

**Management Report
of the Group Management Board
for the six months ended 30 June 2009**

Significant events

The following significant events occurred in the first half of 2009:

Changes in the capital stock and share ownership

The Shareholders' General Meeting of 15 May 2009 approved the payment of a dividend of €1.50 per share.

At 30 June 2009, the Allianz group owned 30,744,048 shares out of a total of 45,082,230, corresponding to 68.20% of the share capital of Euler Hermes. Accordingly, Euler Hermes is included in the Allianz consolidation scope.

No new shares were created by the exercise of stock subscription options during the period. At 30 June 2009, Euler Hermes' share capital comprised 45,082,230 shares, including 1,565,444 shares held in treasury stock.

Changes in the consolidation scope

There were no changes in the consolidation scope in the first half of 2009.

Changes in the retention rate

The premium retention rate is the ratio of premiums after reinsurance to premiums before reinsurance. This ratio declined from 75.8% at end-June 2008 to 68.5% at end-June 2009. Earned premiums net of reinsurance decreased by 10.7% over the same period, of which 9.7 points is attributable to the lower retention rate.

Activity

For the six months to 30 June 2009 the group's turnover totalled €1,084.5 million, corresponding to a very slight 0.1% increase over the first half of 2008. At constant scope and exchange rates, turnover was up by 1.1% over the same period.

Although turnover continued to rise in new markets, driven by the group's dynamic production in the last 12 months, our historical markets in Europe and in North America saw a sharp contraction in our clients' sales that weighed on earned premium volumes and was reflected in a 1% decline in turnover to end-June 2009.

In most countries, the downturn in clients' sales, which was of exceptional magnitude in the second quarter of 2009, could not be offset by increases in premium rates or by higher group production levels.

Breakdown of turnover by country (based on earned premiums):

in million €	30/06/2009	30/06/2008 (1)	30/06/2008 (2)	variation 2009/2008	variation 2009/2008 pro- forma
France	198.2	203.9	204.6	-2.8%	-3.1%
United Kingdom	95.7	102.2	89.5	-6.4%	6.9%
Belgium	38.7	39.3	39.3	-1.5%	-1.5%
Netherlands	27.1	26.3	26.3	2.9%	2.9%
USA	79.6	66.0	76.2	20.6%	4.5%
Italy	110.6	128.3	128.3	-13.9%	-13.9%
Scandinavia	25.7	23.2	20.1	10.8%	27.9%
Germany	359.9	369.1	366.6	-2.5%	-1.8%
Poland	26.0	25.8	19.8	0.9%	31.4%
Sub-Total Large BU's	961.4	984.3	970.7	-2.3%	-1.0%
<i>of which Euro zone</i>	734.4	767.0	765.1		
Sub-Total New Markets	123.1	99.4	102.2	23.9%	20.5%
EULER.HERMES	1,084.5	1,083.6	1,072.9	0.1%	1.1%

Note: (1) Turnover to 30 June 2008 as reported

(2) Turnover to 30 June 2008 adjusted for currency effects and changes in the consolidation scope.

Breakdown of turnover between earned premiums and service activities

in million of euros	S1 2009	S1 2008	Variation in amount	Variation in %
Premium	881.4	890.8	-9.3	-1.0%
Other Revenues	203.1	192.8	10.2	5.3%
Total Credit insurance turnover	1,084.5	1,083.6	0.9	0.1%

Earned premiums declined slightly due to the lower level of insured sales, itself attributable directly to the difficult economic environment. Premium-related services remained robust turnover rose by 5.3%, mainly thanks to growth in the debt collection business arising from the higher level of claims.

Gross and net earned premiums

<i>In thousand of euros</i>	S1 2009	S1 2008	Variation %
Gross earned premiums	881,429	890,770	-1.0%
Ceded premiums	-278,075	-215,175	29.2%
Net earned premiums	603,354	675,595	-10.7%
Cession rate	-31.5%	-24.2%	
Cession rate without XoL premium (assumed XOL=1.6% retention in 2008) (assumed XOL=2.5% retention in 2009)	-29.3%	-21.7%	

Gross earned premiums declined year-on-year by 1% to €881.4 million.

Following a 29.2% increase in ceded premiums, net earned premiums declined by 10.7%. In the current environment, characterised by a higher than usual loss ratio, this increase in ceded premiums reflects the group's decision to reduce the retention rate and improve coverage of major risks.

