency risks and/or exceptionally large risks in order to limit the impact of an increase in the number of claims or the occurrence of specific large claims. The setting of parameters for these treaties is tested each year by the reinsurance and risk control functions using stress test scenarios. This process enables the group to check the appropriateness of the protection. The setting of parameters for reinsurance contracts entered into by the subsidiaries is carried out by the group to ensure a better balance between changes in the portfolio and coverage needs.

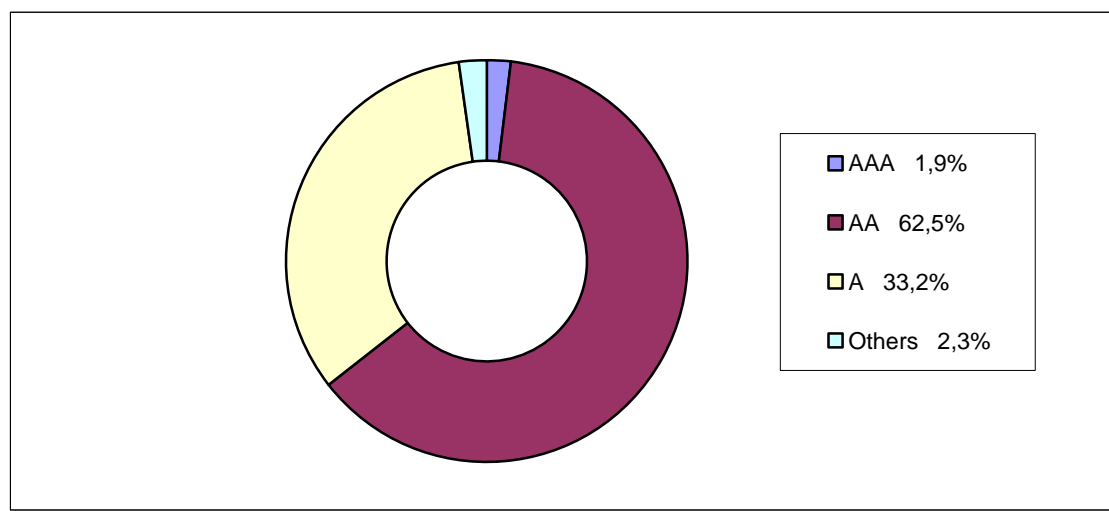
Proportional (share) treaties protect the group against an increase in high-frequency risks in the event that a large number of debtors go bankrupt. Through these treaties, the group assigns a portion of its risks and related premiums to reinsurers, after deducting a fee to cover administration charges. Each entity has its own assignment rate depending on its position and financial capacity.

Non-proportional (excess of loss) treaties cover the occurrence of exceptionally large risks. Such claims arise following the bankruptcy of a debtor or group of debtors with exposures high enough to generate amounts exceeding the reinsurance excesses of these treaties.

3.5.2 Reinsurance counterparty risk

Group support for establishing the entities' treaties is provided through the selection of the best reinsurance counterparties, rated A or above. The highest exposures are placed with top-tier reinsurers.

Analysis of technical reserves assigned* by rating of the reinsurer (the scope covered represents 95% of the reserves considered out of the group total at 31 December 2006)



AAA	7 874
AA	255 686
A	135 919
Others	9 323
Total	408 802

* provisions for unearned premiums/claims reserves assigned

3.6 Capital to cover the risk

The risk function, in conjunction with the group's main shareholder, has initiated the implementation of risk measurement procedures aimed at establishing the capital needed to cover the group's activity. These measures also form the basis for the calculation of economic added value, one of the performance indicators of each entity.

The calculation of insurance risk is a prerequisite for the definition of an internal model for credit insurance. It is the trickiest calculation to implement as it must reflect all contract parameters, debtors and risk transfers. The classification of debtors by rating, together with a probability of bankruptcy, is used as the basis of a complex process aimed at simulating the actual insurance risk exposure based on theoretical credit insurance cover.

Each entity regularly performs a detailed calculation based on its own positions. The individual results must subsequently be aggregated and adjusted to reflect the impact of diversification (on the entities and the various risk categories). The calculation of the capital required to cover the quantifiable risks is based on an economic approach. Given the consistency provided by this model, it is likely to become a key instrument in risk management. This new model being developed aims to improve the approach used up to now, which refers to the method applied by Standard & Poor's.

The current reference model, based on the Standard & Poor's method, assigns risk factors to the various balance sheet items. Securities in the financial portfolio are thus classified by rating, as are the exposures to reinsurers. The insurance and reserve risk is deduced by directly applying factors to the amounts after reinsurance of net premiums and claims reserves respectively.

The amounts simulated by this method are shown in the following table:

Risk Capital €'m	2006	2005
C1: Financial risk	169,3	145,7
C2: Counterparty risk	9,1	9,2
C4: Premium risk	832,7	742,9
C5: Reserve risk	178,6	170,0
S&P RAC* simulation	1 594,2	1 433,0

$$*RAC: C1+C2+140\%(C4+C5)$$

The Euler Hermes group operates in many countries and each entity is subject to local regulatory constraints. The amount consolidated resulting from local constraints is significantly less than the group's consolidated shareholders' equity.

Stress tests

In addition to the capital risk calculations, the group also regularly performs a series of stress tests designed to ensure consistency of the protection afforded and the group's sensitivity to certain scenarios involving a deterioration in risk. The results illustrate the risk considered but, as with any simulation exercise, they have their limitations. The simulation is based on the situation at a given date, being the year-end date in the present case. The results do not therefore reflect the possibility of managing events over time or ex-post. The absence of dynamic management means that only extreme cases can be simulated that do not allow for incorporation of any adaptation of the positions or of the structure in the event of a significant negative change.

Stress tests on assets

At just over four years, the duration of the bond portfolio limits the impact of a 100 basis point rise in interest rates to €83.4 million before tax. Scenarios for other financial assets involve measuring the impact of a 10% change in the assets concerned.

Stress tests on equities and the impact on shareholders' equity

Equity and bond portfolio risk at 31 December 2006 (€m)	Market value at 31 December 2006	Impact of a 100bp* rise in interest rates	Impact of a 10% fall in the equity market	Market value at 31 December 2005	Impact of a 100bp** rise in interest rates	Impact of a 10% fall in the equity market
Bonds	2 022	-83,4	0,0	2 015	-66,5	0,0
Equities	623	0,0	-62,3	495	0,0	-49,5
Total	2 645			2 510		

* Average sensitivity of 4.1% calculated based on the main subsidiaries, which represented more than 93% of the bond portfolio at 31 December 2006

** Average sensitivity of 3.3% calculated based on the main subsidiaries, which represented more than 95% of the bond portfolio at 31 December 2005

A 30% decline in the equity portfolio would have an impact of €29 million on pre-tax income.

Stress tests on the main components of operating income

Equity portfolio risk at 31 December 2006 (€m)	Market value at 31/12/2006 / Impact scenario	Revaluation reserve / shareholders' equity impact	Amortised cost / Economic cost impact
Total	623	179	443
Impact of a 10% fall in the equity market	-62	-45	0
Impact of a 30% fall in the equity market	-187	-131	-29

The impact on shareholders' equity takes deferred tax into account. The impact on income is stated before tax.

Sensitivity of net income, group share to changes in the main components of operating income

	Net income, group share 2006	10% reduction in premiums	10% increase in 2006 cost of claims	10% increase in claims handling expense	Pro forma net income, group share 2005	10% reduction in premiums	10% increase in pro forma 2005 cost of claims	10% increase in claims handling expense
Change	326 054	-38 096	-47 077	-42 828	286 076	-35 266	-41 986	-38 317

Assumption: effective tax rate is constant in 2005 and 2006

The first scenario of a decline in premiums involves applying constant claims-to-premiums ratios and overheads. The scenario of an increase in the cost of claims is based on a change in the amounts for the year, with no change in the amounts of claims for prior years. The 10% increase in costs covers all overheads excluding brokerage fees.

The scenarios showing the sensitivity of net income to fluctuations in the main aggregates of operating income are also a tool that can be used to ascertain the impact of an exceptional situation and the assumptions used are highly conservative, to take into account sudden changes. For each scenario, the sensitivity measured refers to an amplitude that must, in an actual scenario, be combined with other changes that may partially or fully offset the effects.

3.7 Operational risks

Financial and insurance risks are often the first risks identified in a risk management process that lies at the heart of the group's activity. Operational risks are inherent to any structure and their occurrence may have significant consequences for any structure that does not sufficiently recognise them. Operational risks may be the consequence of internal or external problems or malicious actions that result in losses for the business and may even include disruption of activity.

Through its geographical distribution, Euler Hermes, has long applied a clear management approach to its operational situation in order to reduce related risks.

Operational risks are very broad and permeate all echelons of the organisation. Identified risks include the risk of fraud, legal risks, commercial risks, IT risks, security and damage risks, etc.

In anticipation of the constraints imposed by legislation, the group's subsidiaries that have major responsibility for monitoring these risks have, for some years now, implemented significant initiatives. The group has taken numerous measures to ensure the continuity of activity in the event of major disasters. Each entity now has in place business continuity plans and back-up sites. Furthermore, internal control has been strengthened through the introduction of the Sarbanes Oxley Act, whose constraints apply to the group's main entities.

Each subsidiary carries out its own assessment of its main risks. This assessment identifies all possible risks, estimates their impact and provides a basis for considering the possibility of their occurrence and the impact on each subsidiary and on the group of the main risks thus identified.

3.7.1 Insurance of goods and persons

The protection of assets and the risks of civil liability are analysed for each subsidiary in order to control the quality of cover and the possible financial consequences. Insurance programmes, established with experts, are underwritten with major insurance companies and include claims ceilings set at levels to limit the impact of any claims.

3.7.2 Regulatory framework

The subsidiaries have the necessary structures to comply with the regulations of the countries in which they are located. They apply the appropriate legislative measures and respond to requests made by the authorities and local supervisory bodies, and comply with specific prudence rules. In addition, each entity has appointed a contact person for the implementation of the European Directive on data protection and the group has strengthened the control structure covering the application of regulations.

3.7.3 Legal risks

Euler Hermes pays close attention to the management of its relations with third parties, and each entity has a local structure or the legal means to take appropriate legal action in the event of a dispute.

At present, other than the amounts of commitments considered as technical reserves, no significant disputes impacting Euler Hermes have been identified.

3.7.4 Environmental risks

By its very nature, the insurance business is non-polluting. In addition, no fact or information on this risk has been identified as having a material impact on the Euler Hermes group's accounts, results or activity.

3.8 Claims reserves

The purpose of claims reserves is to cover claims that have been notified or those that have not yet been notified but which relate to the financial year. They are estimated on a claim-by-claim basis or by the application of statistical methods based on historical data and claims trends. Claims reserves are not discounted.

As shown by the table below, the group's claims for the financial year are similar to those of previous years.

Net claims-to-premiums ratios

Ratio of Claims / Premiums net of reinsurance

	2004	2005 pro forma	2006
Claims / Premiums Ratio*	45,9%	44,8%	49,2%

* In accordance with IFRS

Determining claims reserves

Due to their insurance activity, the group's subsidiaries are required to establish sufficient reserves to guarantee future claims payments. As provided for in the policy, in the event of payment default by a debtor to a policyholder or the former's insolvency, the latter declares this default to Euler Hermes, which, in turn, establishes a reserve for a sufficient amount to cover the future claims payment. A collection procedure is implemented as soon as the declaration has been made. After the claim has been settled, the loss may also be subject to collection services. The claims handling process thus involves three quite separate phases.

First of all, claims relating to the financial year but not yet declared are subject to IBNR (incurred but not reported) estimates to cover future claims payments and costs.

Reported claims are analysed based on the insurance cover granted. On receiving the specific claims notification, a cover analysis is performed to determine the amount of the provision to be recorded for this claim. Next, the amount reserved for a claim is updated for each new notification or recovery to cover potential payments on this claim. The reserve for a given claim is cancelled when the claim is fully settled or fully recovered prior to the assumed claim settlement date. Technical reserves are thus established on a claim-by-claim basis.

Once the claim has been settled, the sums may be partially or fully recovered. An estimate of related future cash flows should thus be established.

Reserves for reported claims are established based on the information that is available at the balance sheet date. Claims are settled rapidly in the field of credit insurance. In addition, based on the aggregate individual reserve amounts of each claim, the estimates are made using statistical methods that are applied in all group entities in order to achieve a more accurate estimate of the final cost that corresponds to the sum of amounts settled and received on final closure of the claim.

The estimate of reserves for claims incurred but not yet reported must distinguish two criteria that have a considerable bearing on the split of claims costs between provision and claims paid:

- First and foremost, the type of cover provided by the contracts: the two main types of cover offered in credit insurance are “declared insolvency” and “payment default”. Insurance cover based purely on insolvency covers the policyholder’s exposure only in the event of insolvency. An analysis of debtor defaults enables the group to identify bankruptcies and thus reduce the uncertainty regarding the potential claim amounts. Although the insurance cover is in force when the invoice is issued or on delivery, actual payment default must take place before determining the amounts concerned and receipt of the claim notification from the policyholder. The period of uncertainty includes the time taken for payment, which varies depending on the countries or sectors concerned, and the time taken to notify the claim.

The estimate of reserves for claims incurred but not yet reported draws on statistical methods and includes economic data on claims trends. The portion of reserves subject to this calculation bears the greatest uncertainty and, de facto, necessitates a certain margin of prudence in order to avoid shortfalls in reserves.

- The second parameter relates to the claims payment period.

At the time they are estimated, the reserves take account of the likelihood of claims occurring, the possible impact of local regulations and expected changes in the economic environment. Nevertheless, due to their nature, the reserves include a certain level of uncertainty and ongoing controls are performed to maintain the reserves already established at an adequate level. Specific technical reserve control committees have been set up in all subsidiaries to ensure the consistency and adequacy of the methods used to determine the reserves established in relation to the risk to be covered.

The main methods applied by group subsidiaries are Chain Ladder, Bornhuetter Ferguson and the so-called bootstrap method. The Chain Ladder method is based on calculations of the development of claims triangles. The Bornhuetter Ferguson method draws on a projection of the claims-to-premiums ratio. The so-called bootstrap method is an extension of the Chain Ladder method, using multiple simulations to determine the margins of error.

