

Euler Hermes 2017 half-year results: Sustained profitability, improved commercial developments in Europe

PARIS – 27 July 2017

- Revenues at €1,286.0 million, down 1.1pt at constant exchange rates
- Net combined ratio at 78.8%, down 1.0pt year on year
- Ordinary operating income at €214.1 million, up 6.4% year on year
- Net income at €163.8 million, up 11.0% year on year on a like-for-like basis
- Estimated Solvency ratio: 165%

“In the second quarter, Euler Hermes again proved its robustness and agility, with a net combined ratio at 78.8%, while paving the way for a return to turnover growth”, said Wilfried Verstraete, chairman of the Euler Hermes board of management. “Revenues still lag behind ambition, but as noted in Q1, we see some encouraging signs on new business and rates. Northern Europe, France, and the multinational segment are posting positive premium development, and Germany is stabilizing premium income. While revenues in non-mature markets are still affected by our previously-revised underwriting risk stance, profitability has been restored. Consequently, our global net loss ratio is at its lowest level since Q3 2015. This strong performance enables us to continue our digital transformation and investment in service innovations that bring us closer to customers. This includes our recently launched EH Sync online broker portal.”

I. Results for the first six months of 2017

A. Key figures

P&L information € million	30 June 2017	30 June 2016 (published)	Variation vs. 30 June 2016	
Earned premiums	1,088.8	1,097.1	-8.3	-0.8%
Service revenues	197.2	204.0	-6.8	-3.3%
Turnover	1,286.0	1,301.1	-15.1	-1.2%
Net technical result	160.6	151.9	8.7	5.7%
Net investment income	53.4	49.3	4.1	8.3%
Ordinary operating income	214.1	201.3	12.8	6.4%
Non-ordinary operating income & expenses	-1.4	17.8	-19.2	NA
Operating income	212.7	219.1	-6.4	-2.9%
Net income, Group share	163.8	170.0	-6.3	-3.7%
Net claims ratio	51.8%	53.3%	-1.5 pt.	
Net expense ratio	27.1%	26.6%	0.5 pt	
Net combined ratio	78.8%	79.8%	-1.0 pt	

Balance sheet information € million	30 June 2017	31 December 2016 (published)	Variation vs. 31 December 2016	
Total assets	6,459.3	6,505.9	-46.6	-0.7%
Shareholders' equity, Group share	2,562.1	2,622.4	-60.3	-2.3%
Total financial liabilities	252.2	252.2	0.0	0.0%

B. Turnover

At €1,286.0 million at the end of June, turnover is down 1.2% compared to half-year 2016 published figures. Foreign exchange impact is overall neutral at Group level. Topline is down, at -1.1% at constant FX, with earned premiums decreasing by -0.7% and service revenues by -3.4%.

<i>Turnover</i>	30 June 2017	30 June 2016	<i>Variation %</i>	30 June 2016	<i>Variation %</i>
€ million		<i>(published)</i>		<i>(1)</i>	<i>(1)</i>
Regions					
Germany, Austria, Switzerland (DACH)	347,4	353,3	-1,7%	353,2	-1,6%
France	209,1	208,7	0,2%	209,4	-0,1%
Northern Europe	273,1	269,1	1,5%	263,8	3,5%
Mediterranean Countries, Middle East & Africa	168,8	178,2	-5,3%	179,2	-5,8%
Americas	173,2	167,7	3,2%	174,3	-0,6%
Asia Pacific	69,3	75,1	-7,7%	77,7	-10,9%
Inward from non-consolidated OEs and other (2)	45,1	49,0	-8,0%	43,3	4,2%
Euler Hermes Group	1 286,0	1 301,1	-1,2%	1 300,8	-1,1%

Area contribution : After intra-region eliminations & before inter-region eliminations

(1) At constant exchange rates and proforma: A new collection business model was set up starting January 2017, impacting intragroup flows within regions (no impact at consolidated level)

(2) Corporate entities + inter-region eliminations

European growth has resumed due to specialty lines and encouraging commercial development: Northern Europe posted a +3.5% growth proforma and at constant foreign exchange, the development of specialty lines in France is in line with expectations, and DACH is progressively regaining ground quarter after quarter. Non mature markets such as Asia and the Middle East are significantly affected by our previously-revised underwriting stance.

C. Operating income

The net combined ratio is at 78.8%, improved by 1.0pt compared to last year; the net technical result is consequently up by +€8.7 million.

The attritional claims are at a low level, after a continuous decrease during 2016, and the overdue levels have improved significantly in emerging markets. At the end of June, the net loss ratio for all attachment years stands at 51.8%, its lowest level since September 2015.

The net expense ratio of 27.1% increased (+0.5pt) due to lagging topline growth and internal investments in digital and process transformations, where underlying productivity gains are not yet visible.

Net investment income is €53.4 million, up +8.3% compared to last year.

