RISK MANAGEMENT | CREDIT INSURANCE | DEBT COLLECTION

# Registration document 2010

ANNUAL FINANCIAL REPORT INCLUDED

EULER HERMES

A company of Allianz

# CONTENTS

# Profile

## Securing business growth for companies around the globe

Euler Hermes, the leading credit insurer, helps companies around the world expand their business safely by protecting them against the risk of customer payment default. Every company has the ambition to grow and be more competitive. Thanks to Euler Hermes' optimized credit management, worldwide development can be achieved.

**€2,148 millions**
Turnover

**68.7%**
Net combined ratio

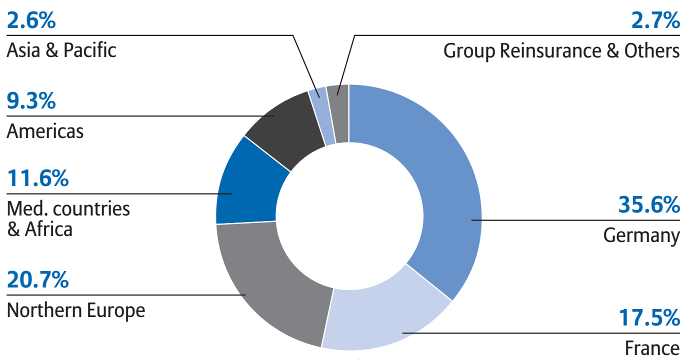
**€294 millions**
Net income

**15%**
Return on equity

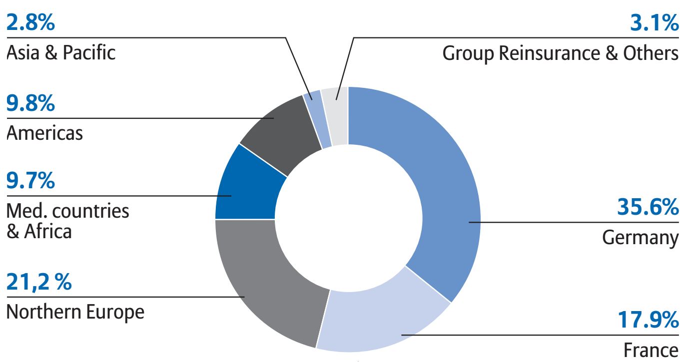
# Key figures

## BREAKDOWN OF TURNOVER BY REGION

### AS AT DECEMBER 31, 2009



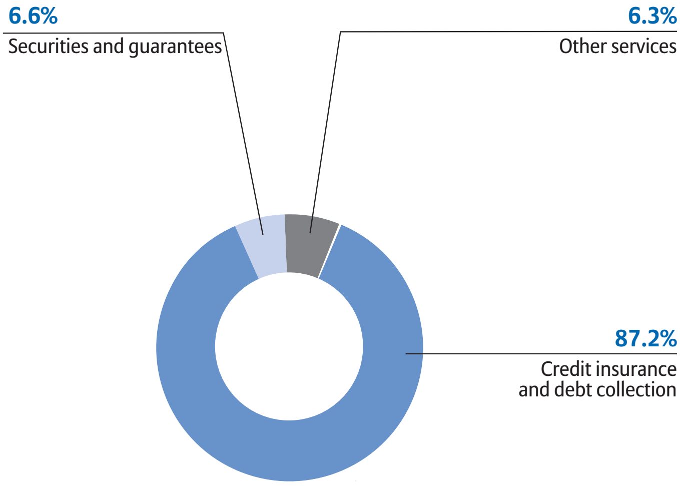

### AS AT DECEMBER 31, 2010



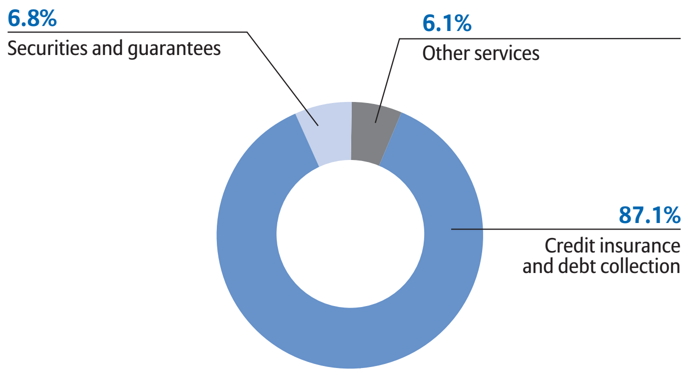
# Key figures

## BREAKDOWN OF TURNOVER BY LINE OF BUSINESS

### AS AT DECEMBER 31, 2009




### AS AT DECEMBER 31, 2010




# Simplified statements over 5 years

| *(in € thousands except for earnings and dividend per share)* | 12/31/2010 | 12/31/2009 | 12/31/2008 | 12/31/2007 | 12/31/2006 |
|---|---|---|---|---|---|
| **Consolidated income statement** | | | | | |
| Turnover (1) | 2,147,734 | 2,085,711 | 2,166,451 | 2,099,448 | 2,011,820 |
| Technical result (2) | 348,625 | (64,783) | 35,560 | 392,531 | 340,109 |
| Ordinary operating income | 471,873 | 83,627 | 168,500 | 577,690 | 489,911 |
| Operating income | 388,930 | 74,771 | 168,500 | 577,690 | 489,911 |
| Net income, Group share | 294,452 | 18,988 | 83,592 | 406,958 | 326,054 |
| Minority interests | 3,331 | 4,153 | 4,498 | 4,006 | 4,181 |
| **Consolidated statement of financial position** | | | | | |
| Total assets | 5,659,182 | 5,149,953 | 5,057,095 | 4,887,546 | 4,774,380 |
| Shareholder's equity, Group share | 2,130,421 | 1,795,779 | 1,834,957 | 2,058,741 | 1,892,386 |
| Minority interests | 18,015 | 20,698 | 20,328 | 19,179 | 19,153 |
| **Share information** | | | | | |
| Earnings per share (3) | 6.74 | 0.43 | 1.92 | 9.33 | 7.51 |
| Diluted earnings per share (3) | 6.73 | 0.43 | 1.92 | 9.30 | 7.45 |
| Dividend per share | 4.00 | - | 1.50 | 4.00 | 3.50 |
| Total dividend paid/to be paid | 180,411 | - | 65,273 | 174,193 | 151,821 |
| **Other data** | | | | | |
| Combined ratio after reinsurance (in %) | 68.7% | 104.7% | 97.2% | 67.9% | 67.3% |
| Group employees | 6,204 | 6,201 | 5,767 | 5,540 | 5,399 |

*(1) The turnover comprises the earned premiums and the premiums-related revenues.*
*(2) The technical result is used as a key financial indicator by Euler Hermes group to assess the performance of its business segment.*
*(3) The net income used is not based on continuing activities net income (after the reconciliation of the other comprehensive income elements).*

# Registration document 2010

ANNUAL FINANCIAL REPORT INCLUDED

EULER HERMES

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

This registration document was filed with the Autorité des marchés financiers (AMF) on April 13th, 2011 under filing number D. 11-0291 in accordance with Article 212-13 of its General Regulations.

It may be used in support of a financial transaction if it is supplemented by a transaction memorandum certified by the AMF.

This document was drawn up by the issuer and establishes the liability of its signatories.

**Copies of this registration document are available free of charge from Euler Hermes, 1 rue Euler, 75008 Paris (France).**

# Interview with the Chairman of the Euler Hermes group Management Board

## WILFRIED VERSTRAETE

"Our capacity to anticipate and our responsiveness allowed us to perform this well"

The Chairman of the Euler Hermes group Management Board's overview of 2010 and presentation of the Group's strategy for 2011.

**What is your view of the global economy in 2010?**

The global economy's recovery began in the spring of 2009 and has continued month by month since then: global GDP has increased over the last six quarters and most of the main global indicators (industrial production, international trade, etc.) have show a sharp recovery. The world economy grew by 4% in 2010, but trends varied: Asia (excluding Japan) saw growth of +8.5% while the euro zone saw growth of just +1.7%. On top of this, company bankruptcies began to decline, after two years of record increases. They nevertheless remain at a high level. But companies have learnt from the crisis and are now better structured. However, in an environment marked by weak demand in Europe, they are still facing significant risk.

**And of Euler Hermes?**

2010 was an excellent year for the Group. With a net revenue of €294.5 million, Euler Hermes recovered its 2008 profitability level much faster than expected. The economic recovery has certainly been favorable to the credit insurance sector. We have benefited from our positioning at the geographical level: turnover of policy holders has improved in the countries where we have a strong presence.

But it is above all our capacity to anticipate and our responsiveness that allowed us to perform this well. In this regard, in 2010, we undertook several major group initiatives. A new organization and a new governance plan (the One Euler Hermes project) allow us to manage the Group in an integrated and global manner. Our organization is based on strong market management, in each of the regions where the Group operates.

We have also identified certain priority locations – Brazil, California, China and Turkey – for which we have created relevant marketing strategies to better meet our clients' needs. We have defined the sectors of activity that we wish to target in these locations. To accelerate our growth therein, we are investing in information management and risk underwriting, as well as expanding our distribution networks.

Lastly, we helped companies to benefit from the recovery by increasing our risk exposure. At the end of 2010, the rate at which we accepted new requests for guarantees from our clients had returned to the 2008 level.

**Did your relations with policy holders suffer as a result of the crisis? And if so, have you regained their confidence?**

I am convinced that we have and our numbers prove it. Turnover, which has increased by 3%, is back to its end-2008 level. As regards new business, 2010 was the best year since the Group was created (€259 million in 2010), proof that businesses are interested by what we have to offer.

2010 was the year of the client for Euler Hermes. Our teams were exemplary in this regard. They met with 87% of our portfolio from last year, combining a commercial and a risk-based approach. This was much appreciated, our client satisfaction and loyalty have increased, and we plan to pursue a similar approach in 2011.

**What are your priorities for 2011?**

Unquestionably, our clients. Our desire to transform the Group is in order to better serve our clients. Our strategic "Excellence" plan involves new client segmentation and the implementation of a new service model. Thus, our clients will benefit from the same level of service worldwide. At the same time, we will continue to harmonize our structures and adapt them to our new client approach. Lastly, we are working towards greater flexibility and productivity among our teams by providing them with new tools and processes.

