

# Consolidated Financial Statements

For the year ended December 31, 2009



**EULER HERMES**  
Business insured. Success ensured.

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# Consolidated statement of financial position

(in thousands)	Notes	December 31, 2009	December 31, 2008
Goodwill	3	103 582	102 678
Other intangible assets	4	90 752	83 235
<b>Intangible assets</b>		<b>194 334</b>	<b>185 913</b>
Investment property	5	24 917	71 834
Financial investments	6	2 840 735	2 590 986
Derivatives		4 313	3 052
<b>Investments- insurance businesses</b>		<b>2 869 965</b>	<b>2 665 872</b>
<b>Investments accounted for by the equity method</b>	<b>7</b>	<b>89 254</b>	<b>93 550</b>
<b>Share of assignees and reinsurers in the technical reserves and financial liabilities</b>	<b>18</b>	<b>517 581</b>	<b>417 978</b>
Operating property and other property and equipment		158 319	162 426
Acquisition costs capitalised		42 649	46 798
Deferred tax assets	9	42 938	31 942
Inwards insurance and reinsurance receivables	10	459 723	498 208
Outwards reinsurance receivables	10	114 795	96 225
Corporation tax receivables		34 724	94 890
Other receivables	11	183 879	149 386
<b>Other assets</b>		<b>1 037 027</b>	<b>1 079 875</b>
Cash	12	441 792	613 907
<b>TOTAL ASSETS</b>		<b>€5 149 953</b>	<b>€5 057 095</b>
Capital stock		14 426	14 426
Additional paid-in capital		451 959	451 924
Reserves		1 326 179	1 307 927
Net income, group share		18 988	83 592
Revaluation reserve		43 500	50 279
Translation reserve		(59 273)	(73 191)
<b>Shareholders' equity, group share</b>		<b>€1 795 779</b>	<b>€1 834 957</b>
Minority interests	14	20 698	20 328
<b>Total shareholders' equity</b>		<b>€1 816 477</b>	<b>€1 855 285</b>
<b>Provisions for risks and charges</b>	<b>15</b>	<b>173 920</b>	<b>141 648</b>
Bank borrowings		1 261	2 313
Other borrowings		405 882	295 433
<b>Borrowings</b>	<b>17</b>	<b>407 143</b>	<b>297 746</b>
Gross non-life technical reserves	18	1 836 551	1 853 698
<b>Liabilities related to contracts</b>		<b>1 836 551</b>	<b>1 853 698</b>
Deferred tax liabilities	9	326 055	354 367
Inwards insurance and reinsurance liabilities	19	208 197	195 172
Outwards reinsurance liabilities	19	170 400	96 697
Corporation tax payables		38 298	30 222
Other payables	20	172 912	232 260
<b>Other liabilities</b>		<b>915 862</b>	<b>908 718</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>€5 149 953</b>	<b>€5 057 095</b>

# Consolidated income statement

(in thousands excepted for the earnings per share)

Year ended December 31,

	Notes	2009	2008 Modified	2008 Published
Premiums written		1 736 217	1 878 779	1 878 779
Premiums refunded		(63 079)	(78 383)	(78 383)
Change in unearned premiums		21 347	(26 437)	(26 437)
<b>Earned premiums</b>		<b>1 694 485</b>	<b>1 773 959</b>	<b>1 773 959</b>
Premium-related revenues		391 226	392 492	392 492
<b>Turnover</b>	21	<b>€2 085 711</b>	<b>€2 166 451</b>	<b>€2 166 451</b>
Investment income		96 976	131 905	136 419
Investment management charges		(10 341)	(10 936)	(19 999)
Net gain (loss) on sales of investments less impairment and depreciation writebacks		71 272	39 944	39 944
Change in fair value of investments recognised at fair value through profit or loss		1 363	-	-
Change in investment impairment provisions		(1 335)	(23 424)	(23 424)
Net change in foreign currency		(9 525)	(4 549)	-
<b>Net investment income</b>		<b>148 410</b>	<b>132 940</b>	<b>132 940</b>
<b>Insurance services expense</b>		<b>(1 276 079)</b>	<b>(1 307 430)</b>	<b>(1 307 430)</b>
Outwards reinsurance income		(583 325)	(400 740)	(400 740)
Outwards reinsurance expense		558 008	389 376	389 376
<b>Net outwards reinsurance income or expense</b>	21	<b>(25 317)</b>	<b>(11 364)</b>	<b>(11 364)</b>
<b>Contract acquisition expense</b>		<b>(331 923)</b>	<b>(344 633)</b>	<b>(311 506)</b>
<b>Administration expense</b>		<b>(175 919)</b>	<b>(164 297)</b>	<b>(220 563)</b>
<b>Other ordinary operating income and expense</b>		<b>(341 256)</b>	<b>(303 167)</b>	<b>(280 028)</b>
<b>ORDINARY OPERATING INCOME</b>		<b>€83 627</b>	<b>€168 500</b>	<b>€168 500</b>
<b>Other non ordinary operating income and expense</b>		<b>(8 856)</b>	<b>-</b>	<b>-</b>
<b>OPERATING INCOME</b>	21	<b>€74 771</b>	<b>€168 500</b>	<b>€168 500</b>
Financing expense		(10 013)	(16 089)	(16 089)
Income from companies accounted for by the equity method	7	6 644	7 875	7 875
Corporation tax		(48 261)	(72 196)	(72 196)
<b>CONSOLIDATED NET INCOME</b>		<b>23 141</b>	<b>88 090</b>	<b>88 090</b>
<i>o/w</i>				
<b>NET INCOME, GROUP SHARE</b>		<b>€18 988</b>	<b>€83 592</b>	<b>€83 592</b>
Minority interests		4 153	4 498	4 498
<b>Other comprehensive income elements</b>				
Change in fair market value of asset held for sale transferred through profits & losses (Gross amount)		(39 915)	(32 611)	
Change in fair market value of asset held for sale transferred through profits & losses (Tax amount)		10 708	10 788	
Change in fair market value of asset held for sale booked through equity (Gross amount)		31 339	(27 506)	
Change in fair market value of asset held for sale booked through equity (Tax amount)		(7 442)	9 099	
Other change in fair market value of asset held for sale booked through equity		(1 483)	-	
Change in translation reserve (included impact on revaluation reserve) booked through equity (Gross amount)		22 493	(60 554)	
Change in translation reserve (included impact on revaluation reserve) booked through equity (Tax amount)		(8 575)	17 075	
<b>Total other comprehensive income net of taxes</b>		<b>€7 125</b>	<b>€(83 709)</b>	
<b>Total comprehensive income</b>		<b>€26 113</b>	<b>€(117)</b>	
<b>Earnings per share</b>		<b>€0,43</b>	<b>€1,92</b>	
<b>Diluted earnings per share</b>		<b>€0,43</b>	<b>€1,92</b>	
<b>Earnings per share of continuing activities</b>		<b>€0,43</b>	<b>€1,92</b>	
<b>Diluted earnings per share of continuing activities</b>		<b>€0,43</b>	<b>€1,92</b>	

The other operating expense concerns the restructuring plan accounted by the Italian entity EH SIAC.

In the context of the implementation of the analytical tool in the main business units within the Euler Hermes group, the allocation per destination has been improved in the Group. In order to produce comparable statements from one year to the other, the main items of the December 2008 income statement have been restated pro forma.

The related amounts compared to 2008 publication are:

- Contract acquisition expense: €(344,633) vs €(311,506) thousand ;
- Administration expense: €(164,297) vs €(220,563) thousand ;
- Other ordinary operating income and expense: €(303,167) vs €(280,028) thousand.

The income statement has been modified in order to improve the presentation. The net change in foreign currency has been isolated in one specified line. The investment income and the investment management charges have been restated pro forma:

- Investment income: €131,905 vs €136,419 thousand ;
- Investment management charges: €(10,936) vs €(19,999) thousand.

# Consolidated statement of cash flows

(In thousands)	Twelve months ended December 31,	
	2009	2008
<b>Net income, group share</b>	<b>€18 988</b>	<b>€83 592</b>
Corporation tax	50 325	72 196
Financing expense	10 199	16 090
<b>Operating income before tax</b>	<b>79 512</b>	<b>171 878</b>
Minority interests	4 153	4 498
Allocation to and writebacks of depreciation, amortisation and reserves	59 092	51 855
Change in technical reserves	(128 480)	423 495
Change in deferred acquisition costs	10 659	(21 242)
Change in fair value of financial instruments recognised at fair value through the income statement (excluding cash and cash equivalents)	(1 067)	-
Realised capital gains/(losses) net of writebacks	(70 832)	(39 822)
Unrealised foreign exchange gain (loss) in company accounts	13 087	(3 048)
Revenues and expenses linked to stock options and similar	444	(659)
Interest revenues received accrued	(2 092)	(44 369)
<b>Adjustment for elements included in operating income that do not correspond to cash flows and reclassification of financing and investment flows</b>	<b>(115 037)</b>	<b>370 708</b>
Income (loss) of companies accounted for by the equity method	(6 645)	(7 875)
Dividends received from companies accounted for by the equity method	10 555	6 970
Change in liabilities and receivables relating to insurance and reinsurance transactions	89 469	(49 611)
Change in inventories	-	(1)
Change in operating receivables and liabilities	(32 793)	(36 080)
Change in other assets and liabilities	(41 057)	(10 531)
Corporation tax	(9 165)	(179 188)
<b>Cash flow related to operating activities</b>	<b>10 364</b>	<b>(276 316)</b>
<b>Cash flow from operating activities</b>	<b>€(25 161)</b>	<b>€266 270</b>
Acquisitions of subsidiaries and joint ventures, net of acquired cash	-	(980)
Disposals of subsidiaries and joint ventures, net of acquired cash	-	-
Acquisitions of equity interests in companies accounted for by the equity method	-	(32 980)
Cessions de participations dans des entreprises mises en équivalence	-	-
Merger	-	-
<b>Cash flow linked to changes in the consolidation scope</b>	<b>-</b>	<b>(33 960)</b>
Disposals of AFS securities	1 254 064	1 518 000
Matured HTM securities	5 297	8 661
Disposals of investment properties	71 939	25 828
Disposals of securities held for trading	172	446
<b>Cash flow linked to disposals and redemptions of investments</b>	<b>1 331 472</b>	<b>1 552 935</b>
Acquisitions of AFS securities	(1 464 175)	(1 024 678)
Acquisitions of HTM securities	-	-
Acquisitions of investment properties	(1 318)	(922)
Acquisitions of trading securities	(580)	(1 255)
<b>Cash flow linked to acquisitions of investments</b>	<b>(1 466 073)</b>	<b>(1 026 855)</b>
Disposals of other investments and intangible assets	451 439	172 683
Acquisitions of other investments and intangible assets	(483 842)	(468 750)
<b>Cash flow linked to acquisitions and disposals of other investments and intangible assets</b>	<b>(32 402)</b>	<b>(296 067)</b>
<b>Cash flow from investing activities</b>	<b>€(167 002)</b>	<b>€196 053</b>

## Consolidated statement of cash flows

Increases and decreases in capital	12	555
<i>Increases in capital</i>	(30)	575
<i>Decreases in capital</i>	42	(20)
Change in treasury stock	(820)	(9 423)
Dividends paid	(68 986)	(221 130)
<b>Cash flow linked to transactions with the shareholders</b>	<b>(69 794)</b>	<b>(229 998)</b>
Change in non voting shares	-	-
Changes in loans and subordinated securities	106 866	(814)
<i>Issue</i>	246 278	87
<i>Repayment</i>	(139 412)	(901)
Interest paid	(9 482)	(16 352)
<b>Cash flow from group financing</b>	<b>97 384</b>	<b>(17 166)</b>
<b>Cash flow from financing activities</b>	<b>€27 590</b>	<b>€(247 164)</b>
<hr/>		
Impact of foreign exchange differences on cash and cash equivalents	(2 557)	18 511
Reclassification	(3 750)	(9 768)
<b>Other net changes in cash</b>	<b>€(6 307)</b>	<b>€8 743</b>
<hr/>		
<b>Change in cash flows</b>	<b>(170 881)</b>	<b>223 902</b>
<b>Change in cash and cash equivalents</b>	<b>(170 881)</b>	<b>223 902</b>
Cash and cash equivalents at beginning of period	12	€612 323
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Cash and cash equivalents at end of period	12	€441 442
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# Consolidated statement of changes in equity

## For the year 2008

(in thousands)	Capital Stock	Additional paid-in-capital	Retained earnings	Revaluation reserve	Translation reserve	Treasury shares	Shareholders' equity, group share	Minority interests	Total shareholders' equity
<b>Opening Shareholders' equity</b>	€14 417	€451 332	€1 607 947	€90 438	€(29 821)	€(75 572)	€1 834 957	€19 179	€1 854 136
Available-for-sale assets (AFS)	-	-	-	-	-	-	-	-	-
Measurement gain / (loss) taken to shareholders' equity	-	-	-	(18 336)	-	-	(18 336)	(71)	(18 407)
Impact of transferring realised gains and losses to income statement	-	-	-	(21 823)	-	-	(21 823)	-	(21 823)
Other movements	-	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-	-
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	-	-	-	-	(43 370)	-	(43 370)	(109)	(43 479)
Current and deferred tax taken directly to or transferred to shareholders' equity	-	-	-	-	-	-	-	-	-
<b>Net income recognised in shareholders' equity</b>	-	-	-	(40 159)	(43 370)	-	(83 530)	(180)	(83 710)
<b>Net income for the year</b>	-	-	83 592	-	-	-	83 592	4 498	88 090
<b>Total revenues and losses recognised for the period</b>	-	-	€83 592	€(40 159)	€(43 370)	-	€63	€4 318	€4 381
Capital movements	9	592	-	-	-	(9 125)	(8 524)	-	(8 524)
Dividend distributions	-	-	(218 255)	-	-	-	(218 255)	(2 876)	(221 131)
Shareholders' equity component of share-based payment plans	-	-	1 489	-	-	-	1 489	-	1 489
Cancellation of gains/losses on treasury shares	-	-	(298)	-	-	-	(298)	-	(298)
Other movements	-	-	1 741	-	-	-	1 741	(293)	1 448
<b>Closing Shareholders' equity</b>	€14 426	€451 924	€1 476 216	€50 279	€(73 191)	€(84 697)	€1 834 957	€20 328	€1 855 285

## For the year 2009

(in thousands)	Capital Stock	Additional paid-in-capital	Retained earnings	Revaluation reserve	Translation reserve	Treasury shares	Shareholders' equity, group share	Minority interests	Total shareholders' equity
<b>Opening Shareholders' equity</b>	€14 426	€451 924	€1 476 216	€50 279	€(73 191)	€(84 697)	€1 834 957	€20 328	€1 855 285
Available-for-sale assets (AFS)	-	-	-	-	-	-	-	-	-
Measurement gain / (loss) taken to shareholders' equity	-	-	-	23 936	-	-	23 936	(39)	23 897
Impact of transferring realised gains and losses to income statement	-	-	-	(29 207)	-	-	(29 207)	-	(29 207)
Other movements	-	-	-	(1 529)	-	-	(1 529)	26	(1 503)
Cash flow hedges	-	-	-	-	-	-	-	-	-
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	-	-	-	20	13 918	-	13 938	-	13 938
Current and deferred tax taken directly to or transferred to shareholders' equity	-	-	-	-	-	-	-	-	-
<b>Net income recognised in shareholders' equity</b>	-	-	-	(6 779)	13 918	-	7 138	(13)	7 125
<b>Net income for the year</b>	-	-	18 988	-	-	-	18 988	4 153	23 141
<b>Total revenues and losses recognised for the period</b>	-	-	€18 988	€(6 779)	€13 918	-	€26 127	€4 140	€30 267
Capital movements	-	35	-	-	-	(820)	(785)	-	(785)
Dividend distributions	-	-	(65 274)	-	-	-	(65 274)	(3 712)	(68 986)
Shareholders' equity component of share-based payment plans	-	-	444	-	-	-	444	-	444
Cancellation of gains/losses on treasury shares	-	-	-	-	-	-	-	-	-
Other movements	-	-	310	-	-	-	310	(58)	252
<b>Closing Shareholders' equity</b>	€14 426	€451 959	€1 430 684	€43 500	€(59 273)	€(85 517)	€1 795 779	€20 698	€1 816 477

At 31 December 2009, the capital stock of Euler Hermes consisted of 45,083,210 fully paid-up shares, including 1,567,944 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 €(6,779) thousand net of taxes.

Variances in translation differences during the year concerned mainly the US dollar (€(5,315) thousand) and the British pound (€18,556 thousand).

980 new shares were created as a result of the exercise of stock options during 2008. Following these transactions, the additional paid-in capital of Euler Hermes SA increased by €35 thousand.

The variance of €444 thousand corresponds to an expense in respect of stock option plans in accordance with the application of IFRS 2.

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

The other movements mainly correspond to the adjustments of the IFRS value of COSEC for €450 thousand.

# Notes to the consolidated financial statements

## Note 1 Significant events

The following significant events occurred in the year 2009:

### Changes in the share capital and in share ownership

The Shareholders' General Meeting of 15 May 2009 decided to distribute a dividend of €1.50 per share.

At 31 December 2009, the Allianz group owned 30,744,048 shares out of a total of 45,083,210 shares, corresponding to 68.20% of the share capital of Euler Hermes.

During the year 2009, 980 new shares were created by the exercise of options. At 31 December 2009, Euler Hermes' share capital was composed of 45,083,210 shares, including 1,567,944 shares held in treasury stock.

### Evolution of the retention rate

The premium retention rate is the ratio of premiums after reinsurance to premiums before reinsurance. This rate decrease from 77.4% at end-December 2008 to 65.6% at end-December 2009. Earned premiums net of reinsurance decreased by 19.1% 2008 compared to 2009; 14.6% is explained by the decrease in premium retention rate.

### SAFIM Factoring litigation

On July, 21st 2009, the court of cassation of Roma has rejected the claims of our Italian subsidiary, Euler Hermes SIAC, related to an old case initiated against Euler Hermes SIAC in 1995 by the factoring group SAFIM (currently in liquidation).

The reject of the court of cassation of the claims of our Italian subsidiary restarts the procedure in appeal of SAFIM after the success of the first instance decision of Euler Hermes SIAC and whereas the risks linked to this litigation had been evaluated as limited by Euler Hermes SIAC and its legal advisers.

Presently, the judge designed an expert who has to evaluate the financial loss potentially assumed by SAFIM factoring. A final judgement is not planned before the first half year of 2010. Euler Hermes has initiated a detailed analysis of the case in order to reassess, with his legal advisers, the financial risks linked to this case and has booked a €16 millions additional provision for that litigation during the 4<sup>th</sup> quarter of 2009.

### One Euler Hermes

On September 10<sup>th</sup>, 2009, the Euler Hermes group announced the go live of the project One Euler Hermes from January 1<sup>st</sup>, 2009. It focuses on implementing the organisational changes needed to create a customer-oriented and even more efficient group. A key objective is to put in place at all Group entities an organisation that enables them to adapt quickly to new client demands and provide a comprehensive range of solutions.

The new organisation will be in continuity with Euler Hermes' history, business model and corporate values. It is based on two pillars:

- A new governance system and stronger central functions;
- A balanced geographic organisation composed of six regions, each with full responsibilities.

## Note 2 IFRS accounting and valuation rules

The financial statements of the Euler Hermes group as at December 31, 2009 were approved by the Board of Director's of February 17, 2010. They will be submitted to validation to the Shareholders' General Meeting of May 21, 2010.

# Notes to the consolidated financial statements

## 2.1. General principles

In accordance with European regulation no. 1606/2002 of July 19, 2002, the interim consolidated financial statements published at December 31, 2009 were prepared in accordance with 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 December 31, 2009 as adopted by the European Union,
- Guidance provided in CNC recommendation no. 2009-R05 relating to the format of financial statements prepared by insurance firms under international accounting guidelines.

Euler Hermes applied, by anticipation in 2008, IAS 19 – IFRIC 14 related to the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Voluntary prepaid contributions under a minimum funding requirement). The application of IFRIC 14 didn't impact the consolidated financial statements.

The Group didn't choose the options related to the reclassification of financial assets (published by IASB on October 13th, 2008 and applicable on July 1st, 2008) linked to the update of IAS 39 - Financial instruments: recognition and measurement and IFRS 7 - Financial instruments: disclosures.

Euler Hermes group has applied the update of IFRS 7 – Financial Instruments – Fair Value Hierarchy for the 2009 year closing. The three levels and their details are the following:

- Level 1: The fair value corresponds to a quoted price on an active market;
- Level 2: The quotation is given by a third party (broker, dealer...) or by a mathematical model using observable data on an active market;
- Level 3: The evaluation is built on non observable estimates.

As at December 31, 2009, Euler Hermes didn't apply the following standards published by IASB that are not mandatory as at January 1st, 2009:

- IAS 39 – Financial instruments – Hedge accounting recognition ;
- IFRS 3 and IAS 27 update – Business combination.

Euler Hermes group has applied as at January 1st, 2009 the following standards and updates:

- IAS 1 revised – Presentation of financial statements;
- IFRS 8 – Operational segments – The geographical areas detailed in note 9 exactly reflected the internal communication done by the Management. Moreover, the information by activity is not still published;
- IFRS 2 update – Vesting conditions and cancellations.

The following updates of IFRS standards didn't impact the consolidated financial statements of the Euler Hermes:

- IFRS 2 update – Vesting conditions and cancellations.
- IAS 23 – Update related to the costs of borrowings;
- IFRS 1 and IAS 27 update – Cost of a investment in a subsidiary, jointly controlled entity or associate;
- IAS 32 and IAS 1 update – Puttable financial instruments and obligations arising on liquidation;
- IFRS 1 and IFRS 5 update – IFRS annual improving;
- IFRS 1 update – First time adoption of IFRS.

The following interpretations of IFRS standards didn't impact the consolidated financial statements of the Euler Hermes:

- IFRIC 12 – Service concession arrangements;
- IFRIC 13 – Customer Loyalty Programmes;
- IFRIC 15 – Agreements for the Construction of Real Estate;
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation;
- IFRIC 17 – Distribution to the stakeholders of non-monetary assets;
- IFRIC 18 – Transfers of Assets from Customers.

## Notes to the consolidated financial statements

The financial statements are presented in euros, the functional currency, 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 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 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.

### **2.2. Consolidation scope**

The consolidation scope didn't change during the year 2009.