As a result, the reinsurance rate rose significantly in 2009 (up 7.3 points). Of the 10.7% decline in earned premiums net of reinsurance, 9.7 points is attributable to the lower retention rate.

Cost of claims

<i>In thousand of euros</i>	S1 2009	S1 2008	Variation %
Gross claims costs current attachment years	-725,455	-553,055	31.2%
Ceded claims costs current attachment years	206,340	108,646	89.9%
Net claim costs current attachment years	-519,114	-444,410	16.8%
<i>Cession rate current attachment years</i>	<i>28%</i>	<i>20%</i>	
Gross claims costs previous attachment years	14,656	19,652	-25.4%
Ceded claims costs previous attachment years	-28,923	-5,851	394.3%
Net claims costs previous attachment years	-14,267	-13,801	-203.4%
<i>Cession rate previous attachment year</i>	<i>197%</i>	<i>30%</i>	
Claims costs	-533,381	-430,609	23.9%
Net Claims ratio current attachment year	-86.0%	-65.8%	
Net Claims ratio attachment previous year	-2.4%	2.0%	
Net Claims ratio	-88.4%	-63.7%	

The net cost of claims continued to rise sharply, increasing by 23.9%. This increase is due to the severe economic and financial crisis affecting most European countries, resulting in a significant rise in both the number and the value of claims. By contrast, in the first half of 2008 the current crisis started in Southern Europe and in the UK, and Northern European countries were largely unaffected.

For the first six months of 2009, Euler Hermes recognised negative run off on previous attachment years of €14 million as a result of the high level of claims for the 2008 attachment year, mainly in Eastern Europe and South America. This compares with positive run off of €14 million for the corresponding period in 2008.

Operating expenses

<i>In thousand of euros</i>	S1 2009 YTD	S1 2008 YTD	Variation %
Contract acquisition expenses	-171,834	-166,458	3.2%
Administration & Other ordinary income and expenses	-89,409	-95,412	-6.3%
Service expenses	-159,979	-147,087	8.8%
Total recurrent expenses	-421,221	-408,957	3.0%
Total non recurrent expenses	-1,411	5,695	-124.8%
Total gross expenses	-422,632	-403,262	4.8%
of which non technical expenses	-4,758	-3,940	
Total gross Technical expenses	-417,874	-399,322	4.6%

Given the economic conditions referred to above, the Euler Hermes group has limited the increase in operating expenses before non-recurring items (mainly writebacks of provisions for doubtful receivables in June 2008) to 3%.

Net technical operating expenses

<i>In thousand of euros</i>	S1 2009	S1 2008	Variation %
Total gross technical expenses	-417,874	-399,322	4.6%
Service fees	203,072	192,850	5.3%
Expenses net of fees	-214,802	-206,472	4.0%
Gross earned premium	881,429	890,770	-1.0%
Reinsurance commission	90,073	79,666	13.1%
Ceded premiums	-278,075	-215,175	29.2%
Net technical expenses	-124,729	-126,807	-1.6%
Net premium	603,354	675,595	-10.7%
Gross technical expense ratio	24.4%	23.2%	
Net technical expense ratio	20.7%	18.8%	

After deduction of the premium-related services, gross operating expenses increased by 4%. This increase should be seen in the context of the 1% decline in earned premiums, which explains the slight deterioration of 1.2 points in the gross expense ratio.

Reinsurance commissions on proportional assignment increased by 13.1%. Although reinsurance commission rates were lower, this was more than offset by the rise in ceded premiums, the basis on which the commission is calculated, referred to above.

Nevertheless, despite the resulting 1.6% fall in net operating expenses, the net expense ratio deteriorated by 1.9 points (to 20.7% from 18.8% in the first half of 2009) as the logical consequence of the lower level of net earned premiums.

Ordinary operating income before financial income

Ordinary operating income, excluding financial income, represents a loss of €59.5 million compared with a profit of €114.2 million in 2008. The loss is attributable mainly to the sharp deterioration in the net cost of claims and, to a lesser extent, the lower level of net earned premiums.