I would like to conclude this interview by underlining that our employees' satisfaction and motivation are central to the Group's success. This is why we conducted a group-wide survey among them in the third quarter of 2010, the results of which will be used to guide our human resources policies.

I am convinced that thus remodeled and with the force it derives from the motivation and expertise of its employees, our group will be even better equipped to meet future challenges.

# Message from the Chairman of the Euler Hermes Supervisory Board

CLEMENT B. BOOTH

"The new strategy at Euler Hermes means we can look to the future with serenity"

Commercial dynamism, risk control and cost management enabled Euler Hermes to increase its turnover and reestablish a very high level of profitability in 2010. A performance recognized by the markets, the Euler Hermes share price increasing 40% over the period.

In response to the global financial crisis, Euler Hermes overhauled its organization and introduced a new structure, streamlined and more efficient. It also reviewed its strategy in order to better meet the demands of companies. The combination of a risk underwriting policy adapted to the needs of policy holders, commercial strength and a new client approach allowed the Group to respond appropriately to the expectations of each company. This new strategy is showing results and underpins our confidence in the future.

Amid a fragile economic recovery, Euler Hermes performed excellently in 2010. It recorded a €2,148 million turnover (up 3%), net revenue of €294.5 million and a return on shareholders' equity of 15%.

All of the Group's entities contributed to this strong performance, despite an increasingly competitive environment.

Euler Hermes emerges from the crisis stronger, reinforcing its number one global position in credit insurance. The Group is the strongest partner for companies in the management of their trade receivables, as attested to by its AA- credit rating, confirmed by Standard & Poor's in July 2010. Its strong capital base should enable it to easily comply with the requirements introduced by the Solvency II regulation.

Euler Hermes employees, through their commitment, their understanding of clients' needs, and their capacity to deliver top level service, are the architects of these results. They have shown they are worthy of the Euler Hermes shareholders' trust, a trust that did not waver during the crisis.

The shareholders have been rewarded for their support and their patience. In 2010, the Euler Hermes share was faultless, delivering the second best performance in the European insurance sector. With a dividend yield of at least 5%, the Group is among the top ten of the market. It is therefore in a position to reward its shareholders with a very attractive dividend policy.

Today, Euler Hermes intends to focus on the creation of value for its shareholders. In this regard, it is doing everything to develop its workforce, continue to improve its service to clients and to play its role as a partner of economic growth. This is the goal of the "Excellence" strategic plan.

Euler Hermes is at this time fully equipped to pursue its development. The Supervisory Board would like to thank all of the Group's teams, as well as the Group Management Board. It shares and supports the ambitious strategy set out for 2011 and confirms its confidence in it.

1

# PRESENTATION OF THE GROUP

# 1.1 History and development of the Group

With a history dating back a hundred years, Euler Hermes has grown both organically and by means of acquisitions. Today's Euler Hermes group grew out of Euler Hermes SFAC in France and Euler Hermes Kreditversicherungs-AG in Germany.

Hermes Kreditversicherungs-AG was founded in 1917 by two members of Münchner Rückversicherungs-Gesellschaft and Globus Versicherungs-AG. In 1949, it began underwriting export credit transactions in the Federal Republic of Germany, in cooperation with Deutsche Revisions-und Treuhand AG. Today, Euler Hermes is Germany's leading credit insurer.

SFAC was founded in 1927 by major insurance companies including General Insurance (the predecessors of AGF) and Compagnie Suisse de Réassurance.

Since its founding, it has been France's leading player in credit insurance.

In the 1990s, SFAC and Hermes embarked on a policy of international expansion, acquiring credit insurers and creating new subsidiaries.

In 1996, AGF became SFAC's majority shareholder, while Allianz took control of Hermes. The same year, the holding company changed its name from SFAC to Euler.

In 1998, Allianz acquired a majority interest in AGF's capital.

In 1999, Euler and Hermes signed a cooperation agreement with a view to coordinating their international expansion.

On April 27th, 2000, Euler was listed on the *Premier Marché* of Euronext Paris. In September 2001, Euler Hermes group and AGF announced their intention to merge their respective credit insurance subsidiaries through the acquisition of Hermes by Euler.

In July 2002, the Euler group finalized the acquisition of Hermes from Allianz group. In order to harmonize the new Group's brands, the various subsidiaries adopted the name Euler Hermes and a single visual identity.

In 2003, the Group and its subsidiaries adopted the name EULER HERMES.

Between 2004 and 2006, Euler Hermes continued its expansion throughout the world: India, China, Russia, Israel, New Zealand, Australia, United Arab Emirates, Argentina, Ireland, Argentina, Dubai.

In 2007, Euler Hermes signed partnership agreements with ICIC (Israeli Credit Insurance Company) in Israel and BOCI (subsidiary of Bank of China) in China. It also acquired UMA (United States) and R2C (Ireland), two debt collection specialists.

In 2008, Euler Hermes launched World Agency, a company specifically dedicated to multinational companies. In the same year, it began operations in Colombia and set up a credit insurance company in Chile.

Since April 1st, 2009 Wilfired Verstraete has been Chairman of the Management Board of the Group.

In September 2009, Euler Hermes implemented a new, more integrated organizational structure, "One Euler Hermes", with the aim of improving the service provided by the Group to companies and strengthening its position as global number one in credit insurance.

Since January 1st, 2010, Clement B. Booth has been Chairman of the Supervisory Board.

In July 2010, Euler Hermes opened its fifth subsidiary in Latin America, in Chile.

On March 9th, 2011, Euler Hermes obtained a license allowing it to operate as an insurance company on the Turkish market.

On March 21st, 2011, Euler Hermes signed a partnership agreement with the Chinese insurance group China Pacific Insurance (CPIC) to bring a credit risk management offering to Chinese companies.

# 1.2 Overview of the Group's activities

Euler Hermes is the world's leading force in credit insurance. In the first quarter of 2011, it had operations in 54 countries worldwide.

Its objective is to promote the business development of companies, whatever their size or sector. Overlaying its core credit insurance business, Euler Hermes has developed a comprehensive range of services for the management of trade receivables. Its clients benefit from its knowledge of corporate risk, built up by teams of experts located closest to buyers across the world.

The basic idea behind credit insurance is to provide insurance coverage for the payment of trade receivables. It is also a strategic tool that enables companies to better understand their customers and the risks they represent. And above all, it allows companies to expand into new markets safely.

## 1.2.1 MAIN ACTIVITIES

### 1.2.1.1 Credit insurance and debt collection

The various insurance policies offered by the Group are built around three major services:

#### Prevention of customer risk

Euler Hermes offers companies its expertise in the management of buyer risk. Its worldwide teams review the financial situations of buyers on a daily basis. Through its prevention services, Euler Hermes helps companies build their growth on solvent customers.

Euler Hermes monitors insolvent companies in the world's main economies. The Group's 1,200 credit analysts and risk underwriters permanently examine the financial health of 40 million companies in over 50 countries. Thanks to its local presence, Euler Hermes draws on a unique data base through which it can offer its clients strategic information and qualified credit limit decisions at both a national and international level.

With a view to offering special support to multinational companies, Euler Hermes launched Euler Hermes World Agency in 2008. Dedicated solely to multinationals, Euler Hermes World Agency offers a team of experts and a range of unique services to help companies manage and secure all their trade receivables. Since its creation, the results of Euler Hermes World Agency have exceeded expectations.

In 2010, the Group broadened its client offering with a new non-cancelable buyer risk cover and a mid-term Transactional & Cover activity launched by Euler Hermes World Agency which saw the first policy signatures in the first quarter of 2011.

#### Collection of unpaid receivables

Euler Hermes has been offering debt collection services as part of its credit insurance policies for decades. Internationally, it is already a major player in the debt recovery sector with specialist teams located around the world. In 2010, it beefed up its debt recovery arm, Euler Hermes Collections which was created in 2009, as part of a strategic move to develop the recovery activity offering for its existing insurance clients (top-up contracts) and to conquer new clients (recovery for third parties). The goal is to offer companies additional and adaptable solutions for the management of their Trade receivables, to diversity the Group's own activity and shore up Group growth. This new entity draws on an international network of recovery agencies and on a shared services centre located in Warsaw, which looks after all of the main support functions. Euler Hermes owes its international ranking in debt recovery to its shared dedicated IT tools, which it continues to expand. The international debt recovery market for third parties offers growth potential for the Group because of its global reach and database of 40 million companies, attributes that few other players benefit from. After rolling out activity in Poland, Germany, Austria and Italy, the Company is now looking to the UK, the US, the Netherlands, Belgium and Central Europe.

#### Indemnification for uncollected debts

Losses on outstanding receivables covered by Group policies are indemnified on the basis of a ratio agreed to between the insurer and its client. The financial strength of Euler Hermes, a subsidiary of AGF and a member of the Euler Hermes group, is a guarantee of strength, protecting the assets of its policyholders.

To guarantee the full range of its services, the Group relies on financial expertise and updated data covering 40 million businesses. This is the Group's true wealth. Its financial experts can help its clients avoid unpaid receivables, and can also tailor solutions based on economic trends by industry or geography.

### 1.2.1.2 Bonding and guarantees

Euler Hermes also offers businesses a broad range of bonding and guarantees for domestic or export markets, thereby offering a real alternative to bank loans. These services are primarily designed for construction and engineering companies, and suppliers of industrial equipment.

Euler Hermes allows companies to free up the funds necessary for them to continue to expand their operations. Germany is the Group's biggest market in this area, followed by the UK, the Netherlands, Scandinavia, France and Poland.

### 1.2.1.3 Other services

#### Financing of trade receivables

To facilitate its clients' applications for bank financing, a service has been created within Eolis, the online contract management application, allowing clients to provide their banks with the percentages covered by credit insurance on an invoice-by-invoice basis.

The Group also sets up financial arrangements with policyholders' banks via securitization programs.

#### Insurance against fraud

Insurance against fraud (Fidelity Insurance) covers businesses against financial losses caused by fraudulent acts by their employees or their providers, such as theft, embezzlement or fraud. This service is currently available in Germany.

#### Reinsurance

The Group also offers reinsurance for its own commitments through its subsidiaries in Switzerland and Luxembourg, which oversee the reinsurance needs of the Group's credit insurance entities.