# Notes to the consolidated financial statements

## 2.3. List of consolidated companies

French companies	Consolidation	December 31, 2009		December 31, 2008	
	Method	%control	%interest	%control	%interest
<b>Euler Hermes S.A. (1)</b> 1, rue Euler - 75008 Paris N°Siren : 552 040 594	Held by AGF : 68,20%			Parent company	Parent company
<b>Bilan Services S.N.C.</b> 25, boulevard des Bouvets - 92000 Nanterre N°Siren : 333 192 631	Full	50,00	50,00	50,00	50,00
<b>Codinf Services S.A.</b> 29, rue de Délicy - 93500 Pantin N°Siren : 341 693 778	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Asset Management S.A.</b> 1, rue Euler - 75008 Paris N°Siren : 422 728 956	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services S.A.S.</b> 1, rue Euler - 75008 Paris N°Siren : 414 960 377	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes SFAC S.A.</b> 1-3-5 rue Euler - 75008 Paris N°Siren : 348 920 596	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes SFAC Crédit S.A.S.</b> 1, rue Euler - 75008 Paris N°Siren : 388 236 853	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes SFAC Recouvrement S.A.S.</b> 1, rue Euler - 75008 Paris N°Siren : 388 238 026	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Tech S.A.S.</b> 1, rue Euler - 75008 Paris N°Siren : 388 237 091	Full	100,00	100,00	100,00	100,00
<b>Euro Gestion</b> EURO VL - Immeuble Colline Sud - 10 passage de l'Arc 92034 Paris La Défense FR0007047568	Full	100,00	100,00	100,00	100,00
<b>Euler Gestion</b> CIC Asset Management - 4 rue Gaillon - 75002 Paris FR0007434980	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes World Agency</b> 8 Rue Euler - 75008 Paris N°Siren : 487 550 907	Full	100,00	100,00	100,00	100,00

(1) Proportion held is based on a total of 45 082 230 shares (before restatement of treasury shares).

Foreign companies	Country	Consolidation	December 31, 2009		December 31, 2008	
		Method	%control	%interest	%control	%interest
<b>Bürgel Wirtschaftsinformationen GmbH &amp; Co. K.G.</b> Gasstr.18 - D-22761 Hamburg	Germany	Full	50,10	50,10	50,10	50,10
<b>Bürgel Wirtschaftsinformationen Verwaltungs-GmbH</b> Gasstr.18 - D-22761 Hamburg	Germany	Full	50,40	50,40	50,40	50,40
<b>Euler Hermes Forderungsmanagement GmbH</b> Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Rating GmbH</b> Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Credit Management GmbH</b> Zeppelin Str. 48 - DE-14471 - Potsdam	Germany	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Kreditversicherungs A.G.</b> Friedensallee 254 - Hamburg	Germany	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Argentina</b> San Martín 550- C1004AAL Buenos Aires	Argentina	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Trade Credit Underwriting Agents</b> Level 14, 2 Market Street Sydney NSW 2000 Australia	Australia	Full	100,00	100,00	100,00	100,00
<b>Prisma Kreditversicherungs A.G.</b> Heiligenstadter Strasse 201 - Vienne	Austria	Equity	49,00	49,00	49,00	49,00
<b>OeKB EH Beteiligungs- u. Manag</b> Strauchgasse 1-3 - 1010 - Vienne	Austria	Equity	49,00	49,00	49,00	49,00
<b>Euler Hermes Credit Insurance Belgium S.A. (N.V.)</b> 15, rue Montoyer - 1000 Bruxelles - RC Bruxelles : 31 955	Belgium	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services Belgium S.A. (N.V.)</b> 15, rue Montoyer - 1000 Bruxelles - RC Bruxelles : 45 8033	Belgium	Full	100,00	100,00	100,00	100,00
<b>Graydon Belgium (N.V.)</b> Uibreidingsstraat 84 Bus 1 - 2500 Berchem	Belgium	Equity	27,50	27,50	27,50	27,50
<b>Euler Hermes Seguros de Crédito S.A.</b> Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo	Brasil	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Serviços Ltda</b> Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo	Brasil	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Do Brasil Exportação</b> Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo	Brasil	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Information Consulting (Shanghai) Co. Ltd</b> 9/F Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong New Area, Shanghai, 200120, PRC	China	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Colombie</b> Carrera 13A No. 29-24, Torre Colseguros - Bogota	Colombia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Crédito Sucursal en Espana de EH SFAC S.A.</b> Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid	Spain	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Servicios S.L.</b> Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid	Spain	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services Estonia OU</b> Pirita tee 20, T-building, 10127 - Tallinn, Estonia	Estonia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes ACI Inc</b> 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes ACI Collections Services Inc</b> 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes ACI Holding Inc</b> 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes ACI Services, LLC</b> 800, Red Brook Boulevard - Owings Mills, MD 21117	United States	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes UMA</b> 600 South 7th Street - Louisville, LA 4020	United States	Full	100,00	100,00	100,00	100,00

# Notes to the consolidated financial statements

<b>Euler Hermes Emporiki S.A.</b> 109-111, Messogion Ave - Politia Business Center - 115 26 Athènes	Greece	Full	60,00	60,00	60,00	60,00
<b>Euler Hermes Emporiki Services Limited</b> 109-111, Messogion Ave - Politia Business Center - 115 26 Athènes	Greece	Full	60,00	60,00	60,00	60,00
<b>Euler Hermes Credit Underwriters Hong Kong Ltd</b> Suites 403-11, 4/F, Cityplaza 4 - 12 Taikoo Wen Road - Taikoo Shing, Hong Kong	Hong Kong	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services (HK) Ltd</b> Suites 403-11, 4/F, Cityplaza 4 - 12 Taikoo Wen Road - Taikoo Shing, Hong Kong	Hong Kong	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Magyar Követeléskezelő Kft</b> Kiscelesi u.104 - 1037 Budapest	Hungary	Full	74,90	74,90	74,90	74,90
<b>Euler Hermes Magyar Hitelbiztosító Rt</b> Kiscelesi u.104 - 1037 Budapest	Hungary	Full	74,89	74,89	74,89	74,89
<b>Euler Hermes Services India Private Limited</b> 4th Floor, Voltas House - 23, J N Heredia Marg - Ballard Estate - Mumbai 400 001	India	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Credit Management Service Ireland Ltd</b> The Arch, Blackrock Business Park, Craysfort Avenue, Blackrock, Co Dublin, Republic of Ireland	Ireland	Full	100,00	100,00	100,00	100,00
<b>Israël Credit Insurance Company Ltd (ICIC)</b> 2, Shenkar Street - 68010 Israel - Tel Aviv	Israel	Equity	33,33	33,33	33,33	33,33
<b>Euler Hermes SIAC</b> Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes SIAC Services S.R.L.</b> Via Raffaello Matarazzo - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
<b>Logica Software S.R.L.</b> Via Borsellino - Reggio Emilia	Italy	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Credit Services (Japan) Ltd</b> 08-07, Kyobashi 1-chome, Chuo-Ku - Tokyo	Japan	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services Latvija S.I.A.</b> Cesu 31/8, LV-1012 Riga	Latvia	Full	100,00	100,00	100,00	100,00
<b>UAB Euler Hermes Services Baltic</b> Konstitucijos ave 7, Vilnius - Lithuania	Lituanie	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Ré</b> 19, rue de Bitbourg - L-2015 Luxembourg	Luxembourg	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Acmar</b> 37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
<b>Euler Hermes Acmar Services</b> 37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
<b>Euler Hermes Seguro de Crédito S.A.</b> 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
<b>Euler Hermes Servicios S.A.</b> 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
<b>Euler Hermes Trade Credit Ltd. Lumley Centre</b> Level 1, 152 Fanshawe Street, Auckland 1010	New Zealand	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Interborg N.V.</b> Hoogoorddreef 5 - Postbus/PO 1100 AL Amsterdam	Netherlands	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Kredietverzekering N.V.</b> Petellaarpark 20 - Postbus 70571 - NL-5201 CZ's-Hertogenbosch	Netherlands	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services B.V.</b> Petellaarpark 20 - Postbus 70571 - NL-5201 CZ's-Hertogenbosch	Netherlands	Full	100,00	100,00	100,00	100,00
<b>Graydon Creditfink B.V.</b> Hullenbergweg 260 - 1101 B.V. Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
<b>Graydon Holding N.V.</b> Hullenbergweg 260 - 1101 B.V. Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
<b>Graydon Nederland B.V.</b> Hullenbergweg 260 - 1101 B.V. Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
<b>Kisys Krediet Informatie Systemen B.V.</b> Hullenbergweg 270 - 1101 B.V. Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
<b>MarkSelect B.V.</b> Diemerhof 26 - Postbus 22969 - 1100 DL Amsterdam	Netherlands	Equity	27,50	27,50	27,50	27,50
<b>Interpolis Kredietverzekeringen N.V.</b> Petellaarpark 20 - 5216 PD's Hertogenbosch	Netherlands	Proportional	45,00	45,00	45,00	45,00
<b>Euler Hermes Zarzadzanie Rzyzkiem Sp. z o.o.</b> ul. Domaniewska 50B, 02-672 Warsaw	Poland	Full	100,00	100,00	100,00	100,00
<b>Towarzystwo Ubezpieczen Euler Hermes S.A.</b> ul. Domaniewska 50B, 02-672 Warsaw	Poland	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes, Mierzejewska-Kancelaria Prawna Sp.k</b> ul. Domaniewska 50B, 02-672 Warsaw	Poland	Full	99,98	99,98	99,98	99,98
<b>Companhia de Seguro de Creditos S.A. (COSEC)</b> Avenida de Republica, n° 58 - 1069-057 Lisboa	Portugal	Equity	50,00	50,00	50,00	50,00
<b>Euler Hermes Cescob, uverova pojist'ovna, a.s.</b> Molakova 576/11, 186 00 Pragues 8	Czech Republic	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Cescob Service, s.r.o.</b> Molakova 576/11, 186 00 Prague 8	Czech Republic	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Servicii Financiare S.R.L.</b> 6 Petru Maior street, Bucharest 011264	Romania	Full	79,92	79,92	79,92	79,92
<b>OOO Euler Hermes Credit Management</b> ul. Krymskij Val 3, Building 3, 2, Office 210 - 119049 - Moscow	Russia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes UK PLC</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Collections UK Ltd</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Guarantee PLC</b> Surety House, Lyons Crescent - Tonbridge Kent TN9 1EN	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Holdings UK PLC</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Risk Services UK Ltd</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes International Ltd</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Management Services UK Ltd</b> 1, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00
<b>Graydon U.K. Limited</b> Hyde House, Edgware road - Colindale - Londres NW9 6LW	United Kingdom	Equity	27,50	27,50	27,50	27,50
<b>Euler Hermes Credit Insurance Agency (S) Pte. Ltd</b> 3 Temasek Avenue - # 08-01 Centennial Tower - Singapore 039130	Singapore	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Serwis SRO Bratislava</b> Plymarenka 4659/1 821 09 Bratislava, Slovakia	Slovakia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Credit Insurance Nordic A.B.</b> Klara Norra Kyrkogata 29 - SE 101 34 Stockholm	Sweden	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Service A.B.</b> Klara Norra Kyrkogata 29 - SE 101 34 Stockholm	Sweden	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services A.G.</b> Tödistrasse 65 - 8002 Zürich	Switzerland	Full	99,50	99,50	99,50	99,50

# Notes to the consolidated financial statements

<b>Euler Hermes Reinsurance A.G.</b> Tödistrasse 65 - 8002 Zurich	Switzerland	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Risk Yönetimi</b> Dereboyu Sokak, Sun Plaza, Plaza Cubes, Maslak - 34398 Istanbul	Turkey	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Sigorta Anonim Şirketi</b> Dereboyu Sokak - Sun Plaza, Floor 13, Plaza Cubes, Off. N°24, Maslak - 34398 - Istanbul	Turkey	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.

According to the German Commercial Code (section 264-b), some companies are exempted from preparing single financial statements as they are included in the consolidated financial statements of Euler Hermes.

## 2.4. Consolidation principles and methods

### 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 (included contingent liabilities) 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. Controlling of more than 50% in other mutual funds is 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 OeKB EH Beteiligungs- u. Managment;
- Graydon Holding N.V.;
- Companhia de Seguro de Creditos SA (COSEC);
- Israel Credit Insurance Company Ltd (ICIC).

# Notes to the consolidated financial statements

## 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.

COSEC and OeKB are jointly controlled but accounted by equity method. There are no other jointly controlled companies accounted by equity method.

## 2.5. 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 joint ventures are eliminated to the extent of the group's share in the company concerned.

## 2.6. Financial year and year-end dates

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

## 2.7. Appeal to estimates

The production of the consolidated financial statements of Euler Hermes is based on estimates for a part of assets & liabilities items. The management is susceptible to review these estimations in case of changes that can put into questions the circumstances on which they have been established or by the consideration of a new information or accrued experience.

The estimates concerning technical provisions are also detailed in the part Risk Management.

The table below summarizes the methods of assessment of estimates for the main aggregates of the balance sheet:

Estimate	Communicated Information
Note 3 Impairment of goodwill	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 fair value of the Cash Generating Unit's is based on assumptions of capital costs, growth rate to infinity and loss ratio & standard retention rates used in the calculation of the final values.
Note 5 Fair value of real estate held for investments & for use	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.
Note 18 Earned but not recorded premiums reserves	This reserve is established based on the estimate of the amount of premiums expected on the period less the amount of premiums recorded on the period.
Note 18 Provisions for salvages & recoveries	This reserve represents the estimate of potential recoveries on settled claims by a statistical calculation based on the evolution of salvages & recoveries by year of attachment on previous exercises. They take into consideration a provision for administration charges determined in accordance with actual observed expenses.
Note 18 Bonus & profit commission reserve	This reserve is intended to cover the future cost corresponding to premium rebates to be granted to policyholders under the terms of policies giving policyholders a share in their technical positive results.
Note 18 Reserves for claims payable	This reserve corresponds to a statistical estimate of the cost of all outstanding claims, that is to say claims reported but not yet settled.
Note 18 IBNR reserve	In credit-insurance, the IBNR are calculated to cover: The claims which occurred before the closing and will be known only on the next period. The claims related to commercial receivables accounted before the closing and covered by a warranty which will occur and be known only on the next period  They are determined based on statistical models integrating historical data as well as future developments based on estimates.  Considering the current economic crisis and the methods of assessment of credit-insurance, the IBNR might be different from the ones calculated on statistical basis. Indeed, non anticipated assessments might occur and modify the assumptions previously retained for the determination of IBNR.
Note 21 Employee benefits	The related commitments are measured in accordance with IAS 19 and are reviewed yearly by independent actuaries. The commitment is recognised in the balance sheet using the projected unit credit method, based on the group actuarial assumptions.
Note 31 Stock options plans	The fair value of the liabilities resulting from the SAR (Stock Appreciation Rights) and RSU (Restricted Stocks Units) 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.

# Notes to the consolidated financial statements

## 2.8. Translation

### 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 at the transaction rate; the subsidiaries use average rates (average of monthly closing rates) which are considered as the closest rate at the transaction date.

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.

### 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:

in euro vs currency	December 31, 2009		December 31, 2008	
	closing	average	closing	average
Pound sterling	0,8881	0,889979167	0,9525	0,802554
US dollar	1,4406	1,396308333	1,3917	1,47259
Sw edish krona	10,252	10,58749167	10,87	9,68326
Brazilian real	2,5113	2,76415	3,2436	2,6774
Hong Kong dollar	11,1709	10,82335833	10,7858	11,46265
Sw iss franc	1,4836	1,507633333	1,485	1,57863

## 2.9. 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. Given the reform of IFRS 8 only the geographic sectors are presented as analysis axis.

## 2.10. Goodwill and other intangible assets

### Goodwill

All business combinations made with effect from March 31, 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.

# Notes to the consolidated financial statements

For business combinations made prior to March 31, 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 § 2.11. Impairment).

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 § 2.11. Impairment 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.

## 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.

## **2.11. Impairment**

### Goodwill

In accordance with IFRS 3, goodwill is not amortised but is subject to an annual impairment test, or if an evidence of decrease in value is established, 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).

# Notes to the consolidated financial statements

The main assumptions used to determine the value in use are as follows: indefinite renewal of policies, growth rate to infinity of between 0.5% and 2% depending on the CGU concerned, and a discount rate between 7.24% and 9.41% depending on the company. 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 calculation parameters adopted as at December 31<sup>st</sup> 2009 are detailed in the note 3 - Goodwill.

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.

## 2.12. Property assets

### 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.

### 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 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.

# Notes to the consolidated financial statements

Component	Housing	Warehouses and commercial premises	Offices	High-rise buildings
	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 5).

## Impairment

### Investment property

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.

## **2.13. 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/fitings      straight-line      10 years ;
- Motor vehicles      straight-line      5 years.

## **2.14. Financial instruments**

### 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:

# Notes to the consolidated financial statements

## 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 book value (included 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 closing date;
- 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.

Any relevant decrease in the fair value of a stock already impaired is complementary accounted through 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, an impairment is accounted through net income only in case of a risk of default of the issuer.

## 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

# Notes to the consolidated financial statements

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.

## 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 hedging instruments linked to the stock option plans included in the Allianz Group Equity Incentive (see note 31 – Stock option plans).

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.

## **2.15. 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.

## **2.16. 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 mainly one year at most, these acquisition costs are deferred to the following year. The

# Notes to the consolidated financial statements

movement in acquisition costs capitalised is included in acquisition expense reported in the income statement. Where applicable, acquisition costs capitalised are written down.

## 2.17. Current and deferred tax

The tax charge comprises current tax and deferred tax resulting from recognized 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 the group considers their collection as likely. 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 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.

## 2.18. 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.

## 2.19. 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.

## 2.20. Provisions for risks and charges

### Provisions

Provisions for risks and charges essentially comprise provisions for retirement commitments (see § 2.22. Employee benefits). Other provisions are measured using the rules set out in IAS 37, which imply 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.

### 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.

## 2.21. 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.

# Notes to the consolidated financial statements

- 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. 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 10% of 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.

As at January 1, 2008, the Euler Hermes group applied by anticipation the interpretation of IAS19 standard – IFRIC 14 related to the capping of the asset, the mandatory minimal financing and their interaction. This application didn't impact the consolidated financial statements.

## **2.22. 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.

## **2.23. 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:

# Notes to the consolidated financial statements

- 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.

## 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 the risk of a future variation of one or several followed components: specified interest rate, price of financial instrument, price of a good, exchange rate, price or rate index, credit rating or credit index or other flexible component (if it concerns a non-financial component, the component must not be specific to one of the part of the contract).

Credit insurance contracts are included in IFRS 4 (paragraph B18 (g) of the standard), this standard being applied pending the standard on "Financial Guarantee Contracts and Credit Insurance".

On August 18, 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, the issuers who explicitly consider financial collateral arrangements like insurance contracts can 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.

## 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 related to the consolidation and combination rules regulated by the Insurance Regulations 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 December 31 2005, they were recognised in insurance service expense.

# Notes to the consolidated financial statements

## 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 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.

## 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 subject to impairment write-downs only if one of the following relevant evidence is noticed:

- The ceded company won't receive the entire amount due at the end of the contract;
- An event with an assessable impact occurs.

## **2.24. Borrowings**

# Notes to the consolidated financial statements

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 §2.14. Financial instruments - Derivatives), 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".

## 2.25. 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.

### 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 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.

### 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.

## 2.26. 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, expenses incurred or to be incurred for the management of claims payments and

# Notes to the consolidated financial statements

collections. The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.24. Insurance and reinsurance contracts – Measurement of insurance contracts.

## 2.27. 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 2.24. Insurance and reinsurance contracts – Reinsurance contracts.

## 2.28. Administration expense

Administration expense mainly comprises salary costs and costs relating to the IT systems, affected to the administration of the contracts.

## 2.29. 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 income and expenses correspond to charges not allocated by function relating to the services activity of the Euler Hermes group.

## 2.30. 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.

## 2.31. 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.

## 2.32. 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.

## Note 3 Goodwill

In accordance with IFRS 3, goodwill is not amortized but instead is subject to annual impairment testing or to an impairment testing when an indicator of a decrease in value appears.

# Notes to the consolidated financial statements

(in thousands)	December 31, 2009						December 31, 2008	
	France	Italy	United Kingdom	United States	Benelux countries	Other	Total	Total
<b>Opening balance</b>								
Gross value	393	6 229	57 735	30 466	8 242	7 544	110 609	125 756
Impairment losses	-	(409)	(7 522)	-	-	-	(7 931)	(10 179)
<b>Net carrying amount</b>	<b>€393</b>	<b>€5 820</b>	<b>€50 213</b>	<b>€30 466</b>	<b>€8 242</b>	<b>€7 544</b>	<b>€102 678</b>	<b>€115 577</b>
<b>Change during the year</b>								
Opening net carrying amount	393	5 820	50 213	30 466	8 242	7 544	102 678	115 577
Changes in gross value	-	-	-	-	-	-	-	327
Outgoing entities & Held for sale transfer	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	139
Reclassifications	-	-	-	-	-	-	-	-
Changes in foreign currency translation adjustments	-	-	3 637	(1 035)	-	501	3 103	(13 365)
Impairment losses	-	-	(2 199)	-	-	-	(2 199)	-
<b>Closing net carrying amount</b>	<b>393</b>	<b>5 820</b>	<b>51 651</b>	<b>29 431</b>	<b>8 242</b>	<b>8 045</b>	<b>103 582</b>	<b>102 678</b>
<b>Closing Balance</b>								
Gross value	393	6 229	61 922	29 431	8 242	8 045	114 262	110 609
Impairment losses	-	(409)	(10 271)	-	-	-	(10 680)	(7 931)
<b>Net carrying amount</b>	<b>€393</b>	<b>€5 820</b>	<b>€51 651</b>	<b>€29 431</b>	<b>€8 242</b>	<b>€8 045</b>	<b>€103 582</b>	<b>€102 678</b>

The most sensible criteria provide the values in use of each Cash Generating Unit (The Cash Generating Unit are mainly the subsidiaries published in the segment analysis).

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

Parameters	EH ACI		EH SIAC		EH UK		EH BELGIUM		EH NL		EH KV	
Cost of capital (net of tax)	8,72%		9,18%		9,02%		8,75%		8,59%		8,36%	
<i>of which, risk-free rate</i>	3,55%		4,01%		3,85%		3,58%		3,42%		3,19%	
<i>of which, risk premium (beta = 1.034)</i>	5,17%		5,17%		5,17%		5,17%		5,17%		5,17%	
Effective tax rate	35,0%		48,0%		28,0%		33,0%		25,5%		31,0%	
Normalised return on financial portfolio	4,22%		2,78%		2,61%		4,53%		3,52%		3,33%	
Net combined ratio	82,0%		83,0%		85,0%		83,0%		83,0%		82,0%	
Target retention rate	55,0%		75,0%		70,0%		65,0%		60,0%		45,0%	
Long-term growth	2,0%		2,0%		1,5%		2,0%		0,5%		0,5%	
Long-term growth (upper and lower assumptions)	1,5%	2,5%	1,0%	3,0%	1,0%	2,0%	1,0%	3,0%	0,0%	1,0%	0,0%	1,0%
Average value in use (in thousands of euros)	229 308		248 647		232 786		137 372		46 951		1 007 137	
Contribution of group consolidated net asset	192 992		95 287		178 676		78 855		34 635		833 841	
Amount of the utility value the contribution of grup net asset	36 316		153 360		54 110		58 517		12 316		173 297	

Level to be reached by the key parameters in order that the value in use of every CGU is equal to its book value:

Hypothesis - value in use = book value	EH ACI		EH SIAC		EH UK		EH BELGIUM		EH NL		EH KV	
Cost of capital (net of tax)	10,72%		-		9,01%		-		-		-	
Long-term growth	-		-11,38%		-		-3,62%		-8,30%		-4,84%	

Sensibility analysis in plausible valorisation:

The values in use of Euler Hermes ACI Inc range from €206,114 thousand to €239,273 thousand, corresponding to an assumed cost of capital of 9.2% and 8.2% respectively. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes SIAC range from €217,335 thousand to €279,959 thousand, corresponding to assumed long-term growth rates ranging from 1% to 3%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes UK Plc range from €198,798 thousand to €227,221 thousand, corresponding to assumed cost of capital of 9.5% to 8.5%. These valuations support the fact that no complementary goodwill impairment is recognised.