As a result, ordinary operating income stands at €214.1 million, up +6.4% and driven mostly by the improved net loss ratio.

Including non-ordinary items, total operating income is €12.7 million in the first six months of 2017, compared to €19.1 million for the same period in 2016, which included gains from the sale of the Bürgel entities in Germany (€24.3 million before tax).

D. Net income

Net income stands at €163.8 million, down -3.7% year-on-year. The deviation is explained by exceptional gains realized last year on the sale of Bürgel, partly compensated by the improved net combined ratio this year. On a like-for-like basis, net income improved by 11.0%.

E. Investment portfolio

At €4,379 million at the end of June 2017, the market value of the Group investment portfolio decreased by €145 million vs December 2016, essentially driven by decreased bonds and loans market value.

F. Solvency II Capitalization

The estimated Solvency II economic ratio for Euler Hermes Group was 165%¹ at end of June 2017. The ratio was 166% at end of December 2016.

G. German export business

On March 3, 2017, PriceWaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (« PwC ») and Euler Hermes Deutschland AG (“EH AG”) signed three amendments to reallocate business services within the German export support scheme. Following the closing of deal as of July 1, 2017, Euler Hermes will be fully in charge of the Export Credit Guarantee (“ECG”) service activity and the Untied Loan Guarantee (“ULG”) service activity, while PwC will remain in charge the Investment Guarantee (“IG”) service activity.

The transfer of PwC employees working in the fields of ECG and ULG to EH AG, and know-how took effect on July 1, 2017.

H. Outlook

The world’s economic recovery is finally picking up, especially in the U.S. However, high private and public indebtedness and political uncertainty are risks to be taken into account. Moreover, continued high payment delays and a rise in large insolvencies demonstrate that global economic momentum is not without its challenges for corporates.

Euler Hermes will continue to accompany its customers in this uncertain environment, and also tightly monitor its risks and remain alert to signals on the claims front. In parallel, Euler Hermes will continue to increase its digital transformation and further improve customer service, our first priority.

¹ Estimated Solvency II ratio: An updated press release shall be released if the ultimate Solvency II ratio deviates by more than 2 points compared to the estimate.

II. Results for the first six months of 2017

P&L € million	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016	1Q 2016	Variation vs. 2Q 2016	
			----- <i>Published data</i> -----					
Earned premiums	533.9	554.8	542.4	530.7	540.4	556.7	-6.5	-1.2%
Service revenues	95.4	101.8	98.0	97.7	100.4	103.6	-5.0	-4.9%
Turnover	629.4	656.6	640.4	628.5	640.8	660.3	-11.4	-1.8%
Net technical result	76.5	84.2	74.9	74.6	73.9	78.1	2.6	3.6%
Net investment income	28.4	25.0	8.1	17.9	23.6	25.7	4.8	20.3%
Ordinary operating income	104.9	109.2	83.0	92.5	97.5	103.8	7.4	7.6%
Non-ordinary operating income & expenses	-1.1	-0.3	-1.2	-20.1	-5.5	23.3	4.4	na
Operating income	103.8	108.9	81.8	72.4	92.0	127.2	11.9	12.9%
Net income, Group share	75.6	88.2	61.0	55.9	68.8	101.2	6.7	9.8%
Net claims ratio	50.7%	52.8%	50.9%	51.5%	52.6%	53.9%	-1.9 pt.	
Net expense ratio	28.6%	25.6%	29.3%	28.0%	27.7%	25.4%	0.8 pt	
Net combined ratio	79.3%	78.4%	80.1%	79.5%	80.3%	79.3%	-1.0 pt.	

GLOSSARY

Expense Ratio or Cost Ratio: contract acquisition expenses, administration expenses and service margin as a proportion of earned premiums. The service margin corresponds to service revenues less other ordinary operating income and expenses. It can be in “gross terms” i.e. before reinsurance, or “net terms” which includes the reinsurance commission.

Claims Ratio: claims costs from all attachment years as a proportion of earned premiums. It can be in “gross terms” i.e. before reinsurance, or “net terms” which includes the part ceded to the reinsurers.

Combined Ratio: sum of the expense ratio and the claims ratio.

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Financial and regulated information are available on Euler Hermes' website
<http://www.eulerhermes.com/finance/>

The financial documentation section includes the press release, the condensed consolidated financial statements and the presentation of the half-year results to analysts.

On Wednesday, July 26th, 2017, the Group Management Board of Euler Hermes (ELE.PA), a worldwide leader in credit insurance and in the areas of bonding, surety and collections, presented its consolidated results as of June 30th, 2017 to the Euler Hermes Supervisory Board. The results have been reviewed by the Audit Committee.

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Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 5,800+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2016 and insured global business transactions for €883 billion in exposure at the end of 2016. Further information: www.eulerhermes.com, [LinkedIn](#) or Twitter [@eulerhermes](#).

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