These subsidiaries guarantee the Group's premiums and claims, a share of which they in turn retrocede to external reinsurers to cover their own risk exposure, protect against multiple losses and increase their underwriting capacity.

This offers certain benefits, notably a reduction in the net commitment on individual risks and protection against multiple or very high losses. For the credit insurance companies and ceding companies, reinsurance provides additional underwriting resources so that they can increase capacity in terms of the number and extent of risks covered. Without reinsurance, the transferor must hold significant additional capital. Reinsurance however does not exempt the ceding company from its commitments to insured parties.

Reinsurance fulfills three key functions:

- it secures capital for the direct insurers and guarantees solvency, as well as stable results in the event of unexpected or major claims;
- it gives insurers the authority to increase their available capacity, which is the maximum amount that they can insure for a claim or a category of claim, by allowing them to underwrite more or bigger risks;
- it gives insurers greater liquidity in the event of a significant claim.

#### Turnover by activities [(1)]

| | 12/31/2010 | | | |
|---|---|---|---|---|
| | All lines of business | Credit Insurance & Debt Collection | Bonding & Guarantees | Other Services |
| Gross Earned Premiums | 1,775,200 | 1,557,179 | 136,748 | 81,272 |
| Service revenues | 372,535 | 314,055 | 8,489 | 49,991 |
| **Turnover** | **2,147,734** | **1,871,234** | **145,237** | **131,263** |
| *% of Group Turnover* | *100.0%* | *87.1%* | *6.8%* | *6.1%* |

| | 12/31/2009 | | | |
|---|---|---|---|---|
| | All lines of business | Credit Insurance & Debt Collection | Bonding & Guarantees | Other Services |
| Gross Earned Premiums | 1,694,486 | 1,483,179 | 129,981 | 81,325 |
| Service revenues | 391,226 | 334,729 | 7,123 | 49,374 |
| **Turnover** | **2,085,712** | **1,817,908** | **137,104** | **130,699** |
| *% of Group Turnover* | *100.0%* | *87.2%* | *6.6%* | *6.3%* |

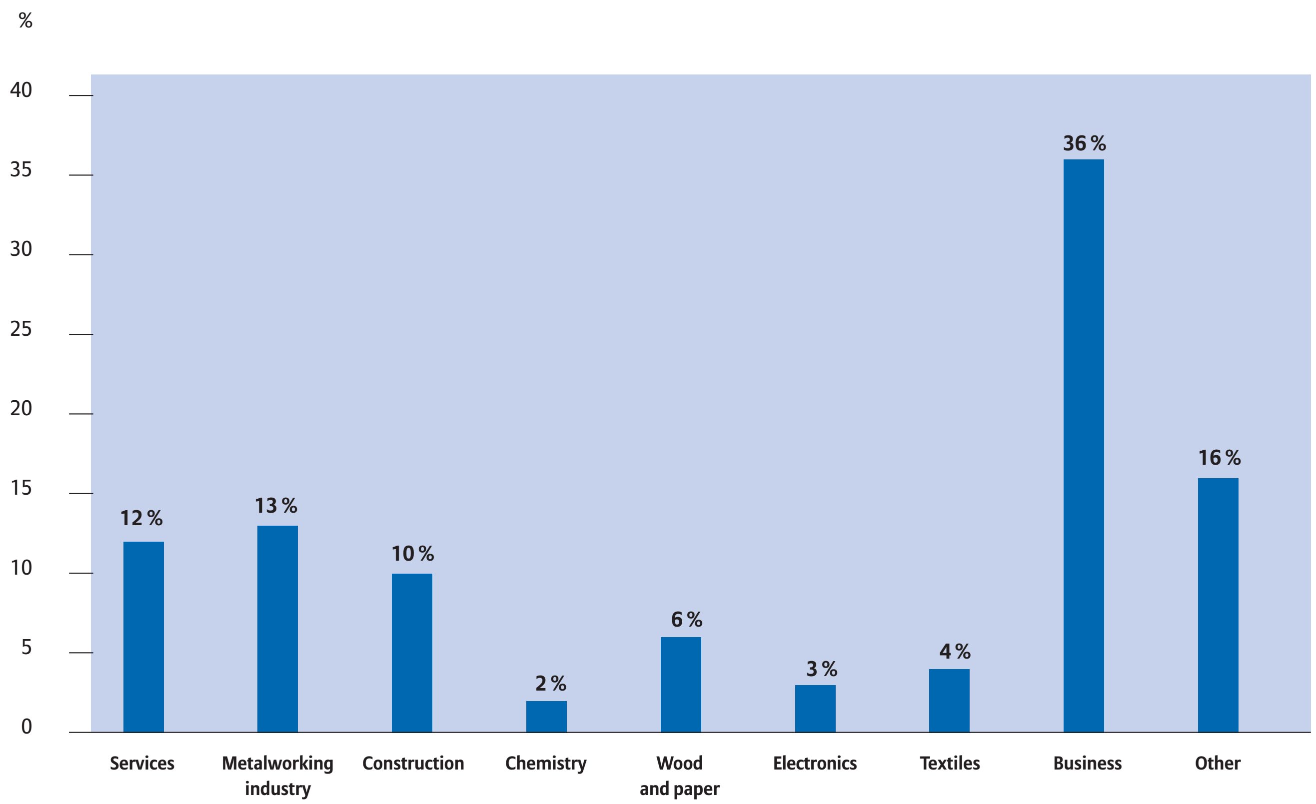
*(1) Data for 2008 are not available on a comparable basis with 2009 and 2010.*

### Turnover by geographic region (1)

| | 12/31/2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Group | Germany | France | Northern Europe | Med. Countries & Africa | Americas | Asia & Pacific | Group Reinsurance & Others |
| Gross Earned Premiums | 1,775,200 | 602,637 | 313,860 | 399,163 | 170,628 | 181,319 | 54,278 | 53,315 |
| Service revenues | 372,535 | 161,860 | 70,305 | 55,228 | 38,552 | 28,367 | 5,057 | 13,165 |
| **Turnover** | **2,147,734** | **764,497** | **384,165** | **454,392** | **209,181** | **209,685** | **59,395** | **66,480** |
| *% of Group Turnover* | *100.0%* | *35.6%* | *17.9%* | *21.2%* | *9.7%* | *9.8%* | *2.8%* | *3.1%* |

| | 12/31/2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Group | Germany | France | Northern Europe | Med. Countries & Africa | Americas | Asia & Pacific | Group Reinsurance & Others |
| Gross Earned Premiums | 1,694,486 | 574,839 | 292,192 | 373,157 | 194,053 | 169,097 | 49,957 | 41,191 |
| Service revenues | 391,226 | 168,860 | 72,490 | 58,048 | 47,115 | 24,570 | 4,342 | 15,800 |
| **Turnover** | **2,085,712** | **743,699** | **364,682** | **431,205** | **241,169** | **193,667** | **54,299** | **56,991** |
| *% of Group Turnover* | *100.0%* | *35.7%* | *17.5%* | *20.7%* | *11.6%* | *9.3%* | *2,6%* | *2.7%* |

## 1.2.2 MAIN MARKETS BY SECTOR IN 2010




*(1) Data for 2008 are not available on a comparable basis with 2009 and 2010.*

## 1.2.3 REAL ESTATE PROPERTY

As at January 1st, 2011, real estate property belonging to the Group represented a total market value of €250.72 million.

This total comprises:

- property belonging to the Group and used for the purposes of its operations: €227.65 million;
- property belonging to the Group and used by other parties: €23.07 million.

Property belonging to the Group and used for the purposes of its operations is the headquarters of:

- EH France: €121.56 million;
- EH Germany: €83.42 million;
- EH Italy: €19.28 million;
- EH USA: €2.69 million;
- EH Morocco: €0.7 million.

Property belonging to the Group and occupied by other parties in France represents a market value of €18.08 million.

## 1.2.4 EULER HERMES' STRATEGY

Euler Hermes' strategy can be divided into three axes in order to address short, mid and long-term challenges:

### 1.2.4.1 Project Excellence

Euler Hermes performed a complete overhaul of its organisational structure. Implemented on January 1st, 2010, the "One Euler Hermes" programme allowed the Group to simplify its structure, clarify its governance, increase transparency and efficiency, thereby enabling it to be better prepared for the future.

In 2011 Euler Hermes enters a new crucial phase in its construction with Project Excellence. This transformation plan is about placing customers at the very heart of Euler Hermes' operations, aligning business processes with its goal of customer centricity and designing its organisation around clients' needs. The Group will complete this transformation over the next three years ensuring that it is in an even stronger position to face future challenges.

Project Excellence is built around three main lines:

- "Customer Centricity", which is designed to standardise Euler Hermes commercial approaches throughout the world and adapt operating methods to clients' needs;
- "Functional/regional blueprint" which defines each entity's mode of functioning even more clearly, in accordance with the Group principles;
- "Productivity/flexibility", which will optimise Euler Hermes' processes so as to generate new resources and reduce costs.

### 1.2.4.2 Investors return

Euler Hermes considers that its business is closely linked to global economic cycles consisting of alternating periods of growth and of contraction in activity that can vary in length. Over ten years, Euler Hermes aims to offer its shareholders a return on equity of around 15% based on an average combined ratio of 80% and an average return on its investment portfolio of 4%.

Euler Hermes also aims to reassure its policyholders as to its financial solidity by targeting a Standard &Poor's rating of at least A+ at any moment of the cycle.

### 1.2.4.3 Strategic focus

Euler Hermes' long-term strategy is to develop its core credit insurance business by focusing on four major axes:

#### Very strong leadership in the European market

Europe, including Eastern Europe, is Euler Hermes' core market. Euler Hermes is the market leader in most European countries and remains on the look-out for any opportunity to strengthen its position in the European market.

Euler Hermes' profitability in its core markets enables it to invest in new sources of growth outside Europe, in line with its clients' growing needs and in the regions showing potential.

#### Significant new &sources of growth

Euler Hermes' economic research works show that growth, at least industrial production growth, happens mainly in Asia and South America. Therefore the Group defined a number of countries – even provinces in China – and business sectors to target in Asia and South America. At the same time Euler Hermes is investing in order to build up critical mass in information and risk underwriting, and develop sales networks.