## Notes to the consolidated financial statements

The values in use of Euler Hermes Belgium range from €92,857 thousand to €116,507 thousand, corresponding to assumed long-term growth rates ranging from 1% to 3%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes Netherlands Inc range from €42,075 thousand to €46,557 thousand, corresponding to an assumed long-term growth rates ranging from 0% to 1% respectively. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes Germany range from €774,747 thousand to €859,382 thousand, corresponding to an assumed long-term growth rates ranging from 0% to 1% respectively. These valuations support the fact that no complementary goodwill impairment is recognised.

For the Euler Hermes group, the main evidence for an impairment test of goodwill will be a decrease in turnover of 15%.

### Note 4 Other intangible assets and contracts portfolio

(in thousands)	December 31, 2009				December 31, 2008			
	Contract portfolio	IT development and software	Other intangible assets	TOTAL	Contract portfolio	IT development and software	Other intangible assets	TOTAL
<b>Balance as opening period</b>								
Gross value	4 506	132 936	19 463	156 905	5 191	104 623	18 398	128 212
Amortisation	(3 102)	(57 311)	(13 255)	(73 668)	(1 731)	(56 132)	(12 071)	(69 934)
Impairment	-	-	-	-	-	-	-	-
<b>Net carrying amount</b>	<b>€1 404</b>	<b>€75 625</b>	<b>€6 208</b>	<b>€83 237</b>	<b>€3 460</b>	<b>€48 491</b>	<b>€6 327</b>	<b>€58 278</b>
<b>Change during the year</b>								
<b>Net carrying amount as opening period</b>	<b>1 404</b>	<b>75 625</b>	<b>6 208</b>	<b>83 237</b>	<b>3 460</b>	<b>48 491</b>	<b>6 327</b>	<b>58 278</b>
Acquisitions	-	31 010	5 176	36 186	31	40 148	1 106	41 285
Expenses capitalised	-	-	-	-	-	-	-	-
Changes in consolidation scope	-	-	-	-	-	-	-	-
Disposals	-	(9 015)	(68)	(9 083)	-	(5 173)	-	(5 173)
Reclassifications	-	843	(772)	71	-	358	-	358
Foreign exchange differences	111	268	4	383	(487)	(1 346)	-	(1 833)
Net amortisation	(589)	(18 497)	(919)	(20 005)	(1 600)	(6 854)	(1 226)	(9 680)
Net provisions for impairment	-	(1)	(36)	(37)	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
<b>Net carrying amount as closing period</b>	<b>926</b>	<b>80 233</b>	<b>9 593</b>	<b>90 752</b>	<b>1 404</b>	<b>75 624</b>	<b>6 207</b>	<b>83 235</b>
<b>Balance as closing period</b>								
Gross value	4 635	155 049	22 850	182 534	4 506	132 935	19 462	156 903
Amortisation	(3 709)	(74 816)	(13 257)	(91 782)	(3 102)	(57 311)	(13 255)	(73 668)
Impairment	-	-	-	-	-	-	-	-
<b>Net carrying amount</b>	<b>€926</b>	<b>€80 233</b>	<b>€9 593</b>	<b>€90 752</b>	<b>€1 404</b>	<b>€75 624</b>	<b>€6 207</b>	<b>€83 235</b>

The increase of IT development and software mainly results from the IRP and Convergence applications developed by the group.

For the Euler Hermes group, the main evidence for an impairment test of intangible assets will be a giving up of software.

# Notes to the consolidated financial statements

## Note 5 Investment and operating property

(in thousands)	December 31, 2009		December 31, 2008	
	Investment property	Operating property	Investment property	Operating property
<b>Balance as opening period</b>				
Gross value	91 071	195 192	105 915	194 273
Depreciation	(19 237)	(61 878)	(19 668)	(56 771)
Impairment losses	-	(554)	-	(10 014)
<b>Net carrying amount</b>	<b>€71 834</b>	<b>€132 760</b>	<b>€86 247</b>	<b>€127 488</b>
<b>Change during the year</b>				
Net carrying amount as opening period	71 834	132 760	86 247	127 488
Acquisitions	-	1 318	-	922
Change in consolidation scope	-	-	-	-
Disposals	(45 423)	(73)	(15 276)	-
Reclassifications	-	(169)	(80)	80
Changes in foreign currency translation adjustments	-	(54)	-	87
Net depreciation	(1 494)	(4 010)	943	(5 277)
Net provisions for impairment	-	-	-	9 460
Other changes	-	-	-	-
<b>Net carrying amount at the end of the period</b>	<b>24 917</b>	<b>129 772</b>	<b>71 834</b>	<b>132 760</b>
<b>Balance at the end of the period</b>				
Gross value	35 663	185 370	91 071	195 192
Depreciation	(10 746)	(48 801)	(19 237)	(61 878)
Impairment losses	-	(6 797)	-	(554)
<b>Net carrying amount</b>	<b>€24 917</b>	<b>€129 772</b>	<b>€71 834</b>	<b>€132 760</b>
<b>Fair value</b>	<b>€57 391</b>	<b>€221 122</b>	<b>€134 139</b>	<b>€231 460</b>

Amounts recorded in the income statement	Twelve months ended December 31,	
	2009	2008
<b>Investment property</b>		
Rental revenues from investment property	5 741	7 159
Direct operating expenses relating to property	(1 812)	(2 506)

A wrong booking of the opening value concerning the accounting of German impairment losses leads to a modification of the amounts constituting the net carrying amount:

- The gross value decreases by €(10,267) thousand ;
- The cumulated depreciation decreases by €16,510 thousand ;
- The impairment losses increases by €(6,243) thousand.

The disposals of investment property concerned Euler Hermes SFAC for the whole amount.  
The related realized gains accounted are €26,420 thousand.

# Notes to the consolidated financial statements

## Note 6 Financial investments

### Classification by accounting method

For an instrument that is listed on an active market, the fair value is the bid price on the valuation date for net 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.

(in thousands)	December 31, 2009						December 31, 2008					
	Amortized cost	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed	Amortized cost	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed
<b>Held-to-maturity assets</b>												
Bonds	1 674	-	1 674	1 674	1 208	466	6 941	-	6 941	6 995	2 863	4 132
<b>Total held-to-maturity assets</b>	<b>€1 674</b>	<b>-</b>	<b>€1 674</b>	<b>€1 674</b>	<b>€1 208</b>	<b>€466</b>	<b>€6 941</b>	<b>-</b>	<b>€6 941</b>	<b>€6 995</b>	<b>€2 863</b>	<b>€4 132</b>
<b>Available-for-sale assets</b>												
Equities	110 646	19 428	130 074	130 074	2 251 408	60 203	136 083	16 064	152 147	152 147	1 911 193	108 862
Bonds	2 131 687	49 850	2 181 537	2 181 537	-	-	1 805 324	62 584	1 867 908	1 867 908	-	-
<b>Total Available-for-sale assets</b>	<b>€2 242 333</b>	<b>€69 278</b>	<b>€2 311 611</b>	<b>€2 311 611</b>	<b>€2 251 408</b>	<b>€60 203</b>	<b>€1 941 407</b>	<b>€78 648</b>	<b>€2 020 055</b>	<b>€2 020 055</b>	<b>€1 911 193</b>	<b>€108 862</b>
<b>Loans, deposits and other financial investments</b>												
	527 450	-	527 450	527 450	-	-	563 990	-	563 990	563 990	-	-
<b>Total loans, deposits and other financial investments</b>	<b>€527 450</b>	<b>-</b>	<b>€527 450</b>	<b>€527 450</b>	<b>-</b>	<b>-</b>	<b>€563 990</b>	<b>-</b>	<b>€563 990</b>	<b>€563 990</b>	<b>-</b>	<b>-</b>
<b>Total Financial investments (excluded investments in consolidated enterprise)</b>	<b>€2 771 457</b>	<b>€69 278</b>	<b>€2 840 735</b>	<b>€2 840 735</b>	<b>€2 252 616</b>	<b>€60 669</b>	<b>€2 512 338</b>	<b>€78 648</b>	<b>€2 590 986</b>	<b>€2 591 040</b>	<b>€1 914 056</b>	<b>€112 994</b>

Concerning the non listed investments, 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. The non listed investments are mainly German States bonds.

(in thousands)	December 31, 2009				December 31, 2008			
	Amortized cost	Revaluation reserve	Net carrying amount	Fair value	Amortized cost	Revaluation reserve	Net carrying amount	Fair value
- Equities:	110 646	19 428	130 074	130 074	136 083	16 064	152 147	152 147
- Bonds:	2 133 361	49 850	2 183 211	2 183 211	1 812 265	62 584	1 874 849	1 874 903
- Loans and other investments	527 450	-	527 450	527 450	563 990	-	563 990	563 990
<b>Total Financial investments</b>	<b>€2 771 457</b>	<b>€69 278</b>	<b>€2 840 735</b>	<b>€2 840 735</b>	<b>€2 512 338</b>	<b>€78 648</b>	<b>€2 590 986</b>	<b>€2 591 040</b>

EH Group didn't account any impairment as of December 31, 2009. EH Group hadn't any financial assets such as "dynamic treasury mutual funds" or "subprime investments".

The loans and other investments are mainly composed of cash at hand waiting for investments.

### Fair value hierarchy

The application of IFRS 7 – Fair Value Hierarchy is detailed in Note 2 IFRS accounting and valuation rules 2.1. General principles. The split into three levels of the fair value is detailed in the following statement:

(in thousands)	December 31, 2009		
	Level 1	Level 2	Level 3
Available-for-sale assets	<b>€2 084 706</b>	<b>€186 039</b>	<b>€40 866</b>

The level 1 is mainly composed of listed bonds and stocks on an active market.

The level 2 is mainly composed of parts of Allianz 3 years €514 million bond (for an amount of €160 million).

The level 3 is mainly composed of participation in a Private Equity Funds, non consolidated shares and of Moroccan & Hungarian non listed government bond.

# Notes to the consolidated financial statements

## Classification by investment category

(in thousands)	December 31, 2009			December 31, 2008	
	Held-to-maturity investments	Available-for- sale investments	Loans, deposits and other financial investments	Total	Total
<b>Net carrying amount as opening period</b>	<b>€6 941</b>	<b>€2 020 055</b>	<b>€563 990</b>	<b>€2 590 986</b>	<b>€2 956 590</b>
Increase in gross value	-	1 514 175	397 656	1 911 831	1 446 873
Decrease in gross value	(5 297)	(1 213 710)	(438 236)	<b>(1 657 243)</b>	(1 693 922)
Revaluation	-	(9 660)	-	<b>(9 660)</b>	(55 599)
Impairment	-	(942)	-	<b>(942)</b>	(23 283)
Changes in foreign currency translation adjustments	39	6 689	1 330	<b>8 058</b>	(48 707)
Reclassifications	-	1 221	2 796	<b>4 017</b>	2 984
Other changes	(9)	(6 217)	(86)	<b>(6 312)</b>	6 050
<b>Net carrying amount as closing period</b>	<b>€1 674</b>	<b>€2 311 611</b>	<b>€527 450</b>	<b>€2 840 735</b>	<b>€2 590 986</b>

The other movements in loans, deposits and other financial investments correspond to the reclassification of demand deposits under cash and cash equivalents on the balance sheet.

## Note 7 Investments accounted for by the equity method

### Information on equity-accounted investments

(in thousands)	December 31, 2009					
Company	Country	Assets <sup>(1)</sup>	Shareholders' equity <sup>(2)</sup>	Turnover	Net income	% of capital held
Prisma Kreditversicherungs A.G.	Austria	-	-	-	-	49,00%
OeKB Beteiligungs- und Management A.G.	Austria	197 790	109 118	60 299	1 404	49,00%
Graydon Holding N.V.	Netherlands	54 886	2 455	75 616	15 182	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	104 897	40 418	37 333	346	50,00%
Israel Credit Insurance Company Ltd	Israel	53 107	24 776	15 803	4 824	33,33%
		<b>€410 680</b>	<b>€176 767</b>	<b>€189 050</b>	<b>€21 756</b>	

<sup>(1)</sup> Assets based on company financial statements as at September 30, 2009.

<sup>(2)</sup> Shareholders' equity based on company financial statements as at September 30, 2009 including goodwill.

(in thousands)	December 31, 2008					
Company	Country	Assets	Shareholders' equity	Turnover	Net income	% of capital held
Prisma Kreditversicherungs A.G.	Austria	-	-	34 266	996	49,00%
OeKB Beteiligungs- und Management A.G.	Austria	149 367	117 447	16 946	2 686	49,00%
Lietuvos Draudimo Kreditu Draudimas	Lithuania	-	-	1	351	0,00%
Graydon Holding N.V.	Netherlands	56 120	23 949	73 172	13 367	27,50%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	98 657	39 606	18 791	2 418	50,00%
Israel Credit Insurance Company Ltd	Israel	52 467	28 839	16 718	3 021	33,33%
		<b>€356 611</b>	<b>€209 841</b>	<b>€159 894</b>	<b>€22 839</b>	-

### Movements during the period

(in thousands)	December 31, 2009	December 31, 2008
<b>Balance as opening period</b>	<b>€93 550</b>	<b>€52 206</b>
Increases	-	32 980
Decreases	-	(2 529)
Reclassification	-	-
Share of income for the period	6 644	7 875
Dividends paid	(10 554)	(6 970)
Impairment	-	-
Foreign exchange differences	(319)	226
Other changes	(67)	9 762
<b>Net book value as closing period</b>	<b>€89 254</b>	<b>€93 550</b>

# Notes to the consolidated financial statements

## Contribution to shareholders' equity (without equity method income of 2008)

(in thousands)		December 31, 2009	December 31, 2008
Prisma Kreditversicherungs A.G.	Austria	-	(488)
OeKB Beteiligungs- und Management A.G.	Austria	53 468	56 233
Lietuvos Draudimo Kreditu Draudimas	Lithuania	-	(179)
Graydon Holding N.V.	Netherlands	675	2 911
Companhia de Seguro de Creditos SA (COSEC)	Portugal	20 209	18 594
Israel Credit Insurance Company Ltd	Israel	8 258	8 605
<b>Share of shareholders' equity</b>		<b>€82 610</b>	<b>€85 676</b>

## Contribution to income

(in thousands)		Twelve months ended December 31,	
		2009	2008
Prisma Kreditversicherungs A.G.	Austria	-	488
OeKB Beteiligungs- und Management A.G.	Austria	688	1 316
Lietuvos Draudimo Kreditu Draudimas	Lithuania	-	179
Graydon Holding N.V.	The Netherlands	4 175	3 676
Companhia de Seguro de Creditos SA (COSEC)	Portugal	173	1 209
Israel Credit Insurance Company Ltd	Israel	1 608	1 007
<b>Share of total income</b>		<b>€6 644</b>	<b>€7 875</b>

## Note 8 Operating property and other property and equipment

(in thousands)	December 31, 2009			December 31, 2008		
	Operating property	Other property and equipment	Total	Operating property	Other property and equipment	Total
<b>Balance as opening period</b>						
Gross value	195 192	141 134	336 326	194 273	137 129	331 402
Amortisation	(61 878)	(111 468)	(173 346)	(56 771)	(106 175)	(162 946)
Impairment	(554)	-	(554)	(10 014)	-	(10 014)
<b>Net carrying amount</b>	<b>€132 760</b>	<b>€29 666</b>	<b>€162 426</b>	<b>€127 488</b>	<b>€30 954</b>	<b>€158 442</b>
<b>Change during the year</b>						
<b>Net carrying amount as opening period</b>	<b>132 760</b>	<b>29 666</b>	<b>162 426</b>	<b>127 488</b>	<b>30 954</b>	<b>158 442</b>
Acquisitions	1 318	10 396	11 714	922	11 567	12 489
Changes in consolidation scope	-	(19)	(19)	-	189	189
Disposals	(73)	(2 288)	(2 361)	-	(9 748)	(9 748)
Reclassifications	(169)	167	(2)	80	(145)	(65)
Foreign exchange differences	(54)	157	103	87	(1 000)	(913)
Net depreciation	(4 010)	(9 406)	(13 416)	(5 277)	(2 163)	(7 440)
Net provisions for impairment	-	(110)	(110)	9 460	-	9 460
Other changes	-	(16)	(16)	-	12	12
<b>Net carrying amount as closing period</b>	<b>129 772</b>	<b>28 547</b>	<b>158 319</b>	<b>132 760</b>	<b>29 666</b>	<b>162 426</b>
<b>Balance as closing period</b>						
Gross value	185 370	143 809	329 179	195 192	141 134	336 326
Depreciation	(48 801)	(115 152)	(163 953)	(61 878)	(111 468)	(173 346)
Impairment	(6 797)	(110)	(6 907)	(554)	-	(554)
<b>Net carrying amount</b>	<b>€129 772</b>	<b>€28 547</b>	<b>€158 319</b>	<b>€132 760</b>	<b>€29 666</b>	<b>€162 426</b>

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

# Notes to the consolidated financial statements

## Note 9 Deferred tax

### Breakdown by type of tax

(in thousands)	December 31, 2009	December 31, 2008
Deferred tax assets	172 015	123 343
Deferred tax liabilities	(455 133)	(445 768)
<b>Net deferred tax</b>	<b>€(283 118)</b>	<b>€(322 425)</b>
Tax losses	49 096	22 102
Deferred tax assets linked to revaluation of AFS investments	9 217	1 632
Deferred tax assets - provisions for retirement commitments	1 728	1 974
Deferred tax assets - technical reserves	63 508	50 828
Other deferred tax assets	48 466	46 807
<b>Total deferred tax assets</b>	<b>€172 015</b>	<b>€123 343</b>
Deferred tax liabilities linked to revaluation of AFS investments	(27 341)	(26 274)
Deferred tax liabilities - provisions for retirement commitments	(14 838)	(13 238)
Deferred tax liabilities - technical reserves	(363 000)	(183 864)
Other deferred tax liabilities	(49 954)	(222 392)
<b>Total deferred tax liabilities</b>	<b>€(455 133)</b>	<b>€(445 768)</b>
<b>Net deferred tax</b>	<b>€(283 118)</b>	<b>€(322 425)</b>
After offsetting deferred tax assets and liabilities by tax entity		
Deferred tax assets	42 938	31 942
Deferred tax liabilities	(326 056)	(354 367)

The tax losses for €39 million are mainly activated in the reinsurance subsidiaries (Switzerland and Luxemburg), for €3 million for the Belgian subsidiary and Euler Hermes Forderungsmanagement GmbH.

The non-activated tax losses are mainly due to the German Branches for €25.6 million, the future use of these tax losses being unpredictable until now.

### Movement in deferred tax by geographical region

(in thousands)	December 31, 2008	Change through income statement	Change relating to revaluation of AFS inv.	Foreign exchange difference	Other movements	December 31, 2009
Germany	(191 501)	3 027	(2 585)	-	107	(190 952)
France	(132 131)	4 883	4 261	-	-	(122 987)
Italy	7 107	(1 278)	56	-	(1 248)	4 637
United-Kingdom	(4 317)	1 474	-	(309)	200	(2 952)
United-States	(1 215)	1 844	(683)	19	(1 126)	(1 161)
Belgium & Netherlands	(5 600)	5 253	240	-	1	(106)
Reinsurance (Switzerland & Luxemburg)	18 970	12 964	(10)	17	(1)	31 940
Other countries	(3 948)	2 955	(75)	169	74	(825)
Service Group / Holding	(9 790)	9 086	-	(6)	-	(710)
	<b>€(322 425)</b>	<b>€40 208</b>	<b>€1 204</b>	<b>€(110)</b>	<b>€(1 993)</b>	<b>€(283 116)</b>

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

# Notes to the consolidated financial statements

## Change in standard tax rate

	December 31, 2009	December 31, 2008
Group rate	67,59%	45,04%
France	34,43%	34,43%
Germany	32,28%	32,28%
Italy	32,32%	32,32%
United-Kingdom	28,00%	28,00%
United-States	35,00%	35,00%
Netherlands	25,50%	25,50%
Belgium	33,99%	33,99%
Switzerland	17,50%	17,50%

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 2009 is provided in note 25.