The initial estimate of the final cost includes a certain margin of prudence. To consider a reasonable estimate timeframe, apart from the uncertainties to be included at the time of the calculation, account must also be taken of a gradual improvement in experience and the position of reserves for previous years. As demonstrated by the development of claims, it should be noted that the uncertainty stems mainly from the first year of development when minimal information is available and additions to reserves for claims incurred but not yet reported are at their highest.

This uncertainty in the first year is due to the specific nature of IBNR provisions in credit insurance. In fact, claims relating to the financial year must be estimated when the debtor's bankruptcy has yet to occur. This is because claims are related to the premium for the period. The risk arising on the issue of the policyholder's invoice, which is also the basis for the premium, and the bankruptcy followed by notification of the claim may occur only some months later.

Recoveries also cover a long period of time and are more difficult to forecast beyond a certain horizon. They may thus have a positive impact on the development of claims when they are higher than the amounts projected in the reserves.

Cost of claims

€'000	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Cost of claims for the current year	997 283	(241 600)	755 683	1 002 692	(349 310)	653 382
<i>of which claims paid</i>	297 563	(96 054)	201 509	279 203	(116 540)	162 663
<i>of which claims reserves</i>	637 155	(143 667)	493 488	659 251	(231 057)	428 194
<i>of which claims handling expense</i>	62 565	(1 879)	60 686	64 238	(1 713)	62 525
Recoveries for the current year	(72 618)	20 735	(51 883)	(63 323)	19 759	(43 564)
<i>Recoveries received</i>	(15 718)	5 911	(9 807)	(16 336)	6 985	(9 351)
<i>Change in reserves for recoveries</i>	(56 900)	14 824	(42 076)	(46 987)	12 774	(34 213)
Cost of claims from prior years	(120 335)	41 657	(78 678)	(242 790)	110 771	(132 019)
<i>of which claims paid</i>	560 173	(190 076)	370 097	506 927	(196 694)	310 233
<i>of which claims reserves</i>	(680 532)	232 122	(448 410)	(744 195)	316 740	(427 455)
<i>of which claims handling expense</i>	24	(389)	(365)	(5 522)	(9 275)	(14 797)
Recoveries from prior years	(111 662)	32 534	(79 128)	(87 450)	31 167	(56 283)
<i>Recoveries received</i>	(139 577)	40 026	(99 551)	(127 172)	42 872	(84 300)
<i>Change in reserves for recoveries</i>	27 915	(7 492)	20 423	39 722	(11 705)	28 017
Cost of claims	692 668	(146 674)	545 994	609 129	(187 613)	421 516

The cost of claims held steady over the year. By contrast, the development of prior years' claims was less favourable with the gross surplus on reinsurance reduced to €232 million (€330 million in 2005) following the improvement in the methods and approach used for the calculation of reserves, resulting in a decrease in uncertainty in respect of estimated reserves.

Claims reserves

€'000	31/12/2006			31/12/2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Gross claims reserves before recoveries						
<i>Current year</i>	680 161	(147 926)	532 235	689 672	(244 729)	444 943
<i>Prior years</i>	535 663	(234 905)	300 758	573 540	(240 187)	333 353
Recoveries to be received						
<i>Current year</i>	(56 858)	15 222	(41 636)	(49 683)	13 460	(36 223)
<i>Prior years</i>	(110 293)	33 335	(76 958)	(90 168)	28 264	(61 904)
Claims provisions	1 048 673	(334 274)	714 399	1 123 361	(443 192)	680 169

Breakdown by type of reserve

€'000	31/12/2006			31/12/2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Reserves for unearned premiums	241 827	(55 082)	186 745	254 586	(72 272)
Claims reserves	1 048 673	(334 274)	714 399	1 123 361	(443 192)	680 169
<i>of which reserves for known claims</i>	834 008	(368 996)	465 012	888 289	(471 363)	416 926
<i>of which reserves for late claims</i>	275 477	46	275 523	274 721	46	274 767
<i>of which reserves for claims handling expense</i>	105 378	(12 065)	93 313	98 811	(13 599)	85 212
<i>of which other technical reserves</i>	961	(1 816)	(855)	1 391	-	1 391
<i>of which recoveries to be received</i>	(167 151)	48 557	(118 594)	(139 851)	41 724	(98 127)
No-claims bonuses and refunds	122 842	(22 609)	100 233	119 217	(29 448)	89 769
Technical reserves	1 413 342	(411 965)	1 001 377	1 497 164	(544 912)	952 252

Development of claims reserves

For a given year, claims for that year follow the process of notification and settlement, possibly followed by collection action.

Claims reserves and payments reflect the cost of claims and related cash flows, with a sharp reduction in reserves as from the second year and an increase in claims.

The initial estimate of the final cost of claims includes a degree of uncertainty, resulting in a surplus on prior years, reflecting not only a lack of information but also a margin of prudence. Large claims at the end of the year have impacted the development of claims reserves. Major claims such as Moulinex and KMart that occurred in 2001 and Parmalat in 2003 initially impacted the ultimate cost before reinsurance of a given year and represented up to 10% of the estimated final gross cost of claims even though the cost net of reinsurance could have been reduced further. The collection or cancellation of reserves on these large claims generated substantial surplus reserves during these years.

The information comprising the claims development triangles is provided by most of the group entities. The triangles shown thus cover a broader scope than in 2005.

Estimate of the final cost of claims of most group entities (before reinsurance)

Accident \ development year	1	2	3	4	5	6	difference	% change
2001	1 287 585	1 166 693	1 104 059	1 065 399	1 035 775	1 016 215	271 370	21,1%
2002	1 141 228	944 040	904 668	867 317	857 693		283 535	24,8%
2003	1 043 852	802 935	740 228	735 280			308 572	29,6%
2004	868 380	692 782	653 112				215 268	24,8%
2005	893 121	779 275					113 846	12,7%
2006	882 612							

* *Variance: surplus or shortfall of the initial reserve over the current estimate of the final cost for the year in question.*

* The aggregate tables of claims development, excluding elimination of cash flows between entities, cover more than 95% of the technical reserves of all group entities.

The initial estimate of the ultimate cost of claims is calculated using techniques based on past trends in the cost of claims. The uncertainty in the first year of development on claims not yet reported, a prudent estimate of the ultimate cost, recoveries, and the Parmalat claim in 2003 are some of the factors that explain the variance of 29.6% observed in the 2003 insurance year.

Development triangle for cumulative claims paid net of recourse for most of the group entities (before reinsurance)

Accident \ development year	1	2	3	4	5	6
2001	320 605	907 275	996 489	1 008 290	1 005 353	1 001 892
2002	317 314	716 872	802 992	821 042	822 956	
2003	256 398	594 407	643 845	668 276		
2004	238 352	551 414	602 105			
2005	285 165	652 065				
2006	300 312					

The short-term nature of credit insurance is illustrated by the development of claims payments, which are concentrated mainly in the first two years.

4 Notes to the financial statements

Note 1 Goodwill

(€'000)

							31/12/2006	31/12/2005
	France	Italy	UK	US	Benelux countries	Other	Total	Total
At 1 January								
Gross value	393	6 229	71 144	28 656	7 978	4 928	119 328	113 003
Impairment	-	-	(10 162)	-	-	-	(10 162)	(10 162)
Net carrying amount	393	6 229	60 982	28 656	7 978	4 928	109 166	102 841
Change during the year								
Net carrying amount at 1 January	393	6 229	60 982	28 656	7 978	4 928	109 166	102 841
Other changes	-	-	-	-	-	192	192	(91)
Foreign exchange differences	-	-	1 253	(2 987)	-	159	(1 575)	6 416
Impairment	-	(409)	-	-	-	-	(409)	-
Net carrying amount at 31 December	393	5 820	62 235	25 669	7 978	5 279	107 374	109 166
At 31 December								
Gross value	393	6 229	72 905	25 669	7 978	5 279	118 453	119 328
Total impairment	-	(409)	(10 670)	-	-	-	(11 079)	(10 162)
Net carrying amount	393	5 820	62 235	25 669	7 978	5 279	107 374	109 166

In accordance with IFRS 3, goodwill is not amortised but instead is subject to annual impairment testing (see § 2.4.6.3).

The parameters used to calculate the company valuations are presented below:

Parameters	Euler Hermes A.C.I. Inc	Euler Hermes SIAC	Euler Hermes UK plc
Cost of capital	8,60%	7,60%	8,20%
	<i>of which, risk-free rate</i>	<i>4,00%</i>	<i>4,60%</i>
	<i>of which, risk premium (beta = 0.9)</i>	<i>3,60%</i>	<i>3,60%</i>
Effective tax rate	37,0%	48,0%	30,0%
Normalised return on financial portfolio	5,9%	3,9%	4,8%
Net combined ratio	85,0%	83,0%	85,0%
Target retention rate	55,0%	75,0%	65,0%
Long-term growth (upper and lower assumptions)	1,5% 2,5%	1,0% 3,0%	0,0% 1,0%
Average value in use (€000)	388 149	383 049	277 381

The values in use of Euler Hermes ACI Inc range from €365,878 thousand to €410,420 thousand, corresponding to an assumed cost of capital of 9% and 7.6% respectively. These valuations support the fact that no goodwill impairment is recognised.

The values in use of Euler Hermes SIAC range from €323,855 thousand to €442,242 thousand, corresponding to assumed long-term growth rates ranging from 1% to 3%. These valuations support the fact that no goodwill impairment is recognised.

The values in use of Euler Hermes UK Plc range from €264,142 thousand to €290,620 thousand, corresponding to assumed long-term growth rates ranging from 0% to 1%. These valuations support the fact that no goodwill impairment is recognised.

Note 2 Other intangible assets and contracts portfolio

(€'000)

	31/12/2006				31/12/2005			
	Contracts portfolio	IT development and software	Other intangible assets	TOTAL	Contracts portfolio	IT development and software	Other intangible assets	TOTAL
At 1 January								
Gross value	2 473	79 392	9 704	91 569	2 409	67 449	8 736	78 594
Amortisation	(1 662)	(50 514)	(5 979)	(58 155)	(1 616)	(41 405)	(4 965)	(47 986)
Impairment	(811)	-	-	(811)	(763)	-	-	(763)
Net carrying amount	-	28 878	3 725	32 603	30	26 044	3 771	29 845
Change during the year								
Net carrying amount at 1 January	-	28 878	3 725	32 603	30	26 044	3 771	29 845
Acquisitions	11 684	3 719	6 026	21 429	-	18 628	274	18 902
Expenses capitalised	-	-	-	-	-	4 605	-	4 605
Changes in consolidation scope	-	56	3 221	3 277	-	(467)	(18)	(485)
Disposals	-	(5 458)	(56)	(5 514)	-	(9 923)	-	(9 923)
Reclassifications	-	112	(112)	-	-	(705)	705	-
Foreign exchange differences	(85)	(33)	(5)	(123)	-	78	(4)	74
Net amortisation	(29)	(2 550)	(1 300)	(3 879)	-	(9 698)	(1 003)	(10 701)
Net provisions for impairment	-	-	(3 527)	(3 527)	(30)	-	-	(30)
Other changes	-	(1 013)	(334)	(1 347)	-	316	-	316
Net carrying amount at 31 December	11 570	23 711	7 638	42 919	-	28 878	3 725	32 603
At 31 December								
Gross value	14 112	75 294	18 440	107 846	2 473	79 392	9 704	91 569
Amortisation	(2 542)	(51 583)	(10 802)	(64 927)	(1 662)	(50 514)	(5 979)	(58 155)
Impairment	-	-	-	-	(811)	-	-	(811)
Net carrying amount	11 570	23 711	7 638	42 919	-	28 878	3 725	32 603

The amortisation charge for the year is recognised in "Other ordinary operating income and expense".

New acquisitions consist of portfolios in Australia, New Zealand (€1,581 thousand) and Ireland (€10,103 thousand).

Other movements correspond mainly to the IRP application developed by the group.

Impairment losses of €811 thousand at 31 December 2005 were reclassified within cumulative amortisation at 31 December 2006.

Note 3 Investment and operating property

Although presented in the balance sheet in "Operating property and other property and equipment" (Note 7), details of operating property are provided below for comparative purposes.

At 31 December 2006, accrued interest not yet due on investment property was reclassified within other receivables.

(€'000)

	31/12/2006		31/12/2005	
	Investment property	Operating property	Investment property	Operating property
At 1 January				
Gross value	107 302	192 123	107 070	189 156
Depreciation	(13 253)	(56 028)	(10 622)	(51 723)
Impairment	-	(10 014)	-	-
Net carrying amount	94 049	126 081	96 448	137 433
Change during the year				
Net carrying amount at 1 January	94 049	126 081	96 448	137 433
Acquisitions	27	909	45	3 469
Changes in consolidation scope	-	-	-	-
Disposals	(5 585)	-	(1 330)	(292)
Reclassifications	1 824	(1 902)	1 377	(1 377)
<i>of which, accrued interest not due 2005</i>	(78)			
Foreign exchange differences	(57)	(19)	9	9
Net depreciation	(1 811)	(3 662)	(2 637)	(3 147)
Net provisions for impairment	-	-	-	(10 014)
Other changes	207	-	137	-
Net carrying amount at 31 December	88 654	121 407	94 049	126 081
At 31 December				
Gross value	105 196	180 908	107 302	192 123
Depreciation	(16 542)	(49 487)	(13 253)	(56 028)
Impairment	-	(10 014)	-	(10 014)
Net carrying amount	88 654	121 407	94 049	126 081
Fair value	134 724	208 833	117 614	212 373

The fair value of buildings is estimated based on market prices, adjusted where applicable to take into account the nature, location and other features specific to the building concerned.

The fair value of operating properties was reduced in 2005 following a valuation performed by Euler Hermes Kreditversicherungs AG based on the rental costs index. Given the excess supply of office space for rent in Germany, this index has declined sharply.