In the USA, Euler Hermes launched the Mission California project. The goal is to treat California as a standalone market in terms of sales and underwriting operations. The Group will invest considerable marketing and strategic manpower resources to conquer the California market and its key industry sectors.

### Generalising the use of standardised and shared IT solutions throughout the Group

Euler Hermes began to introduce standardised software tools within the Group in the early 2000s when it introduced the IRP application (Information, Risk and Policy management), developed in-house, which facilitates the extensive use of detailed information across the world. This software application has been used by all Group's subsidiaries since 2004.

Each Group company is responsible for underwriting decisions for its own account in its geographical area of competence and for arbitrating underwriting requests from sister companies relating to credit risk in its area of regional competence. The sharing of best practices throughout the Group continues to be an essential means of increasing productivity at all subsidiaries.

In this respect, Euler Hermes started in 2010 to modernize its commercial management applications. This plan covers the entire value chain from the prospects, the commercial contracts to the billing of the premiums and exchange of information with the policyholder. Major targets in this context are the implementation of a state-of-the art CRM system, a new policy administration system and the complete, Group wide harmonisation of the respective processes and KPIs.

Euler Hermes has successfully implemented a new IT application for its claims handling processes in Germany. Due to higher prioritization of commercial tool implementations the further roll-out is frozen, whereas the administration and claims platform for small entities (Pluriform) will be completely harmonized as well.

Euler Hermes has also launched a standardisation project of its debt collection procedures throughout the Group by implementing a new Group IT tool which allows to create a better interactivity with the policyholders and also to develop a commercial offer for clients that are not policyholders by using the same IT platform. After implementation of four countries in 2010 all other units will be implemented in the next two years and therefore the whole Group will share a common process and IT platform.

Euler Hermes has also launched a project to harmonise accounting and controlling procedures throughout the Group by rolling out SAP at all its main operational entities. At end-2009, all its large European subsidiaries had migrated to this shared platform and the North American subsidiary migrated to the same platform in 2010. Next strategy implementation steps will be a completely harmonised charter of account and the implementation of a single third risk carrier in Europe.

With the German mainframe migration to a modern and flexible technical platform now all Group applications/units are running in one main data centre.

To maintain this technical advantage, which is unique within Allianz and to enable the above mentioned business initiatives, a set of technical projects have to be conducted in the next couple of years.

### Enlarged offer and services to customers

Euler Hermes aims at working closely with its business partners to further understand their needs and thereby increase customer loyalty. The Group has developed a client segmentation model composed of five categories based on the Company's size, the volume of premiums, the industrial sector, claims history and potential. This information will enable Euler Hermes to create a new service model that can be used worldwide and will benefit both its policyholders and its teams. A Customer Relationship Management (CRM) tool will also be introduced *(see above)*.

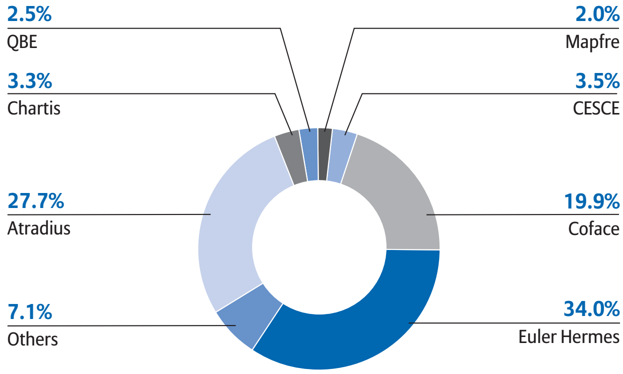
Thanks to Euler Hermes World Agency's achievements, the Group is now market leader in the multinationals segment. It will continue improving its service to these key customers for reputation and profitability.

The Group expanded its offer to them and introduced policies with non cancelable cover and a midterm cover product. It will actively pursue the development of this activity in 2011.

Euler Hermes makes access to credit insurance easier for SMEs in strengthening partnerships established with banks, like HSBC. The Group's offer will be harmonized with the introduction of a standardized worldwide policy.

## 1.2.5 COMPETITIVE POSITIONING AS AT DECEMBER 31ST, 2010

### MARKET SHARES IN 2010




Euler Hermes carries out most of its business on the main markets of Western Europe and the United States, and is actively developing in Latin American and Asian countries. The type and intensity of competition varies from country to country. Euler Hermes competes against the other credit insurers mentioned above on its main products and on each of its markets. The main competitive factors are as follows:

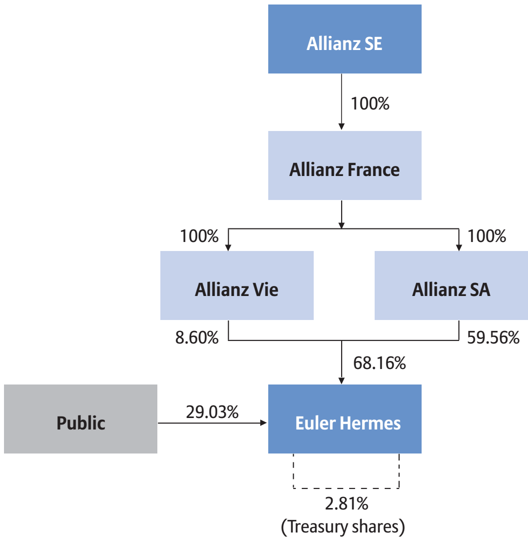
- price;
- service quality;
- distribution network;
- brand image;
- ratings for financial solidity and ability to settle claims; and
- change in regulation, insofar as this impacts contract pricing of the cost of claims.

# 1.3 Shareholding structure as at December 31st, 2010

During 2010, the number of Euler Hermes shares held by Allianz SA and Allianz Vie was unchanged at 30,744,048. This represents a stake of 68.16% in Euler Hermes' share capital and 70.14% of voting rights as at December 31st, 2010.

The free float covered 29.03% of Euler Hermes' share capital, and 29.86% of voting rights.

Euler Hermes holds 1,267,444 treasury shares representing 2.81% of its capital.




| Shareholder | Number of shares | % | Voting rights | % |
|---|---|---|---|---|
| Allianz Vie | 3,879,818 | 8.60% | 3,879,818 | 8.85% |
| Allianz SA | 26,864,230 | 59.56% | 26,864,230 | 61.28% |
| **Total Allianz France** | **30,744,048** | **68.16%** | **30,744,048** | **70.14%** |
| **Treasury shares** | **1,267,444** | **2.81%** | **0** | **0.00%** |
| **Public** | **13,091,240** | **29.03%** | **13,091,240** | **29.86%** |
| **TOTAL** | **45,102,732** | **100.00%** | **43,835,288** | **100.00%** |

# 1.4 Summary of Group structure

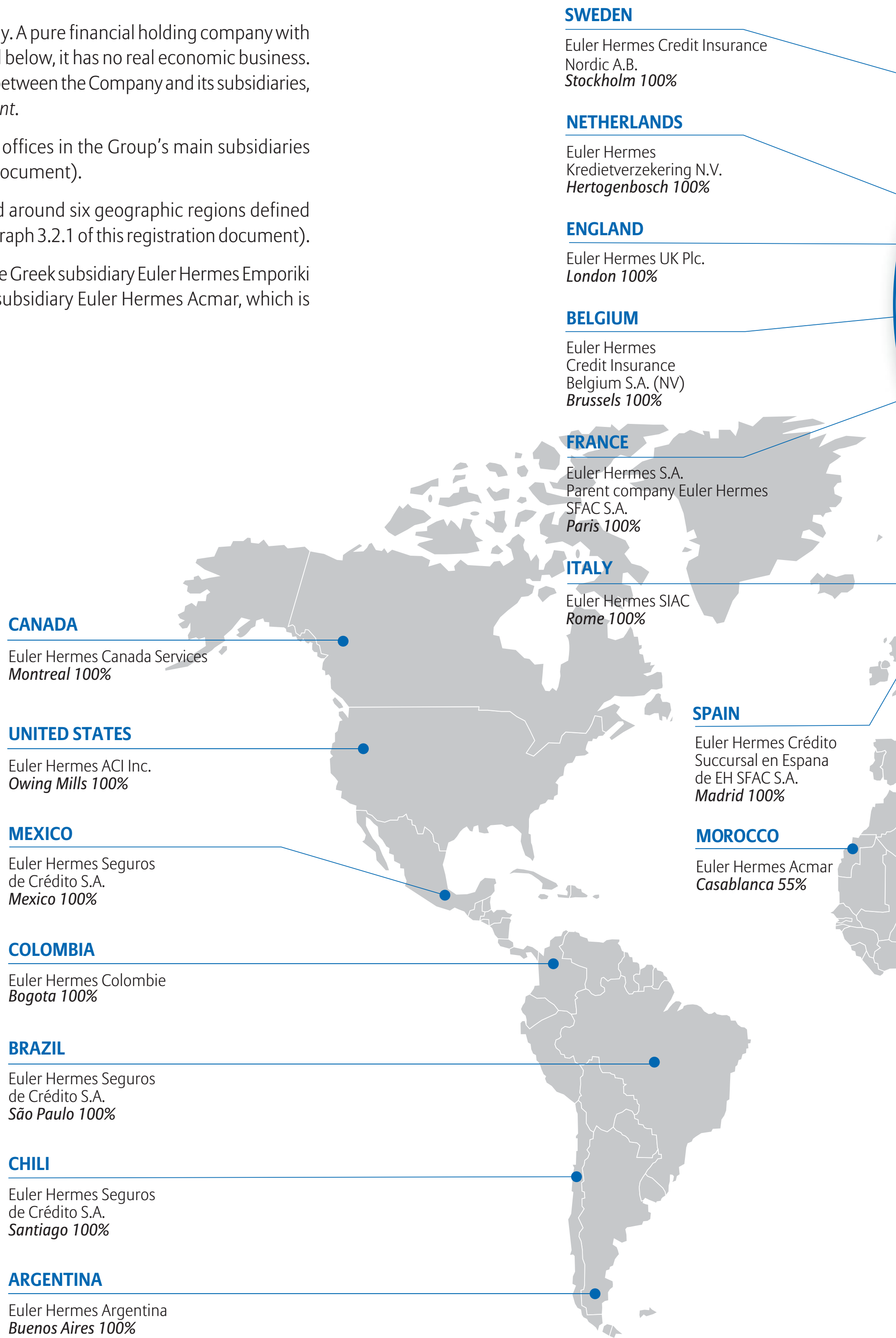
## 1.4.1 RELATIONSHIPS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES

Euler Hermes SA is the Group parent company. A pure financial holding company with equity interests in the companies mentioned below, it has no real economic business. For a detailed presentation of the main flows between the Company and its subsidiaries, *see paragraph 6.3 of this registration document*.