## **Note 10 Insurance and reinsurance receivables**

### Breakdown by type

(in thousands)	December 31, 2009			December 31, 2008
	Gross	Provisions	Net	Net
Receivables from policyholders and agents	215 620	(16 558)	199 062	211 216
Earned premiums not yet written	134 420	-	134 420	158 402
Receivables from guaranteed debtors	101 656	-	101 656	93 856
Receivables from reinsurance transactions	141 337	(1 957)	139 380	130 959
<b>Total credit insurance receivables</b>	<b>€593 033</b>	<b>€(18 515)</b>	<b>€574 518</b>	<b>€594 433</b>

### Breakdown of net receivables from guaranteed debtors

(in thousands)	December 31, 2009			December 31, 2008
	Gross	Provisions	Net	Net
Gross receivables	101 656	-	101 656	93 856
Reinsurers' share	10 250	-	10 250	(1 110)
<b>Net receivables from guaranteed debtors</b>	<b>€111 906</b>	<b>-</b>	<b>€111 906</b>	<b>€92 746</b>

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

### Breakdown by maturity

(in thousands)	December 31, 2009				
	< 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Gross receivables	350 365	(7 597)	-	-	342 768
Reinsurers' share	130 310	-	(216)	-	130 094
Net receivables from guaranteed debtors	101 656	28 276	-	-	129 932
<b>Total credit insurance receivables</b>	<b>€582 330</b>	<b>€20 679</b>	<b>€(216)</b>	<b>-</b>	<b>€602 793</b>

# Notes to the consolidated financial statements

## Provisions for bad debts from policyholders and agents

(in thousands)	December 31, 2009	December 31, 2008
<b>Balance as opening period</b>	(18 663)	(16 601)
Change in consolidation scope	-	-
Provision	(5 769)	(4 627)
Write back	3 678	908
Foreign exchange differences	(1)	4
Other changes	4 197	1 653
<b>Balance as closing period</b>	<b>€(16 558)</b>	<b>€(18 663)</b>

## Note 11 Other receivables

### Breakdown by type and by maturity

(in thousands)	December 31, 2009			December 31, 2008	
	Gross	Provision	Net	Net	
Current account receivables	18 005	-	18 005	17 914	
Other taxes receivable	21 410	-	21 410	17 557	
<b>Other receivables</b>	<b>142 482</b>	<b>(8 758)</b>	<b>133 724</b>	<b>104 051</b>	
of which, accrued interest not due	40 561	-	40 561	37 958	
Deferred charges	9 891	-	9 891	8 281	
Other adjustment accounts	744	-	744	776	
Other assets	105	-	105	807	
<b>Total other receivables</b>	<b>€192 637</b>	<b>€(8 758)</b>	<b>€183 879</b>	<b>€187 344</b>	

(in thousands)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Total other receivables</b>	<b>155 436</b>	<b>28 276</b>	<b>167</b>	<b>-</b>	<b>183 879</b>

## Note 12 Cash and cash equivalents

(in thousands)	December 31, 2009	December 31, 2008
Cash in bank and at hand	403 762	494 859
Cash pooling	38 030	119 048
<b>Total cash</b>	<b>€441 792</b>	<b>€613 907</b>
<b>Total cash per balance sheet</b>	<b>441 792</b>	<b>613 907</b>
Cash equivalents reflected in the cash flow statement	-	-
Cash pooling creditor with Allianz	(350)	(1 584)
<b>Total cash and cash equivalents</b>	<b>€441 442</b>	<b>€612 323</b>

## Note 13 Revaluation reserve

(in thousands)	Investments	Tax	Foreign exchange difference	Associated companies	Minority interests	Other	Revaluation reserve
<b>Opening balance</b>	<b>€78 648</b>	<b>€(27 209)</b>	<b>€160</b>	<b>€(662)</b>	<b>€(76)</b>	<b>€(583)</b>	<b>€50 278</b>
Change in fair market value of asset held for sale transferred through profits & losses (Gross amount) - group	(39 915)	10 708	11	-	-	11	(29 184)
Change in fair market value of asset held for sale booked through equity (Gross amount) - group	30 264	(7 442)	9	-	-	9	22 840
Change in fair market value of asset held for sale booked through equity (Gross amount) - COSEC associated company	-	-	-	1 075	-	-	1 075
Change in fair market value of asset held for sale booked through equity (Gross amount) - OeKB associated company	-	-	-	(1 547)	-	-	(1 547)
Change in fair market value of asset held for sale booked through equity (Gross amount) - minority	-	-	-	-	39	-	39
Other movements	-	-	-	-	100	(37)	63
<b>Closing balance</b>	<b>€68 997</b>	<b>€(23 943)</b>	<b>€180</b>	<b>€(1 134)</b>	<b>€63</b>	<b>€(600)</b>	<b>€43 563</b>

# Notes to the consolidated financial statements

## Note 14 Minority interests

### Movements during the year

(in thousands)	December 31, 2009	December 31, 2008
<b>Minority interests at start of period</b>	<b>€20 328</b>	<b>€19 179</b>
<b>Minority shareholders' share of net income</b>	<b>4 153</b>	<b>4 498</b>
<b>Buy out of minority interests</b>		
Buy out of minority interests in Euler Hermes Guarantee PLC	-	(306)
<b>Movements on latent reserves (excluding currency translation impact)</b>	<b>(13)</b>	<b>(71)</b>
<b>Other movements</b>		
Foreign currency translation differences	(34)	(109)
Dividends paid to minority shareholders	(3 712)	(2 876)
Capital increases and other movements	(24)	13
<b>Minority interests at end of period</b>	<b>€20 698</b>	<b>€20 328</b>

### Breakdown by country

(in thousands)	December 31, 2009	December 31, 2008
France	918	845
Hungary	1 831	2 112
Romania	268	227
Germany	11 737	11 565
Morocco	3 135	2 701
Greece	2 809	2 878
<b>Minority interests</b>	<b>€20 698</b>	<b>€20 328</b>

## Note 15 Provisions for risks and charges

(in thousands)	December 31, 2008	Allowance	Writeback (used)	Writeback (not used)	Reclassification	Other changes	December 31, 2009
<b>Retirement scheme</b>	<b>55 471</b>	<b>11 699</b>	<b>(6 069)</b>	<b>(3 509)</b>	<b>(2 258)</b>	<b>(352)</b>	<b>54 982</b>
Defined benefit retirement plans	53 688	11 196	(5 844)	(3 503)	(2 313)	181	53 405
Defined contribution retirement plans	1 783	503	(225)	(6)	55	(533)	1 577
<b>Other provisions for risks and charges</b>	<b>86 177</b>	<b>57 055</b>	<b>(33 319)</b>	<b>(5 283)</b>	<b>14 434</b>	<b>(125)</b>	<b>118 938</b>
Provision for tax liabilities	5 533	16 314	(3 091)	-	266	26	19 047
Provision for tax litigation	-	-	-	-	-	-	-
Provision for tax uncertainties	32 684	293	(4 538)	-	-	-	28 439
Provisions for employee benefits	27 141	28 040	(14 821)	(1 341)	10 805	(129)	49 695
Provisions for reinsurer default	-	-	-	-	-	-	-
Provisions for policyholder disputes	-	-	-	-	-	-	-
Provisions for debtor disputes	2 259	-	-	-	-	-	2 259
Guarantee of liabilities	8	-	-	-	-	-	8
Provision for restructuring	3 580	6 209	(1 793)	-	(435)	-	7 561
Provisions for sundry disputes	14 972	6 199	(9 076)	(3 942)	3 798	(22)	11 929
<b>Total Provisions for risks and charges</b>	<b>€141 648</b>	<b>€68 754</b>	<b>€(39 388)</b>	<b>€(8 792)</b>	<b>€12 176</b>	<b>€(477)</b>	<b>€173 920</b>

## Note 16 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.

## Notes to the consolidated financial statements

- 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:
  - Denmark: the plan is managed by Danica, a Danish life insurance company.
  - Finland: the plan is managed by Varma, a Finnish insurance company.

The multi employer plans in Sweden, managed by the life insurance company, SPP as well as the plan in Norway, managed by the Norway company Vital are now accounted as defined benefit plans. Indeed, until now, the life insurance companies were not able to show the assets linked to the liability. The entire provision has been booked through the net income since the creation of both plans. Further, the amounts regarding defined contribution plans have been reviewed for 2008 & 2007.

<i>(in thousands of euros)</i>	France	United States	United Kingdom	Scandinavia	Total
<b>Provision at December 31, 2008</b>	-	<b>(1 581)</b>	-	-	<b>(1 581)</b>
Expense booked in 2008	(600)	-	(970)	(1 498)	(3 068)
<b>Provision at December 31, 2007</b>	-	<b>(1 783)</b>	-	-	<b>(1 783)</b>
Expense booked in 2007	(207)	(186)	(705)	(1 476)	(2 574)
<b>Provision at December 31, 2007</b>	-	<b>(1 470)</b>	-	-	<b>(1 470)</b>
Expense booked in 2007	(391)	(230)	(1 020)	(1 374)	(3 015)

### Defined benefit plans

#### General description of the plans

- Retirement indemnities (France): 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 (France): 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 end of the year, there were 19 beneficiaries.
- CARDIF (France): This is a supplementary retirement benefit plan that was closed in 2006 and covers members of the Group Management Board and/or corporate officers of Euler Hermes and Euler Hermes Sfac. The contributions are paid by CARDIF to the beneficiaries or their surviving spouse (reversion) until their death. There are 2 beneficiaries.
- TFR (Italy): 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 December 31, 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.

## Notes to the consolidated financial statements

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 April 6, 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 December 31, 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 December 31, 2008, the present value of pension commitments in respect of this plan came to £113,2 million, funded partly by the fund as the market value of the assets stood at £102.4 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 65 years of age at the latest. 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.
- Scandinavia:  
Sweden: a multi-employer plan that is managed by SPP, one of the largest life insurance companies. The employee begins to accrue pension at age 28. The employee can receive a pension from age 65. The employee is then guaranteed 65% of their final salary  
Norway: a multi-employer plan that is managed by Vital, a Norwegian life insurance company. The employee begins to accrue pension from the first day of employment. The employee can receive a pension from age 67. The employee is then guaranteed 70 % of their final salary.

# Notes to the consolidated financial statements

31/12/2009	France			Italy	United-Kingdom	Germany	Belgium	Netherlands	Nordic			Total
	Retirement indemnities	PSAD	CARDIF						FTP	Vital	CEO's plan	
<b>Actuarial liability at start of period</b>	<b>(4 937)</b>	<b>(4 264)</b>	<b>(2 499)</b>	<b>(9 437)</b>	<b>(94 377)</b>	<b>(307 727)</b>	<b>(16 041)</b>	<b>(3 488)</b>	<b>(4 044)</b>	<b>(887)</b>	<b>(482)</b>	<b>(448 183)</b>
- Cost of services provided during the period	(285)	-	-	(39)	(1 588)	(6 928)	(749)	(224)	(145)	(231)	(199)	(10 388)
- Interest expense	(276)	(241)	(145)	(259)	(6 301)	(18 133)	(958)	(194)	(123)	(34)	(26)	(26 690)
- Employee contributions	-	-	-	-	-	(2 625)	(85)	(168)	-	-	-	(2 878)
- Change of pension plan	-	-	-	-	-	-	-	-	-	-	-	-
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	266	-	-	-	-	-	266
- Reductions of pension plans	-	-	-	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-	-	-	-
- Actuarial gains (losses) due to a change in assumptions	226	(34)	(154)	(7)	(22 083)	(28 029)	(1 164)	(109)	287	56	-	(51 011)
- Actuarial gains (losses) due to a change in experience	(19)	431	(4)	-	1 396	40	(738)	(245)	25	-	-	886
- Benefits paid	173	453	155	2 352	2 504	9 771	819	1	-	-	-	16 228
- Translation differences	-	-	-	-	(6 844)	-	-	-	-	-	-	(6 844)
- Other	-	-	-	-	(120)	(10)	-	395	-	-	-	381
- Removal of the discretionary clause	-	-	-	-	-	-	-	-	-	-	-	-
<b>Actuarial liability at end of period</b>	<b>(5 118)</b>	<b>(3 655)</b>	<b>(2 647)</b>	<b>(7 390)</b>	<b>(127 413)</b>	<b>(353 375)</b>	<b>(18 916)</b>	<b>(4 032)</b>	<b>(4 000)</b>	<b>(1 095)</b>	<b>(591)</b>	<b>(528 232)</b>
<b>Fair value of assets at start of period</b>	<b>1 540</b>	<b>-</b>	<b>2 990</b>	<b>-</b>	<b>94 927</b>	<b>266 492</b>	<b>12 490</b>	<b>2 839</b>	<b>2 299</b>	<b>575</b>	<b>495</b>	<b>384 648</b>
- Actual return on plan assets	41	-	(57)	-	5 746	14 463	645	21	84	34	21	20 998
- Experience effect on returns from assets	-	-	154	-	5 455	5 699	(335)	398	-	-	-	11 371
- Employee contributions	-	-	-	-	-	2 625	85	482	223	-	195	3 610
- Employer contributions	742	-	-	-	4 838	5 923	1 071	198	-	-	-	12 773
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	1 441	-	-	-	-	-	1 441
- Reductions of pension plans	-	-	(485)	-	-	(1 707)	-	7	-	-	-	(2 185)
- Disposals of pension plans	-	-	-	-	-	-	-	-	-	26	-	26
- Benefits paid	(73)	-	(155)	-	(2 411)	(6 473)	(819)	(1)	(25)	-	-	(9 957)
- Translation differences	-	-	-	-	6 883	-	-	-	-	-	-	6 883
- Other	1	-	317	-	(87)	136	-	(389)	12	(88)	(19)	(118)
<b>Fair value of assets at end of period</b>	<b>2 251</b>	<b>-</b>	<b>2 764</b>	<b>-</b>	<b>115 352</b>	<b>288 599</b>	<b>13 137</b>	<b>3 556</b>	<b>2 593</b>	<b>546</b>	<b>692</b>	<b>429 490</b>
<b>Actuarial differences still to be amortised</b>	<b>653</b>	<b>-</b>	<b>117</b>	<b>-</b>	<b>(32 877)</b>	<b>(31 895)</b>	<b>(1 795)</b>	<b>19</b>	<b>(530)</b>	<b>53</b>	<b>101</b>	<b>(66 154)</b>
<b>Negative net commitments</b>	<b>(3 520)</b>	<b>(3 655)</b>	<b>-</b>	<b>(7 390)</b>	<b>-</b>	<b>(32 881)</b>	<b>(3 984)</b>	<b>(495)</b>	<b>(878)</b>	<b>(602)</b>	<b>(0)</b>	<b>(53 405)</b>
<b>Positive net commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20 816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20 816</b>
<b>Expenses for the period</b>	<b>(462)</b>	<b>156</b>	<b>-</b>	<b>(305)</b>	<b>(3 003)</b>	<b>(27 490)</b>	<b>(1 062)</b>	<b>(407)</b>	<b>201</b>	<b>234</b>	<b>253</b>	<b>(31 885)</b>
- Coût des services rendus de la période	(285)	-	-	(39)	(1 584)	(6 928)	(749)	(206)	141	223	193	(9 234)
- Coût financier (effet de la désactualisation)	(276)	(241)	-	(259)	(6 288)	(18 133)	(958)	(185)	119	33	25	(26 163)
- Rendement attendu des actifs de régime	83	-	-	-	5 734	(2 625)	645	21	(81)	(33)	(20)	3 724
- Rendement attendu de tout autre actif	-	-	-	-	-	-	-	-	-	-	-	-
- Amortissement des profits ou pertes actuariels	16	397	-	(7)	(745)	196	-	-	22	-	2	(119)
- Amortissement du coût des services passés	-	-	-	-	-	-	-	-	-	-	-	-
- Amortissement de la dette initiale non constatée	-	-	-	-	-	-	-	-	-	-	-	-
- Profit ou la perte résultant de la réduction ou de la liquidation	-	-	-	-	-	-	-	-	-	-	-	-
- Plafonnements d'actifs	-	-	-	-	-	-	-	-	-	-	-	-
- Evénements exceptionnels	-	-	-	-	-	-	-	-	-	-	-	-
- Autres	-	-	-	-	(120)	-	-	(37)	-	11	53	(93)
<b>Actuarial assumptions</b>												
- Discount rate	6,00%	6,00%	4,00%	5,00%	5,50%	5,50%	5,25%	6,00%	3,00%	3,80%	3,00%	
- Rate of inflation	2,50%	2,50%	-	2,00%	-	1,85%	-	2,00%	2,00%	-	2,00%	
- Expected rate of return on plan assets	4,75%	-	4,00%	-	5,75%	5,20%	4,25%	6,00%	3,50%	5,80%	3,50%	
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	-	-	-	-	-	
- Expected rate of salary increases	3,50%	-	-	3,00%	4,15%	2,40%	-	2,00%	3,00%	4,00%	3,00%	
- Rate of increase in medical costs	-	-	-	-	-	-	-	2,00%	-	-	-	
- Rate of increase in annuities	-	2,35%	-	-	3,20%	1,85%	2,00%	1,00%	-	-	-	
- Retirement age	60	0	60	60-65	63	63	60	65	0	0	0	
- Remaining length of service	10	0	5	0	20	15	11	28	0	0	0	
- Other major assumptions used (1)	-	60,00%	-	-	-	-	-	-	-	-	-	
(1) the 60% on the PSAD plan corresponds to the reversion rate												
<b>Structure of plan assets</b>												
- Equities	-	-	23,00%	-	40,00%	20,34%	-	-	30,00%	16,00%	30,00%	
- Bonds	100,00%	-	27,00%	-	60,00%	77,21%	-	-	70,00%	56,00%	70,00%	
- Property	-	-	-	-	-	2,43%	-	-	-	17,00%	-	
- Other	-	-	50,00%	-	-	0,02%	100,00%	100,00%	-	11,00%	-	

# Notes to the consolidated financial statements

31/12/2008	France			Italy	United Kingdom	Germany	Belgium	The Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
<b>Actuarial liability at start of period</b>	<b>(4 933)</b>	<b>(4 497)</b>	<b>(2 792)</b>	<b>(9 791)</b>	<b>(131 573)</b>	<b>(311 943)</b>	<b>(14 824)</b>	<b>(3 146)</b>	<b>(483 499)</b>
- Cost of services provided during the period	(277)	-	-	(431)	(2 462)	(8 322)	(721)	(238)	(12 451)
- Interest expense	(228)	(226)	(145)	(420)	(5 810)	(16 858)	(785)	(163)	(24 635)
- Employee contributions	-	-	-	-	-	(2 590)	(79)	(75)	(2 744)
- Change of pension plan	-	-	-	-	-	-	-	-	-
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-
- Reductions of pension plans	-	-	-	-	-	-	-	-	-
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	(169)	(169)
- Actuarial gains (losses) due to a change in assump	218	67	212	-	11 951	19 647	401	343	32 839
- Actuarial gains (losses) due to a change in experier	(144)	(89)	74	-	803	2 985	(646)	-	2 983
- Benefits paid	384	481	152	1 205	2 424	9 369	280	1	14 296
- Translation differences	-	-	-	-	30 272	-	-	-	30 272
- Other	43	-	-	-	18	(15)	333	(41)	338
- Removal of the discretionary clause	-	-	-	-	-	-	-	-	-
<b>Actuarial liability at end of period</b>	<b>(4 937)</b>	<b>(4 264)</b>	<b>(2 499)</b>	<b>(9 437)</b>	<b>(94 377)</b>	<b>(307 727)</b>	<b>(16 041)</b>	<b>(3 488)</b>	<b>(442 770)</b>

<b>Fair value of assets at start of period</b>	<b>1 164</b>	<b>-</b>	<b>3 320</b>	<b>-</b>	<b>128 235</b>	<b>264 265</b>	<b>11 038</b>	<b>2 528</b>	<b>410 551</b>
- Actual return on plan assets	88	-	88	-	(9 839)	13 765	549	109	4 740
- Experience effect on returns from assets	-	-	-	-	-	(13 921)	(89)	-	(14 010)
- Employee contributions	-	-	-	-	-	6 229	79	158	6 466
- Employer contributions	692	-	-	-	8 576	2 590	1 193	533	13 584
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	1 258	-	-	1 258
- Reductions of pension plans	-	-	(266)	-	-	(1 258)	-	-	(1 524)
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Benefits paid	(384)	-	(152)	-	(2 424)	(6 126)	(280)	(1)	(9 367)
- Translation differences	-	-	-	-	(29 504)	-	-	-	(29 504)
- Other	-	-	-	-	(118)	(310)	-	21	(407)
<b>Fair value of assets at end of period</b>	<b>1 540</b>	<b>-</b>	<b>2 990</b>	<b>-</b>	<b>94 927</b>	<b>266 492</b>	<b>12 490</b>	<b>2 839</b>	<b>381 278</b>

<b>Actuarial differences still to be amortised</b>	<b>502</b>	<b>-</b>	<b>491</b>	<b>-</b>	<b>(17 150)</b>	<b>(9 801)</b>	<b>442</b>	<b>12</b>	<b>(25 504)</b>
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<b>Negative net commitments</b>	<b>(3 899)</b>	<b>(4 264)</b>	<b>-</b>	<b>(9 437)</b>	<b>-</b>	<b>(31 434)</b>	<b>(3 993)</b>	<b>(661)</b>	<b>(53 688)</b>
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<b>Positive net commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17 699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17 699</b>
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<b>Expenses for the period</b>	<b>(437)</b>	<b>(247)</b>	<b>-</b>	<b>(851)</b>	<b>(3 172)</b>	<b>(11 606)</b>	<b>(957)</b>	<b>(461)</b>	<b>(17 731)</b>
- Cost of services provided during the period	(277)	-	-	(431)	(2 922)	(8 322)	(721)	(238)	(12 911)
- Financial cost (discounting effect)	(228)	(226)	-	(420)	(6 895)	(16 858)	(785)	(163)	(25 575)
- Expected return on plan assets	59	-	-	-	7 222	13 765	549	139	21 734
- Expected return on all other assets	-	-	-	-	-	-	-	-	-
- Amortisation of actuarial gains and losses	9	(21)	-	-	(457)	(191)	-	-	(660)
- Amortisation of past service costs	-	-	-	-	-	-	-	-	-
- Amortisation of initial unrecognised liability	-	-	-	-	-	-	-	-	-
- Profit or loss resulting from reduction or liquidation	-	-	-	-	-	-	-	-	-
- Asset ceiling	-	-	-	-	-	-	-	40	40
- Exceptional events	-	-	-	-	-	-	-	(193)	(193)
- Other	-	-	-	-	(120)	-	-	(46)	(166)

<b>Actuarial assumptions</b>									
- Discount rate	6,00%	6,00%	4,00%	6,00%	5,80%	5,50%	6,00%	6,00%	
- Rate of inflation	2,50%	2,50%	-	3,60%	3,11%	1,85%	2,50%	2,00%	
- Expected rate of return on plan assets	4,75%	-	4,00%	-	6,20%	5,20%	5,00%	6,00%	
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	-	-	
- Expected rate of salary increases	3,50%	-	-	4,20%	4,15%	2,40%	4,00%	2,00%	
- Rate of increase in medical costs	-	-	-	-	-	-	1,50%	2,00%	
- Rate of increase in annuities	-	2,35%	-	-	-	1,85%	-	1,00%	
- Retirement age	60	0	60	60-65	63	63	60	65	
- Remaining length of service	10	0	5	0	20	15	11	28	
- Other major assumptions used (1)	-	60,00%	-	-	-	-	-	-	

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

<b>Structure of plan assets</b>									
- Equities	-	-	23,00%	-	40,00%	20,34%	-	-	-
- Bonds	100,00%	-	27,00%	-	60,00%	77,21%	-	-	-
- Property	-	-	-	-	-	2,43%	-	-	-

# Notes to the consolidated financial statements

31/12/2007	France			Italy	United Kingdom	Germany	Belgium	The Netherlands	Total
	Retirement indemnities	PSAD	CARDIF						
<b>Actuarial liability at start of period</b>	<b>(5 278)</b>	<b>(5 078)</b>	<b>(3 040)</b>	<b>(10 364)</b>	<b>(147 090)</b>	<b>(329 006)</b>	<b>(15 138)</b>	<b>(4 219)</b>	<b>(519 213)</b>
- Cost of services provided during the period	(306)	-	-	(582)	(3 962)	(8 904)	(785)	(324)	(14 863)
- Interest expense	(200)	(222)	(135)	(481)	(7 282)	(14 896)	(656)	(158)	(24 030)
- Employee contributions	-	-	-	-	-	(2 552)	(74)	(55)	(2 681)
- Change of pension plan	-	-	-	-	-	-	-	1 519	1 519
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-
- Reductions of pension plans	-	-	-	(147)	-	-	-	-	(147)
- Disposals of pension plans	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Actuarial gains (losses) due to a change in assump	467	230	295	-	12 225	30 777	(275)	29	43 748
- Actuarial gains (losses) due to a change in experier	88	88	(63)	-	(1 638)	1 494	1 124	(29)	1 064
- Benefits paid	296	485	151	1 783	3 409	10 817	980	-	17 921
- Translation differences	-	-	-	-	12 183	-	-	-	12 183
- Other	-	-	-	-	582	327	-	91	1 000
- Removal of the discretionary clause	-	-	-	-	-	-	-	-	-
<b>Actuarial liability at end of period</b>	<b>(4 933)</b>	<b>(4 497)</b>	<b>(2 792)</b>	<b>(9 791)</b>	<b>(131 573)</b>	<b>(311 943)</b>	<b>(14 824)</b>	<b>(3 146)</b>	<b>(483 499)</b>

<b>Fair value of assets at start of period</b>	<b>838</b>	-	<b>3 301</b>	-	<b>135 294</b>	<b>258 878</b>	<b>9 418</b>	<b>2 941</b>	<b>410 670</b>
- Actual return on plan assets	35	-	221	-	5 960	13 048	419	(310)	19 373
- Experience effect on returns from assets	-	-	-	-	-	(8 420)	69	-	(8 351)
- Employee contributions	-	-	-	-	1	2 552	74	55	2 682
- Employer contributions	664	-	-	-	2 691	5 885	2 038	149	11 427
- Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-
- Reductions of pension plans	-	-	(51)	-	-	-	-	-	(51)
- Disposals of pension plans	-	-	-	-	-	-	-	(480)	(480)
- Benefits paid	(296)	-	(151)	-	(3 409)	(7 678)	(980)	29	(12 485)
- Translation differences	-	-	-	-	(11 720)	-	-	-	(11 720)
- Other	(77)	-	-	-	(582)	-	-	(160)	(819)
<b>Fair value of assets at end of period</b>	<b>1 164</b>	-	<b>3 320</b>	-	<b>128 235</b>	<b>264 265</b>	<b>11 038</b>	<b>2 528</b>	<b>410 551</b>