(€'000)

	2006	2 005
Amounts recorded in the income statement:	Investment property	Investment property
Rental revenues from investment property:	9 626	9 559
Direct operating expenses relating to property:	(2 630)	(2 990)

Note 4 Financial investments

Classification by accounting method

(€'000)

	31/12/2006					31/12/2005				
	Amortised cost	Revaluation reserve	Net carrying amount	Fair value	Unrealised gain or loss	Amortised cost	Revaluation reserve	Net carrying amount	Fair value	Unrealised gain or loss
Held-to-maturity assets										
Bonds:	23 846	-	23 846	24 001	155	33 821	-	33 821	34 300	479
<i>listed</i>				9 722					10 347	
<i>not listed</i>				14 279					23 953	
Total held-to-maturity assets	23 846	-	23 846	24 001	155	33 821	-	33 821	34 300	479
Available-for-sale assets										
Equities:	443 553	179 341	622 894	622 894	-	337 872	155 289	493 161	493 161	-
Bonds:	1 989 965	7 568	1 997 533	1 997 533	-	1 917 090	60 926	1 978 016	1 978 016	-
<i>listed</i>				1 863 869					2 231 201	
<i>not listed</i>				756 559					239 976	
Total available-for-sale assets	2 433 518	186 909	2 620 427	2 620 427	-	2 254 962	216 215	2 471 177	2 471 177	-
Trading assets										
Equities:	253	-	253	253	-	1 799	-	1 799	1 799	-
Bonds:	-	-	-	-	-	3 000	-	3 000	3 000	-
<i>listed</i>				-					3 000	
<i>not listed</i>				253					1 799	
Total trading assets	253	-	253	253	-	4 799	-	4 799	4 799	-
Loans, deposits and other financial investments										
	234 652	-	234 652	234 652	-	294 363	-	294 363	294 363	-
Total loans, deposits and other financial investments	234 652	-	234 652	234 652	-	294 363	-	294 363	294 363	-
Total financial investments	2 692 269	186 909	2 879 178	2 879 333	155	2 587 945	216 215	2 804 160	2 804 639	479

For an instrument that is listed on an active market, the fair value is the bid price on the valuation date for an asset held or a liability to be issued and the offer price for an asset intended to be purchased or a liability intended to be held. If such prices are not available, the fair value is estimated based on the most recent transaction price.

If there is no active market for a given financial instrument, the group estimates the fair value using a valuation technique. Valuation techniques include the use of recent transactions under normal competitive conditions between informed and consenting parties, where available, reference to the current fair value of another instrument that is identical in substance, the analysis of discounted cash flows and option valuation models.

At 31 December 2006, accrued interest not yet due on financial investments was reclassified within other receivables. This accrued interest totalled €36,872 thousand at 31 December 2005.

Classification by investment category

(€'000)

	31/12/2006					31/12/2005				
	Amortised cost	Revaluation reserve	Net carrying amount	Fair value	Unrealised gain or loss	Amortised cost	Revaluation reserve	Net carrying amount	Fair value	Unrealised gain or loss
- Equities:	443 806	179 341	623 147	623 147	-	339 671	155 289	494 960	494 960	-
- Bonds:	2 013 811	7 568	2 021 379	2 021 534	155	1 953 911	60 926	2 014 837	2 015 316	479
- Loans and other investments	234 652	-	234 652	234 652	-	294 363	-	294 363	294 363	-
Total Financial Investments	2 692 269	186 909	2 879 178	2 879 333	155	2 587 945	216 215	2 804 160	2 804 639	479

Movements in investments

(€'000)

	31/12/2006					31/12/2005
	Held-to-maturity investments	Available-for-sale investments	Trading investments	Loans, deposits and other financial investments	Total	Total
Net carrying amount at 1 January	33 821	2 471 177	4 799	294 363	2 804 160	2 532 402
Increase	43	1 526 785	-	419 147	1 945 975	937 305
Decrease	(9 603)	(1 300 660)	(2 970)	(426 427)	(1 739 660)	(736 037)
Revaluation	-	(29 307)	-	-	(29 307)	52 982
Impairment	-	(1 081)	51	(6)	(1 036)	190
Foreign exchange differences	64	(18 779)	(30)	1 119	(17 626)	33 994
Reclassification	(52)	(32 156)	-	(59 117)	(91 325)	(15 432)
<i>of which, accrued interest not due 2005</i>	<i>(52)</i>	<i>(35 482)</i>		<i>(1 338)</i>		
Other changes	(427)	4 448	(1 597)	5 573	7 997	(1 244)
Net carrying amount at 31 December	23 846	2 620 427	253	234 652	2 879 178	2 804 160

In order to comply with the group's definition of cash, an amount of €57,779 thousand was reclassified from "Other investments" to "Cash and cash equivalents" in the balance sheet.

Note 5 Derivatives

The Euler Hermes group uses derivatives in its cash flow hedging strategy.

(€'000)

At 31 December 2006	Nominal value	Market value	Interest-rate sensitivity (*)
Euler Hermes Credit Insurance	1 898	-	
- Interest-rate swap - maturing 2007	1 898	-	3
Total	1 898	-	3

(€'000)

	Nominal value	Market value	Unrealised gains and losses	Maturity of nominal		Counterparty risk					Issuer	
				One year or less	Over one year and less than five years	AAA	AA	A	-BB	OECD credit institutions	Clients	Govt., central banks
Hedging	1 898	-	-	1 898	-	-	1 898	-	-	1 898	-	-
Pay fixed rate / receive variable rate	1 898	-	-	1 898	-	-	1 898	-	-	1 898	-	-
Dexia	1 898	-	-	1 898	-	-	1 898	-	-	1 898	-	-
Total	1 898	-	-	1 898	-	-	1 898	-	-	1 898	-	-

(*) Sensitivity to interest rates is calculated as the change in the market value in the event of a 100-basis point rise in rates.

Swaps with a nominal value of €1,898 thousand are intended to hedge the financing of the Retail activities of Euler Hermes in Belgium. The swaps booked by Euler Hermes SA were terminated in December 2006.

(€'000)

At 31 December 2005	Nominal value	Market value	Interest-rate sensitivity (*)
Euler Hermes S.A.	110 000	(1 200)	
- Interest-rate swap - maturing 2008	55 000	(600)	913
- Interest-rate swap - maturing 2008	55 000	(600)	913
Euler Hermes Credit Insurance	5 400	(20)	
- Interest-rate swap - maturing 2006	3 502	(8)	(1)
- Interest-rate swap - maturing 2007	1 898	(12)	(2)
Total	115 400	(1 220)	1 824

(€'000)

	Nominal value	Market value	Unrealised gains and losses	Maturity of nominal		Counterparty risk					Issuer		
				One year or less	Over one year and less than five years	AAA	AA	A	-BB	OECD credit institutions	Clients	Govt., central banks	
Hedging	115 400	(1 220)	(1 220)	3 502	111 898	-	60 400	55 000	-	-	115 400	-	-
Pay fixed rate / receive variable rate	115 400	(1 220)	(1 220)	3 502	111 898	-	60 400	55 000	-	-	115 400	-	-
CIC swap	55 000	(600)	(600)		55 000			55 000			55 000		
CARDIF swap	55 000	(600)	(600)		55 000			55 000			55 000		
Dexia	5 400	(20)	(20)	3 502	1 898		5 400				5 400		
Total	115 400	(1 220)	(1 220)	3 502	111 898		60 400	55 000			115 400		

Derivative assets concern options to hedge the SARs (Stock Appreciation Rights) subscribed by Allianz for the incentive plans of Allianz. At 31 December 2006, they represent an amount of €5.4 million in the balance sheet and are used to hedge changes in the value of the SAR.

Note 6 Investments accounted for by the equity method

Information on companies accounted for by the equity method

(€'000)

31/12/2006						
Company	Country	Assets	Shareholders' equity	Turnover	Net income	% of capital held
Prisma Kreditversicherungs A.G.	Austria	44 997	22 753	39 597	4 712	49,00%
Lietuvos Draudimo Kreditu Draudimas	Lithuania	4 086	3 263	767	745	51,00%
Graydon Holding N.V.	The Netherlands	52 061	22 509	69 401	15 480	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	102 949	40 683	18 770	3 865	41,43%
		204 093	89 208	128 535	24 802	

(€'000)

31/12/2005						
Company	Country	Assets	Shareholders' equity	Turnover	Net income	% of capital held
Prisma Kreditversicherungs A.G.	Austria	50 107	18 942	37 634	4 418	49,00%
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	6 138	2 157	5 553	1 177	100,00%
Bürgel Wirtschaftsinformationen GmbH & Co. K.G.	Germany	20 084	17 897	20 467	2 012	50,10%
Lietuvos Draudimo Kreditu Draudimas	Lithuania	5 860	3 518	1 955	135	51,00%
Graydon Holding N.V.	The Netherlands	49 238	18 390	65 161	9 141	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	103 060	33 679	14 811	2 853	41,43%
		234 487	94 583	145 581	19 736	

Movements during the year*(€'000)*

	31/12/2006	31/12/2005
Net book value at 1 January	43 521	37 648
Decreases	(10 750)	-
Share of income for the year	8 547	8 056
Dividends paid	(4 447)	(4 155)
Foreign exchange differences	-	216
Other changes	(70)	1 756
Net book value at 31 December	36 801	43 521

The decreases correspond to the change of consolidation method applied to Euler Hermes Credit Underwriters Hong Kong Ltd and Bürgel Wirtschaftsinformationen GmbH & Co. K.G., which were consolidated at 31 December 2006 using the full consolidation method.

Contribution to shareholders' equity*(€'000)*

Company	Country	31/12/2006	31/12/2005
Prisma Kreditversicherungs A.G.	Austria	9 277	7 554
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	-	1 230
Bürgel Wirtschaftsinformationen GmbH & Co. K.G.	Germany	-	7 393
Lietuvos Draudimo Kreditu Draudimas	Lithuania	1 790	2 232
Graydon Holding N.V.	The Netherlands	1 933	2 543
Companhia de Seguro de Creditos SA (COSEC)	Portugal	15 254	14 513
Share of shareholders' equity		28 254	35 465

Contribution to income*(€'000)*

Company	Country	2006	2005
Prisma Kreditversicherungs A.G.	Austria	2 309	2 165
Euler Hermes Credit Underwriters Hong Kong Ltd	Hong Kong	-	1 119
Bürgel Wirtschaftsinformationen GmbH & Co. K.G.	Germany	-	1 008
Lietuvos Draudimo Kreditu Draudimas	Lithuania	380	69
Graydon Holding N.V.	The Netherlands	4 257	2 514
Companhia de Seguro de Creditos SA (COSEC)	Portugal	1 601	1 181
Share of total income		8 547	8 056

Note 7 Operating property and other property and equipment

(€'000)

	31/12/2006			31/12/2005		
	Operating property	Other property and equipment	Total	Operating property	Other property and equipment	Total
At 1 January						
Gross value	192 123	166 810	358 933	189 156	169 857	359 013
Amortisation	(56 028)	(137 380)	(193 408)	(51 723)	(136 363)	(188 086)
Impairment	(10 014)	-	(10 014)	-	-	-
Net carrying amount	126 081	29 430	155 511	137 433	33 494	170 927
Change during the year						
Net carrying amount at 1 January	126 081	29 430	155 511	137 433	33 494	170 927
Acquisitions	909	9 895	10 804	3 469	12 543	16 012
Changes in consolidation scope	-	6 964	6 964	-	(135)	(135)
Disposals	-	(38 631)	(38 631)	(292)	(14 193)	(14 485)
Reclassifications	(1 902)	-	(1 902)	(1 377)	-	(1 377)
Foreign exchange differences	(19)	(103)	(122)	9	613	622
Net depreciation	(3 662)	22 537	18 875	(3 147)	(2 222)	(5 369)
Net provisions for impairment	-	-	-	(10 014)	-	(10 014)
Other changes	-	(143)	(143)	-	(670)	(670)
Net carrying amount at 31 December	121 407	29 949	151 356	126 081	29 430	155 511
At 31 December						
Gross value	180 908	146 448	327 356	192 123	166 810	358 933
Depreciation	(49 487)	(116 499)	(165 986)	(56 028)	(137 380)	(193 408)
Impairment	(10 014)	-	(10 014)	(10 014)	-	(10 014)
Net carrying amount	121 407	29 949	151 356	126 081	29 430	155 511

Disposals of other property and equipment and the related depreciation correspond mainly to the updating of IT equipment in Germany and France.

Note 8 Deferred tax

Breakdown by type of tax

Change by type	31/12/2006	31/12/2005
Deferred tax assets	136 400	109 719
Deferred tax liabilities	(504 739)	(464 955)
Net deferred tax	(368 339)	(355 236)
Deferred tax assets		
Tax losses	3 603	193
Deferred tax assets linked to revaluation of AFS investments	5 760	1 297
Deferred tax assets - provisions for retirement commitments	2 602	4 413
Deferred tax assets - technical reserves	63 766	32 054
Other deferred tax assets	60 669	71 762
Total	136 400	109 719
Deferred tax liabilities		
Deferred tax liabilities linked to revaluation of AFS investments	(65 721)	(72 091)
Deferred tax liabilities - provisions for retirement commitments	(12 248)	(8 470)
Deferred tax liabilities - technical reserves	(222 192)	(299 253)
Other deferred tax liabilities	(204 578)	(85 141)
Total	(504 739)	(464 955)
Net deferred tax	(368 339)	(355 236)
After offsetting deferred tax assets and liabilities by tax entity		
Deferred tax assets	20 912	16 732
Deferred tax liabilities	(389 251)	(371 968)

Movement in deferred tax by geographical region

(€'000)

Geographic area	31/12/2005	Foreign exchange difference	Change relating to revaluation of AFS inv.	Change through income statement	Other movements	31/12/2006
Germany	(169 998)	-	6 986	(25 744)	335	(188 421)
France	(164 236)	-	542	2 299	(1)	(161 396)
Italy	(5 488)	-	1 708	2 266	(1)	(1 515)
UK	(8 226)	(253)	35	(5 442)	2	(13 884)
US	3 945	(345)	(452)	(1 027)	(131)	1 990
Benelux countries	(9 645)	-	2 017	(429)	(3)	(8 060)
Other countries	(2 615)	(78)	(4)	2 841	1 592	1 736
Group services / Holding compæ	1 027	(22)	-	483	(277)	1 211
	(355 236)	(698)	10 832	(24 753)	1 516	(368 339)

With regard to Germany and France, the deferred tax liability was due mainly to the cancellation under IFRS of the equalisation reserve.