The Company's corporate officers also hold offices in the Group's main subsidiaries (paragraphs 2.3 and 8.3 of this registration document).

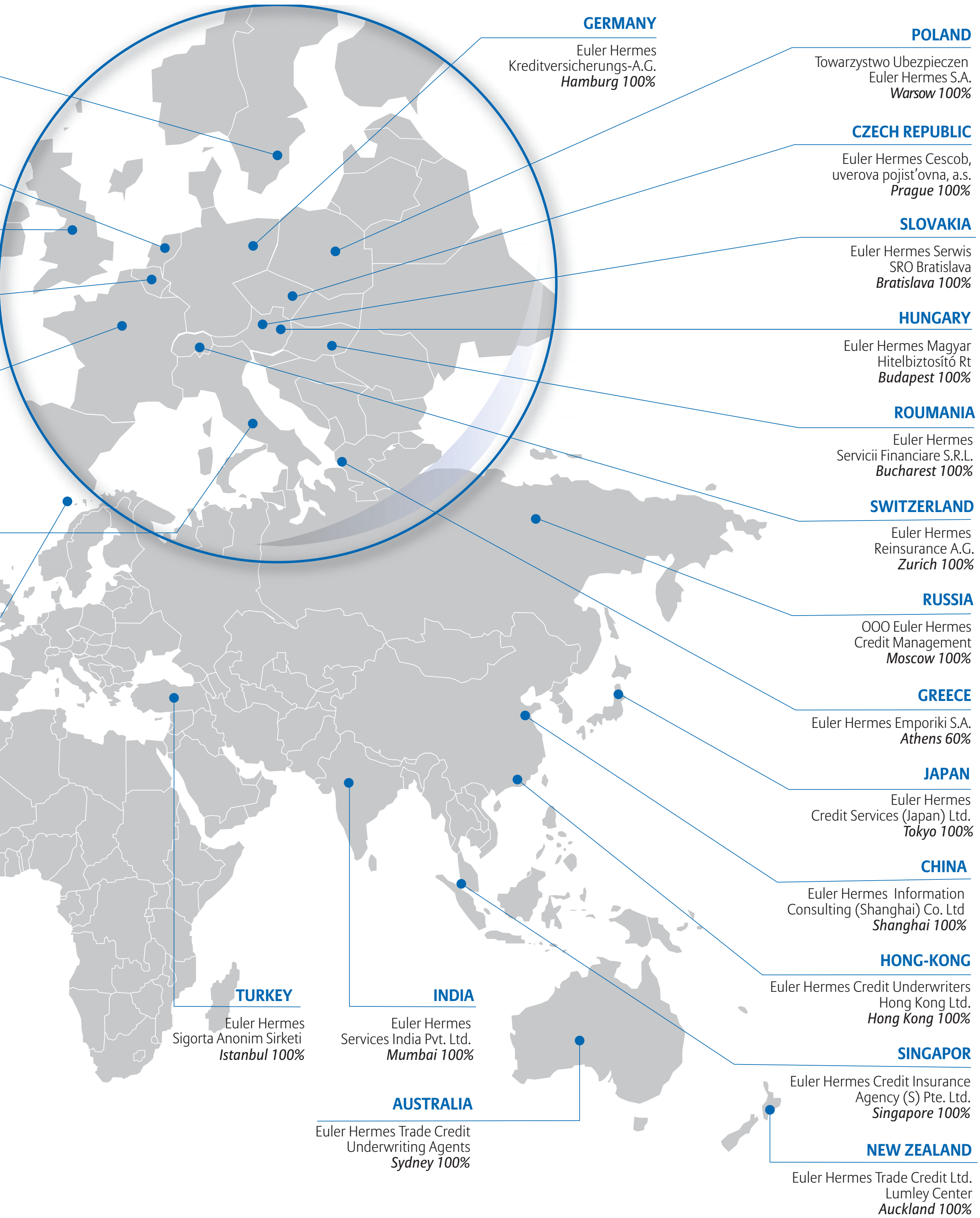
The Group's economic organization is based around six geographic regions defined under the "One Euler Hermes" project (paragraph 3.2.1 of this registration document).

Relations with the minority shareholders of the Greek subsidiary Euler Hermes Emporiki SA, which is 60% owned and the Moroccan subsidiary Euler Hermes Acmar, which is 55% owned, are governed by an agreement.



## 1.4.2 ORGANIZATIONAL CHART

The organizational chart below shows the simplified organization of the main companies making up the Group at December 31st, 2010 (for a detailed presentation of the subsidiaries purchased in 2010, *see paragraph 3.3.1.1 of this registration document*).



# 1.5 Workforce information

## WORKFORCE SIZE AND MOVEMENTS

The Group had a total of 6,204 employees as at December 31st, 2010, with 5,913 people on permanent contracts and 291 on temporary contracts. The Group remained very attractive in 2010, with many applications received over the year. Euler Hermes hired 689 employees, including 207 on temporary contracts.

The workforce detailed below covers employees with an employment contract with the subsidiary at year-end, *i.e.* December 31st, 2010. For proportionately consolidated companies, the data correspond to the Group's share of consolidated financial statements. The workforce of equity associates is not taken into account.

| | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Germany | 2,022 | 2,041 |
| Switzerland | 51 | 50 |
| **Total Germany & Switzerland** | **2,073** | **2,091** |
| France | 1,137 | 1,100 |
| **Total France** | **1,137** | **1,100** |
| United-States | 444 | 453 |
| Mexico | 42 | 40 |
| Brazil | 26 | 27 |
| Argentina | 6 | 7 |
| Chile | 5 | - |
| Colombia | 5 | 5 |
| **Total America** | **528** | **532** |
| United Kingdom | 472 | 505 |
| Belgium | 219 | 214 |
| Nordic | 164 | 152 |
| Netherlands | 117 | 143 |
| Poland | 114 | 97 |
| Hungary | 61 | 71 |
| Czech Republic | 54 | 49 |
| Lithuania | - | 20 |
| Slovakia | 30 | 36 |
| Romania | 28 | 27 |
| Latvia | - | 5 |
| Estonia | - | 11 |
| Russia | 17 | 1 |
| **Total Northern Europe** | **1,276** | **1,331** |
| Italy | 407 | 394 |
| Spain | 86 | 95 |
| Greece | 53 | 61 |
| Turkey | 17 | - |
| Morocco | 40 | 39 |
| **Total Mediterranean Countries & Africa** | **603** | **589** |

| | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Singapore | 40 | 100 |
| Australia | 19 | 16 |
| Hong Kong | 41 | 57 |
| China | 23 | 26 |
| Japan | 21 | 25 |
| New Zealand | 11 | 9 |
| India | 11 | 14 |
| **Total Asia Pacific** | **166** | **247** |
| Switzerland | 9 | 7 |
| Luxembourg | - | - |
| **Total Captive of reinsurance** | **9** | **7** |
| Poland | 412 | 304 |
| **Total Collection** | **412** | **304** |
| **TOTAL EULER HERMES GROUP** | **6,204** | **6,201** |

The average age of employees was 40 and their average length of employment was 11 years.

**Workforce information by gender**

| | Data as of December 31st, 2010 | | |
|---|---|---|---|
| **Item** | **Total** | **Female** | **Male** |
| Contracted Headcount | 6,204 | 3,173 | 3,031 |
| Managers | 899 | 244 | 655 |
| Trainees | 106 | 57 | 49 |
| Average Age | 40.63 | 39.80 | 41.55 |
| Average Tenure | 11.39 | 11.77 | 11.02 |
| Total recruitments | 689 | 327 | 362 |
| Total leavers | 634 | 325 | 309 |

## EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING

As in previous years, there was constructive dialogue with employee representatives within the Group in 2010. In France, four new agreements were signed end of 2009 with trade unions and are in force since 2010.

## HEADCOUNT ADJUSTMENTS AND RELATED MEASURES

For 2010, there was no collective redundancy within the Group. The 206 redundancies in 2010 were local and individual.

In the current economic environment, lacking visibility, Euler Hermes aims to run its business in the most efficient way by launching the transformation program “Excellence” to improve the Group’s long term competitive edge both on market and cost side over the next three years. On market side, Euler Hermes targets to enable growth through a new global customer segmentation and a service model granting higher client satisfaction. On cost side, Euler Hermes targets to build an effective global platform able to generate operational productivity gains through harmonized processes and simplified legal structures. Euler Hermes has engaged discussions with employee representatives in order to present the “Excellence” program in detail. At December 31st, 2010, after discussion with employee representatives, Euler Hermes recorded a provision for personnel expenses of €57 million and a restructuring expense of €16 million, comprising consultancy costs for the project and early impairment of IT investments destined to be replaced by new applications. The Group expects to implement the program “Excellence” during 2011.

## WORKING TIME, OVERTIME, TEMPORARY STAFF, ABSENTEEISM

In each country where Euler Hermes has operations, the organization and duration of working time strictly adhere to local regulations and industry agreements.

In France, agreements on the reorganization and reduction of working time, part-time work and annual leave were signed on May 27th, 2003. A time-saving plan was also established.

The Group has implemented a system of monthly reports to monitor the rate of absenteeism. In December 2010, 271 employees were absent, out of a Group total of 6,204 employees. The main causes of absenteeism are illness, pregnancy or early retirement, particularly in Germany.

## REMUNERATION, PAYROLL EXPENSES, PROFIT SHARING, INCENTIVES, COMPANY SAVINGS SCHEME

### Remuneration

For Euler Hermes SFAC, the mandatory annual negotiations for 2010 were effective from April 1st, 2010, there was a general salary increase (from 0.7% to 1.2%) for all employees working for Euler Hermes SFAC on December 31st, 2009 and on the effective date of the increase, except for “Senior Executives”. The minimum annual increase was €375.

The above measures were complemented by an additional company contribution for each participant in the company Savings Plan of €480 in total, as based on industry and Company agreements.