<b>Actuarial differences still to be amortised</b>	<b>427</b>	-	<b>528</b>	-	<b>(18 657)</b>	<b>(18 703)</b>	<b>496</b>	<b>161</b>	<b>(35 748)</b>
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<b>Negative net commitments</b>	<b>(3 899)</b>	<b>(4 497)</b>	-	<b>(9 791)</b>	-	<b>(28 975)</b>	<b>(4 282)</b>	<b>(779)</b>	<b>(52 520)</b>
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<b>Positive net commitments</b>	-	-	-	-	<b>15 319</b>	-	-	-	<b>15 319</b>
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<b>Expenses for the period</b>	<b>(475)</b>	<b>96</b>	<b>(135)</b>	<b>(1 210)</b>	<b>(4 259)</b>	<b>(11 523)</b>	<b>(1 021)</b>	<b>(668)</b>	<b>(19 195)</b>
- Cost of services provided during the period	(306)	-	-	(582)	(3 962)	(8 904)	(785)	(324)	(14 863)
- Financial cost (discounting effect)	(200)	(222)	(135)	(481)	(7 282)	(14 896)	(656)	(158)	(24 030)
- Expected return on plan assets	34	-	-	-	8 360	13 048	420	(6)	21 856
- Expected return on all other assets	-	-	-	-	-	-	-	(72)	(72)
- Amortisation of actuarial gains and losses	(3)	318	-	-	(1 375)	(771)	-	-	(1 831)
- Amortisation of past service costs	-	-	-	-	-	-	-	-	-
- Amortisation of initial unrecognised liability	-	-	-	-	-	-	-	-	-
- Profit or loss resulting from reduction or liquidation	-	-	-	(147)	-	-	-	-	(147)
- Asset ceiling	-	-	-	-	-	-	-	-	-
- Exceptional events	-	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	(108)	(108)

<b>Actuarial assumptions</b>									
- Discount rate	5,10%	5,30%	4,00%	5,10%	5,10%	5,50%	4,50%	5,60%	
- Rate of inflation	2,00%	2,00%	-	2,00%	3,15%	1,85%	2,25%	2,00%	
- Expected rate of return on plan assets	4,50%	-	4,00%	-	6,40%	5,20%	4,85%	5,60%	
- Expected rate of return on all reimbursement rights	-	-	-	-	-	-	-	-	
- Expected rate of salary increases	3,00%	-	-	3,00%	4,15%	2,40%	3,75%	2,00%	
- Rate of increase in medical costs	-	-	-	-	-	-	-	2,00%	
- Rate of increase in annuities	-	1,90%	-	-	-	1,85%	-	-	
- Retirement age	60	0	60	60-65	63	63	60	65	
- Remaining length of service	10	0	5	0	20	15	12	28	
- Other major assumptions used (1)	-	60,00%	-	-	-	-	-	-	

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

<b>Structure of plan assets</b>									
- Equities	-	-	23,00%	-	40,00%	20,34%	-	-	-
- Bonds	100,00%	-	27,00%	-	60,00%	77,21%	-	-	-
- Property	-	-	-	-	-	2,43%	-	-	-

# Notes to the consolidated financial statements

## Estimation of future contributions

The table below presents the estimated future benefit payments that will be met by the pension funds or by Euler Hermes Group:

(in thousands of euros)	Pension Benefits	Post-Retirement Benefits
2009	16 187	209
2010	14 549	319
2011	15 253	3
2012	17 352	14
2013	17 478	314
2014	19 113	433
2015 - 2019	112 694	2 476

## Note 17 Borrowings

### Breakdown by type and maturity

(in thousands)	December 31, 2009	December 31, 2008			
<b>Subordinated debt</b>	-	-			
Term loans and other term borrowings	1 261	2 313			
Demand accounts	-	-			
<b>Borrowings from banking sector businesses</b>	<b>1 261</b>	<b>2 313</b>			
Other borrowings	405 882	295 433			
<b>Total borrowings</b>	<b>€407 143</b>	<b>€297 746</b>			
(in thousands)	<b>3 months or less</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Total borrowings</b>	<b>3 879</b>	<b>293 264</b>	<b>110 000</b>	<b>-</b>	<b>407 143</b>

“Other borrowings” include four loans to Euler Hermes SA from AGF amounting to €402,000 thousand of which €1,047 thousand of accrued interests with a maturity between 3 months and 1 year (see note 28 Related parties).

The loans to Euler Hermes SA from AGF have variable interest rates. The consequence is that their fair values are close to their nominal values.

The balance represents mainly a borrowing by the Greek subsidiary from its shareholder Emporiki Bank (€1.2 million).

### Breakdown by maturity for interests to be paid (in millions of euros)

	2010	2011	2012
Borrowing 2004 de 90m€ maturity 19/06/2010, the rate Euribor 6 mois + 64,4 basis points	0,68	-	-
Borrowing 2005 de 135m€ maturity 24/06/2010, the rate Euribor 6 mois + 20 basis points	0,77	-	-
Borrowing 2006 de 67m€ maturity 21/06/2010, the rate Euribor 6 mois + 64,4 basis points	0,52	-	-
Borrowing 2009 de 110m€ maturity 10/09/2012, the rate fixe Mid-Swaps 3 ans + 60 basis points	3,05	3,05	3,06
<b>Total futur interest expenses</b>	<b>€5,02</b>	<b>€3,05</b>	<b>€3,06</b>

Euribor	As of December 31st, 2009
6 mois	0,994

The interest rate of the 2009 borrowing is a yearly fixed rate equal to the rate Mid-Swaps 3 years as at September 2, 2009 + 60 basis points. It is equal to 2.734%.

# Notes to the consolidated financial statements

## Note 18 Technical reserves

(in thousands)	December 31, 2008	Allowance net of writebacks	Foreign exchange differences	Other changes	December 31, 2009
Reserve for unearned premiums	314 691	(23 023)	4 513	2 555	298 736
Reserve for claims	1 422 610	(13 797)	11 118	4 829	1 424 760
Reserve for no-claims bonuses and refunds	116 397	(5 648)	2 241	65	113 055
<b>Gross technical reserves</b>	<b>1 853 698</b>	<b>(42 468)</b>	<b>17 872</b>	<b>7 449</b>	<b>1 836 551</b>
Reserve for unearned premiums	47 853	15 011	710	5 378	68 952
Reserve for claims	353 186	67 417	1 931	4 692	427 226
Reserve for no-claims bonuses and refunds	16 939	2 806	1 654	4	21 403
<b>Reinsurers' share of technical reserves</b>	<b>417 978</b>	<b>85 234</b>	<b>4 295</b>	<b>10 074</b>	<b>517 581</b>
<b>Net technical reserves</b>	<b>€2 271 676</b>	<b>€42 766</b>	<b>€22 167</b>	<b>€17 523</b>	<b>€2 354 132</b>

### Cost of claims

(in thousands)	Year ended December 31,					
	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Cost of claims for the current period</b>	<b>1 451 839</b>	<b>(454 240)</b>	<b>997 599</b>	<b>1 584 352</b>	<b>(297 550)</b>	<b>1 286 802</b>
of which, claims paid	443 443	(130 963)	312 480	388 147	(79 180)	308 967
of which, claims reserves	929 223	(318 538)	610 685	1 115 597	(209 989)	905 608
of which, claims handling expenses	79 173	(4 739)	74 434	80 608	(8 381)	72 227
<b>Recoveries for the current period</b>	<b>(140 738)</b>	<b>39 628</b>	<b>(101 110)</b>	<b>(135 477)</b>	<b>21 900</b>	<b>(113 577)</b>
Recoveries received	(13 142)	3 195	(9 947)	(17 222)	2 976	(14 246)
Change in reserves for recoveries	(127 596)	36 433	(91 163)	(118 255)	18 924	(99 331)
<b>Cost of claims from prior periods</b>	<b>57 889</b>	<b>41 612</b>	<b>99 501</b>	<b>(82 801)</b>	<b>34 941</b>	<b>(47 860)</b>
of which, claims paid	944 564	(186 126)	758 438	597 720	(120 980)	476 740
of which, claims reserves	(877 853)	228 456	(649 397)	(669 188)	155 481	(513 707)
of which, claims handling expenses	(8 822)	(718)	(9 540)	(11 333)	440	(10 893)
<b>Recoveries from prior periods</b>	<b>(92 911)</b>	<b>9 063</b>	<b>(83 848)</b>	<b>(58 644)</b>	<b>6 073</b>	<b>(52 571)</b>
Recoveries received	(158 164)	22 044	(136 120)	(147 352)	20 038	(127 314)
Change in reserves for recoveries	65 253	(12 981)	52 272	88 708	(13 965)	74 743
<b>Cost of claims</b>	<b>€1 276 079</b>	<b>€(363 937)</b>	<b>€912 142</b>	<b>€1 307 430</b>	<b>€(234 636)</b>	<b>€1 072 794</b>

### Claims reserves

(in thousands)	December 31, 2009			December 31, 2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Claims reserves gross of recoveries</b>	<b>1 727 088</b>	<b>(494 645)</b>	<b>1 232 443</b>	<b>1 650 693</b>	<b>(397 148)</b>	<b>1 253 545</b>
Current period	978 315	(322 827)	655 488	1 141 066	(227 411)	913 655
Prior periods	748 773	(171 818)	576 955	509 627	(169 737)	339 890
<b>Recoveries to be received</b>	<b>(302 327)</b>	<b>67 419</b>	<b>(234 908)</b>	<b>(228 084)</b>	<b>43 962</b>	<b>(184 122)</b>
Current period	(127 752)	36 507	(91 245)	(117 115)	19 360	(97 755)
Prior periods	(174 575)	30 912	(143 663)	(110 969)	24 602	(86 367)
<b>Claims reserves</b>	<b>€1 424 761</b>	<b>€(427 226)</b>	<b>€997 535</b>	<b>€1 422 609</b>	<b>€(353 186)</b>	<b>€1 069 423</b>

### Breakdown by type of reserve

(in thousands)	December 31, 2009			December 31, 2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Reserves for unearned premiums</b>	<b>298 736</b>	<b>(68 952)</b>	<b>229 784</b>	<b>314 691</b>	<b>(47 853)</b>	<b>266 838</b>
<b>Claims reserves</b>	<b>1 424 760</b>	<b>(427 226)</b>	<b>997 534</b>	<b>1 422 609</b>	<b>(353 186)</b>	<b>1 069 423</b>
of which, reserves for known claims	1 157 922	(348 067)	809 855	1 108 704	(384 528)	724 176
of which, reserves for late claims	461 422	(137 999)	323 423	440 723	44	440 767
of which, reserves for claims handling expenses	109 030	(8 580)	100 450	100 368	(12 620)	87 748
of which, other technical reserves	(1 286)	1	(1 285)	899	(44)	855
of which, recoveries to be received	(302 328)	67 419	(234 909)	(228 085)	43 962	(184 123)
<b>No-claims bonuses and rebates</b>	<b>113 055</b>	<b>(21 403)</b>	<b>91 652</b>	<b>116 398</b>	<b>(16 939)</b>	<b>99 459</b>
<b>Technical reserves</b>	<b>€1 836 551</b>	<b>€(517 581)</b>	<b>€1 318 970</b>	<b>€1 853 698</b>	<b>€(417 978)</b>	<b>€1 435 720</b>

# Notes to the consolidated financial statements

## Note 19 Insurance and reinsurance liabilities

### Breakdown by type and by maturity

(in thousands)	December 31, 2009	December 31, 2008
Policyholders' guarantee deposits and miscellaneous	105 366	100 158
Due to policyholders and agents	102 831	95 014
<b>Liabilities arising from inwards insurance and reinsurance transactions</b>	<b>208 197</b>	<b>195 172</b>
Due to reinsurers and assignors	131 148	56 232
Deposits received from reinsurers	39 252	40 465
<b>Outwards reinsurance liabilities</b>	<b>170 400</b>	<b>96 697</b>
<b>Total insurance and reinsurance liabilities</b>	<b>€378 597</b>	<b>€291 869</b>

(in thousands)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Total insurance and reinsurance liabilities</b>	<b>350 116</b>	<b>28 482</b>	-	-	<b>378 597</b>

## Note 20 Other liabilities

(in thousands)	December 31, 2009	December 31, 2008
Tax and social liabilities	84 330	95 249
Other operating liabilities	67 822	117 199
Deferred income	8 343	7 509
Other accrued expenses	-	4
Other liabilities	12 417	12 299
<b>Total other liabilities</b>	<b>€172 912</b>	<b>€232 260</b>

(in thousands)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Total other liabilities</b>	<b>134 913</b>	<b>34 504</b>	<b>3 496</b>	-	<b>172 912</b>

The other liabilities are mainly liabilities under service agreement for €12.3 million.

## Note 21 Breakdown of income net of reinsurance

(in thousands)	Year ended December 31,					
	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premiums and commissions	1 736 217	(619 659)	1 116 558	1 878 779	(419 979)	1 458 800
Premiums refunded	(63 079)	19 637	(43 442)	(26 437)	6 572	(65 716)
Gross premiums written - credit insurance	1 673 138	(600 022)	1 073 116	1 800 396	(407 312)	1 393 084
Change in unearned premiums	21 347	16 697	38 044	#REF!	#REF!	(19 865)
<b>Earned premiums</b>	<b>1 694 485</b>	<b>(583 325)</b>	<b>1 111 160</b>	<b>1 773 959</b>	<b>(400 740)</b>	<b>1 373 219</b>
Premium-related revenues	391 226	-	391 226	392 492	-	392 492
<b>Turnover</b>	<b>€2 085 711</b>	<b>€(583 325)</b>	<b>€1 502 386</b>	<b>€2 166 451</b>	<b>€(400 740)</b>	<b>€1 765 711</b>
<b>Net investment income</b>	<b>148 409</b>	-	<b>148 409</b>	<b>132 940</b>	-	<b>132 940</b>
Claims paid	(1 216 700)	291 849	(924 851)	(821 293)	177 146	(644 147)
Claims reserves expense	10 974	66 631	77 605	(416 862)	49 549	(367 313)
Claims handling expense	(70 353)	5 457	(64 896)	(69 275)	7 941	(61 334)
<b>Insurance services expense</b>	<b>(1 276 079)</b>	<b>363 937</b>	<b>(912 142)</b>	<b>(1 307 430)</b>	<b>234 636</b>	<b>(1 072 794)</b>
Brokerage commissions	(175 724)	-	(175 724)	(225 983)	-	(225 983)
Other acquisition costs	(153 216)	-	(153 216)	(99 711)	-	(99 711)
Change in acquisition costs capitalised	(2 983)	-	(2 983)	14 188	-	14 188
<b>Contract acquisition expense</b>	<b>(331 923)</b>	-	<b>(331 923)</b>	<b>(311 506)</b>	-	<b>(311 506)</b>
<b>Impairment of portfolio securities and similar</b>	-	-	-	-	-	-
<b>Administration expense</b>	<b>(175 919)</b>	-	<b>(175 919)</b>	<b>(220 563)</b>	-	<b>(220 563)</b>
Commissions received from reinsurers	-	194 071	194 071	-	154 740	154 740
<b>Other ordinary operating income and expense</b>	<b>(341 256)</b>	-	<b>(341 256)</b>	<b>(280 028)</b>	-	<b>(280 028)</b>
<b>Ordinary operating income</b>	<b>€108 943</b>	<b>€(25 317)</b>	<b>€83 626</b>	<b>€179 864</b>	<b>€(11 364)</b>	<b>€168 500</b>

# Notes to the consolidated financial statements

## Note 22 Net financial income

(in thousands)	Year ended December 31,	
	2009	2008 Modified
Revenues from investment property	5 741	7 159
Revenues from securities	65 840	86 707
Available for sale assets through equity	-	-
Trading assets	76	233
<b>Held to maturity</b>	<b>65 916</b>	<b>86 940</b>
Revenues from loans, deposits and other financial investments	23 340	36 076
Other financial income	737	1 730
<b>Investment income</b>	<b>€161 650</b>	<b>€131 905</b>
Depreciation of investment property	(1 493)	(2 499)
Investment management expenses	(8 507)	(7 014)
Interest paid to reinsurers	(341)	(1 423)
Other financial expenses	-	-
<b>Investment expense</b>	<b>€(10 341)</b>	<b>€(10 936)</b>
Profits (losses) on sales of property	26 420	14 062
Profits (losses) on sales of securities	44 852	15 102
Available for sale assets through equity	-	-
Trading assets	-	-
<b>Held to maturity</b>	<b>44 852</b>	<b>15 102</b>
Profits (losses) on sales of participating interests	-	10 780
<b>Net gain (loss) on sales of investments less impairment and depreciation writebacks</b>	<b>€116 124</b>	<b>€39 944</b>
Change in fair value of derivatives	1 363	-
Change in fair value of trading assets	-	-
<b>Change in fair value of investments recognised at fair value through the income statement</b>	<b>€1 363</b>	<b>-</b>
Reserve for impairment of investments	(1 335)	(23 424)
<b>Change in impairment of investments</b>	<b>€(1 335)</b>	<b>€(23 424)</b>
<b>Net change in foreign currency</b>	<b>€(9 525)</b>	<b>€(4 549)</b>
<b>Net financial income (excluding financing expense)</b>	<b>€257 936</b>	<b>€132 940</b>

## Note 23 Operating leases

(in thousands)	December 31, 2009			
	United Kingdom	United States	Netherlands	Scandinavia
Less than 1 year	3 055	1 493	0	0
1 to 5 years	312	4 350	865	892
More than 5 years	381	4 114	0	183
<b>Total</b>	<b>€3 748</b>	<b>€9 957</b>	<b>€865</b>	<b>€1 075</b>

(in thousands)	December 31, 2008			
	United Kingdom	United States	Netherlands	Scandinavia
Less than 1 year	139	1 510	0	352
1 to 5 years	2 722	4 512	415	454
More than 5 years	506	5 281	0	130
<b>Total</b>	<b>€3 367</b>	<b>€11 303</b>	<b>€415</b>	<b>€935</b>

# Notes to the consolidated financial statements

## Note 24 Expenses by destination allocated by nature

(in thousands)	Year ended December 31,	
	2009	2008 Modified
Other ordinary operating income and expense	(341 256)	(303 167)
Contract acquisition expense	(331 923)	(344 633)
Administration expense	(175 919)	(164 297)
Claims handling expenses	(72 905)	(63 479)
Investment management charges	(10 341)	(10 936)
<b>Total expenses by destination</b>	<b>€(932 344)</b>	<b>€(886 512)</b>

(in thousands)	Year ended December 31,	
	2009	2008
Personal costs	(389 495)	(380 688)
Other expenses linked to personnel	(45 233)	(41 247)
Commissions	(208 690)	(225 983)
IT expenses	(63 476)	(63 224)
Renting and maintenance expenses	(43 283)	(39 225)
Allowance & amortisation	(31 692)	(27 298)
Legal, advertising & consulting expenses	(30 678)	(32 691)
Other non recurring expenses	(5 790)	17 562
Other recurring expenses	(114 008)	(93 719)
<b>Total expenses by nature</b>	<b>€(932 344)</b>	<b>€(886 512)</b>

## Note 25 Other ordinary operating revenues and expenses

(in thousands)	Year ended December 31,	
	2009	2008
Other technical income	13 703	54 482
Other technical expense	(342 809)	(331 429)
Other non-technical income	-	6 417
Other non-technical expense	(1 987)	(1 666)
Employee profit sharing and bonuses	(10 163)	(7 832)
<b>Other ordinary operating income and expense</b>	<b>€(341 256)</b>	<b>€(280 028)</b>

The other non-technical expenses are mainly interests on defined benefit plans (€8.7) million) net of interest income of counterpart asset plans (€6.7 million).

## Note 26 Corporation tax

### Breakdown of tax charge

(in thousands)	December 31, 2009
Corporation tax	92 321
Adjustments relating to prior years	873
Provision for tax uncertainties & penalties	(2 686)
Other	(2 046)
<b>Total current tax</b>	<b>€88 462</b>
Timing differences	(12 012)
Change in tax rate or new tax	(84)
Tax benefits relating to prior years	(27 139)
Other	(968)
<b>Total differed tax</b>	<b>€(40 203)</b>
<b>Total Corporation tax as reported in the income statement</b>	<b>€48 259</b>

# Notes to the consolidated financial statements

## Tax proof

(in thousands)	December 31, 2009	Tax rate 2009
<b>Income before tax</b>	<b>€71 401</b>	
Theoretical tax rate		34,43%
Tax at theoretical tax rate	24 583	
Tax at effective tax rate	48 258	67,59%
<b>Différence</b>	<b>€(23 675)</b>	<b>-33,16%</b>
Impact of differences between group and local tax rates	9 206	12,89%
Impact of permanent differences between taxable and accounting income	3 158	4,42%
Impact of specific tax situations	11 310	15,84%

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 67.59%.

The main variances are due to the difference between local tax rate of each entity and the Group tax rate, permanent differences reported by each entity, reduced rates and specific tax positions (mainly unrecognized tax losses).

## **Note 27 Earnings per share and dividend per share**

### Earnings per share

	Year ended December 31,	
	2009	2008
Distributable net income (in thousands of euros)	18 988	83 592
Weighted average number of ordinary shares before dilution	43 919 192	43 614 387
<b>Earnings per share (€)</b>	<b>€0,43</b>	<b>€1,92</b>
Distributable net income (in thousands of euros)	18 988	83 592
Weighted average number of ordinary shares after dilution	43 946 746	43 650 585
<b>Diluted earnings per share (€)</b>	<b>€0,43</b>	<b>€1,92</b>

The dilution impact takes into account the exercise of options. The average number of shares resulting from dilution is 27,554 in 2009 (63,352 in 2008). The group share of net income is used as the basis for this calculation.

### Dividend per share

A dividend of €1.5 per share (€65,278 thousand) was approved by the Ordinary General Meeting of 2009.

## **Note 28 Segment data**

Segment assets are operating assets that can be directly attributed or reasonably allocated to a given segment. Segment liabilities are liabilities arising from operations that can be directly attributed or reasonably allocated to a given segment.

Segment profit and loss comprises income and expense resulting from operating activities that are directly attributable to a given segment and the relevant portion of income and expense that can reasonably be assigned to the segment, notably income and expense relating to sales to external customers and income and expense relating to transactions with other segments of the same company.

For the Euler Hermes group the primary segment is the geographic segment as it corresponds to the information presented to the group's management bodies.

The ten main geographic segments correspond to the geographic regions covering the majority of the activity and which are therefore monitored in detail. These segments are Germany, the European IDC of Germany, the Asian IDC of Germany, France & its IDC, Italy, the United Kingdom, North & South America, the Netherlands, Belgium and the Group reinsurance.