Change in standard tax rate	31/12/2006	31/12/2005
Group rate	32,76%	36,29%
France	34,43%	34,93%
Germany	40,38%	40,38%
Italy	37,25%	37,25%
United Kingdom	30,00%	30,00%
United States	35,00%	35,00%
The Netherlands	29,60%	31,50%
Belgium	33,99%	33,99%
Switzerland	24,53%	25,00%

The group tax rate corresponds to the effective tax rate, i.e. the tax charge recognised in the income statement compared with gross income before tax and adjusted for the profits of companies accounted for by the equity method. A reconciliation between the tax rate of the parent company Euler Hermes SA and the effective tax rate in 2006 is provided in note 24.

Note 9 Insurance and reinsurance receivables

Breakdown by type

(€'000)

	31/12/2006			31/12/2005
	Gross	Provisions	Net	Net
Receivables from policyholders and agents	202 528	(17 881)	184 647	184 372
Earned premiums not yet written	132 429	-	132 429	134 736
Receivables from guaranteed debtors	78 731	-	78 731	76 995
Receivables from reinsurance transactions	100 924	(504)	100 420	77 370
Total credit insurance receivables	514 612	(18 385)	496 227	473 473

Breakdown of net receivables from guaranteed debtors

These concern receivables recognised by Euler Hermes Credit Insurance (Belgium) in respect of the retail credit activity.

(€'000)

	31/12/2006			31/12/2005
	Gross	Provisions	Net	Net
Gross receivables	78 731	-	78 731	76 995
Reinsurers' share	(21 055)	-	(21 055)	(24 287)
Net receivables from guaranteed debtors	57 676	-	57 676	52 708

Breakdown by maturity

(€'000)

	31/12/2006				Total
	< 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Gross receivables	315 844	1 232	-	-	317 076
Reinsurers' share	120 205	1 270	-	-	121 475
Net receivables from guaranteed debtors	57 676	-	-	-	57 676
Total credit insurance receivables	493 725	2 502	-	-	496 227

Note 10 Other receivables

At 31 December 2006, other receivables and other assets were combined under the same heading, i.e. other receivables.

Furthermore, accrued interest not yet due recorded in 2005 in financial investments and investment property was reclassified within other receivables in 2006.

Breakdown by type

(€'000)

	31/12/2006			31/12/2005
	Gross	Provisions	Net	Net
Current account receivables	14 925	-	14 925	68 460
Other taxes receivable	14 314	-	14 314	14 228
Other receivables	103 389	(590)	102 799	45 816
<i>of which, accrued interest not due</i>	32 650	-	32 650	-
Deferred charges	9 138	-	9 138	9 814
Other adjustment accounts	953	-	953	4 030
Other assets	83	-	83	659
Total other receivables	142 802	(590)	142 212	143 007

Breakdown by maturity

(€'000)

	31/12/2006				Total
	< 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Total other receivables net of provisions	119 095	23 036	54	27	142 212

In 2005, Euler Hermes Kreditversicherungs AG was subject to a tax audit covering the financial years from 1997 to 2000 that identified various adjustments to the tax bases for these years, the overall impact being €13.2 million (including late payment penalties and interest).

On 31 December 2005, Euler Hermes SA decided to make a call on the liabilities guarantee issued by Allianz and recognised accrued income of the same amount. Following additional enquiries made during 2006 concerning the conditions for calling this guarantee, this receivable was written back in the consolidated financial statements at 31 December 2006.

Note 11 Cash and cash equivalents

Balance sheet

(€'000)

	31/12/2006	31/12/2005
Cash in bank and at hand	275 765	221 678
Cash pooling	59 199	-
Total cash	334 964	221 678

Reconciliation with the cash flow statement

(€'000)

	31/12/2006	31/12/2005
Total cash per balance sheet	334 964	221 678
Cash equivalents reflected in the cash flow statement	74 502	58 037
Cash pooling creditor with Allianz	(7 048)	-
Total cash and cash equivalents	402 418	279 715

The amounts taken into account in the cash position in the cash flow statement correspond to cash equivalents. These are short-term investments (less than three months) that are highly liquid and can readily be converted into a predetermined amount of cash and which are subject to a negligible risk of change in value.

Note 12 Revaluation reserve

Available-for-sale investment and hedging derivatives are remeasured at fair value. The table below provides a reconciliation of the unrealised gains and losses, the tax amount and the impact on the revaluation reserve.

(€'000)

	Investments	Hedges	Associated companies	Tax	Other	Foreign exchange difference	Minority interests	Revaluation reserve
At 1 January	216 215	(1 200)	1 756	(73 625)	(584)	123	(222)	142 463
Movement during the year	(29 307)	1 200	(109)	10 876	1	(123)	(91)	(17 553)
At 31 December	186 908	-	1 647	(62 749)	(583)	-	(313)	124 910

The impact of €1,200 thousand corresponding to the revaluation of Euler Hermes SA's hedging swap was written back on 31 December 2006. Euler Hermes SA's swaps were effectively terminated in December 2006.

The impact of the revaluation of AFS investments of companies accounted for by the equity method was €1,647 thousand and concerned Companhia de Seguro de Creditos SA (COSEC).

Note 13 Minority interests

Movements during the year

(€'000)

	31/12/2006	31/12/2005
Minority interests at start of period	7 869	24 883
Buy out of minority interests		
Buy out of minority interests in Euler Hermes Credit Insurance Belgium SA (N.V.)	-	(16 674)
Buy out of minority interests in Codinf Services	(147)	-
Buy out of minority interests in Euler Hermes Emporiki SA	(359)	-
Disposals		
Internal disposal of Interborg	-	(186)
Change of consolidation method		
Full consolidation of Bürgel Wirtschaftsinformationen GmbH & Co. KG	8 931	-
Movements on latent reserves	98	-
Reserve movements		
Reserve movements at Euler Hermes Emporiki SA	-	(104)
Change of method		
Other movements		
Foreign currency translation differences	12	39
Minority interests in companies that left the consolidation scope (Mundialis SA)	-	(99)
Minority interests in companies that joined the consolidation scope (Euler Herr)	29	-
Dividends paid to minority shareholders	(1 874)	(233)
Capital increases and other movements	413	134
Minority shareholders' share of net income	4 181	109
Minority interests at end of period	19 153	7 869

Breakdown by country

(€'000)

	31/12/2006	31/12/2005
Netherlands	396	404
France	616	708
Hungary	1 795	1 740
Romania	29	-
Germany	10 554	20
United Kingdom	1 366	1 364
Morocco	2 207	1 838
Greece	2 190	1 795
Minority interests	19 153	7 869

Note 14 Provisions for risks and charges

The main provision items concern retirement plans, details of which are set out in note 16. Provisions for other staff benefits concern an early retirement programme in Belgium and Germany that matures at the end of 2007.

	31/12/2005	Provision	Writeback		Reclassification	Other movements	31/12/2006
			Provision used	Provision not used			
Retirement scheme							
Defined benefit retirement plans	49 493	13 850	(10 871)	(34)	0	430	52 868
Defined contribution retirement plans	1 807	0	(226)	0	0	(179)	1 402
Total	51 300	13 850	(11 097)	(34)	0	251	54 270
Other provisions for risks and charges							
Provision for tax liabilities	1 114	1 169	(391)	0	0	(8)	1 884
Provision for tax reassessment in Germany	16 963	11 486	(8 172)	(5 869)	(596)	0	13 812
Provisions for employee benefits	15 530	6 572	(1 942)	(1 036)	1 571	(754)	19 941
Provisions for reinsurer default	1 943	0	0	0	0	0	1 943
Provisions for policyholder disputes	1 119	976	0	0	0	0	2 095
Provisions for debtor disputes	5 293	50	0	(2 982)	0	0	2 361
Guarantee of liabilities	879	0	0	0	0	0	879
Provision for restructuring	557	58	(161)	0	0	0	454
Provisions for sundry disputes	3 351	715	(342)	(379)	(1 837)	568	2 076
Total	46 749	21 026	(11 008)	(10 266)	(862)	(194)	45 445
Overall total	98 049	34 876	(22 105)	(10 300)	(862)	57	99 715

Preliminary results from the tax audit performed in Germany on the financial years from 1997 to 2000 resulted in the recognition of tax provisions in the 2005 financial statements. These provisions were adjusted in 2006, mainly to reflect payments made and the estimate of risks relating to subsequent financial years.

Charges to provisions for employee benefits totalling €6.5 million correspond mainly to the personnel expense relating to Allianz option plans granted to executives.

The write-backs of almost €3 million correspond to early retirement provisions for part-time staff and to provisions relating to long-service awards. The reclassification of provisions for employee benefits of €1.5 million also corresponds to the US stock option plan previously recorded in other amounts due to staff.

The reclassification of €1.8 million concerning provisions for sundry disputes corresponds to invoices not yet received that have now been recorded in accrued expenses.

A write-back of a provision for debtor disputes of €2.9 million was recognised after the *Tribunal Correctionnel* (court of summary jurisdiction) found in favour of Euler Hermes Sfac. The other party did not lodge an appeal against this decision.

Note 15 Employee benefits

Defined contribution plans

General description of the plans

- La Mondiale (France): insurance firms are required to pay 1% of their annual payroll into a capitalisation pension plan. The funds are managed by La Mondiale, an insurance firm.
- Euler American Credit Indemnity Company Associates Retirement Savings Plan: this is a defined contribution plan for full-time employees of Euler American Credit Indemnity. A provision must be raised pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).
- United Kingdom: the company makes contributions on behalf of its employees amounting to 8% of salaries. The cash is invested in the names of the employees, who receive rights according to the return on investment generated.

- Scandinavia:
 - Sweden: a multi-employer plan that is managed by SPP, one of the largest life insurance companies.
 - Denmark: the plan is managed by Danica, a Danish life insurance company.
 - Norway: a multi-employer plan that is managed by Vital, a Norwegian life insurance company.
 - Finland: the plan is managed by Varma, a Finnish insurance company.

	France	United States	United Kingdom	Scandinavia	Total
Provision at 31 December 2006	-	(1 402)	-	-	(1 402)
Expense booked in 2006	(413)	(2 093)	(912)	(118)	(3 536)
Provision at 31 December 2005	-	(1 807)	-	-	(1 807)
Expense booked in 2005	(392)	(2 019)	(495)	(866)	(3 772)
Provision at 31 December 2004	-	(1 684)	-	-	(1 684)
Expense booked in 2004	(498)	(1 694)	(597)	(821)	(3 610)

Defined benefit plans

General description of the plans

- Retirement indemnities: the rights in respect of retirement indemnities are defined by the insurance companies' collective agreement. This plan is financed partly by a policy taken out with an insurance company.
- PSAD: this is a supplementary retirement benefit plan that was closed in 1978 and covers executives of Euler Hermes Sfac. Contributions are paid by the company to beneficiaries or their surviving spouse (reversion) until their death. The plan is managed by BCAC, which informs the company quarterly of the contributions to be paid. At the beginning of the year, there were 22 beneficiaries.
- CARDIF: Employees who are members of the Group Management Board or corporate officers are eligible for a supplementary pension plan provided that they have completed at least five years' service on retirement.
- TFR: Trattamento di Fine Rapporto is a pension plan established by Italian legislation that is similar to a defined benefit pension plan. It is valued in accordance with IAS 19 by an independent actuary.
The following items were taken into account when measuring the commitment at the year end:
 - The retirement age has been taken as 60 years for women and 65 years for men;
 - The probability of leaving the company within the next five years for employees under 40 years of age has been determined based on historical data;
 - The average life expectancy has been determined based on current statistics;
 - The probability of an early request for TFR has also been calculated using historical data available within the company.
 The assets covering the actuarial liability are included along with the other assets of Euler Hermes SIAC and are not identified separately.
- EHUK Defined Benefit plan: Euler Hermes in the UK operates a defined benefit pension plan that covers all employees who had joined the company by 31 December 2001. Under this plan, employees will be granted a pension on retirement (the normal age being 63 years), which will be a fraction of their salary upon retirement and based on their length of service within the company. The company funds these rights through a dedicated fund. The retirement rights are revalued annually based on the constraints set by law, which provides for the mandatory application of different revaluation rates according to the vesting date of the rights.

The revaluation of certain rights, notably those earned prior to 6 April 1997, is not covered by a legal obligation, but is discretionary. The assumptions used to calculate the commitment were reviewed in 2005 following the decision to no longer finance the revaluation of the discretionary increase in rights earned prior to 1997. This took into account the company's recent practice and the current position of the fund, factors that tend to reduce the probability of such discretionary revaluations being granted in the future. The commitment was reduced by £13.7 million at 31 December 2005. In this regard, £8.4 million was treated as actuarial gains and £5.7 million was recognised in the 2006 income statement as past service costs.

At 31 December 2006, the present value of pension commitments in respect of this plan came to £98.8 million, funded partly by the fund as the market value of the assets stood at £90.8 million.

- AVK/APV EPV: Euler Hermes Kreditversicherungs AG, Euler Hermes Forderungsmanagement GmbH, Euler Hermes Risk Management & Co.KG and Euler Hermes Rating GmbH have implemented a defined benefit pension plan for all their employees. The beneficiaries will receive an annuity upon retirement at 63 years of age. This plan is managed in part by external companies, namely Pensionskasse AVK and Unterstützungskasse APV. Employees who leave the company prior to the date provided for may benefit from an annuity of a lower amount than that provided for initially.
- Euler Hermes Credit Insurance Belgium has implemented a plan that covers the payment to employees of Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium of a fixed capital sum, being a multiple of their salary at age 60. It also provides coverage in the event of the death, being a multiple of their salary based on the composition of their family, or invalidity of the employee.
- Euler Hermes Kredietverzekeringen NV (the Netherlands) has implemented a defined benefit pension plan for its employees that is managed by Delta Lloyd.