### Payroll expenses

Total payroll expenses for 2010 amounted to €306.69 million, excluding social security charges. The Group’s social security charges for 2010 totaled €107.09 million.

### Profit Sharing

On December 7th, 1994, Euler Hermes SFAC, Euler Hermes SFAC Credit and Euler Hermes SFAC Recouvrement agreed a profit-sharing plan that benefits all employees of these companies after three months’ service. This agreement is for an unlimited period. The agreement was amended on January 27th, 1998 to include Euler Hermes Services. On March 3rd, 2010, the agreement was amended on its Article II (Investment or payment of the legal portion). The plan’s benefits were extended to employees of Euler Hermes services.

### Incentives

On May 5th, 1999, Euler Hermes SFAC, Euler Hermes SFAC Credit, Euler Hermes SFAC Recouvrement and Euler Hermes Services agreed an incentive plan that benefits all employees of these companies after six months’ service. This agreement was made for a three-year period from January 1st, 1999 and was renewed under the same terms in 2002 and 2005. It is a continuation of the incentive agreements dated June 18th, 1991, June 27th, 1994 and June 17th, 1996.

For information, the amounts paid under the incentive and profit-sharing schemes for the years ended December 31st from 1998 to 2010 were as follows:

| Year | Incentives UES EH-SFAC (in € thousands) | Profit-sharing UES EH-SFAC (in € thousands) |
|---|---|---|
| 1998 | 3,294 | 1,990 |
| 1999 | 3,994 | 2,338 |
| 2000 | 3,610 | 2,432 |
| 2001 | 4,960 | 2,515 |
| 2002 | 3,484 | 2,005 |
| 2003 | 4,435 | 2,495 |
| 2004 | 5,000 | 2,700 |
| 2005 | 5,289 | 2,789 |
| 2006 | 6,146 | 2,845 |
| 2007 | 6,871 | 3,158 |
| 2008 | 4,820 | 3,233 |
| 2009 | 7,096 | 3,037 |
| 2010 | 2,744 | 5,554 |

### Company savings scheme

On June 15th, 1994, a company savings scheme was set up for the employees of Euler Hermes SFAC, Euler Hermes SFAC Credit and Euler Hermes SFAC Recouvrement. On January 27th, 1998, the benefits of this scheme were extended to the employees of Euler Hermes Services. The scheme benefits all employees of these companies after three months’ service. It was set up for an initial period of one year, renewable by tacit agreement.

It can be supplemented by amounts from profit-sharing plans and all or part of the incentive plans, by subscribers’ voluntary contributions, by a company contribution, by portfolio income and capital gains, by related tax credits and, where applicable, by the transfer of amounts from profit-sharing plans after a five-year lock-in period.

## DIVERSITY

Both at the local and international levels, Euler Hermes success relies on the talent and cultural diversity of its staff. Euler Hermes' sees cultural diversity as a valuable asset for gaining a better understanding of the mechanisms of world trade and providing businesses with services adapted to their needs. For this reason the Group launched the Diversity project in 2008 to coordinate and harmonize human resources policies at all Group entities. This project is based on essential concepts such as gender balance and equal treatment: access to employment and training, pay, career progress, integration of disabled people etc. Diversity awareness workshops have been organized to heighten managers' awareness of these issues and enable them to respond to them. This project continued in 2010.

Since January 1st, 2010, an agreement on professional equality was set up for the employees of Euler Hermes SFAC, Euler Hermes SFAC Credit, Euler Hermes SFAC Recouvrement and Euler Hermes Services.

## HEALTH AND SAFETY

In each country where Euler Hermes has operations, health and safety rules strictly adhere to local regulations and industry agreements.

## GLOBAL TRAINING POLICY

Euler Hermes has built its reputation and position as global leader on its professionalism and an experience acquired over more than a century. All the Group's employees share the same values, methods and tools. It is essential to recruit the best talent and integrate it into a strong corporate culture to ensure consistency at Group level and the same quality of service throughout the world. Training is a means of developing employees' talents. All the Group's credit analysts attend seminars on Euler Hermes' Risk Business Model to learn to use the same methods and tools. This guarantees consistency in the grading of companies and facilitates mobility between the various Group entities.

Other training is provided to respond to employees' needs, such as the Management Development seminar for young staff with high potential.

Trust, consistency and shared objectives are the necessary bases for working in an international and decentralized group. They are the key factors of the success of Euler Hermes' business model.

In 2010 a budget of €4,517 million was allocated to training. This budget represented 1.47% of total payroll expense.

## ENCOURAGING ITS STAFF'S DEVELOPMENT

Euler Hermes exists thanks solely to its clients and employees. The staff's skills, knowhow and commitment are the Group's strength and driving force.

Euler Hermes therefore undertakes to provide ongoing training and encourage mobility and diversity so as to create a climate of excellence, trust and commitment to better serve clients.

## DEVELOPING TALENT TO ENCOURAGE PERFORMANCE

The skills, knowhow and daily commitment of Euler Hermes' employees at the service of its clients are the bases of the Group's performance. Its human resources policy is designed to develop talent and encourage cultural diversity to meet the challenges of a globalised economy.

The essence of the Group consists of its 6,204 employees spread throughout more than 50 countries. They work together on a daily basis to insure clients' trade receivables throughout the world. Each employee works as part of a network with correspondents everywhere in the world to respond to the needs of local businesses. All their talents are used to achieve this goal.

## SOCIAL RESPONSIBILITY AND COMMITMENT

Some examples of the Group's social responsibility and commitment to sustainable development at local level:

### Germany

At the German entity, the various departments compete in terms of energy savings. The department that achieves the largest energy savings relative to the previous year receives an award.

### United States

For the past ten years, Euler Hermes ACI has operated a scheme of financial aid for the Johns Hopkins Children's Center. Seventy percent of the staff have contributed, raising a total of $17,000 for the centre. Euler Hermes ACI for its part increased to $35,000 the aid granted to sick children and their families.

### France

Dematerialization is an integral part of Euler Hermes SFAC's processes. The vast majority of communications and exchanges of documents with clients are now electronic via the EOL IS extranet system and no longer by post or fax.

Electronic documents undergo various processes to ensure their integrity, duration and traceability. Each client has an electronic safe.

### Hong Kong

The Group's Hong Kong subsidiary encourages its staff to take part in charity events throughout the year. In 2009, many of the staff took part in Green Power Hike and the Community Chest's Dress Special Day.

### Italy

In 2009, the Italian entity once again showed its strong commitment to helping children by adopting ten children at a distance in different parts of the world and supporting various other initiatives, such as the City of Children and thirteen joint actions with Allianz Italy.

For several years now, Euler Hermes SIAC has also been supporting the development, educational and healthcare projects implemented by the not-for-profit association AMRE in Africa.

### Poland

Euler Hermes' Polish subsidiary invests heavily in staff training, enabling 80 employees to obtain post-master diplomas in finance with a specialization in insurance. In addition, 220 employees have attended foreign language courses and 45 have attended management courses. All the sales staff also received sales training while the other departments have received training in their specific areas.

### Vietnam

Euler Hermes' German subsidiary finalized a credit cover contract for Vietnam's first wind farm ever. Thanks to the guarantee issued by Hermes and in partnership with lender Landesbank Baden-Württemberg in Leipzig, the entire wind farm is now planned to be carried through, contributing to developing environmental friendly practices in Vietnam.

By substituting for conventionally produced energy, some 58,000 tons of $CO_2$ emissions a year will be saved. The project is registered as Clean Development Mechanism (CDM) project within the framework of the Kyoto Protocol.

## CONTRIBUTION TO REGIONAL DEVELOPMENT AND EMPLOYMENT, SUB-CONTRACTING

### Contribution to regional development and employment

The Group seeks to promote economic development in the areas where it operates by providing business customers with insurances to drive the growth of their businesses.

The Group takes steps to ensure that local employees are promoted to positions of responsibility. The number of expatriate positions is intentionally restricted.

### Sub-contracting

Euler Hermes Tech is in charge of the Group's information technology systems. Euler Hermes Tech has no employee and is relying entirely either on employees made available by other subsidiaries of the Group or external consultants by sub-contracting.

## BUSINESS ETHICS

The Group acceded through its main shareholder, Allianz, to a code of conduct for Business Ethics and Compliance which reflects the principles defined by the UN Global Compact and the OECD Guidelines for Multinational Corporations. These are values which are implemented within the Group.

## ECONOMIC SUSTAINABLE DEVELOPMENT

Euler Hermes integrates sustainability and corporate responsibility into its business.

### Generating sustainable performances

Involving Group employees in coherent and efficient action to win clients' trust is the role of the leadership values adopted by all the staff.

Since 2001, Euler Hermes has focused on promoting the five values that are shared throughout the Euler Hermes group. These values guide the actions of each employee to enable the Group to achieve its objectives, satisfy its clients and strengthen its foundations a little more each day.

### Align strategy and communication

By ensuring the consistency of its actions, strategy, communications and commitments, Euler Hermes offers clients and the business world in general a clear and transparent view.

Thanks to this coherence, its staff can commit to assisting clients' business development and insure their trade risk. The transparency of Euler Hermes' approach, its organization, the interaction between the various entities, its methods and its tools are a further guarantee of coherence and reliability.

### Promote a culture of excellence

Euler Hermes sees performance as the principal factor of excellence and sustainable growth. Seeking to achieve excellence is a constant motor for progress so as meet the challenges of economic globalization.

All the Group's staff share and contribute to achieving the same goal: be the preferred partner for trade receivables management worldwide.

Each employee has a role in attaining this goal. Euler Hermes promotes initiative and encourages each employee to take part in achieving improved performances.

### Focus on its clients

The Group has taken numerous steps to adapt its organization to its environment: information systems, sharing of best practices, training, mobility, etc.

All these initiatives place the client as the focal point of reflection. How to improve service? How to respond better to clients' needs? These are the questions that must be asked each day so that the Group's strategy can progress.

# 1.6 Environmental information

The environmental impact of any company's activities is a key dimension that must be taken into account in all aspects of its strategy. But the environmental dimension is relatively hard to grasp for credit insurance, which is part of the broader insurance sector. By their nature, Euler Hermes' operations have a small ecological footprint, meaning that inherent environmental risk is immaterial *(see section 4.2.5.5 below)*. The Group has therefore made no provisions or guarantees to cover this risk, and no compensation was paid during the year following a court ruling on environmental issues.