# Notes to the consolidated financial statements

## Profit & loss by segment

(in thousands)

Year ended December 31, 2009

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
Premiums written	588 549	148 001	43 083	347 520	155 731	163 741	164 793	55 731	42 895	726 405	-	(700 232)	1 736 217
Premiums refunded	(33 473)	(4 535)	(614)	(18 468)	4 328	(5 069)	-	(2 298)	(388)	(28 814)	-	26 252	(63 079)
Net premiums written	555 076	143 466	42 469	329 052	160 059	158 672	164 793	53 433	42 507	697 591	-	(673 980)	1 673 138
Change in unearned premiums	10 866	(8 771)	(23)	(1 921)	966	9 913	5 486	7 941	(1 714)	5 562	-	(6 958)	21 347
<b>Earned premiums - non-group</b>	<b>565 942</b>	<b>134 695</b>	<b>42 446</b>	<b>327 131</b>	<b>161 025</b>	<b>168 585</b>	<b>170 279</b>	<b>61 374</b>	<b>40 793</b>	<b>703 153</b>	-	<b>(680 938)</b>	<b>1 694 485</b>
Premium-related revenues - non-group	172 089	48 546	12 418	89 144	44 534	18 497	28 223	18 628	15 505	-	-	(56 358)	391 226
<b>Turnover - intra-sectoral</b>	<b>€738 031</b>	<b>€183 241</b>	<b>€54 864</b>	<b>€416 275</b>	<b>€205 559</b>	<b>€187 082</b>	<b>€198 502</b>	<b>€80 002</b>	<b>€56 298</b>	<b>€703 153</b>	-	<b>€(737 296)</b>	<b>€2 085 711</b>
Investment income	54 876	2 351	(1 788)	73 204	12 719	7 926	13 121	4 174	1 577	(2 079)	177 605	(195 276)	148 410
<i>Of which, dividends</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total ordinary income</b>	<b>792 907</b>	<b>185 592</b>	<b>53 076</b>	<b>489 479</b>	<b>218 278</b>	<b>195 008</b>	<b>211 623</b>	<b>84 176</b>	<b>57 875</b>	<b>701 074</b>	<b>177 605</b>	<b>(932 572)</b>	<b>2 234 121</b>
Insurance services expense	(344 820)	(255 968)	(37 115)	(167 943)	(85 141)	(129 240)	(136 311)	(72 307)	(25 304)	(583 401)	-	561 461	(1 276 079)
Outwards reinsurance expense	(309 512)	(96 189)	(23 792)	(88 176)	(64 744)	(79 688)	(87 342)	(23 508)	(21 301)	(470 010)	-	680 937	(583 325)
Outwards reinsurance income	288 772	204 112	29 876	64 629	26 680	76 423	95 171	28 832	18 487	493 643	-	(768 617)	558 008
Other income and expense	(312 418)	(70 071)	(24 038)	(168 042)	(92 964)	(78 304)	(78 132)	(28 292)	(25 758)	(215 410)	(19 183)	263 514	(849 098)
<b>Total other income and expense</b>	<b>(677 978)</b>	<b>(218 106)</b>	<b>(55 069)</b>	<b>(359 532)</b>	<b>(216 169)</b>	<b>(210 809)</b>	<b>(206 614)</b>	<b>(95 275)</b>	<b>(53 876)</b>	<b>(775 178)</b>	<b>(19 183)</b>	<b>737 295</b>	<b>(2 150 494)</b>
<b>Ordinary operating income</b>	<b>€114 929</b>	<b>€(32 514)</b>	<b>€(1 993)</b>	<b>€129 947</b>	<b>€2 109</b>	<b>€(15 801)</b>	<b>€5 009</b>	<b>€(11 099)</b>	<b>€3 999</b>	<b>€(74 104)</b>	<b>€158 422</b>	<b>€(195 277)</b>	<b>€83 627</b>
Autres produits et charges opérationnels	-	-	-	-	(8 856)	-	-	-	-	-	-	-	(8 856)
<b>Operating income</b>	<b>€114 929</b>	<b>€(32 514)</b>	<b>€(1 993)</b>	<b>€129 947</b>	<b>€(6 747)</b>	<b>€(15 801)</b>	<b>€5 009</b>	<b>€(11 099)</b>	<b>€3 999</b>	<b>€(74 104)</b>	<b>€158 422</b>	<b>€(195 277)</b>	<b>€74 771</b>
Financing expense	(158)	(23)	(16)	(245)	(172)	(1 111)	(399)	(16)	-	172	(16 196)	8 151	(10 013)
Income from companies accounted for by the equity method	4 863	-	-	1 781	-	-	-	-	-	-	-	-	6 644
Corporation tax	(31 235)	422	(361)	(42 802)	(2 348)	4 801	(1 974)	5 240	(1 010)	12 866	8 140	-	(48 261)
<b>Consolidated net income</b>	<b>88 399</b>	<b>(32 115)</b>	<b>(2 370)</b>	<b>88 681</b>	<b>(9 267)</b>	<b>(12 111)</b>	<b>2 636</b>	<b>(5 875)</b>	<b>2 989</b>	<b>(61 066)</b>	<b>150 366</b>	<b>(187 126)</b>	<b>23 141</b>
<i>o/w</i>													
<b>Net income, group share</b>	<b>€85 069</b>	<b>€(32 150)</b>	<b>€(2 370)</b>	<b>€87 893</b>	<b>€(9 267)</b>	<b>€(12 111)</b>	<b>€2 636</b>	<b>€(5 875)</b>	<b>€2 989</b>	<b>€(61 066)</b>	<b>€150 366</b>	<b>€(187 126)</b>	<b>€18 988</b>
Minority interests	3 330	35	-	788	-	-	-	-	-	-	-	-	4 153

(in thousands)

Year ended December 31, 2008

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
Premiums written	686 540	104 411	-	384 936	200 144	199 687	167 821	70 034	41 144	651 078	-	(627 016)	1 878 779
Premiums refunded	(44 054)	(4 715)	-	(22 611)	2 059	(3 110)	-	(2 978)	(1 391)	(31 985)	-	30 402	(78 383)
Net premiums written	642 486	99 696	-	362 325	202 203	196 577	167 821	67 056	39 753	619 093	-	(596 614)	1 800 396
Change in unearned premiums	(10 537)	(587)	-	1 326	150	(4 111)	(4 367)	(693)	(119)	(9 659)	-	2 160	(26 437)
<b>Earned premiums - non-group</b>	<b>631 949</b>	<b>99 109</b>	-	<b>363 651</b>	<b>202 353</b>	<b>192 466</b>	<b>163 454</b>	<b>66 363</b>	<b>39 634</b>	<b>609 434</b>	-	<b>(594 454)</b>	<b>1 773 959</b>
Premium-related revenues - non-group	175 950	53 055	16 921	93 497	49 161	22 173	29 562	17 052	14 847	-	-	(79 726)	392 492
<b>Turnover - intra-sectoral</b>	<b>€807 899</b>	<b>€152 164</b>	<b>€16 921</b>	<b>€457 148</b>	<b>€251 514</b>	<b>€214 639</b>	<b>€193 016</b>	<b>€83 415</b>	<b>€54 481</b>	<b>€609 434</b>	-	<b>€(674 180)</b>	<b>€2 166 451</b>
Investment income	60 782	3 891	-	72 060	9 158	9 519	5 695	3 580	1 308	(3 432)	235 385	(265 006)	132 940
<i>Of which, dividends</i>	18 794	-	-	-	-	-	-	-	-	-	235 357	(254 151)	-
<b>Total ordinary income</b>	<b>868 681</b>	<b>156 055</b>	<b>16 921</b>	<b>529 208</b>	<b>260 672</b>	<b>224 158</b>	<b>198 711</b>	<b>86 995</b>	<b>55 789</b>	<b>606 002</b>	<b>235 385</b>	<b>(939 186)</b>	<b>2 299 391</b>
Insurance services expense	(370 867)	(81 509)	-	(237 245)	(203 640)	(182 359)	(133 814)	(62 722)	(20 194)	(519 771)	-	504 691	(1 307 430)
Outwards reinsurance expense	356 959	97 669	-	107 193	105 895	105 137	93 285	29 142	16 773	253 424	-	(776 101)	389 376
Outwards reinsurance income	(357 335)	(80 029)	-	(93 179)	(83 563)	(75 437)	(78 351)	(24 498)	(19 849)	(212 004)	-	623 505	(400 740)
Other income and expense	(306 931)	(65 078)	(17 392)	(176 156)	(107 851)	(85 176)	(72 811)	(23 772)	(26 523)	(230 821)	(13 554)	313 968	(812 097)
<b>Total other income and expense</b>	<b>(678 174)</b>	<b>(128 947)</b>	<b>(17 392)</b>	<b>(399 387)</b>	<b>(289 159)</b>	<b>(237 835)</b>	<b>(191 691)</b>	<b>(81 850)</b>	<b>(49 793)</b>	<b>(709 172)</b>	<b>(13 554)</b>	<b>666 063</b>	<b>(2 130 891)</b>
<b>Ordinary operating income</b>	<b>€190 507</b>	<b>€27 108</b>	<b>€(471)</b>	<b>€129 821</b>	<b>€(28 487)</b>	<b>€(13 677)</b>	<b>€7 020</b>	<b>€5 145</b>	<b>€5 996</b>	<b>€(103 170)</b>	<b>€221 831</b>	<b>€(273 123)</b>	<b>€168 500</b>
Autres produits et charges opérationnels	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating income</b>	<b>€190 507</b>	<b>€27 108</b>	<b>€(471)</b>	<b>€129 821</b>	<b>€(28 487)</b>	<b>€(13 677)</b>	<b>€7 020</b>	<b>€5 145</b>	<b>€5 996</b>	<b>€(103 170)</b>	<b>€221 831</b>	<b>€(273 123)</b>	<b>€168 500</b>
Financing expense	(17)	1	-	(101)	(194)	-	(13)	(570)	-	(3)	(22 878)	7 686	(16 089)
Income from companies accounted for by the equity method	5 659	-	-	2 216	-	-	-	-	-	-	-	-	7 875
Corporation tax	(56 566)	(5 488)	(258)	(48 013)	7 720	3 155	(3 362)	(588)	(1 547)	21 107	11 644	-	(72 196)
<b>Consolidated net income</b>	<b>139 583</b>	<b>21 621</b>	<b>(729)</b>	<b>83 923</b>	<b>(20 961)</b>	<b>(10 522)</b>	<b>3 645</b>	<b>3 987</b>	<b>4 449</b>	<b>(82 066)</b>	<b>210 597</b>	<b>(265 437)</b>	<b>88 090</b>
<i>o/w</i>													
<b>Net income, group share</b>	<b>€136 411</b>	<b>€20 847</b>	<b>€(729)</b>	<b>€83 371</b>	<b>€(20 961)</b>	<b>€(10 522)</b>	<b>€3 645</b>	<b>€3 987</b>	<b>€4 449</b>	<b>€(82 066)</b>	<b>€210 597</b>	<b>€(265 437)</b>	<b>€83 592</b>
Minority interests	3 172	774	-	552	-	-	-	-	-	-	-	-	4 498

In 2008, the follow up by the management didn't include the German branches split by geographical areas (Europe & Asia). This modification was done in for the full year 2009.

To face the two income statements with a perfect comparison, the following income statement has the same geographical split like the one publish in 2008.

# Notes to the consolidated financial statements

(in thousands)

Year ended December 31, 2009 in the same format of data published as of December 31, 2008

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
Premiums written	661 433	118 200	-	347 520	155 731	163 741	164 793	55 731	42 895	726 405	-	(700 232)	1 736 217
Premiums refunded	(35 032)	(3 590)	-	(18 468)	4 328	(5 069)	-	(2 298)	(388)	(28 814)	-	26 252	(63 079)
Net premiums written	626 401	114 610	-	329 052	160 059	158 672	164 793	53 433	42 507	697 591	-	(673 980)	1 673 138
Change in unearned premiums	11 085	(9 013)	-	(1 921)	966	9 913	5 486	7 941	(1 714)	5 562	-	(6 958)	21 347
<b>Earned premiums - non-group</b>	<b>637 486</b>	<b>105 597</b>	-	<b>327 131</b>	<b>161 025</b>	<b>168 585</b>	<b>170 279</b>	<b>61 374</b>	<b>40 793</b>	<b>703 153</b>	-	<b>(680 938)</b>	<b>1 694 485</b>
Premium-related revenues - non-group	172 103	48 532	12 418	89 144	44 534	18 497	28 223	18 628	15 505	-	-	(56 358)	391 226
<b>Turnover - intra-sectoral</b>	<b>€809 589</b>	<b>€154 129</b>	<b>€12 418</b>	<b>€416 275</b>	<b>€205 559</b>	<b>€187 082</b>	<b>€198 502</b>	<b>€80 002</b>	<b>€56 298</b>	<b>€703 153</b>	-	<b>€(737 296)</b>	<b>€2 085 711</b>
Investment income	53 943	2 159	(663)	73 204	12 719	7 926	13 121	4 174	1 577	(2 079)	177 605	(195 276)	148 410
<i>Of which, dividends</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total ordinary income</b>	<b>863 532</b>	<b>156 288</b>	<b>11 755</b>	<b>489 479</b>	<b>218 278</b>	<b>195 008</b>	<b>211 623</b>	<b>84 176</b>	<b>57 875</b>	<b>701 074</b>	<b>177 605</b>	<b>(932 572)</b>	<b>2 234 121</b>
Insurance services expense	(489 053)	(148 840)	-	(167 943)	(85 141)	(129 240)	(136 311)	(72 307)	(25 304)	(583 401)	-	561 461	(1 276 079)
Outwards reinsurance expense	(350 706)	(78 787)	-	(88 176)	(64 744)	(79 688)	(87 342)	(23 508)	(21 301)	(470 010)	-	680 937	(583 325)
Outwards reinsurance income	388 490	134 270	-	64 629	26 680	76 423	95 171	28 832	18 487	493 643	-	(768 617)	558 008
Other income and expense	(335 709)	(61 222)	(9 596)	(168 042)	(92 964)	(78 304)	(78 132)	(28 292)	(25 758)	(215 410)	(19 183)	263 514	(849 098)
<b>Total other income and expense</b>	<b>(786 978)</b>	<b>(154 579)</b>	<b>(9 596)</b>	<b>(359 532)</b>	<b>(216 169)</b>	<b>(210 809)</b>	<b>(206 614)</b>	<b>(95 275)</b>	<b>(53 876)</b>	<b>(775 178)</b>	<b>(19 183)</b>	<b>737 295</b>	<b>(2 150 494)</b>
<b>Ordinary operating income</b>	<b>€76 554</b>	<b>€1 709</b>	<b>€2 159</b>	<b>€129 947</b>	<b>€2 109</b>	<b>€(15 801)</b>	<b>€5 009</b>	<b>€(11 099)</b>	<b>€3 999</b>	<b>€(74 104)</b>	<b>€158 422</b>	<b>€(195 277)</b>	<b>€83 627</b>
Autres produits et charges opérationnels	-	-	-	-	(8 856)	-	-	-	-	-	-	-	(8 856)
<b>Operating income</b>	<b>€76 554</b>	<b>€1 709</b>	<b>€2 159</b>	<b>€129 947</b>	<b>€(6 747)</b>	<b>€(15 801)</b>	<b>€5 009</b>	<b>€(11 099)</b>	<b>€3 999</b>	<b>€(74 104)</b>	<b>€158 422</b>	<b>€(195 277)</b>	<b>€74 771</b>
Financing expense	(158)	(23)	(16)	(245)	(172)	(1 111)	(399)	(16)	-	172	(16 196)	8 151	(10 013)
Income from companies accounted for by the equity method	4 863	-	-	1 781	-	-	-	-	-	-	-	-	6 644
Corporation tax	(30 019)	(777)	(378)	(42 802)	(2 348)	4 801	(1 974)	5 240	(1 010)	12 866	8 140	-	(48 261)
<b>Consolidated net income</b>	<b>51 240</b>	<b>909</b>	<b>1 765</b>	<b>88 681</b>	<b>(9 267)</b>	<b>(12 111)</b>	<b>2 636</b>	<b>(5 875)</b>	<b>2 989</b>	<b>(61 066)</b>	<b>150 366</b>	<b>(187 126)</b>	<b>23 141</b>
<i>o/w</i>													
<b>Net income, group share</b>	<b>€47 910</b>	<b>€874</b>	<b>€1 765</b>	<b>€87 893</b>	<b>€(9 267)</b>	<b>€(12 111)</b>	<b>€2 636</b>	<b>€(5 875)</b>	<b>€2 989</b>	<b>€(61 066)</b>	<b>€150 366</b>	<b>€(187 126)</b>	<b>€18 988</b>
Minority interests	3 330	35	-	788	-	-	-	-	-	-	-	-	4 153

## Depreciation, amortisation and provisions by segment

(in thousands)

Year ended December 31, 2009

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
<b>Provisions for loans and receivables</b>	360	-	-	(2 198)	(38)	-	-	(43)	-	-	454	-	€(1 465)

(in thousands)

Year ended December 31, 2008

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
<b>Provisions for loans and receivables</b>	(8 863)	-	-	(5 816)	(509)	(4)	(518)	(420)	(14)	-	(897)	-	€(17 041)

Amortisation and impairment charges on non-current assets are now analysed by function. Consequently, the breakdown is no longer directly visible in the income statement in the 2008 and 2009 financial statements.

## Balance sheet by segment

(in thousands)

December 31, 2009

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
Goodwill	-	3 392	2 672	2 376	5 820	51 651	29 429	3 893	4 349	-	-	-	103 582
Other intangible assets	42 388	1 097	979	12 950	5 138	6 012	2 555	7 732	2 241	1 517	8 143	-	90 752
Investments - insurance businesses	453 418	53 184	4 538	650 747	151 029	19 604	114 326	11 475	30 737	125 218	1 568 585	(312 896)	2 869 965
Investments accounted for by the equity method	59 007	-	-	30 247	-	-	-	-	-	-	-	-	89 254
Share of assignees and reinsurers in the technical reserves and financial liabilities	186 299	153 089	31 209	71 734	130 519	70 983	58 348	26 639	11 901	315 185	110	(538 435)	517 581
Insurance and reinsurance receivables	98 229	66 792	15 805	90 762	71 839	73 701	56 540	107 296	4 720	130 478	(47)	(141 597)	574 518
Other assets	257 128	50 365	(9 295)	272 816	72 206	57 557	65 993	25 201	14 118	92 855	118 371	(113 015)	904 300
<b>Total assets</b>	<b>€1 096 469</b>	<b>€327 919</b>	<b>€45 908</b>	<b>€1 131 632</b>	<b>€436 551</b>	<b>€279 508</b>	<b>€327 191</b>	<b>€182 236</b>	<b>€68 066</b>	<b>€665 253</b>	<b>€1 695 162</b>	<b>€(1 105 943)</b>	<b>€5 149 952</b>
Technical reserves	403 824	223 903	55 671	270 419	341 644	213 233	175 404	103 416	28 531	558 730	48	(538 272)	1 836 551
Liabilities related to inwards insurance and reinsurance transactions	18 989	1 434	3 409	76 059	27 150	18 595	4 186	6 171	273	86 729	(5)	(34 793)	208 197
Liabilities related to outwards reinsurance transactions	13 267	57 229	482	5 799	32 203	42 338	82 534	(178)	732	121 682	43	(185 731)	170 400
Other liabilities	339 787	27 428	9 671	246 389	47 430	51 452	23 861	28 130	11 986	21 547	609 235	(298 588)	1 118 328
<b>Total liabilities</b>	<b>€775 867</b>	<b>€309 994</b>	<b>€9 233</b>	<b>€598 666</b>	<b>€448 427</b>	<b>€325 618</b>	<b>€285 985</b>	<b>€137 539</b>	<b>€41 522</b>	<b>€788 688</b>	<b>€609 321</b>	<b>€(1 057 384)</b>	<b>€3 333 476</b>

(in thousands)

December 31, 2008

	Germany	IDC Germany Europe	IDC Germany Asia	France & IDC	Italy	United Kingdom	North & South America	Belgium	Netherlands	Group Reinsurance	Group services	Inter- segment eliminations	GROUP
Goodwill	-	3 340	2 221	2 376	5 820	50 213	30 466	3 893	4 349	-	-	-	102 678
Other intangible assets	29 324	1 606	-	11 454	5 795	6 608	2 252	6 104	2 774	1 537	15 781	-	83 235
Investments - insurance businesses	464 765	14 913	(12 421)	685 547	144 064	(31 213)	56 774	37 244	27 487	143 371	1 401 061	(265 720)	2 665 672
Investments accounted for by the equity method	64 135	-	-	29 477	-	-	-	-	-	-	-	-	93 550
Share of assignees and reinsurers in the technical reserves and financial liabilities	253 674	56 030	-	87 001	176 396	62 972	46 352	28 020	11 991	169 566	-	(474 024)	417 978
Insurance and reinsurance receivables	93 345	37 798	-	133 605	80 912	76 349	52 734	104 566	3 041	111 201	-	(99 118)	594 433
Other assets	322 036	48 973	21 196	287 845	107 158	56 182	101 132	23 878	16 708	121 430	101 894	(109 083)	1 099 349
<b>Total assets</b>	<b>€1 227 279</b>	<b>€162 660</b>	<b>€10 996</b>	<b>€1 237 305</b>	<b>€520 145</b>	<b>€221 111</b>	<b>€289 710</b>	<b>€203 705</b>	<b>€66 350</b>	<b>€547 105</b>	<b>€1 518 736</b>	<b>€(948 007)</b>	<b>€5 057 095</b>
Technical reserves	519 928	73 537	-	344 021	396 467	206 605	158 481	114 874	27 893	490 550	-	(478 658)	1 853 698
Liabilities related to inwards insurance and reinsurance transactions	53 092	82	-	90 199	26 456	17 972	3 445	2 385	383	29 289	-	(28 131)	195 172
Liabilities related to outwards reinsurance transactions	8 204	32 209	-	16 885	36 914	13 257	51 795	9 190	2 264	67 021	-	(141 042)	96 697
Other liabilities	316 039	20 334	15 475	258 569	62 996	24 131	26 916	26 067	12 188	19 798	527 541	(253 811)	1 056 243
<b>Total liabilities</b>	<b>€897 263</b>	<b>€126 162</b>	<b>€15 475</b>	<b>€709 674</b>	<b>€522 833</b>	<b>€261 965</b>	<b>€240 637</b>	<b>€152 516</b>	<b>€42 728</b>	<b>€606 658</b>	<b>€527 541</b>	<b>€(901 642)</b>	<b>€3 201 810</b>

# Notes to the consolidated financial statements

## Note 29 Related parties

Euler Hermes is owned mainly by the AGF group, which in turn is 100%-owned by the Allianz group. The breakdown of the Euler Hermes group is as follows:

	Number of shares	%
Assurances Générales de France	26 864 230	59,59%
AGF Vie	3 879 818	8,61%
Treasury shares	1 567 944	3,48%
<b>Sub-total</b>	<b>32 311 992</b>	<b>71,67%</b>
Public (bearer securities)	12 771 218	28,33%
<b>Total</b>	<b>45 083 210</b>	<b>100,00%</b>

As at June 17, 2009, the Extraordinary General Meeting of AGF SA & AGF Holding approved the merger of these two entities. 21,421,782 stocks of Euler Hermes group have been transferred from AGF Holding to AGF SA. At the same date, 4 stocks have been transferred from AGF-IART to AGF Vie.