<i>In thousand of euros</i>	S1 2009	S1 2008	Variation %
Net earned premium	603,354	675,595	-10.7%
Net claims cost	-533,381	-430,610	23.9%
Net technical expenses	-124,729	-126,807	-1.6%
Other non technical expenses	-4,758	-3,940	20.8%
Ordinary operating income (before Financial income net of expenses)	-59,514	114,239	-152.1%
Combined Ratio	109.1%	82.5%	

Net combined ratio

The sharp deterioration in the loss ratio is the main factor behind the higher net combined ratio after reinsurance. At 109.1%, this ratio is 26.6 points higher than in the first half of 2008.

Financial market trends

The early part of the period was marked by a sharp downturn in financial markets, with investors concerned about systemic risk and the possibility of deflation.

The stimulus plans launched by a number of countries, combined with massive support from central banks – particularly the European Central Bank's key interest-rate cuts – enabled the markets to regain ground from March onwards and they closed at the end of June at similar levels to the start of the year.

In this still highly uncertain environment, Euler Hermes has maintained its very conservative investment management policy, notably via a reduction in the duration of bond portfolios.

Financial income

<i>In thousand of euros</i>	S1 2009	S1 2008	variation %
Income from investment property	3,815	3,765	1.3%
Income from securities-Bonds	34,724	38,526	-9.9%
Income from securities-equities	1,829	5,754	-68.2%
Income from securities	36,553	44,280	-17.4%
Other financial income	10,060	17,861	-43.7%
Investments income	50,428	65,906	-23.5%
Investment expenses	-3,694	-4,669	-20.9%
Net Fx result	-5,654	-1,638	
Net gains and losses on sales of investments less impairment and amortisation	53,872	27,634	94.9%
Net financial income (excluding financing expense)	94,952	87,233	8.8%

Despite the very difficult conditions in the financial markets, financial income in the first half of 2009 nevertheless increased to nearly €95 million, mainly due to the realisation of capital gains totalling €53.9 million compared with €27.6 million for the corresponding period in the previous year.

These capital gains were realised mainly on the sale of bonds and investment properties, and offset the decline in investment income resulting from lower short-term interest rates as well as the higher level of foreign exchange losses on, mainly, sterling and the Swiss franc.

<i>(in thousands of euros)</i>	2009.06					2008.12				
	Amortized cost	Revaluation reserve	Net carrying amount	Fair value	Unrealized gains and losses	Amortized cost	Revaluation reserve	Net carrying amount	Fair value	Unrealized gains and losses
- Equities:	123,754	573	124,560	124,562	2	136,083	16,064	152,147	152,147	-
- Bonds:	1,853,720	36,651	1,890,373	1,890,370	(3)	1,812,265	62,584	1,874,849	1,874,903	54
- Loans and other investments	530,476	-	530,476	530,476	-	563,990	-	563,990	563,990	-
Total Financial investments	2,507,950	37,224	2,545,409	2,545,408	(1)	2,512,338	78,648	2,590,986	2,591,040	54
Building third party use	-	-	47,397	96,103	48,706	-	-	71,834	134,139	62,305
Cash	-	-	688,601	688,601	-	-	-	613,907	613,907	-
Total			3,281,407	3,330,112	48,705			3,276,727	3,339,086	62,359

The fair value of the investment portfolio, including cash and cash equivalents, was virtually unchanged at €3,330 million (down €9 million).

Given the level of realised capital gains (€53.9 million) and the market trends, unrealised capital gains and revaluation reserves fell sharply, by €55.1 million to €85.9 million, and represent 2.6% of the investment portfolio.

Despite these difficult conditions, the annualised economic performance net of investment portfolio expense reached 5.7%.

Ordinary operating income

<i>In thousand of euros</i>	S1 2009 YTD	S1 2008 YTD	Variation %
Technical result	-59,514	114,236	-152.1%
Financial income net of expenses	94,952	87,233	8.8%
Ordinary operating income	35,438	201,469	-82.4%

The group's financial income more than offset its negative technical result, and operating income for the six months to end-June 2009 was positive at €35.4 million. It was, however, down by a very sharp 82.4% compared with the same period in 2008.

Net income

<i>In thousand of euros</i>	S1 2009	S1 2008	Variation %
Technical result	-59,514	114,236	-152.1%
Financial income net of expenses	94,952	87,233	8.8%
Ordinary operating income	35,438	201,469	-82.4%
Other non ordinary income and expense	-7,507	0	N/A
Financing expenses	-6,025	-7,630	-21.0%
method	1,497	4,124	-63.7%
Corporation tax	-20,896	-72,955	-71.4%
Minority interest	-1,790	-2,677	-33.1%
Consolidated net income	717	122,332	-99.4%

After financing expense and tax, group share of net income came to €0.7 million in the first six months of 2009, down by 99.4% compared with the first six months of 2008.