However, the Group is committed to reducing the environmental impact of its operations by means of a sustainable-development policy. An accountability process has been initiated, and many efforts have been made to ensure that better use is made of available human, material and natural resources by all Group entities in France and abroad.

Direct consumption of water and non-renewable energy resources is not significant in the credit insurance business. Likewise, the conditions of land use, and water, air and soil emissions affecting the environment are either immaterial or non-existent in this business. The Group's activities do not place it at risk of pollution that could have consequences outside its premises.

Energy-using equipment is checked regularly and replaced so that it meets appropriate safety, consumption and comfort standards at all times. The Management Board has approved a new charter governing the workplace environment, which factors HQE (High Quality Environmental) standards into the selection process. In France, the Lyon office has opted to move to new HQE-certified premises, thereby enjoying a workspace that meets the highest standards of energy consumption. Additionally, a central function in each Group entity, the directorate general services, is tasked with developing operating guidelines to ensure that the technical management of the Group's premises complies with local regulations. Thus, periodic inspections are conducted to detect the presence of bacteria and asbestos in Group premises. Further Veritas-type checks are made on electrical installations.

The Group's commitment to sustainability is also reflected in its choice of suppliers, based on their commitment to recovering and reprocessing material at the end of its lifecyle. In many subsidiaries, waste sorting is systematic.

The use of paper is a major concern for the Group: Group companies send several million letters every year, and millions of printouts are made. In recent years, internet links between the Group and its clients have been developed, helping make everyday communications fast, accurate and economical. For domestic paper consumption, effort is made to use recycled raw materials. Moreover, the configuration and development of small computers have increased their storage capacity, allowing archiving space to be saved and reducing the need for "paper" records.

Lastly, the Group subscribes to the goal of reducing our carbon footprint. In November 2010, Euler Hermes websites received "carbon neutral" certification. The energy consumed by servers and connections to Euler Hermes websites is offset by a fee paid to European projects aimed at financing the development of renewable energy sources. This initiative was taken in partnership with "$CO_2$ Neutral Website," a Danish organization, and the European Union. For business travel, Euler Hermes prefers trains to planes, when distances allow. And the Group's car fleet is renewed in accordance with recent anti-pollution standards applied by manufacturers.

# 1.7 Other factors likely to impact the Group's activity

The recent events in North Africa have not affected the Group's activities. The Group is closely monitoring the political situation in these countries to assess the risks in the longer term.

The Group has taken all necessary measures to limit its exposure to the risk following the natural and nuclear disaster in Japan. This unprecedented chain of events means that it is difficult for the Group to make reliable forecasts about Japan's economic future and therefore to plan continuing operations and granting new credit limits there.

# 2

# CORPORATE GOVERNANCE

Euler Hermes is a Limited Company with a Group Management Board and a Supervisory Board.

The Group is governed by the Group Management Board, which is in turn supervised by the Supervisory Board.

The Group Management Board members and the managers of the various subsidiaries, the heads of region and the directors of the Company's central functions are appointed in accordance with the expertise that they possess in the exercise of their responsibilities and their experience in management matters.

No members of the corporate governance bodies have been found guilty of fraud, involved in a bankruptcy, subject to a receiving order or liquidation, or subject to an official public sanction during the past five years.

The Company applies the principles of corporate governance by adapting them as required for the direction and control of its subsidiaries.

These principles have thus been implemented within the largest subsidiaries and are described in the Chairman's report pursuant to Article L. 225-68 of the French Commercial Code.

# 2.1 The Company's management and supervisory bodies

## 2.1.1 COMPOSITION, OPERATION AND POWERS OF THE GROUP MANAGEMENT BOARD

The Group Management Board is the Company's collective decision-making body. The Group Management Board exercises all its powers collectively, but its members share supervision of the Group's central functions.

### 2.1.1.1 Composition and organization of Group Management Board terms of office

On December 31st, 2010, the Company's Group Management Board was composed as follows:

- Wilfried Verstraete, Chairman, appointed as Group Management Board member and Chairman on April 1st, 2009. He is in charge of coordinating the Group Management Board members' work, steering and coordinating the activities of all the Group's companies, and representing the Company towards third parties. He also supervises the Group's Internal Audit, Human Resources and Communication function and the Company Secretary department;
- Gerd-Uwe Baden, appointed as Group Management Board member on May 25th, 2004. He is in charge of the Group's Risks – Information – Litigation function;
- Nicolas Hein, appointed as Group Management Board member on May 25th, 2004. As the Group's Chief Financial Officer, he is in charge of the Group's central Finance, Compliance, Legal, Fiscal and Risk and Reinsurance function;
- Michel Mollard, appointed as Group Management Board member on May 25th, 2004. He is in charge of the Group's central Marketing, Subscription Sales and Distribution function;
- Dirk Oevermann, appointed as Group Management Board member on December 2nd, 2009 effective as of February 1st, 2010. He is in charge of operations and, to this effect, supervises the central IT function.

| Members' names | Date of first appointment | Date appointment last renewed | Date appointment expires |
|---|---|---|---|
| Wilfried Verstraete, Chairman | 04/01/2009 | 02/17/2010 | 03/31/2012 |
| Gerd-Uwe Baden | 05/25/2004 | 02/17/2010 | 03/31/2012 |
| Nicolas Hein | 05/25/2004 | 02/17/2010 | 03/31/2012 |
| Michel Mollard | 05/25/2004 | 02/17/2010 | 03/31/2012 |
| Dirk Oevermann | 02/01/2010 | N/A | 03/31/2012 |

In the Supervisory Board's meeting on February 17th, 2009, the Board put forward and approved a proposal to appoint Wilfried Verstraete as Group Management Board member and Chairman to replace Clemens von Weichs, effective as of April 1st, 2009.

The new Group Management Board, as it stood at April 1st, 2009, was reappointed for a three-year term, through to March 31st, 2012.

In the Supervisory Board's meeting on December 2nd, 2009, the Board put forward and approved a proposal to appoint Dirk Oevermann as Group Management Board member to replace Michael Hörr effective as of February 1st, 2010.

The Group Management Board members' terms at Company subsidiaries or, occasionally in companies outside the Group are detailed in paragraph 2.3 of this registration document.

Furthermore, none of the members of the Group Management Board was in a position of conflict of interests with regard to any decisions taken by the Company. If this were the case, the decision is an integral part of the regulated agreements and commitments, including the Statutory Auditors' report in paragraph 8.3 of this registration document.

The number of offices held by members of the Group Management Board is in accordance with Article 11 of the French Law 2001-420 on New Economic Regulations (NRE) dated May 15th, 2001.

There is no service contract linking the members of the Group Management Board to the Company or any one of its subsidiaries that provides for the granting of benefits at the end of such a contract.

### 2.1.1.2 Operation of the Group Management Board

The Group Management Board's operation is covered in detail in the Supervisory Board Chairman's report on the composition, conditions for preparation and organization of the Supervisory Board's work and the internal control and risk management procedures in effect at the Company, in paragraph 2.4 of this registration document.

## 2.1.2 COMPOSITION AND OPERATION OF THE SUPERVISORY BOARD

The Supervisory Board continuously monitors the Company's management by the Group Management Board and gives this Board the prior authorizations required under the law or the Articles of Association. Moreover, the Supervisory Board appoints the members of the Group Management Board and its Chairman.

### 2.1.2.1 Composition and organization of Supervisory Board terms of office

The members of the Supervisory Board as at December 31st, 2010 were as follows:

- Clement Booth, Chairman;
- Brigitte Bovermann, Vice-Chairperson;
- Philippe Carli;
- Elisabeth Corley;
- Charles de Croisset;
- Nicolas Dufourcq;
- Robert Hudry;
- Thomas-Bernd Quaas;
- Jean-Hervé Lorenzi;
- Yves Mansion; and
- Jacques Richier.

On September 18th, 2009, Clement Booth was appointed as Supervisory Board member and Chairman, effective as of January 1st, 2010.

In the Ordinary Shareholders' Meeting on May 21st, 2010, Charles de Croisset, Robert Hudry and Jean-Hervé Lorenzi were reappointed as Supervisory Board members for a three-year term, until the Shareholders' Meeting called to vote on the financial statements for the financial year ending on December 31st, 2012.

In the same Ordinary Shareholders' Meeting, Brigitte Bovermann, Thomas-Bernd Quaas, Nicolas Dufourcq and Jacques Richier were appointed as Supervisory Board members.

In its meeting on July 29th, 2010, the Supervisory Board decided to appoint Brigitte Bovermann as Vice-Chairperson of the Supervisory Board.

Based on the information provided for each member of the Supervisory Board, the number of offices held by Supervisory Board members is in line with Article 225-77 of the French Commercial Code.

The Supervisory Board members' other offices are described in paragraph 2.4 of this registration document.

There is no service contract linking the members of the Supervisory Board to the Company or any one of its subsidiaries that provides for the granting of benefits at the end of such a contract.

### 2.1.2.2 Independence of Supervisory Board members

The members considered to be independent under the terms of the AFEP/MEDEF Code and the independence criteria are covered in detail in the Supervisory Board Chairman's report on the composition, conditions for preparation and organization of the Supervisory Board's work and the internal control and risk management procedures in effect at the Company, in paragraph 2.4 of this registration document.

### 2.1.2.3 Operation of the Supervisory Board and its committees

The Supervisory Board's operation and its committees' operation are covered in detail in the Supervisory Board Chairman's report on the composition, conditions for preparation and organization of the Supervisory Board's work and the internal control and risk management procedures in effect at the Company, in paragraph 2.4 of this registration document.

# 2.2 Remuneration and benefits in kind received by corporate officers

In its meeting on November 5th, 2008, the Supervisory Board received the AFEP/MEDEF recommendations dated October 6th, 2008 on the remuneration of executive corporate officers of listed companies.

It considers that these recommendations are part of the Company's approach to corporate governance.

As a consequence, in application of the law dated July 3rd, 2008 adapting the European Directive 2006/46/EC dated June 14th, 2006, the modified AFEP/MEDEF Code has been Euler Hermes' reference since 2008.