31 December 2006	France			Italy	United Kingdom	Germany	Belgium	The Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
Actuarial liability at start of period	(5 132)	(5 036)	(4 672)	(10 608)	(138 042)	(332 607)	(14 719)	(2 280)	(513 096)
- Cost of services provided during the period	(345)	-	-	(978)	(3 970)	(9 761)	(761)	(416)	(16 231)
- Interest expense	(198)	(192)	(185)	(267)	(6 585)	(13 525)	(573)	(171)	(21 696)
- Employee contributions	-	-	-	-	-	(2 598)	(158)	-	(2 756)
- Change of pension plan	-	-	-	-	-	1 925	-	-	1 925
- Acquisitions/disposals of subsidiaries	66	(193)	-	-	-	(605)	-	-	(732)
- Reductions of pension plans	-	-	1 473	-	-	-	-	8	1 481
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Actuarial gains (losses) due to a change in assumptions	-	-	-	-	(2 256)	26 082	412	447	24 685
- Actuarial gains (losses) due to a change in experience	(46)	(145)	222	-	(389)	(6 256)	-	(437)	(7 051)
- Benefits paid	377	488	122	1 489	3 156	8 505	200	1	14 338
- Translation differences	-	-	-	-	(2 837)	-	-	-	(2 837)
- Other	-	-	-	-	210	(166)	461	(1 817)	(1 312)
- Removal of the discretionary clause	-	-	-	-	3 623	-	-	446	4 069
Actuarial liability at end of period	(5 278)	(5 078)	(3 040)	(10 364)	(147 090)	(329 006)	(15 138)	(4 219)	(519 213)

Fair value of assets at start of period	858	-	4 672	-	125 154	245 321	8 093	1 664	385 762
- Actual return on plan assets	57	-	224	-	7 690	12 310	535	5	20 821
- Experience effect on returns from assets	-	-	-	-	325	(2 032)	-	-	(1 707)
- Employee contributions	-	-	-	-	-	2 598	-	-	2 598
- Employer contributions	98	-	-	-	2 919	6 125	158	308	9 608
- Acquisitions/disposals of subsidiaries	74	-	-	-	-	-	832	210	1 116
- Reductions of pension plans	-	-	(1 473)	-	-	-	-	-	(1 473)
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Benefits paid	(249)	-	(122)	-	(3 156)	(5 444)	(200)	(1)	(9 172)
- Translation differences	-	-	-	-	2 572	-	-	-	2 572
- Other	-	-	-	-	(210)	-	-	755	545
Fair value of assets at end of period	838	-	3 301	-	135 294	258 878	9 418	2 941	410 670

Actuarial differences still to be amortised	(283)	-	261	-	(30 124)	(43 325)	(422)	(110)	(74 003)
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Net commitments	(4 157)	(5 078)	-	(10 364)	18 328	(26 803)	(5 298)	(1 168)	(34 540)
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Expenses for the period	(513)	(530)	1 473	(1 245)	4 255	(11 078)	(994)	(955)	(9 587)
- Cost of services provided during the period	(345)	-	-	(978)	(3 970)	(9 761)	(761)	(416)	(16 231)
- Financial cost (discounting effect)	(198)	(192)	(185)	(267)	(6 585)	(13 525)	(573)	(171)	(21 696)
- Expected return on plan assets	35	-	185	-	7 690	12 310	340	5	20 565
- Expected return on all other assets	-	-	-	-	-	-	-	-	-
- Amortisation of actuarial gains and losses	(2)	-	-	-	(1 324)	(2 027)	-	-	(3 353)
- Amortisation of past service costs	-	-	-	-	-	1 925	-	200	2 125
- Amortisation of initial unrecognised liability	-	-	-	-	-	-	-	-	-
- Profit or loss resulting from reduction or liquidation	(3)	-	1 473	-	-	-	-	8	1 478
- Asset ceiling	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Other (see explanatory note above)	-	(338)	-	-	8 444	-	-	(581)	7 525

Actuarial assumptions									
- Discount rate	4,00%	4,60%	4,00%	4,50%	5,10%	4,60%	4,50%	4,60%	-
- Rate of inflation	2,00%	2,00%	-	2,00%	3,15%	1,50%	2,00%	2,00%	-
- Expected rate of return on plan assets	4,00%	-	4,00%	-	6,40%	5,00%	4,50%	4,60%	-
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	-	-	-
- Expected rate of salary increases	3,00%	-	-	2,50%	4,15%	2,40%	3,50%	2,00%	-
- Rate of increase in medical costs	-	-	-	-	-	-	-	2,00%	-
- Rate of increase in annuities	-	1,90%	-	-	3,15%	1,50%	-	-	-
- Retirement age	60	-	60	60-65	63	63	60	65	-
- Remaining length of service	10	-	5	-	20	15	12	28	-
- Other major assumptions used (1)	-	60,00%	-	-	-	-	-	-	-

(1) the 60% on the PSAD plan corresponds to the reversion rate

Structure of plan assets									
- Equities	-	-	23,00%	-	49,00%	20,34%	-	-	-
- Bonds	100,00%	-	27,00%	-	31,00%	77,21%	-	-	-
- Property	-	-	-	-	-	2,43%	-	-	-
- Other	-	-	50,00%	-	20,00%	0,02%	100,00%	100,00%	-

The €52,868 thousand in note 14 corresponds to the total net commitments at 31 December 2006 (€34,540 thousand) adjusted for the positive net commitment of €18,328 thousand in the United Kingdom.

31 December 2005	France			Italie	United Kingdom	Germany	Belgium	The Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
Actuarial liability at start of period	(4 508)	(5 032)	(3 505)	(10 938)	(122 581)	(271 361)	(11 341)	(1 691)	(430 957)
- Cost of services provided during the period	(276)	-	(603)	(1 352)	(3 352)	(6 579)	(666)	(316)	(13 144)
- Interest expense	(203)	(196)	(185)	(213)	(6 758)	(13 298)	(537)	(79)	(21 469)
- Employee contributions	-	-	-	-	-	(2 613)	(148)	-	(2 761)
- Change of pension plan	(114)	-	-	-	-	564	-	-	450
- Acquisitions/disposals of subsidiaries	(341)	-	-	-	-	-	-	-	(341)
- Reductions of pension plans	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Actuarial gains (losses) due to a change in assumptions	78	(288)	(390)	-	(3 969)	(49 245)	(1 420)	(195)	(55 429)
- Benefits paid	213	480	11	1 896	2 182	9 925	119	1	14 826
- Translation differences	-	-	-	-	(3 533)	-	-	-	(3 533)
- Other	19	-	-	-	(31)	-	(726)	-	(738)
Actuarial liability at end of period	(5 132)	(5 036)	(4 672)	(10 608)	(138 042)	(332 607)	(14 719)	(2 280)	(513 095)

Fair value of assets at start of period	803	-	2 688	-	105 181	216 581	6 535	1 016	332 804
- Actual return on plan assets	29	-	194	-	15 243	28 221	333	281	44 301
- Employee contributions	-	-	-	-	-	2 613	148	19	2 780
- Employer contributions	228	-	1 801	-	3 880	4 971	440	402	11 722
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-
- Reductions of pension plans	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Benefits paid	(213)	-	(11)	-	(2 182)	(7 065)	(119)	(1)	(9 591)
- Translation differences	-	-	-	-	3 031	-	-	-	3 031
- Other	11	-	-	-	-	-	756	(53)	725
Fair value of assets at end of period	858	-	4 672	-	125 154	245 321	8 093	1 664	385 762

Actuarial differences still to be amortised	(333)	-	-	-	(23 817)	(63 145)	(1 489)	16	(88 768)
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Net commitments	(3 941)	(5 036)	-	(10 608)	10 930	(24 141)	(5 137)	(632)	(38 565)
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Expenses for the period	(450)	(484)	(985)	(1 565)	(4 707)	(7 977)	(870)	(349)	(17 388)
- Cost of services provided during the period	(276)	-	(603)	(1 352)	(3 352)	(6 616)	(666)	(292)	(13 157)
- Financial cost (discounting effect)	(203)	(196)	(185)	(213)	(6 758)	(13 298)	(537)	(79)	(21 469)
- Expected return on plan assets	29	-	194	-	6 982	11 696	333	49	19 283
- Expected return on all other assets	-	-	-	-	-	-	-	-	-
- Amortisation of actuarial gains and losses	-	(288)	(391)	-	(1 550)	(357)	-	-	(2 586)
- Amortisation of past service costs	-	-	-	-	-	598	-	-	598
- Amortisation of initial unrecognised liability	-	-	-	-	-	-	-	-	-
- Profit or loss resulting from reduction or liquidation	-	-	-	-	-	-	-	-	-
- Asset ceiling	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Other	-	-	-	-	(31)	-	-	(27)	(58)

Actuarial assumptions									
- Discount rate	4,00%	4,00%	4,00%	3,50%	4,85%	4,10%	3,75%	4,00%	
- Rate of inflation	2,00%	2,00%	-	2,00%	2,65%	1,38%	2,00%	2,00%	
- Expected rate of return on plan assets	4,00%	-	4,00%	-	6,10%	5,00%	3,75%	4,00%	
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	-	-	
- Expected rate of salary increases	3,00%	-	-	2,50%	3,65%	2,40%	3,50%	2,00%	
- Rate of increase in medical costs	-	-	-	-	-	-	-	2,00%	
- Rate of increase in annuities	-	1,90%	-	-	2,65%	1,38%	-	-	
- Retirement age	60	-	60	60-65	63	63	60	62	
- Remaining length of service	10	-	5	-	20	15	14	28	
- Other major assumptions used (1)	-	60,00%	-	-	-	-	-	-	

(1) the 60% on the PSAD plan corresponds to the reversion rate

Structure of plan assets									
- Equities	-	-	23,00%	-	50,00%	16,52%	-	-	
- Bonds	100,00%	-	27,00%	-	50,00%	80,30%	-	-	
- Property	-	-	-	-	-	2,78%	-	-	
- Other	-	-	50,00%	-	-	0,40%	100,00%	100,00%	

The €49,493 thousand in note 14 corresponds to the total net commitments at 31 December 2005 (€38,565 thousand) adjusted for the positive net commitment of €10,930 thousand in the United Kingdom.

31 December 2004	France			United Kingdom	Italy	Germany	Belgium	Total
	Retirement indemnities	PSAD	CARDIF					
Actuarial liability at start of period	(4 057)	(5 308)		(100 930)	(11 056)	(248 468)	(10 345)	(380 164)
- Cost of services provided during the period	(247)	-		(3 641)	(1 202)	(6 006)	(785)	(11 881)
- Interest expense	(203)	-		(5 490)	(207)	(13 666)	(559)	(20 125)
- Employee contributions		(196)				(2 492)		(2 688)
- Change of pension plan		-		(421)				(421)
- Acquisitions/disposals of subsidiaries		-		-				-
- Reductions of pension plans		-		-				-
- Disposals of pension plans		-		-				-
- Exceptional events		-		-				-
- Actuarial gains (losses) due to a change in assumptions	(98)	-		(10 937)		(10 322)		(21 357)
- Benefits paid	97	472		(1 162)	1 527	9 210	348	10 492
- Translation differences		-						-
- Other		-				383		383
Actuarial liability at end of period	(4 508)	(5 032)	(3 505)	(122 581)	(10 938)	(271 361)	(11 341)	(429 266)

Fair value of assets at start of period	709	-		72 028		203 812	6 231	282 780
- Actual return on plan assets	26	-		15 227		12 229	320	27 802
-								
- Employee contributions		-				2 492	636	3 128
- Employer contributions	165	-	817	19 088		3 844	157	24 071
- Acquisitions/disposals of subsidiaries		-						
- Reductions of pension plans		-				(2)		(2)
- Disposals of pension plans		-						
- Benefits paid	(97)	-		(1 162)		(6 625)	(348)	(8 232)
- Translation differences		-		3 031				3 031
- Other		-				831	(461)	370
Fair value of assets at end of period	803	-	2 688	108 212		216 581	6 535	334 819

Actuarial differences still to be amortised	(97)	-		(28 828)		(30 820)		(59 745)
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Net commitments	(3 608)	(5 032)	(817)	14 459	(10 938)	(23 960)	(4 806)	(34 702)
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Expenses for the period	(426)	(192)		(6 252)	(1 409)	(7 443)	(1 196)	(16 918)
- Cost of services provided during the period	(247)	-		(3 641)	(1 202)	(6 006)	(785)	(11 881)
- Financial cost (discounting effect)	(203)	(192)		(5 490)	(207)	(13 666)	(559)	(20 317)
- Expected return on plan assets	26	-		4 750		12 229	320	17 325
- Expected return on all other assets		-						
- Amortisation of actuarial gains and losses	(2)	-		(1 450)				(1 452)
- Amortisation of past service costs	-	-						
- Amortisation of initial unrecognised liability	-	-						
- Profit or loss resulting from reduction or liquidation	-	-						
- Asset ceiling	-	-						
- Exceptional events	-	-						
- Other	-	-		(421)			(172)	(593)

Actuarial assumptions								
- Discount rate	5,00%	4,00%		6,00%	4,00%	5,00%	6,00%	
- Rate of inflation	2,00%	2,00%		3,00%	1,50%	0,00%	2,00%	
- Expected rate of return on plan assets	5,00%	0,00%		7,00%		5,00%	5,00%	
- Expected rate of return on all reimbursement rights	0,00%	0,00%		0,00%		0,00%	5,00%	
- Expected rate of salary increases	3,00%	0,00%		4,00%	2,50%	2,00%	4,00%	
- Rate of increase in medical costs	0,00%	0,00%		3,00%		0,00%	0,00%	
- Rate of increase in annuities	0,00%	2,00%		3,00%		2,00%	0,00%	
- Retirement age	60			63	60-65	63	60	
- Remaining length of service	10	0		20		15	14	
- Other major assumptions used (1)	0,00%	60,00%		0,00%		0,00%	3,00%	

(1) the 60% on the PSAD plan corresponds to the reversion rate

Structure of plan assets								
- Equities	0,00%	0,00%		52,00%		14,00%	0,00%	
- Bonds	100,00%	100,00%		47,00%		82,00%	0,00%	
- Property	0,00%	0,00%		0,00%		3,00%	0,00%	
- Other	0,00%	0,00%		1,00%		1,00%	100,00%	

A detailed actuarial analysis had not been performed for the CARDIF pension plan or the defined benefit pension plan in the Netherlands at 31 December 2004.