### Transactions

(in thousands)	Year ended December 31,					
	2009			2008		
	Allianz SE	AGF SA	Related companies and joint ventures	Allianz SE	AGF SA	Related companies and joint ventures
Operating income	41 161	-	37 395	(803)	-	52 836
Insurance services expense	(26 560)	-	(19 549)	-	-	(31 069)
Net income or expense on reinsurance	1 047	-	(125)	(39 395)	-	(174)
Financing expense	(1 712)	(7 897)	-	-	(15 193)	-
Other financial net incomes	(10 052)	-	(11 529)	2 737	-	(8 939)

### Receivables and liabilities

(in thousands)	December 31, 2009						December 31, 2008		
	Allianz SE	AGF SA	Related companies and joint ventures	Allianz SE	AGF SA	Related companies and joint ventures	Allianz SE	AGF SA	Related companies and joint ventures
Financial investment (Corporate bond Allianz SE)	160 000	-	-	-	-	-	-	-	-
Current accounts (accrued interests included)	37 940	-	44	74 314	-	1 825	-	-	-
Net operating receivables	1 458	-	594	5 565	-	12 195	-	-	-
Borrowings (accrued interests included)	135 031	268 016	-	-	292 321	-	-	-	-
Operating liabilities	2 046	220	113	15 576	-	2 099	-	-	-

The following entities invested in 2009 Allianz SE 3 years corporate bond for a total amount of €160 million:

- Euler Hermes Reinsurance A.G.;
- Euler Hermes Kreditversicherungs A.G.;
- Euler Hermes holdings UK Plc.;
- Euler Hermes SIAC spa;
- Euler Hermes SFAC S.A..

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 four loans contracted with AGF SA, Allianz Belgium and AGF International

- 2004 loan of €90 million maturing in June 2010, at 6-month Euribor + 64.4 basis points;
- 2005 loan of €135 million maturing in September 2010, at 6-month Euribor + 20 basis points;
- 2006 loan of €67 million maturing in June 2010, at 6-month Euribor + 64.4 basis points;
- 2009 loan of €110 million maturing in September 2012, at fixed interest rate Mid-Swaps 3 years + 60 basis points.

On May 11, 2009, the loan of €135 million has been transferred from AGF SA to Allianz Belgium.

On September 10, 2009, Euler Hermes contracted a €110 million loan to AGF International.

## Notes to the consolidated financial statements

The maturity of the repayment of the two loans to AGF SA has been delayed (without any modification of the interest rates) to June 19, 2010 (€90 million) and to June 21, 2010 (€67 million).

### Remuneration of senior executives

	2009	2008
Salaries and other short term benefits for the year	-	2 581
Benefits in kind	-	40
Other indemnities	-	50
<b>Total</b>	-	<b>€2 671</b>
Share-based attribution (number)		
- Euler Hermes options	-	32 500
- SAR/RSU	-	12 857

Like the whole employees who perceive their salaries in France, the members of the Group Management Board profit from a mandatory defined contribution plan of which the employer part is 1% of the gross amount of salaries.

Two members of the Group Management Board who do not hold any other position and are not employees are protected by special agreements in the event they are removed from office. A gross compensation of 50% for Dr Gerd-Uwe Baden and 200% for Mr Wilfried Verstraete of the amount of their last fixed annual remuneration is planned.

The payment of this indemnity is provided to the realisation of the condition of performance: RORAC consolidated average of the last 2 years preceding the leaving of the company  $\geq 9\%$

### Members of the Supervisory Board

	2009	2008
Salaries and other short term benefits for the year	-	2 740
Capital gain from SAR/RSU exercise	-	33
Benefits in kind	-	212
<b>Total</b>	-	<b>€2 985</b>
Share-based payments (number)		
- SAR/RSU	-	21 804

Furthermore, Mrs Wilfried Verstraete and Gerd-Uwe Baden, members of the Group Management Board, benefited from membership of an additional pension plan of the Allianz group.

# Notes to the consolidated financial statements

## Note 30 Group Employees

	December 31,		
	2009	2009 like 2008 published	2008
Germany	2 041	2 072	1 816
Switzerland	50	50	47
<b>Total Germany &amp; Switzerland</b>	<b>2 091</b>	<b>2 122</b>	<b>1 863</b>
France	1 100	1 100	1 073
<b>Total France</b>	<b>1 100</b>	<b>1 100</b>	<b>1 073</b>
United-States	453	453	465
Mexico	40	40	37
Brazil	27	27	26
Argentina	7	7	7
Colombia	5	5	4
<b>Total America</b>	<b>532</b>	<b>532</b>	<b>539</b>
United-Kingdom	505	505	553
Belgium	214	214	218
Nordic	152	152	129
Netherlands	143	143	125
Poland	97	97	76
Hungaria	71	71	59
Czeck Republic	49	49	44
Lithuania	20	20	26
Slovakia	36	36	24
Romania	27	21	17
Latvia	5	5	10
Estonia	11	11	8
Russia	1	1	-
<b>Total Northern Europe</b>	<b>1 331</b>	<b>1 325</b>	<b>1 289</b>
Italy	394	394	431
Spain	95	95	97
Greece	61	61	61
Morocco	39	39	39
<b>Total Mediterranean Countries &amp; Africa</b>	<b>589</b>	<b>589</b>	<b>628</b>
Singapore	100	100	31
Australia	16	16	17
Honk Kong	57	57	12
China	26	26	7
Japan	25	-	7
New-Zealand	9	9	6
India	14	14	2
<b>Total Asia Pacific</b>	<b>247</b>	<b>222</b>	<b>82</b>
Switzerland	7	7	14
Luxembourg	-	-	-
<b>Total Captive of reinsurance</b>	<b>7</b>	<b>7</b>	<b>14</b>
Poland	304	304	279
<b>Total Collection</b>	<b>304</b>	<b>304</b>	<b>279</b>
<b>Total Euler Hermes Group</b>	<b>6 201</b>	<b>6 201</b>	<b>5 767</b>

Staff costs totalled €389,495 thousand for the year ended December 31, 2009. Remuneration paid to members of the Group Management Board during the year came to €XXXX thousand and €XXXX 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 Kredietverzekerij). The headcount of companies accounted for by the equity method is not taken into account.

# Notes to the consolidated financial statements

## Note 31 Commitments received and given

(in thousands)	December 31, 2009	December 31, 2008
<b>Commitments received</b>	<b>€12 770</b>	<b>€15 913</b>
* Deposits, sureties and other guarantees	12 770	15 913
<b>Commitments given</b>	<b>€27 611</b>	<b>€22 753</b>
* Deposits, sureties and other guarantees	27 611	22 753
<i>o/w</i> - Commitments associated with membership of an EIG	11 897	9 743
- Securities buyback agreement	630	798

## Note 32 Stock option plans

### Amount charged in the consolidated income statement

(in thousands)	2008	2007
Charge in respect of the 22 September 2006 allocation of share purchase options	0	1 267
Charge in respect of the 22 June 2008 allocation of share purchase options	444	222
<b>Total</b>	<b>€444</b>	<b>€1 489</b>

### 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			
	Jul-03	Jul-04	Jun-05	Feb-01	Sep-06	Jun-08	
Fair value of options allocated	8,93	11,66	13,10	12,74	22,29	6,83	
Characteristics							
	Date of EGM	23/04/2003	23/04/2003	23/04/2003	07/04/2000	22/05/2006	22/05/2006
	Period of validity of options	8 ans	8 ans	8 ans	8 ans	8 ans	8 ans
	Rights vesting period	2 ans	2 ans	2 ans	2 ans	2 ans	2 ans
Assumptions							
	Risk-free interest rate	3,80%	4,16%	3,01%	5,09%	4,01%	4,72%
	Expected volatility (1)	30%	30%	25%	20%	25%	33%
	Rate of return on shares	2,81%	4,14%	3,98%	2,65%	3,74%	10,51%

(1) Expected volatility is calculated using historical market prices

### Sundry restrictions

- 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

# Notes to the consolidated financial statements

death), depending on the country.

Information on plans currently in effect

At 31 December 2008, the following options were potentially exercisable:

Allocation date	Subscription plans (1)			Purchase plans (2)		
	Jul-03	Jul-04	Jun-05	Feb-01	Sep-06	Jun-08
Number of options outstanding	51 325	90 305	143 950	19 410	153 100	130 000
End of subscription period	Jul-11	Jul-12	Jun-13	Feb-09	Sep-14	Jun-14
Exercise price of valid options at end of period	27,35	44,41	63,08	49,31-52,65	91,82	55,67

- (1) These subscriptions plans are intended for members of the management bodies of Euler Hermes and its subsidiaries.
- (2) The EGM of April 7, 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 May 22, 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. The Directoire of June 20, 2008 approved the request from the Conseil de Surveillance of June 15, 2008 related to the granted of purchase plan (which is authorised by the EGM of May 22, 2006).

Transactions under the share option plans since January 1, 2008 may be summarised as follows:

	Year ended December 31, 2009				
	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 (€)
<b>Start of period</b>	<b>62,53</b>	<b>587 140</b>	-	-	-
Allocation	-	-	-	-	-
Exercise	36,05	980	48,79	-	-
Cancellation	50,33	19 410	-	-	-
<b>End of period</b>	<b>63,00</b>	<b>566 750</b>	<b>0,00</b>	<b>4,16</b>	<b>27,35-91,82</b>

	Year ended December 31, 2008				
	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 (€)
<b>Start of period</b>	<b>60,34</b>	<b>529 719</b>	-	-	-
Allocation	55,67	130 000	-	-	-
Exercise	32,71	49 519	59,97	-	-
Cancellation	38,93	23 060	-	-	-
<b>End of period</b>	<b>62,53</b>	<b>587 140</b>	<b>0,00</b>	<b>5,03</b>	<b>27,35-91,82</b>

## 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.

# Notes to the consolidated financial statements

## Characteristics of the SAR and RSU plans

(in thousands)	Apr-02	May-03	May-04	May-05	SAR Plans				Total
					May-06	Mar-07	Mar-08	Mar-09	
<b>Fair value at 31 December 2009 (in euros)</b>	-	<b>21,24</b>	<b>11,05</b>	<b>11,26</b>	<b>2,68</b>	<b>2,07</b>	<b>6,99</b>	<b>35,56</b>	
Total commitment	-	-	294	385	93	59	192	599	1 023
Opening commitment	-	-	501	485	197	74	37	-	1 294
Charge recognised during the period	-	-	207	100	104	15	137	109	289
Exercise of options	-	-	-	-	-	-	-	-	-
<b>Closing commitment</b>	-	-	<b>294</b>	<b>385</b>	<b>93</b>	<b>59</b>	<b>174</b>	<b>109</b>	<b>1 005</b>

(in thousands)	RSU Plans				Total
	Mar-07	Mar-07	Mar-08	Mar-09	
<b>Fair value at 31 December 2009 (in euros)</b>	<b>78,93</b>	<b>78,93</b>	<b>74,13</b>	<b>68,99</b>	-
Total commitment	1 134	-	987	571	2 692
Opening commitment	393	4	102	-	499
Charge recognised during the period	203	4	223	80	501
Exercise of options	-	-	-	-	-
<b>Closing commitment</b>	<b>596</b>	-	<b>325</b>	<b>80</b>	<b>1 001</b>

## SAR

After a vesting period of two years (excepted for the 2009 plan, 4 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 2008

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 December 31, 2008, the liability relating to the SAR and RSU still to be exercised amounted to €1,722 thousand.

## Information on plans currently in effect

Allocation date	Rights vesting period (years)	Reference price (€)	SAR				RSU							
			SAR at the opening	SAR granted	SAR cancelled	SAR exercised	SAR transferred	Rights vesting period (years)	RSU granted	RSU at the opening	RSU cancelled	RSU exercised	RSU transferred	
Apr-02	2	240	10 682	-	10 682	-	-	-	-	-	-	-	-	-
May-03	2	66	-	-	-	-	-	-	-	-	-	-	-	-
May-04	2	83	33 229	-	-	-	6 597	-	-	-	-	-	-	-
May-05	2	93	42 220	-	-	-	8 030	-	-	-	-	-	-	-
May-06	2	132	39 056	-	-	-	4 491	-	-	-	-	-	-	-
Mar-07	2	160	36 021	-	3 465	-	4 012	5	18 294	-	1 910	-	-	2 019
Mar-08	2	117	23 258	-	-	-	4 181	5	11 285	-	-	-	-	2 028
Mar-09	4	52	-	9 493	-	-	7 358	5	-	4 664	-	-	-	3 613

The attribution for 2008 for the group Management Board is:

- SAR XXXX
- RSU XXXX

# Notes to the consolidated financial statements

## Note 33 Auditors' fees

(in thousands)

	KPMG Audit				ACE			
	Amount		%		Amount		%	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Audit</b>								
o Statutory audit and report on company and consolidated financial statements								
- Issuer	460	460	15%	13%	126	126	30%	31%
- Fully-consolidated subsidiaries	2 245	2 403	73%	67%	275	263	65%	64%
o Other services directly related to appointment as statutory auditor								
- Issuer	103	103	3%	3%	19	19	5%	5%
- Fully-consolidated subsidiaries	140	215	5%	6%				
<b>Sub total</b>	<b>2 948</b>	<b>3 180</b>	<b>96%</b>	<b>88%</b>	<b>420</b>	<b>408</b>	<b>100%</b>	<b>100%</b>
<b>Other services provided to fully-consolidated subsidiaries</b>								
o Legal, tax and social	75	8	2%	0%				
o IT	36	381	1%	11%				
o Strategy								
o Human resources		4						
o Other		29		1%				
<b>Sub total</b>	<b>111</b>	<b>422</b>	<b>4%</b>	<b>12%</b>				
<b>TOTAL</b>	<b>3 059</b>	<b>3 603</b>	<b>100%</b>	<b>100%</b>	<b>420</b>	<b>408</b>	<b>100%</b>	<b>100%</b>

## Note 34 Subsequent events

No subsequent events occurred since December 31, 2009 closing which would impact the hypothesis of the annual closing.

# Risk Management

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

In addition to the other function monitoring all Risks, Euler Hermes group has implemented a risk control function that aims to control and monitor the main risks to which the group is exposed.

## 1.1 The risk control function

### 1.1.1 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 companies in the insurance market. Risk control and measurement have become a major component of the Euler Hermes group's strategy. The priorities of the risk control function are to protect the company's creditworthiness and to optimise the balance between risk and return. Therefore, 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, which is in charge to build awareness on risk culture, coordinates the risk management across the group and 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 against any activity having a direct impact on the Profit and Loss and does not manage any operational function. This principles also apply to the actuarial team reporting to the risk controlling, having a controlling activity of the reserving assessed locally.

The function is therefore in charge of

- measuring the risk capital on all type of risk categories
- monitor the operational risk
- propose capital allocation in line with risk measures
- consolidate group risks results
- coordinate local risk functions

the function ensure

- the monitoring of risk return on all type of risks and ensure the coverage of some actuarial activities and any deviation compare to best estimate, measure the reinsurance impact, propose risk based pricing methodologies and risks indicators to operational functions

All missions of the function and results of analysis are regularly reported.

### 1.1.2 Risk control activity

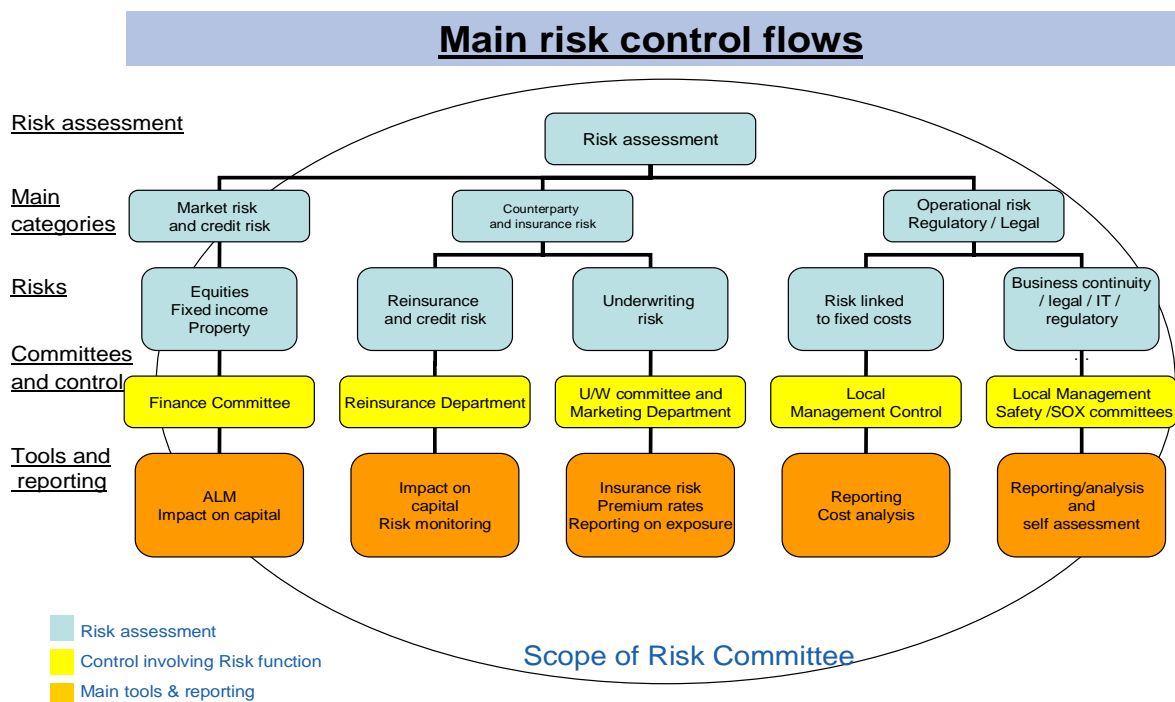
This function is responsible for understanding, measuring, controlling and proactively managing all the types of risks that the group may face. To achieve this, it relies on each entity and the cross-company functions of the group to monitor and consolidate the information provided to management. This 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 risk selection to secure its capital basis or to reconstitute adequate 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 deciding on the Risk limits setting for all categories of Risks. 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.

# Risk Management

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 drives the risk function to strengthen certain measurement tools covering the underwriting of insurance risks and management of financial investments.

Such a structure aims to identify and monitor proactively all types of risks by maintaining responsibility for the management of these risks at operational level. The risks are thus controlled at various levels and limits are managed in line with the capital allocated by risk while at the same time benefiting from operational experience. Risk management is thus spread across all activities of the entire group for the day-to-day management of operations but also to be able to respond to specific events as efficiently as possible. Risk control prepares risk reports in collaboration with the operational functions in order to keep management informed. The committees play a key role as centres of responsibility and decision-making for risk management but also in spreading a culture of risk awareness and ascertaining the strengths and weaknesses of the risk management process. All these elements combine to form a clearly defined risk management mechanism that includes a forward-looking view on major risks, especially with regard to any changes in the environment or trends. Euler Hermes is thus particularly well-prepared, what the new central organisation reinforce, to tackle any major changes in risk and take appropriate measures.

When launching new products, all these skills come together to assess the internal and external impacts and define the actions to be taken to reduce the risks, minimise the costs and establish new limits for management of the product. The final responsibility on the launch of new products remains in the line of business.

## 1.2 Insurance risk

### 1.2.1 Insurance risk

This is the main risk that Euler Hermes is facing, and even further in the current economic crisis. 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.

# Risk Management

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 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 group function, 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.

## 1.2.2 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. Euler Hermes is reviewing some of the policy terms to adjust the conditions of the policies to the current crisis where necessary. The review and the new products setting are local. The contract 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. If the main risks of Euler Hermes is based on the credit coverage granted on trade operations, it must also be mentioned that in less extend the policyholders portfolio are also affected by the crisis with decrease of their turn over basis of the premium or their bankruptcies. This effect is, however, compensated by the portfolio dynamic and the current demand for credit insurance during this period.

## 1.2.3 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).

# Risk Management

## Gross theoretical exposures by the debtor's country at 31 December 2009

€'000, 000	2009	%	2008	%
<b>Total Europe</b>	<b>487 957</b>	<b>86,9%</b>	<b>574 646</b>	<b>86,0%</b>
of which				
France	175 030	31,2%	203 833	30,5%
United Kingdom	40 131	7,1%	53 469	8,0%
Germany	116 130	20,7%	120 073	18,0%
Italy	48 127	8,6%	64 977	9,7%
Belgium and Luxembourg	12 663	2,3%	14 928	2,2%
Netherlands	14 677	2,6%	18 519	2,8%
Spain	13 268	2,4%	17 702	2,7%
Eastern Europe	22 926	4,1%	32 896	4,9%
Scandinavia	21 167	3,8%	20 723	3,1%
Rest of Europe	23 838	4,2%	27 526	4,1%
<b>Total Americas</b>	<b>45 774</b>	<b>8,2%</b>	<b>54 928</b>	<b>8,2%</b>
of which				
United States	32 368	5,8%	37 907	5,7%
Canada	5 137	0,9%	5 504	0,8%
Other American Countries	8 268	1,5%	11 517	1,7%
<b>Asia/ -Pacific</b>	<b>19 211</b>	<b>3,4%</b>	<b>26 619</b>	<b>4,0%</b>
<b>Near and Middle East</b>	<b>4 619</b>	<b>0,8%</b>	<b>7 004</b>	<b>1,0%</b>
<b>Africa</b>	<b>3 814</b>	<b>0,7%</b>	<b>4 624</b>	<b>0,7%</b>
<b>Total</b>	<b>561 374</b>	<b>100,0%</b>	<b>667 822</b>	<b>100,0%</b>

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. This table shows the evolution of exposure in 2009. The economic crisis is reflected in this evolution which can be attributed to the evolution of the insured turn-over of policyholders and, as a consequence of the current crisis, to adverse evolution of the solvency of a number of debtors whose limits have been either reduced or canceled. If all areas have been impacted, for the evolution by sectors, some industry have been more impacted like steel industry or in a less extend like agrifood sector.

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 and individual sectoral analysis are prepared using group management information applications. Changes in exposure are reviewed at the most granular level by debtor and at portfolio level while ensuring that proper balance is maintained between premiums received and the actual risk represented by these exposures.

# Risk Management

## Gross exposures by the debtor's sector of activity at 31 December 2009

€'000, 000	2009	%	2008	%
Metal Industry	102 773	18,3%	132 882	19,9%
Agrifood	80 892	14,4%	87 046	13,0%
Construction	68 119	12,1%	79 189	11,9%
Textiles - leather	21 386	3,8%	28 821	4,3%
Electronics	45 836	8,2%	53 401	8,0%
Services	101 609	18,1%	108 694	16,3%
Wood - Paper	29 945	5,3%	37 198	5,6%
Chemicals	51 560	9,2%	56 159	8,4%
Other	59 254	10,6%	84 431	12,6%
<b>Total</b>	<b>561 374</b>	<b>100,0%</b>	<b>667 822</b>	<b>100,0%</b>

### 1.2.4 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 with a dedicated organisation in 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, by a team of experts and credit committees which monitors the most sensitive risks, 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 6% 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. After the failure of Woolworth, in 2008, review guidelines have been reinforced and adjusted to the negative environment. As a consequence, no major loss occurs during 2009. 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 Management

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. During the current crisis, the frequency of claims is sharply increasing directly linked to the growing number of insolvencies. To manage this negative evolution Euler Hermes group is using all its capabilities to assess more rapidly the solvency of the debtors and to adjust significantly the exposure when it is required and keeping the coverage full on the debtors presenting a good level of solvency. It has to be noticed that the French entity has put in place a program covered by French State CCR, for the policyholders to extend partial coverage..