Euler Hermes recognised exceptional charges in the second quarter of 2009 totalling €7.5 million in connection with its Italian subsidiary's restructuring plan, as finalised to date.

Net income for the period was hit by the high effective tax rate for the period, of 89.3%, resulting from significant tax rate differentials between the parent company and subsidiaries and from specific tax positions that resulted in the group's being unable to recognise deferred tax assets.

Results of Euler Hermes SA

Euler Hermes SA recorded net income of €176.2 million for the first six months of 2009, compared with €222.6 million for the corresponding period in the previous year. The decline is attributable mainly to the lower level of dividends received from subsidiaries.

Return on equity

Consolidated shareholders' equity

Consolidated shareholders' equity at 30 June 2009 amounted to €1,765.4 million, compared with €1,835 million at 31 December 2008. The main changes during the period are shown below.

(in thousands of euros)	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Other Treasury shares	Total other	Shareholders' equity, group share	Minority interests	Total shareholders' equity
Shareholders' equity as at December 31, 2007 - IFRS	14,417	451,332	1,607,947	90,438	(29,821)	(75,572)	(105,393)	2,058,741	19,179	2,077,920
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				(93,743)				(93,743)	(165)	(93,908)
Impact of transferring realised gains and losses to income statement										
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					(17,259)		(17,259)	(17,259)	122	(17,137)
Current and deferred tax taken directly to or transferred to shareholders' equity										
Net income recognised in shareholders' equity	-	-	-	(93,743)	(17,259)	-	(17,259)	(111,002)	(43)	(111,045)
Net income for the year			122,331					122,331	2,677	125,008
Total revenues and losses recognised for the period	-	-	122,331	(93,743)	(17,259)	-	(17,259)	11,329	2,634	13,963
Capital movements	7	443				(5,866)	(5,866)	(5,416)	-	(5,416)
Dividend distributions			(218,277)					(218,277)	(2,607)	(220,884)
Shareholders' equity component of share-based payment plans			858					858		858
Cancellation of gains/losses on treasury shares			(298)					(298)		(298)
Other movements			2					2	(294)	(292)
Shareholders' equity as at June 30, 2008 - IFRS	14,424	451,775	1,512,563	(3,305)	(47,080)	(81,438)	(128,518)	1,846,939	18,912	1,865,851

(in thousands of euros)	Capital stock	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Other Treasury shares	Total other	Shareholders' equity, group share	Minority interests	Total shareholders' equity
Opening Shareholders' equity	14,426	451,924	1,476,216	50,279	(73,191)	(84,697)	(157,888)	1,834,957	20,328	1,855,285
Available-for-sale assets (AFS)										
Measurement gain / (loss) taken to shareholders' equity				3,498				3,498	36	3,534
Impact of transferring realised gains and losses to income statement				(28,052)				(28,052)		(28,052)
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				701	18,865		18,865	19,566	(45)	19,521
Current and deferred tax taken directly to or transferred to shareholders' equity										
Net income recognised in shareholders' equity	-	-	-	(23,853)	18,865	-	18,865	(4,988)	(9)	(4,997)
Net income for the year			717					717	1,790	2,507
Total revenues and losses recognised for the period	-	-	717	(23,853)	18,865	-	18,865	(4,271)	1,781	(2,490)
Capital movements						(711)	(711)	(711)		(711)
Dividend distributions			(65,278)					(65,278)	(1,660)	(66,938)
Shareholders' equity component of share-based payment plans			222					222		222
Cancellation of gains/losses on treasury shares										
Other movements			433					433	32	465
Closing Shareholders' equity	14,426	451,924	1,412,310	26,426	(54,326)	(85,408)	(139,734)	1,765,352	20,481	1,785,833

Consolidated shareholders' equity was €69.6 million lower than at 31 December 2008, mainly as a result of the €65.3 million dividend distribution.

Return on equity

Annualised return on equity (calculated as two times the ratio of first-half net income, group share to the average of shareholders' equity at the start of the period and at the end of the period) came to 0.1% at 30 June 2009 compared with 12.5% in the first half of 2008.