Note 16 Borrowings

Breakdown by type

(€'000)	31/12/2006	31/12/2005
Subordinated debt	-	140
Term loans and other term borrowings	-	110 244
Demand accounts	-	-
Borrowings from banking sector businesses	-	110 244
Other borrowings	302 369	226 435
Total borrowings	302 369	336 819

“Other borrowings” include three loans to Euler Hermes SA from AGF amounting to €292,230 thousand (see note 27 Related parties). The balance represents cash pooling liabilities due to Allianz (€7 million) and a borrowing by the Greek subsidiary from its shareholder Banque Emporiki (€2.6 million).

The €110 million syndicated loan managed by Société Générale was repaid in November 2006. A €67 million loan was arranged with AGF.

Breakdown by maturity

(€'000)	31/12/2006				Total
	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	
Total borrowings	10 369	-	292 000	-	302 369

Note 17 Technical reserves

(€'000)	31/12/2005	Provision	Write back	Foreign exchange differences	Other changes	31/12/2006
Reserve for unearned premiums	254 586	2 816	(11 945)	(6 231)	2 601	241 827
Reserve for claims	1 123 361	672 666	(747 685)	(3 590)	3 921	1 048 673
Reserve for no-claims bonuses and refunds	119 217	7 435	(760)	189	(3 239)	122 842
Gross technical reserves	1 497 164	682 917	(760 390)	(9 632)	3 283	1 413 342
Reserve for unearned premiums	72 272	(30 014)	6 758	145	5 921	55 082
Reserve for claims	443 192	(114 377)	7 031	(916)	(656)	334 274
Reserve for no-claims bonuses and refunds	29 448	(6 031)	(139)	45	(714)	22 609
Reinsurers' share of technical reserves	544 912	(150 422)	13 650	(726)	4 551	411 965
Net technical reserves	952 252	833 339	(774 040)	(8 906)	(1 268)	1 001 377

Additional explanations on technical reserves are provided in section 3.8 under risk management.

Cost of claims

(€'000)						
	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Cost of claims for the current year	997 283	(241 600)	755 683	1 002 692	(349 310)	653 382
of which, claims paid	297 563	(96 054)	201 509	279 203	(116 540)	162 663
of which, claims reserves	637 155	(143 667)	493 488	659 251	(231 057)	428 194
of which, claims handling expenses	62 565	(1 879)	60 686	64 238	(1 713)	62 525
Recoveries for the current year	(72 618)	20 735	(51 883)	(63 323)	19 759	(43 564)
Recoveries received	(15 718)	5 911	(9 807)	(16 336)	6 985	(9 351)
Change in reserves for recoveries	(56 900)	14 824	(42 076)	(46 987)	12 774	(34 213)
Cost of claims from prior years	(120 335)	41 657	(78 678)	(242 790)	110 771	(132 019)
of which, claims paid	560 173	(190 076)	370 097	506 927	(196 694)	310 233
of which, claims reserves	(680 532)	232 122	(448 410)	(744 195)	316 740	(427 455)
of which, claims handling expenses	24	(389)	(365)	(5 522)	(9 275)	(14 797)
Recoveries from prior years	(111 662)	32 534	(79 128)	(87 450)	31 167	(56 283)
Recoveries received	(139 577)	40 026	(99 551)	(127 172)	42 872	(84 300)
Change in reserves for recoveries	27 915	(7 492)	20 423	39 722	(11 705)	28 017
Cost of claims	692 668	(146 674)	545 994	609 129	(187 613)	421 516

Claims reserves

(€'000)						
	31/12/2006			31/12/2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reserves gross of recoveries	1 215 824	(382 831)	832 993	1 263 212	(484 916)	778 296
Current year	680 161	(147 926)	532 235	689 672	(244 729)	444 943
Prior years	535 663	(234 905)	300 758	573 540	(240 187)	333 353
Recoveries to be received	(167 151)	48 557	(118 594)	(139 851)	41 724	(98 127)
Current year	(56 858)	15 222	(41 636)	(49 683)	13 460	(36 223)
Prior years	(110 293)	33 335	(76 958)	(90 168)	28 264	(61 904)
Claims reserves	1 048 673	(334 274)	714 399	1 123 361	(443 192)	680 169

Breakdown by type of provision

(€'000)						
	31/12/2006			31/12/2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reserves for unearned premiums	241 827	(55 082)	186 745	254 586	(72 272)	182 314
Claims reserves	1 048 673	(334 274)	714 399	1 123 361	(443 192)	680 169
of which, reserves for known claims	834 008	(368 996)	465 012	888 289	(471 363)	416 926
of which, reserves for late claims	275 477	46	275 523	274 721	46	274 767
of which, reserves for claims handling expenses	105 378	(12 065)	93 313	98 811	(13 599)	85 212
of which, other technical reserves	961	(1 816)	(855)	1 391	-	1 391
of which, recoveries to be received	(167 151)	48 557	(118 594)	(139 851)	41 724	(98 127)
No-claims bonuses and rebates	122 842	(22 609)	100 233	119 217	(29 448)	89 769
Technical reserves	1 413 342	(411 965)	1 001 377	1 497 164	(544 912)	952 252

Note 18 Insurance and reinsurance receivables

Breakdown by type

(€'000)

	31/12/2006	31/12/2005
Policyholders' guarantee deposits and miscellaneous	127 414	132 664
Due to policyholders and agents	62 651	79 411
Liabilities arising from inwards insurance and reinsurance transactions	190 065	212 075
Due to reinsurers and assignors	66 175	86 906
Deposits received from reinsurers	51 131	72 659
Net outwards reinsurance liabilities	117 306	159 565
Total insurance and reinsurance liabilities	307 371	371 640

Breakdown by maturity

(€'000)

	31/12/2006				Total
	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	
Total insurance and reinsurance liabilities	244 427	62 759	-	185	307 371

Note 19 Other liabilities

At 31 December 2006, other operating liabilities and other liabilities were combined under other liabilities.

Breakdown by type

(€'000)

	31/12/2006	31/12/2005
Tax and social liabilities	109 623	103 929
Other operating liabilities	156 848	125 312
Deferred income	10 281	8 711
Other accrued expenses	3 332	5 374
Other liabilities	5 535	4 106
Total other liabilities	285 619	247 432

Breakdown by maturity

(€'000)

	31/12/2006				Total
	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	
Total other liabilities	229 618	52 353	3 648	-	285 619

Note 20 Breakdown of income net of reinsurance

(€'000)

	2006			2005 pro forma		
	Gross	Outwards reinsurance	Net	Gross	Outwards reinsurance	Net
<i>Premiums and commissions on direct business</i>	1 690 314	(523 616)	1 166 698	1 630 023	(666 872)	963 151
<i>Premiums on inwards reinsurance</i>	49 227	(31 779)	17 448	89 965	(42 572)	47 393
<i>Premiums refunded</i>	(81 274)	21 375	(59 899)	(80 580)	31 364	(49 216)
Gross premiums written - credit insurance	1 658 267	(534 020)	1 124 247	1 639 408	(678 080)	961 328
Change in unearned premiums	508	(14 489)	(13 981)	(30 527)	10 497	(20 030)
Earned premiums	1 658 775	(548 509)	1 110 266	1 608 881	(667 583)	941 298
Premium-related revenues	353 045	-	353 045	318 488	-	318 488
Turnover	2 011 820	(548 509)	1 463 311	1 927 369	(667 583)	1 259 786
Net investment income	149 802	-	149 802	128 372	-	128 372
<i>Claims paid</i>	(702 441)	240 193	(462 248)	(642 622)	263 377	(379 245)
<i>Claims reserves expense</i>	72 362	(95 787)	(23 425)	92 209	(86 752)	5 457
<i>Claims handling expense</i>	(62 589)	2 268	(60 321)	(58 716)	10 988	(47 728)
<i>No-claims bonuses</i>	-	-	-	-	-	-
Insurance services expense	(692 668)	146 674	(545 994)	(609 129)	187 613	(421 516)
<i>Brokerage commissions</i>	(188 554)	-	(188 554)	(203 833)	-	(203 833)
<i>Other acquisition costs</i>	(95 371)	-	(95 371)	(84 327)	-	(84 327)
<i>Change in acquisition costs capitalised</i>	(102)	-	(102)	4 158	-	4 158
Contract acquisition expense	(284 027)	-	(284 027)	(284 002)	-	(284 002)
Impairment of portfolio securities and similar	-	-	-	(708)	-	(708)
Administration expense	(193 879)	-	(193 879)	(189 029)	-	(189 029)
Commissions received from reinsurers	-	214 093	214 093	-	230 048	230 048
Other ordinary operating income and expense	(313 395)	-	(313 395)	(276 307)	-	(276 307)
Ordinary operating income	677 653	(187 742)	489 911	696 566	(249 922)	446 644

Note 21 Net financial income

<i>(€'000)</i>	2006	2005 Proforma
Revenues from investment property	9 626	9 559
Revenues from securities	76 905	74 869
Revenues from other financial investments	27 398	21 784
Other financial income	2 732	11 399
Investment income	116 661	117 611
Depreciation of investment property	(2 958)	(2 954)
Investment management expenses	(8 278)	(11 165)
Interest paid to reinsurers	(1 242)	(1 498)
Other financial expenses	(4 306)	(9 032)
Investment expense	(16 784)	(24 649)
Profits on sales of property	3 100	1 409
Profits on sales of securities	64 570	42 854
Profits on sales of participating interests	-	-
Writebacks of investment impairment reserves	-	310
Losses on sales of property	-	-
Losses on sales of securities	(13 546)	(7 580)
Losses on sales of participating interests	(1 540)	(71)
Net gain (loss) on sales of investments less impairment and depreciation writebacks	52 584	36 922
Change in fair value of investments recognised at fair value through the income statement	1 715	188
Reserve for impairment of investments	(4 374)	(1 700)
Change in impairment of investments	(4 374)	(1 700)
Net financial income (excluding financing expense)	149 802	128 372

Note 22 Operating leases

<i>(€'000)</i>	2006				
	United Kingdom	United States	Netherlands	France	Scandinavia
Less than 1 year	4 125	1 548	446	566	6
1 to 5 years	11 658	5 099	640	475	706
More than 5 years	1 601	7 664	0	0	0
Total	17 384	14 311	1 086	1 041	712

<i>(€'000)</i>	2005				
	United Kingdom	United States	Netherlands	France	Scandinavia
Less than 1 year	4 014	1 639	721	131	284
1 to 5 years	15 118	5 786	0	149	423
More than 5 years	1 819	9 640	0	0	0
Total	20 951	17 065	721	280	707

Note 23 Other ordinary operating revenues and expenses

(€'000)

	2006	2005 Pro forma
Other technical income	14 952	15 984
Other technical expense	(305 418)	(265 635)
<i>of which, service provision costs</i>	(268 753)	(257 795)
Other non-technical income	7 226	21 559
Other non-technical expense	(21 146)	(27 557)
Employee profit sharing and bonuses	(9 002)	(8 145)
Provisions for risks and charges	-	886
Costs relating to operating properties	(6)	(10 995)
Other expense	(1)	(2 615)
Other income	-	211
Other ordinary operating income and expense	(313 395)	(276 307)

Note 24 Corporation tax

Breakdown of tax charge	2006
Tax payable:	
Corporation tax	127 063
Adjustments relating to prior years	4 917
Total	131 980
Deferred tax:	
Timing differences	37 491
Change in tax rate or new tax	468
Reclassification of tax payable as deferred tax	(8 013)
Tax benefits relating to prior years	(3 226)
Tax on dividends paid	-
Other	(1 966)
Total	24 754
Total tax charge in the income statement	156 734

Tax proof	2006	
Income before tax	478 422	
Tax at theoretical tax rate	164 721	34,43%
Impact of differences between group and local tax rates	4 587	0,96%
Impact of permanent differences between taxable and accounting income	13 094	2,74%
Impact of specific tax situations	(20 703)	-4,33%
Impact of income taxed at reduced rates	(5 431)	-1,14%
Impact of using the liability method	466	0,10%
Tax at effective tax rate	156 734	32,76%

The tax proof provides an explanation of items making up the difference between the tax charge at the theoretical tax rate of 34.43%, i.e. the parent company's tax rate, and the actual tax charge recorded in the income statement giving an effective tax rate of 32.76%.

The main variances stem from the difference between the local tax rate of each entity and the group tax rate, permanent differences contributed by each entity, tax charged at reduced rates and specific tax positions.

The impact of specific tax positions consists mainly of the write-back of deferred tax on the two German funds liquidated during the year.

Note 25 Earnings per share and dividend per share

Earnings per share

	2006	2005
Distributable net income (€'000)	326 054	286 076
Weighted average number of ordinary shares before dilution	43 434 049	42 468 142
Earnings per share (€)	7,51	6,74
	2006	2005
Distributable net income (€'000)	326 054	286 076
Weighted average number of ordinary shares after dilution	43 780 821	42 767 665
Diluted earnings per share (€)	7,45	6,69

The dilution impact takes into account the exercise of options. The average number of shares resulting from the dilution is 346,773 in 2006 (299,522 in 2005). The group share of net income is used as the basis for this calculation.

Dividend per share

The dividend paid in 2006 totalled €151,821 thousand, i.e. €3.50 per share.

A dividend of €174,159 thousand, i.e. €4 per share, will be proposed at the next Ordinary General Meeting on 9 May 2007.

Note 26 Sectoral data

Sectoral assets are operating assets that are used by a sector for its operating activities and which are directly attributable to that sector or can reasonably be assigned to it. Sectoral liabilities are operating liabilities arising from the operating activities of a sector and which are directly attributable to that sector or can reasonably be assigned to it.

Sectoral profit or loss comprises income and expense arising from the operating activities of a sector that are directly attributable to that sector and the relevant portion of income and expense that can reasonably be assigned to the sector, notably income and expense relating to sales to external customers and income and expense relating to transactions with other sectors of the same business.