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 amount of exposures net of reinsurance can be calculated only after applying policyholders' liability limits and excesses.

## 1.3 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.

This organisation allows Euler Hermes to proactively manage its investment portfolio across the crisis. In 2008, Euler Hermes has continued to cautiously secure its assets in the negative evolution of the market. The Equity portfolio was reduced in 2007 and 2008, and remained at a low level 2009 and allow a start in 2010 with a down sized equity portfolio with a limited risk. The Group was not exposed neither to subprimes or any toxic assets like products from "Madoff", positions on the bank Lehman Brothers or any dynamic monetary funds.. At year end, the overall portfolio had only limited amount of impairments with a large part in Governments bonds and in cash.

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. Euler Hermes is not using actively any derivatives to manage its portfolio.

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.

### 1.3.1 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.

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## Financial portfolio at market value

	31/12/2009		31/12/2008	
	€m	%	€m	%
Bonds	2 183	65%	1 875	56%
Equities	130	4%	152	5%
Investment property	57	2%	134	4%
Loans, deposits and other financial investments	527	16%	564	17%
<b>Total financial investments</b>	<b>2 898</b>	<b>87%</b>	<b>2 725</b>	<b>82%</b>
Cash	442	13%	614	18%
<b>Total financial investments + Cash</b>	<b>3 340</b>	<b>100%</b>	<b>3 339</b>	<b>100%</b>

### 1.3.2 Equity market risk

The Euler Hermes group had invested around 4% of its financial portfolio in equities at the end of 2009. This policy stems from a cautious investment approach as well as a further reduction in the portfolio's equity exposure during the last three years and in a less extend to the negative market. 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.

### 1.3.3 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.

Sensitivity analysis to interest rate risk is in §3.6

## Bonds by maturity

	31/12/2009		31/12/2008	
	€m	%	€m	%
Less than 1 year	510	23%	538	29%
1 to 3 years	942	43%	359	19%
3 to 5 years	486	22%	460	25%
5 to 7 years	140	6%	299	16%
7 to 10 years	66	3%	142	8%
More than 10 years	39	2%	78	4%
<b>Total</b>	<b>2 183</b>	<b>100%</b>	<b>1 875</b>	<b>100%</b>

The yield on the bond portfolio is highly dependent on changes in interest rates and the portfolio duration. The average bond yield for 2009 was 3.0%, close to the rate offered for the current duration of the bond portfolio, i.e. around 2.3 years at end 2009. Amounts represented by securities reaching maturity were replaced by equivalent securities with maturities that are longer than the average portfolio duration or with very short-term maturity. This investment policy takes into account the yield offered by the market on these maturities with a controlled level of risk and optimisation of bond income.

Borrowings are entered into mainly by the holding company, Euler Hermes SA. The borrowings of Euler Hermes SA are primarily contracted with the core shareholder, AGF, and have maturities of less than three years.

# Risk Management

## 1.3.4 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, with management of the property portfolio being outsourced. Some sales have been done to benefit from a still favourable and to realized the related unrealized gain on part of the portfolio only held for some times.

As most of these investments are held in the portfolio for a relatively long time, they offer unrealised capital gains. 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.

## 1.3.5 Liquidity risk

In addition to the increase of cash position at 31 December 2009, almost 79% of the group's assets consisted of listed marketable securities. Equity investments are made in large caps listed on the major markets, mainly in Europe. 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. Analysis of bonds portfolio by maturity is done in §3.3.3

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. This is confirmed on the recent period when Euler Hermes has covered its needs of liquidity without any specific operations on its investment portfolio and keeping some margins to further react to worst conditions.

## 1.3.6 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 25% of the total. These assets are held mainly by group companies operating in the regions that use these currencies.

### Group financial portfolio by currency

	31/12/2009		31/12/2008	
	€m	%	€m	%
EUR	2 249	77,6%	2 079	76,3%
GBP	215	7,4%	158	5,8%
USD	249	8,6%	182	6,7%
Other currencies	185	6,4%	306	11,2%
<b>Total</b>	<b>2 898</b>	<b>100%</b>	<b>2 725</b>	<b>100%</b>

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.

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Foreign exchange risk €'m	2009			2008				
	United States	United Kingdom	GROUP	United States	United Kingdom	GROUP		
Net income, group share in €000 000 - 2009	2,6	-	12,1	19,0	3,6	-	10,5	83,6
Closing exchange rate	0,6942		1,1260		0,7185		1,0499	
<b>Net income, group share in local currency ('000)</b>	3,8		3,8	3,8	5,1	-	10,0	
Impact of a 100 basis-point exchange rate movement (sign of net result)	0,6842		1,1360		0,7085		1,0599	
Net income, group share in €000 after the exchange rate movement	2,6	-	12,2	18,8	3,6	-	10,6	83,4
<b>Change relative to initial net income (%)</b>	-1,44%		0,89%	-0,77%	-1,39%		0,95%	-0,18%

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

## 1.4 Credit risk

Credit risk has become an essential component of risk management following the spectacular bankruptcies of certain major groups and the current crisis. 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 of the main rating agencies (S&P, Moodys, Fitch). 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 almost 70% of the portfolio, mainly in government securities, and less than 1% of securities have no rating at all or a rating below A. It must be outlined that Euler Hermes has not used in 2009 any credit derivatives (CDS).

Concentration risk is very limited as no corporate bond security held in the portfolio exceeds 0.6% of the total bond portfolio.

### Breakdown of bonds by rating

	31/12/2009		31/12/2008	
	€m	%	€m	%
AAA	1 411	65%	1 299	69%
AA+ to AA-	499	23%	498	27%
A+ to A-	261	12%	62	3%
Other ratings	12	1%	16	1%
<b>Total</b>	<b>2 183</b>	<b>100%</b>	<b>1 875</b>	<b>100%</b>

## 1.5 Reinsurance and reinsurance counterparty risk

### 1.5.1 Reinsurance: a risk management tool

Reinsurance is an essential part of risk strategy and 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. Dedicated tools, including internal capital allocation models, allow for the precise management of these parameters and optimisation of the reinsurance coverage. The parameters for reinsurance contracts entered into by the subsidiaries are estimated 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.

# Risk Management

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.

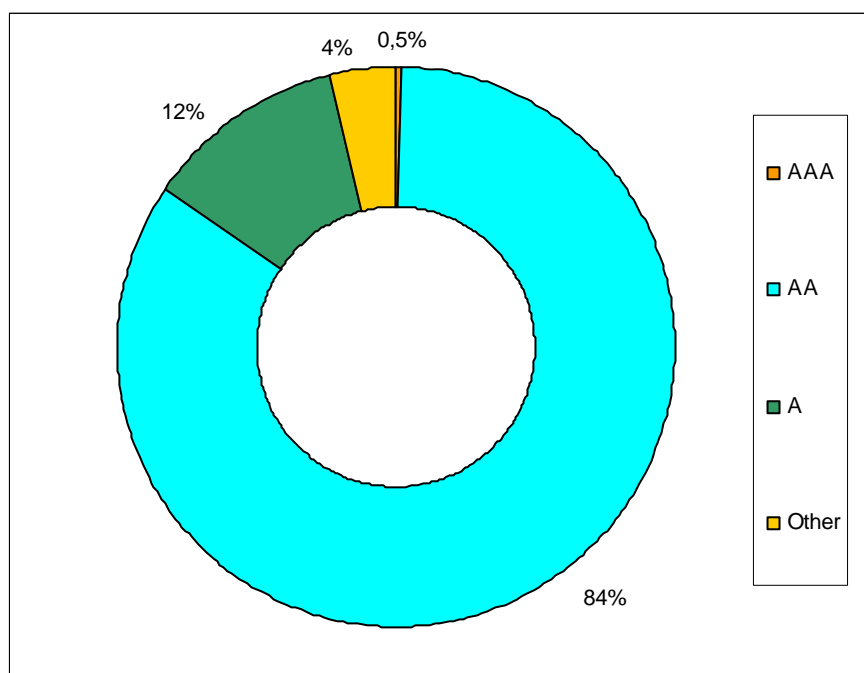
In 2008, with the target of protecting its capital base with the deteriorated risk environment due to the economic crisis, Euler Hermes has, after several years of increase, reduced its retention. by increasing the share of the reinsurance proportional treaties. In 2010, with the situation either internal or external more stable Euler Hermes plan to keep its program at the same level with slight decrease only and by keeping the Stop Loss protection for EH Ré AG. These modifications will imply a small increase of risk capital largely compensated by the margin created by the adjustment of the risks in the portfolio.

Overall Euler Hermes capital position based S&P Capital requirements is improved to around € 1.67bn, on 2009 reinsurance conditions similar to 2010.

## 1.5.2 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. The "Others" category consists of reinsurers without a rating and mainly reinsurers with a BBB rating with run-off exposure.

Analysis of technical reserves assigned\* by rating of the reinsurer (the scope covered represents more than 98,8% of the reserves considered out of the group total at 31 December 2009)



	€'m
AAA	1 845
AA	429 799
A	60 503
Other	19 432
<b>Total</b>	<b>511 578</b>

\* Provisions for unearned premiums / claims reserves assigned net of Deferred Acquisition Costs (1,3% of the declared amount)

## 1.6 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. It is a powerful tool in the set up of the risk strategy to protect the group capital base, to manage the allocation of capital resources and to measure the transfer of risk. The risk management can

# Risk Management

compared the needs of capital to the available capital in order to propose to the group management a basis to decide on the margins to keep, to orientate the business decision and the related need of risk transfer and the possibility of assets allocations.

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 model measures all aspects of the credit insurance risk and comparison of the results over time ensures that the model is valid and robust. The current approach is somewhat conservative, both in the way that the parameters are defined and applied and the calculation method. It is a genuine management system as it delivers information at aggregate level in order to determine the capital needs by entity as well as detailed information at the most granular level for risk control purposes. It also serves as the basis for the development of models for the calculation of premium rates and of quantitative limits applied to all risk categories. All entities of the Euler Hermes group inform the risk control function of their regulatory solvency position. The regulatory constraints are generally below the current capital of the entities. When this is not the case, appropriate action on the activity or the capital would be undertaken.

This new internal 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. Standard & Poor's has recently revised these factors, with a heavier weighting now being applied to the credit insurance activity. While some assumptions may be debatable, it remains a reference for a standard risk capital computation.

The amounts simulated by this method to achieve an A rating are shown in the following table:

<b>Risk Capital</b>	<b>2 009</b>	<b>2 008</b>
€'m		
C1: Financial Risk	195	199
C2: Counterparty risk	109	123
C4: Premium risk	1 054	1 313
C5: Reserve risk	310	332
<b>S&amp;P RAC simulation*</b>	<b>1 668</b>	<b>1 966</b>

*\*Simulation using the new S&P modeling for an A rating*

The model shows that the creditworthiness level of the Euler Hermes group is stable and the slight increase observed is mainly due to an increase in reserve risks compensated by the decrease of financial risks. This simulation is based on an internal approach and certain adjustments by the rating agency analysts could slightly modify the results.

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.

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## Stress tests on assets

Equity and bond portfolio risk at 31 December 2009 (€'m)	Market value at 31 December 2009	Impact of a 100bp* rise in interest rates	Impact of a 10% fall in the equity market	Market value at 31 December 2008	Impact of a 100bp* rise in interest rates	Impact of a 10% fall in the equity market
Obligation	2 183	-50,2	0,0	1 875	-82,8	0,0
Actions	130	0,0	-11,4	152	0,0	-13,4
<b>Total</b>	<b>2 313</b>			<b>2 027</b>		

\* Average sensitivity of 4,4% calculated based on the main subsidiaries, which represented more than 99% of the bond portfolio at 31 December 2008

With around two and half years, the duration of the bond portfolio limits the impact of a 100 basis point rise in interest rates to €50,2.0 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 portfolio risk at 31 December 2009 (€'m)	Market value at 31/12/2009 / Impact scénario	Revaluation reserve / Shareholders' equity impact	Amortised cost / Economic cost impact
Total	130	19	111
Impact of a 10% fall in the equity market	-11	-19	8
Impact of a 30% fall in the equity market	-34	-19	-15

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

A 30% decline in the value of the equities on the entire equity portfolio of each entity would have an impact of €15 million on pre-tax income at group level.

## Sensitivity of net income to changes in the main components of operating income

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

€m	Net income group share 2009	10% reduction in premiums	10% increase in 2008 cost of claims	10% increase in claims handling expense	Net income group share 2007	10% reduction in premiums	10% increase in 2007 cost of claims	10% increase in claims handling expense
Change	19	-15	-63	-49	84	-15	-80	-43

Assumption: effective tax rate is constant in 2008 and 2009

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.

The change in premiums is affecting the net result at constant loss ratio and its impact is therefore limited. For the same reason, the lower level of claims this year is limiting the impact of premiums variation at constant loss ratio.

## 1.7 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.

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Through its geographical distribution, Euler Hermes has long applied a clear management approach to its operational situation in order to reduce related risks and further strengthen the assessment and analysis of this type of risk and to prepare for the transition to new European regulations.

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.

Reputational risk monitoring is fully part of the operational management process

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 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. All entities also collect their main operational losses with immediate remediation plan and to create historical data for future regulation.

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.

## 1.7.1 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.

## 1.7.2 Business risks

It is an inherent factor to all business activity to maintain its level to avoid unacceptable impact on its Profit and Loss or on its capital. By its coverage according to the solvability of buyers and the signs to avoid non sustainable activity, Credit insurance, is not enhancing procyclicality but, in some extend, it can be impacted by an economic crisis directly by the increase of claims or indirectly. The indirect effects materialized in two components. The first is the cancelation of insured, sometimes at the request of the company. The second is the decrease of the insured turn over which is the basis of premiums. In a period of strong increase of bankruptcies, this risk can be limited by a proper management of coverage and of related premiums. Euler Hermes is looking at keeping the right balance between the risk and the premiums to contain the indirect effect of such crisis. In some situation like Baltics countries, further reduction of operations is needed to avoid any potential impact in the future.

## 1.7.3 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 with a group-level manager and contact persons in each entity. The international dimension of the group obliges to be very reactive on any situation to avoid any negative impact on the organisation.

## 1.7.4 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.

In Italy, the SAFIM case had to be further covered related reserves and it is monitor closely.

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

## 1.7.5 Compliance risks

A set of risks is related to the application of rules and guidelines either internal or regulatory during a given period. To cope with this risk, the head of group compliance function, in collaboration with local referent in each entity follow on deontological rules, fraud possibility, any illegal transactions and the monitoring of black out period on Euler Hermes shares.

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## 1.7.6 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.

## 1.8 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 Claims / Premiums net of reinsurance*

	2004	2005 proforma	2006	2007	2008	2009
Claims / Premiums Ratio *	45,9%	44,8%	49,2%	48,1%	78,1%	82,10%

\* 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.

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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, the so-called bootstrap method and, to a certain extent, simulation models for calculating expected losses. 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 simulation methods estimate the expected loss according to the exposure and probability of losses. This probability-based approach also allows for the calculation of a confidence interval.

As shown by the claims triangles, the initial estimates from historical data of the final cost include a certain margin that gradually decreases over the final financial years. 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.

The approaches to calculate the claims reserve clearly cover the two specificities of risk bear by credit insurance reserving. The first aspect to assess the risk of reserve is the short term nature of credit insurance and the development of the reserve is almost completed at the end of the second year. The second aspect is linked to the fact that the liability for any claim is limited to the amount of invoices covered and therefore the deviation on reserve will be attached to adverse development of recoveries or of unknown claims compared to the reserve set up.

As illustrated in the previous paragraph the assessment of the claims or of the salvages reserve is based on actuarial technics and their assumptions are reviewed by the reserve committee. All entities have assessed their reserves taking into account the negative trends of the current crisis covering the increase of frequency and medium size claims but not major claims not yet declared and attached to year 2008..

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## Cost of claims

€'000	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Cost of claims for the current period</b>	<b>1 452 108</b>	<b>(454 240)</b>	<b>997 868</b>	<b>1 584 352</b>	<b>(297 550)</b>	<b>1 286 802</b>
<i>of which, claims paid</i>	443 443	(130 963)	312 480	388 147	(79 180)	308 967
<i>of which, claims reserves</i>	929 492	(318 538)	610 954	1 115 597	(209 989)	905 608
<i>of which, claims handling expenses</i>	79 173	(4 739)	74 434	80 608	(8 381)	72 227
<b>Recoveries for the current period</b>	<b>(140 738)</b>	<b>39 628</b>	<b>(101 110)</b>	<b>(135 477)</b>	<b>21 900</b>	<b>(113 577)</b>
<i>Recoveries received</i>	(13 142)	3 195	(9 947)	(17 222)	2 976	(14 246)
<i>Change in reserves for recoveries</i>	(127 596)	36 433	(91 163)	(118 255)	18 924	(99 331)
<b>Cost of claims from prior periods</b>	<b>57 620</b>	<b>41 612</b>	<b>99 232</b>	<b>(82 801)</b>	<b>34 941</b>	<b>(47 860)</b>
<i>of which, claims paid</i>	944 564	(186 126)	758 438	597 720	(120 980)	476 740
<i>of which, claims reserves</i>	(878 122)	228 456	(649 666)	(669 188)	155 481	(513 707)
<i>of which, claims handling expenses</i>	(8 822)	(718)	(9 540)	(11 333)	440	(10 893)
<b>Recoveries from prior periods</b>	<b>(92 911)</b>	<b>9 063</b>	<b>(83 848)</b>	<b>(58 644)</b>	<b>6 073</b>	<b>(52 571)</b>
<i>Recoveries received</i>	(158 164)	22 044	(136 120)	(147 352)	20 038	(127 314)
<i>Change in reserves for recoveries</i>	65 253	(12 981)	52 272	88 708	(13 965)	74 743
<b>Cost of claims</b>	<b>1 276 079</b>	<b>(363 937)</b>	<b>912 142</b>	<b>1 307 430</b>	<b>(234 636)</b>	<b>1 072 794</b>

The cost of claims has decreased over the year. By contrast, the development of prior years' claims was less favourable with the gross surplus (intending salvages and excess on previous years reserves) on prior years reduced to €35 million (€140 million in 2008) when the 2008 attachment year development result to be negative. The improvement in the methods and approach used for the calculation of reserves, resulting in a decrease in uncertainty in respect of estimated reserves but must be put in perspective of the current uncertain economic situation with possible claims filing negative variation and more conservative assumptions have been taken to ensure a coverage even in adverse more evolution.

## Claims reserves

€'000	31/12/2009			31/12/2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Claims reserves gross of recoveries</b>	<b>1 727 088</b>	<b>(494 645)</b>	<b>1 232 443</b>	<b>1 650 693</b>	<b>(397 148)</b>	<b>1 253 545</b>
Current period	978 315	(322 827)	655 488	1 141 066	(227 411)	913 655
Prior periods	748 773	(171 818)	576 955	509 627	(169 737)	339 890
<b>Recoveries to be received</b>	<b>(302 327)</b>	<b>67 419</b>	<b>(234 908)</b>	<b>(228 084)</b>	<b>43 962</b>	<b>(184 122)</b>
Current period	(127 752)	36 507	(91 245)	(117 115)	19 360	(97 755)
Prior periods	(174 575)	30 912	(143 663)	(110 969)	24 602	(86 367)
<b>Claims reserves</b>	<b>1 424 761</b>	<b>(427 226)</b>	<b>997 535</b>	<b>1 422 609</b>	<b>(353 186)</b>	<b>1 069 423</b>

# Risk Management

## Breakdown by type of reserve

€'000	31/12/2009			31/12/2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reserves for unearned premiums	298 736	(68 952)	229 784	314 691	(47 853)	266 838
Claims reserves	1 424 760	(427 226)	997 534	1 422 609	(353 186)	1 069 423
of which, reserves for known claims	1 157 922	(348 067)	809 855	1 108 704	(384 528)	724 176
of which, reserves for late claims	461 422	(137 999)	323 423	440 723	44	440 767
of which, reserves for claims handling expenses	109 030	(8 580)	100 450	100 368	(12 620)	87 748
of which, other technical reserves	(1 286)	1	(1 285)	899	(44)	855
of which, recoveries to be received	(302 328)	67 419	(234 909)	(228 085)	43 962	(184 123)
No-claims bonuses and rebates	113 055	(21 403)	91 652	116 398	(16 939)	99 459
<b>Technical reserves</b>	<b>1 836 551</b>	<b>(517 581)</b>	<b>1 318 970</b>	<b>1 853 698</b>	<b>(417 978)</b>	<b>1 435 720</b>

## 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 paid.

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 that was gradually decreased over the final years. Large claims at the end of the year 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.

## Estimate of the final cost of claims for the direct business excluding acceptances of most group entities (before reinsurance)

Accident \ development year	1	2	3	4	5	6	7	8	9	Difference	% change
2001	1 295 242	1 190 167	1 099 082	1 064 548	1 031 378	974 165	962 177	956 995	944 886	350 356	27,0%
2002	1 111 877	988 532	945 406	913 417	884 148	847 085	830 542	818 312		293 564	26,4%
2003	1 007 614	797 042	771 975	741 276	726 634	695 169	669 220			338 394	33,6%
2004	834 120	705 365	659 188	652 109	642 809	609 632				224 488	26,9%
2005	855 739	816 062	786 954	754 445	723 334					132 405	15,5%
2006	852 583	808 368	777 568	745 507						107 076	12,6%
2007	868 436	859 433	821 143							47 293	5,4%
2008	1 374 547	1 432 173								- 57 627	-4,2%
2009	1 248 243										0,0%

\* 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 99% of the technical reserves of all group entities without including the run-off for years prior to 2001.

## Risk Management

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 33.6% observed in the 2003 insurance year. On year 2008, the crisis continues deepening and lead to an increase of the claims cost on the second year compared to the first year. In addition to this experience on 2008, the change in the economic cycle was particularly sharp and the continuing uncertainty in a difficult economic situation, require a more conservative approach for the reserving which will be sufficient in case of further worsening but could lead to a more positive development in case the situation improve further.

### 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	7	8
2001	291 140	837 133	931 707	952 994	951 530	948 783	944 855	942 694
2002	316 647	698 358	789 354	807 284	810 366	810 481	812 377	804856,5237
2003	242 516	566 578	615 014	639 096	647 881	646 976	649 372	
2004	229 189	535 045	584 433	594 367	597 224	585 034		
2005	266 529	627 263	670 260	683 612	676 192			
2006	281 225	658 323	700 923	687 114				
2007	272 391	692 855	745 943					
2008	387 853	1 087 968						
2009	441 676							

The short-term nature of credit insurance is illustrated by the development of claims payments, which are concentrated mainly in the first two years, as shown by a simple estimate of the development of claims without taking into account the years prior to 2001 and without making any specific adjustments. As such, the claims reserves for the direct business in the balance sheet at the year end will be more than 60% used in the following year, 80% within two years and more than 95% after six years. The payments are more relevant on 2009 mainly from the more important filing of claims at the beginning of the year which remains significant on the second pat even if improving.