The primary sector for the Euler Hermes group is the geographic sector as it corresponds to the information presented to the group's management bodies.

The six main geographic sectors correspond to the geographic regions covering the majority of the activity and which are therefore monitored in detail. These sectors are Germany, France, Italy, the United Kingdom, the United States and the Benelux countries.

First-level information: geographic region

Profit (loss) by sector

(€'000)

	2006									GROUP
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	
Premiums written	658 891	349 721	190 802	198 261	168 639	106 309	319 746	-	(252 829)	1 739 540
Premium refunds	(37 361)	(26 537)	(4 402)	(6 831)	(77)	(2 580)	(12 899)	-	9 413	(81 274)
Net premiums written	621 530	323 184	186 400	191 430	168 563	103 729	306 848	-	(243 417)	1 658 266
Change in unearned premiums	5 763	2 244	135	(4 523)	(8 455)	(1 407)	967	-	5 785	509
Earned premiums - non-group	627 293	325 428	186 535	186 907	160 108	102 322	307 815	-	(237 633)	1 658 775
Premium-related revenues - non-group	168 713	76 535	45 918	23 118	20 647	25 278	38 606	-	(45 770)	353 045
Turnover - intra-sectoral	796 006	401 963	232 453	210 025	180 755	127 600	346 421	-	(283 403)	2 011 820
Investment income	49 158	69 657	11 774	10 126	7 651	25 345	9 854	230 485	(264 248)	149 802
<i>Of which, dividends</i>	<i>11 260</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>67</i>	<i>-</i>	<i>218 094</i>	<i>(229 421)</i>	<i>-</i>
Total ordinary income	845 164	471 620	244 227	220 151	188 406	152 945	356 275	230 485	(547 651)	2 161 622
Insurance services expense	(207 513)	(179 851)	(97 125)	(48 956)	(62 053)	(54 171)	(175 379)	-	132 380	(692 668)
Outwards reinsurance expense	(365 672)	(71 012)	(81 224)	(84 380)	(75 585)	(46 076)	(91 637)	-	245 702	(569 884)
Outwards reinsurance revenues	272 831	66 246	65 845	58 271	55 914	30 652	72 172	-	(239 789)	382 142
Other income and expense	(315 284)	(154 988)	(103 543)	(87 151)	(64 447)	(41 960)	(143 878)	(23 987)	143 937	(791 301)
Total other income and expense	(615 638)	(339 605)	(216 047)	(162 216)	(146 171)	(111 555)	(338 722)	(23 987)	282 230	(1 671 711)
Ordinary operating income	229 526	132 015	28 180	57 935	42 235	41 390	17 553	206 498	(265 421)	489 911
Financing expense	(17)	-	-	-	(128)	(65)	(247)	(12 760)	1 728	(11 489)
Income from companies accounted for by the equity method	6 946	1 601	-	-	-	-	-	-	-	8 547
Corporation tax	(63 332)	(46 308)	(13 519)	(18 044)	(14 607)	(6 609)	(2 830)	8 515	-	(156 734)
Consolidated net income	173 123	87 308	14 661	39 891	27 500	34 716	14 476	202 253	(263 693)	330 235
Minority interests	(2 858)	(254)	-	(154)	-	(18)	(897)	-	-	(4 181)
Net income, group share	170 265	87 054	14 661	39 737	27 500	34 698	13 579	202 253	(263 693)	326 054

/(€'000)

	2005 Pro forma									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	GROUP
Premiums written	688 359	372 644	182 933	201 329	154 356	105 026	106 273	-	(90 932)	1 719 988
Premium refunds	(41 239)	(25 506)	(6 042)	(3 391)	-	(2 511)	(3 344)	-	1 453	(80 580)
Net premiums written	647 120	347 138	176 891	197 938	154 356	102 515	102 929	-	(89 479)	1 639 408
Change in unearned premiums	(11 021)	(87)	(817)	2 063	(5 300)	(3 560)	(17 507)	-	5 702	(30 527)
Earned premiums - non-Group	636 099	347 051	176 074	200 001	149 056	98 955	85 422	-	(83 777)	1 608 881
Premium-related revenues - non-Group	145 873	75 288	43 855	25 938	20 579	22 225	35 944	-	(51 214)	318 488
Turnover - intra-sectoral	781 972	422 339	219 929	225 939	169 635	121 180	121 366	-	(134 991)	1 927 369
Investment income	48 412	48 785	7 125	13 457	6 141	3 240	4 506	113 801	(117 095)	128 372
<i>Of which, dividends</i>	<i>3 138</i>	<i>1 438</i>	<i>-</i>	<i>49</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>112 653</i>	<i>(117 278)</i>	<i>-</i>
Total ordinary income	830 384	471 124	227 054	239 396	175 776	124 420	125 872	113 801	(252 086)	2 055 741
Insurance services expense	(201 123)	(162 796)	(65 153)	(64 104)	(44 472)	(51 191)	(50 543)	-	30 253	(609 129)
Outwards reinsurance expense	(371 321)	(63 208)	(77 139)	(87 558)	(65 685)	(46 066)	(70 501)	-	82 531	(698 947)
Outwards reinsurance revenues	229 541	47 456	39 608	57 755	41 740	28 661	65 380	-	(61 116)	449 025
Other income and expense	(313 495)	(169 504)	(101 116)	(96 765)	(61 411)	(38 320)	(56 360)	5 604	81 321	(750 046)
Total other income and expense	(656 398)	(348 052)	(203 800)	(190 672)	(129 828)	(106 916)	(112 024)	5 604	132 989	(1 609 097)
Ordinary operating income	173 986	123 072	23 254	48 724	45 948	17 504	13 848	119 405	(119 097)	446 644
Financing expense	-	(3)	-	-	-	(14)	(8)	(10 096)	-	(10 121)
Income from companies accounted for by the equity method	4 360	-	-	-	-	2 514	1 182	-	-	8 056
Corporation tax	(69 600)	(42 672)	(10 564)	(13 460)	(16 750)	(5 941)	(4 208)	4 801	-	(158 394)
Consolidated net income	108 746	80 397	12 690	35 264	29 198	14 063	10 814	114 110	(119 097)	286 185
Minority interests	(4)	(234)	-	(203)	-	(52)	384	-	-	(109)
Net income, Group share	108 742	80 163	12 690	35 061	29 198	14 011	11 198	114 110	(119 097)	286 076

Depreciation, amortisation and provisions by sector

/(€'000)

	2006									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	GROUP
Provisions for loans and receivables (Note 10)	(59)	(4 330)	(32)	(365)	-	(137)	-	(736)	-	(5 659)
Amortisation and depreciation of non-current assets (Notes 1, 2, 7)	-	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-	-
<i>Goodwill (Note 1)</i>	-	-	-	-	-	-	-	-	-	-
<i>Intangible assets (Note 2)</i>	-	-	-	-	-	-	-	-	-	-
<i>Property and equipment (Note 7)</i>	-	-	-	-	-	-	-	-	-	-

/(€'000)

	2005									
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	GROUP
Provisions for loans and receivables (Note 10)	(549)	(3 974)	(24)	(603)	-	(225)	-	(3 188)	4 024	(4 539)
Amortisation and depreciation of non-current assets (Notes 1, 2, 7)	(502)	(1 147)	(913)	(161)	(619)	(289)	(178)	(624)	-	(4 433)
Impairment	(9 973)	-	-	-	-	(51)	(158)	-	-	(10 182)
<i>Goodwill (Note 1)</i>	-	-	-	-	-	-	-	-	-	-
<i>Intangible assets (Note 2)</i>	-	-	-	-	-	-	(158)	-	-	(158)
<i>Property and equipment (Note 7)</i>	(9 973)	-	-	-	-	(51)	-	-	-	(10 024)

The amortisation and impairment charges on non-current assets are now split by function. Consequently, the breakdown in the income statement is no longer directly available as from 2006.

Assets and liabilities by sector

31/12/2006										
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	GROUP
Goodwill	34	393	5 820	62 235	25 668	7 978	5 246	-	-	107 374
Other intangible assets	16 301	6 679	1 120	11 584	421	523	1 210	5 081	-	42 919
Investments - insurance businesses	394 584	891 029	181 723	54 692	43 505	62 686	75 513	1 357 323	(87 754)	2 973 301
Investments accounted for by the equity method	19 946	16 917	-	-	-	-	-	-	(62)	36 801
Share of assignees and reinsurers in the technical reserves and financial liabilities	194 819	42 379	146 035	55 675	21 709	36 173	53 711	-	(138 536)	411 965
Insurance and reinsurance receivables	99 954	119 037	96 677	22 785	51 538	77 953	74 320	-	(46 037)	496 227
Other assets	242 365	162 940	81 161	37 156	38 754	50 625	88 523	69 574	(65 305)	705 793
Total assets	968 003	1 239 374	512 536	244 127	181 595	235 938	298 523	1 431 978	(337 694)	4 774 380
Technical reserves net of reinsurance	404 152	298 053	312 266	130 853	109 904	111 602	183 382	-	(136 870)	1 413 342
Liabilities related to inwards insurance and reinsurance transactions	28 278	82 451	42 983	20 791	4 756	8 473	13 621	-	(11 288)	190 065
Liabilities related to outwards reinsurance transactions	35 552	35 409	49 764	10 530	16 371	23 964	27 051	-	(81 335)	117 306
Other liabilities	354 868	278 909	80 097	47 462	21 887	47 526	48 557	365 366	(102 544)	1 142 128
Total liabilities	822 850	694 822	485 110	209 636	152 918	191 565	272 611	365 366	(332 037)	2 862 841

(€'000)

31/12/2005										
	Germany	France	Italy	United Kingdom	United States	Benelux countries	Other countries	Group services	Inter-sector eliminations	GROUP
Goodwill	(139)	393	6 229	60 982	28 655	7 978	5 068	-	-	109 166
Other intangible assets	11 197	7 824	5 005	1 484	827	552	1 094	4 620	-	32 603
Investments - insurance businesses	851 281	1 130 955	275 108	317 807	206 687	132 866	78 871	1 323 676	(1 417 623)	2 899 628
Investments accounted for by the equity method	22 769	-	-	-	-	5 057	15 695	-	-	43 521
Share of assignees and reinsurers in the technical reserves and financial liabilities	242 510	38 985	150 878	58 110	20 015	40 161	59 392	-	(65 139)	544 912
Insurance and reinsurance receivables	93 747	129 973	106 480	14 325	53 680	67 283	30 802	-	(22 817)	473 473
Other assets	201 866	137 102	49 376	47 743	41 586	25 921	38 985	119 849	(67 537)	594 891
Total assets	1 423 231	1 445 232	593 076	500 451	351 450	279 818	229 907	1 448 145	(1 573 116)	4 698 194
Technical reserves net of reinsurance	481 354	319 901	314 607	146 257	107 554	107 574	82 845	-	(62 928)	1 497 164
Liabilities related to inwards insurance and reinsurance transactions	29 614	83 264	64 012	21 640	7 563	4 980	5 894	-	(4 892)	212 075
Liabilities related to outwards reinsurance transactions	33 998	34 748	35 957	9 340	16 182	29 889	27 853	-	(28 402)	159 565
Other liabilities	296 430	278 986	54 416	42 159	32 535	47 978	23 896	382 428	(74 360)	1 084 468
Total liabilities	841 396	716 899	468 992	219 396	163 834	190 421	140 488	382 428	(170 582)	2 953 272

Second-level information: sectors of activity

The secondary sector is the business line, which comprises credit insurance and the other sectors under which are grouped less significant businesses: bonding (financial guarantees), fidelity (insurance against malicious actions taken by employees), retail (personal loan reinsurance) and export guarantee management on behalf of the German State.

(€'000)

Turnover	2006	2005 Pro forma
Credit insurance	1 755 154	1 666 465
Other	256 666	260 904
Total	2 011 820	1 927 369

(€'000)

Total assets	31/12/2006	31/12/2005
Credit insurance	4 408 227	3 185 276
Other	366 153	1 512 918
Total	4 774 380	4 698 194

Note 27 Related parties

Euler Hermes is 68.39%-owned by the AGF group, which in turn is 62.23%-owned by the Allianz group.

The breakdown of the percentage holdings of the AGF group in the Euler Hermes group is as follows:

- AGF Vie: 3,879,818 shares, i.e. 8.63% of the shares
- AGF SA: 5,442,444 shares, i.e. 12.11% of the shares
- AGF Holding: 21,421,782 shares, i.e. 47.66% of the shares

Related party transactions, receivables and liabilities

Transactions

	2006			2005		
	Allianz SE	AGF SA	Related companies and joint ventures	Allianz SE	AGF SA	Related companies and joint ventures
Operating income	(831)	-	23 577	-	-	22 590
Insurance services expense	-	-	(818)	-	-	(14 236)
Net income or expense on reinsurance	(42 906)	-	(43)	(54 105)	-	(7)
Financing expense	-	(7 290)	-	-	(3 661)	-
Other income and expense	(8 155)	208	(7 123)	15 949	8	(11 184)

The movement in other income and expense in respect of Allianz SE stems from the writeback of the receivable recognised in 2005 following the call made by Euler Hermes SA on the liabilities guarantee issued by Allianz SE in connection with the additional tax assessment on Euler Hermes Kreditversicherungs AG (see note 10).

Receivables and liabilities

	2006			2005		
	Allianz SE	AGF SA	Related companies and joint ventures	Allianz SE	AGF SA	Related companies and joint ventures
Current account	52 054	-	297	60 392	20	(255)
Net operating receivables	5 891	-	1 905	472	-	6 046
(including provisions on operating receivables)	-	-	-	-	-	(8)
Borrowings	-	292 330	-	-	225 197	-
Operating liabilities	17 928	-	4 247	12 937	-	5 389

The current account with Allianz SE corresponds to part of the group's cash position, which is centralised by Allianz SE under a cash pooling arrangement.

Borrowings correspond to three borrowings contracted with AGF SA:

- 2004 borrowing of €90 million maturing on 19 December 2008, remunerated at 3-month Euribor + 30 basis points
- 2005 borrowing of €135 million maturing on 24 June 2010, remunerated at 6-month Euribor + 20 basis points
- 2006 borrowing of €67 million maturing in December 2008, remunerated at 6-month Euribor + 6 basis points

Remuneration of senior executives (draft):Members of the Group Management Board

	31/12/2006	31/12/2005
- salaries and other short term benefits	2 925	2 937
- severance indemnities	1 568	-
	4 493	2 937
Share-based payments (number)		
- Euler Hermes options	52 500	42 000
- SAR	13 574	29 268

Members of the Supervisory Board forming part of AGF group and Allianz group

	31/12/2006	31/12/2005
- salaries and other short term benefits	<i>to be completed</i>	8 245
- severance indemnities	-	8 245
Share-based payments (number)		
- AGF options	<i>to be completed</i>	280 000
- SAR/RSU	<i>to be completed</i>	77 537

In addition, some corporate officers benefited in 2005 from membership of a supplementary pension plan. The Supervisory Board meeting of 30 August 2006 approved the termination of this plan.

Furthermore, Messrs Clemens von Weichs and Gerd-Uwe Baden, members of the Group Management Board, benefited from membership of an additional pension plan of the Allianz group.

Note 28 Group employees

	31/12/2006	31/12/2005	31/12/2004
Euler Hermes A.C.I. (United States)	325	308	313
Euler Hermes Credit Insurance (Belgium)	212	215	216
Euler Hermes Credit Insurance Kredietverzekering (Netherlands)	103	97	82
Euler Hermes Servicios (Spain)	99	90	76
Euler Hermes Serviços (Brazil)	19	14	12
Euler Hermes Seguro de Credito S.A. (Mexico)	23	16	0
Euler Hermes SFAC (France)	942	941	968
Euler Hermes SIAC (Italy)	447	454	458
Euler Hermes United Kingdom	477	475	517
<i>Sub-total</i>	2 647	2 610	2 642
Euler Hermes Cescob AS (Czech Republic)	33	33	31
Euler Hermes Credit Services (Japan)	7	7	13
Euler Hermes Guarantee PLC	29	31	29
Euler Hermes Magyar Hitelbiztosito (Hungary)	57	50	49
Euler Hermes Kreditversicherungs (Sweden)	120	115	113
Euler Hermes Kreditversicherungs (Germany)	1 934	2 058	2 123
Euler Hermes Kreditversicherungs Service (Switzerland)	45	40	32
Euler Hermes Zarzadzanie Ryzykiem Sp.Z.o.o. (Poland)	351	263	256
Euler Hermes Servicii Financiare S.R.L (Romania)	9	0	0
Euler Hermes Services OÜ Tallinn (Estonia)	3	0	0
Euler Hermes Services SIA Riga, Latvia (Latvia)	5	0	0
UAB Euler Hermes Services Baltic (Lithuania)	22	0	0
Euler Hermes Emporiki SA (Greece)	57	52	41
Euler Hermes Acmar (Morocco)	32	23	20
EH Credit Insurance Agency (Singapore)	21	0	0
Euler Hermes Services (HK) Ltd	27	14	0
<i>Sub-total</i>	2 752	2 686	2 707
TOTAL	5 399	5 296	5 349

Staff costs totalled €353,478 thousand for the year ended 31 December 2006. Remuneration paid to members of the Group Management Board during the year came to €2,925 thousand and € XXX thousand for members of the Supervisory Board.

The staff numbers shown correspond to the full-time equivalent headcount. For companies consolidated using the proportional method, the headcount shown is based on the proportion of the company included in the consolidated financial statements (concerns only N.V. Interpolis

Kreditverzekeringen). The headcount of companies accounted for by the equity method is not taken into account.

Note 29 Commitments given and received

The table below shows all the off-balance sheet commitments given and received of the Euler Hermes group. In accordance with the application of IFRS, financial instruments no longer appear as commitments given and received, but are presented in note 5.

(€'000)

Commitments given and received	31/12/2006	31/12/2005
Commitments received	10 116	7 118
* Deposits, sureties and other guarantees	10 116	7 118
Commitments given	36 383	45 788
* Deposits, sureties and other guarantees	36 383	38 188
<i>Of which:</i> - <i>Commitments associated with membership of an EIG</i>	8 160	9 725
- <i>Securities buyback agreement</i>	1 343	1 789
* <i>Maximum guarantee commitment in favour of Crédit Agricole (1)</i>		7 600

Euler Hermes has given a guarantee commitment in favour of Crédit Agricole for up to €10 million to cover any additional tax assessments concerning Eurofactor SA. This corresponds to a tax risk of €22 million given the excess of €1 million. This liabilities guarantee provision expired on 31 December 2006.

Note 30 Stock option plans

Share option plans

■ Amount charged in the consolidated income statement

	€'000	2006	2005
Charge in respect of the 8 July 2003 allocation of share subscription options	-	-	500
Charge in respect of the 6 July 2004 allocation of share subscription options	324	324	723
Charge in respect of the 27 June 2005 allocation of share subscription options	1 019	1 019	524
Charge in respect of the 22 September 2006 allocation of share purchase options	440	440	-
Total		1 783	1 747

* The impact on the consolidated financial statements of the 1997, 1998 and 1999 plans has not been recognised, as the rights vesting period has elapsed.

■ Characteristics of the share option plans

Euler Hermes uses the "Cox-Ross-Rubinstein" model to measure the personnel expense related to options granted. The assumptions used were as follows:

	Subscription plans *						Purchase plans **		
	avr-1997	août-1998	avr-1999	juil-2003	juil-2004	juin-2005	avr-00	févr.-01	sept-2006
Fair value of options allocated	4,68	5,22	5,41	8,93	11,66	13,10	14,77	12,74	22,29
Characteristics									
Date of EGM	29/04/1997	29/04/1997	29/04/1997	23/04/2003	23/04/2003	23/04/2003	07/04/2000	07/04/2000	22/05/2006
Period of validity of options	10 years	10 years	10 years	8 years	8 years	8 years	8 years	8 years	8 years
Rights vesting period	2 years	2 years	2 years	2 years	2 years	2 years	2 years	2 years	2 years
Assumptions									
Risk-free interest rate	5,64%	5,10%	4,04%	3,80%	4,16%	3,01%	5,63%	5,09%	4,01%
Expected volatility***	20%	20%	20%	30%	30%	25%	23%	20%	25%
Rate of return on shares	2%	2%	2%	2,81%	4,14%	3,98%	2,63%	2,65%	3,74%

***Expected volatility is calculated using historical market prices

■ Sundry restrictions

Subscription plans adopted by the EGM of 29/04/1997

The options allocated in 1998 and 1999 cannot be exercised for a period of at least five years as from the allocation date except in the event of resignation, dismissal, retirement, incapacity, death, or change of control. The shares are transferable as from the exercise date.

Subscription plans adopted by the EGM of 23/04/2003

The beneficiaries must have six months of service with the company on the allocation date. They may be on permanent or fixed-term contracts. The shares obtained by the exercise of the options are registered in the shareholder's name. They can be transferred freely after an initial period of four years as from the allocation date. This period of unavailability does not apply in certain cases such as loss of employment, retirement, incapacity or death of the beneficiary.

Purchase plans adopted by the EGM of 23/04/2003

The beneficiaries of the scheme are all the employees and corporate officers of Euler Hermes SA and its subsidiaries, with permanent or fixed-term employment contracts and at least six months length of service on the options allocation date. The shares purchased are transferable either immediately or after a period of four years from the date of the offer (other than in the event of loss of employment, retirement, incapacity or death), depending on the country.

Mixed plans adopted by the EGM of 22/05/2006

The beneficiaries of the scheme are all the employees and corporate officers of Euler Hermes SA and of more than 50%-owned subsidiaries, with permanent or fixed-term employment contracts and at least six months length of service on the options allocation date. The options may be freely exercised after a period of four years from the date of the offer, other than as provided for by article 91 ter of Appendix II to the French General Tax Code (loss of employment, retirement, incapacity or death), depending on the country.

■ Information on plans currently in effect

- At 31 December 2006, the following options were potentially exercisable :

Allocation date	Subscription plans *						Purchase plans **		
	avr-1997	août-1998	avr-1999	juil-2003	juil-2004	juin-2005	avr-2000	févr-2001	sept-2006
Number of options outstanding	930	38 918	0	127 760	111 200	155 550	58 866	35 218	158 100
End of subscription period	avr-2007	août-2008	avr-2009	juil-2011	juil-2012	juin-2013	avr-2008	févr-2009	sept-2014
Exercise price of valid options at end of period	15,55	18,27	21,12	27,35	44,41	63,08	50,11-52,74	49,31-52,65	91,82

§ Transactions under the share option plans since 1 January 2005 may be summarised as follows:

	déc-06				
	Average exercise price (€)	Number of options	Average price of EH share on exercise dates (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)
Start of period	43,04	778 657			
Allocation	91,82	160 000			
Exercise	38,15	235 517			
Cancellation	27,87	16 598			
End of period	55,80	686 542		5,29	15,55-91,82

	déc-05				
	Average exercise price (€)	Number of options	Average price of EH share on exercise dates (€)	Average residual term (years)	Exercise price range of options still outstanding at end of period (€)
Start of period	39,88	899 058			
Allocation	63,08	160 000			
Exercise	44,43	276 654	65,33		
Cancellation	36,29	3 747			
End of period	43,04	778 657		4,98	15,55 - 63,08

* These subscriptions plans are intended for members of the management bodies of Euler Hermes and its subsidiaries.

** The EGM of 7 April 2000 authorised the allocation of share purchase options to all Euler Hermes group employees in the context of a general stock option plan and to certain executives of its subsidiaries under a discretionary scheme.

The EGM of 22 May 2006 authorised the allocation of share purchase and/or subscription options to all Euler Hermes Group employees and possibly to its corporate officers. The options granted in September 2006 were purchase options only.

Allianz Group Equity Incentive plans

The schemes set in place under the Allianz Group Equity Incentives plan concern executives of Allianz and its subsidiaries worldwide. Starting in 1999, Allianz issued Stock Appreciation Rights (SAR) whose remuneration is entirely and directly a function of Allianz's share price performance. In 2003, Allianz issued Restricted Stock Units (RSU) with a vesting period of five years. The remuneration is granted by each entity concerned in accordance with the conditions set by Allianz. The reference price of SAR and RSU for the remuneration of the executives is the average trading price of Allianz shares over the ten trading days immediately preceding Allianz's Annual General Meeting of shareholders.

■ Characteristics of the SAR and RSU plans

SAR

After a vesting period of two years, the SAR can be exercised at any time between the second anniversary date and the seventh anniversary date under the following conditions:

- if during the contractual period, the Allianz share price has outperformed the Dow Jones index at least once for a period of five consecutive days;
- if the Allianz share price exceeds the reference price by at least 20% on the exercise date.

If these conditions are met, the Allianz group companies must pay in cash the difference between the reference price and the Allianz share price on the exercise date.

RSU

On the exercise date, after a five-year vesting period, Allianz can choose to remunerate the RSU in cash or by allocating Allianz shares or other securities granting access to the capital. If it opts for a cash remuneration, payment will be made based on the average price of the Allianz share over the ten trading days prior to the end of the vesting period.

Impact on the consolidated financial statements as at 31 December 2006

The fair value of the liabilities resulting from the SAR and RSU plans is reassessed at each balance sheet date based on the Allianz share price, until expiry of the obligation, and is calculated using the Cox-Ross-Rubinstein binomial valuation model. The charge is recognised as the rights are vested, and is thus spread over two years for the SAR and five years for the RSU. At 31 December 2005, the liability relating to the SAR and RSU still to be exercised amounted to €6,361 thousand.

€'000	SAR plans									RSU plans
	avr-99	avr-00	avr-01	avr-02	mai-03	mai-04	mai-05	mai-06	Total	mai-03
Fair value at 31 December 2006 (in euros)	0,00	0,01	0,01	1,51	90,84	73,28	63,88	54,10	7 981	153,82
Total commitment	0	0	0	16	788	2 435	2 697	2 044	7 981	561
Opening commitment	0	0	0	3	696	1 521	671	-	2 892	231
Charge recognised during the period	0	0	0	1	92	914	1 464	596	3 066	171
Closing commitment	0	0	0	4	788	2 435	2 135	596	5 959	402

■ Information on plans currently in effect

Allocation date	déc.-06								
	SAR					RSU			
	Rights vesting period (years)	Reference price (€)	SAR granted	SAR cancelled	SAR exercised	Rights vesting period (years)	RSU granted	RSU cancelled	RSU exercised
avr-00	2	332,10	9 734	-	-	-	-	-	-
avr-01	2	322,14	10 264	303	-	-	-	-	-
avr-02	2	239,80	11 250	568	-	-	-	-	-
mai-03	2	65,91	11 338	-	2 658	5	3 645	-	-
mai-04	2	83,47	39 538	-	6 309	-	-	-	-
mai-05	2	92,87	49 597	7 377	-	-	-	-	-
mai-06	2	132,41	37 779	-	-	-	-	-	-

Note 31 Post-balance sheet events

Offer by Allianz to purchase the minority interests in AGF

Allianz plans to make an offer for the minority interests in its subsidiary AGF before the end of February 2007. AGF's shareholders will be offered €87.5 plus 0.25 shares in Allianz SE for each AGF share held. AGF has no intention of making an offer for Euler Hermes, in which it has a holding of 68.39% that does not represent a core asset for AGF, nor does it consider itself under the obligation to do so. Allianz SE has confirmed to AGF that it has no intention of making an offer for this company.

Acquisition of United Mercantile Agencies (UMA), an American collection company

On 23 January 2007, Euler Hermes ACI acquired United Mercantile Agencies, one of the United States' leading companies in commercial collections and management of trade receivables. This company has been renamed Euler Hermes UMA. The company had turnover and net income in 2006 of \$7,729 thousand and \$1,002 thousand respectively.

Branch closures in Germany

Between now and the end of 2008, Euler Hermes plans to close six of its smaller branches of the 17 located in Germany. A new IT application will then be implemented in order to increase the effectiveness of the German entity. Some 40 of the approximately 2,000 employees could lose their jobs, while others may be offered internal relocation. These measures are not expected to have a material impact on costs.