Moreover, as of January 1st, 2011, the Group, with a view to harmonizing the remuneration rules applicable to executives of the Euler Hermes group and improving the governance of the Group, decided to transpose for the members of the Group Management Board and the Group's key executives the main principles governing the variable remuneration of financial market professionals whose activities are likely to have a significant influence on exposure to risks applicable to credit institutions and investment firms resulting from directive 2010/76/EU of November 24th, 2010.

As a consequence, from 2011, 50% of the deferred portion of variable remuneration may be reduced in the event of penalties.

## 2.2.1 REMUNERATION AND BENEFITS IN KIND RECEIVED BY THE GROUP MANAGEMENT BOARD MEMBERS

The tables that follow have been prepared in accordance with the recommendations of the AFEP/MEDEF. They indicate the remuneration and benefits in kind paid to the Members of the Group Management Board during the financial year ended December 31st, 2010.

The Group Management Board members' remuneration is covered in the Supervisory Board Chairman's report on the composition, conditions for preparation and organization of the Supervisory Board's work and the internal control and risk management procedures in effect at the Company, in paragraph 2.4 of this registration document.

### A/ Summary of remunerations and SAR (Stock Appreciation Rights) and RSU (Restricted Stock Units) shares and options granted to each member of the Group Management Board (in thousands of euros)

| Wilfried Vertraete, Chairman of the Group Management Board | 2009 (1) | 2010 |
|---|---|---|
| Remuneration due in respect of the financial year (analyzed in table C) | 1,126.90 | 2,019.39 |
| Value of the options allocated during the financial year (analyzed in table B) | N/A | N/A |
| Value of the performance shares allocated during the financial year | N/A | N/A |
| **TOTAL** | **1,126.90** | **2,019.39** |
| SARs allocated (number) | N/A | 7,069 |
| RSUs allocated (number) | N/A | 3,509 |

*(1) For the period April 1st to December 31st, 2009.*

| Nicolas Hein, member of the Group Management Board | 2009 | 2010 |
|---|---|---|
| Remuneration due in respect of the financial year (analyzed in table C) | 518.40 | 1,008.00 |
| Value of the options allocated during the financial year (analyzed in table B) | N/A | N/A |
| Value of the performance shares allocated during the financial year | N/A | N/A |
| **TOTAL** | **518.40** | **1,008.00** |
| SARs allocated (number) | 612 | 1,532 |
| RSUs allocated (number) | 301 | 760 |

| Gerd-Uwe Baden, member of the Group Management Board | 2009 | 2010 |
|---|---|---|
| Remuneration due in respect of the financial year (analyzed in table C) | 602.00 | 1,328.10 |
| Value of the options allocated during the financial year (analyzed in table B) | N/A | N/A |
| Value of the performance shares allocated during the financial year | N/A | N/A |
| **TOTAL** | **602.00** | **1,328.10** |
| SARs allocated (number) | 747 | 1,701 |
| RSUs allocated (number) | 367 | 844 |

| Michel Mollard, member of the Group Management Board | 2009 | 2010 |
|---|---|---|
| Remuneration due in respect of the financial year (analyzed in table C) | 505.2 | 939.70 |
| Value of the options allocated during the financial year (analyzed in table B) | N/A | N/A |
| Value of the performance shares allocated during the financial year | N/A | N/A |
| **TOTAL** | **505.2** | **939.70** |
| SARs allocated (number) | 582 | 1,671 |
| RSUs allocated (number) | 286 | 829 |

| Dirk Oevermann, member of the Group Management Board since February 1st, 2010 | 2009 | 2010 |
|---|---|---|
| Remuneration due in respect of the financial year (analyzed in table C) | N/A | 863.00 |
| Value of the options allocated during the financial year (analyzed in table B) | N/A | N/A |
| Value of the performance shares allocated during the financial year | N/A | N/A |
| **TOTAL** | **N/A** | **863.00** |
| SARs allocated (number) | N/A | 975 |
| RSUs allocated (number) | N/A | 484 |

The members of the Group Management Board as at December 31st, 2010 are granted SARs (Stock Appreciation Rights) and RSUs (Restricted Stock Units).

| | SAR | | | |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| Wilfried Vertraete | - | - | - | 7,069 |
| Gerd-Uwe Baden | 3,563 | 2,047 | 747 | 1,701 |
| Nicolas Hein | 2,635 | 1,732 | 612 | 1,532 |
| Michel Mollard | 1,916 | 1,575 | 582 | 1,671 |
| Dirk Oevermann (since February 1st, 2010) | - | - | - | 975 |
| **TOTAL** | **8,114** | **5,354** | **1,941** | **12,948** |

| | RSU | | | |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| Wilfried Vertraete | - | - | - | 3,509 |
| Gerd-Uwe Baden | 1,793 | 993 | 367 | 844 |
| Nicolas Hein | 1,326 | 841 | 301 | 760 |
| Michel Mollard | 964 | 764 | 286 | 829 |
| Dirk Oevermann (since February 1st, 2010) | - | - | - | 484 |
| **TOTAL** | **4,083** | **2,598** | **954** | **6,426** |

The SARs' value is pegged to the Allianz share price over seven years. The RSUs' value is pegged to the Allianz share price over five years.

Some members of the Group Management Board were granted 18,000 Euler Hermes share subscription options in the 2004 financial year, 24,000 in the 2005 financial year, 37,500 share purchase options in the 2006 financial year and 19,600 in the 2008 financial year. No Euler Hermes options were granted in 2007, 2009 or 2010.

### B/ Additional share purchase or subscription options granted during the financial year to each member of the Group Management Board by the issuer and by any Group company

| Stock-options allocated to members of the Group Management Board | Plan n° | Plan date | Nature of the options (purchase or subscription) | Valuation of the options depending on the accounts consolidation method | Number of options allocated during the period | Exercise price | Exercise period |
|---|---|---|---|---|---|---|---|
| Wilfried Verstraete | | | | | | | |
| Nicolas Hein | | | | | | | |
| Michel Mollard | | | | N/A | | | |
| Gerd-Uwe Baden | | | | | | | |
| Dirk Oevermann | | | | | | | |
| **TOTAL** | | | | | | | |

The Company has not put in place a bonus share plan pursuant to Articles L. 225-197-1 *et seq.* of the French Commercial Code for the members of the Group Management Board.

For a history of share purchase or subscription options granted and the status of share purchase or subscription options granted to the ten key non-corporate officer employees, *see paragraph 7.4.1.5 of this registration document*.

### C/ Summary of each Group Management Board member's remuneration (in thousands of euros)

| Wilfried Verstraete, Chairman of the Group Management Board since April 1st, 2009 | 2009 Fiscal Year (1) | | 2010 Fiscal Year | |
|---|---|---|---|---|
| | Amount Due | Amounts Paid | Amount Due | Amounts Paid |
| Fixed compensation | 337.50 | 337.50 | 450.00 | 450.00 |
| Variable compensation | 337.50 | | 483.33 | 337.50 |
| Medium and long-term variable compensation (2) | 150.00 | | 966.66 (2) | 150 (3) |
| Exceptional compensation | NA | NA | NA | NA |
| Attendance fees | NA | NA | NA | NA |
| Specific allowances (4) | 300.00 | 300.00 | 100.00 | 100.00 |
| Benefits in kind (5) | 1.90 | 1.90 | 19.40 | 19.40 |
| **TOTAL** | **1,126.90** | **639.40** | **2,019.39** | **906.90** |

*(1) For the period from April 1st to December 31, 2009.*
*(2) This compensation is liable to vary on the basis of the performances and fluctuations of the Allianz and Euler Hermes share prices.*
*(3) The Mid-Term variable bonus corresponds to the Mid-Term Bonus payment, covering performances from 2007 to 2009. Paid in February 2011.*
*(4) Mr. Verstraete's specific allowances for accommodation and international mobility, the charges being included for the latter.*
*(5) Benefits in kind include a company car and unemployment insurance for Executive Managers.*

| | 2009 Fiscal Year | | 2010 Fiscal Year | |
|---|---|---|---|---|
| **Nicolas Hein, Member of the Group Management Board** | **Amount Due** | **Amounts Paid** | **Amount Due** | **Amounts Paid** |
| Fixed Compensation | 350.00 | 350.00 | 350.00 | 350.00 |
| Variable Compensation | 90.00 | 111.10 | 216.00 | 87.90 |
| Medium and long-term variable compensation | 72.30 | | 432 (1) | 72.30 (2) |
| Exceptional compensation | NA | NA | NA | NA |
| Attendance fees | NA | NA | NA | NA |
| Benefits in kind (3) | 6.10 | 6.10 | 10.00 | 10.00 |
| **TOTAL** | **518.4** | **467.2** | **1,008.00** | **520.20** |

*(1) This compensation is liable to vary on the basis of the performances and fluctuations of the Allianz and Euler Hermes share prices.*
*(2) The Mid-Term variable bonus corresponds to the Mid-Term Bonus payment, covering performances from 2008 to 2009.*
*(3) Benefits in kind include a company car and lodging.*

| | 2009 Fiscal Year | | 2010 Fiscal Year | |
|---|---|---|---|---|
| **Michel Mollard, Member of the Group Management Board** | **Amount Due** | **Amounts Paid** | **Amount Due** | **Amounts Paid** |
| Fixed Compensation | 300.00 | 300.00 | 350.00 | 350.00 |
| Variable Compensation | 130.00 | 138.50 | 195.50 | 130.00 |
| Medium and long-term variable compensation | 72.30 | | 391.00 (1) | 72.30 (2) |
| Exceptional compensation | NA | NA | NA | NA |
| Attendance fees | NA | NA | NA | NA |
| Benefits in kind (3) | 2.90 | 2.90 | 3.20 | 3.20 |
| **TOTAL** | **505.20** | **441.40** | **939.70** | **555.50** |

*(1) This compensation is liable to vary on the basis of the performances and fluctuations of the Allianz and Euler Hermes share prices.*
*(2) The Mid-Term variable bonus corresponds to the Mid-Term Bonus payment, covering performances from 2008 to 2009.*
*(3) Benefits in kind include a company car.*

| | 2009 Fiscal Year | | 2010 Fiscal Year | |
|---|---|---|---|---|
| **Gerd-Uwe Baden, Member of the Group Management Board** | **Amount Due** | **Amounts Paid** | **Amount Due** | **Amounts Paid** |
| Fixed Compensation | 400.00 | 400.00 | 400.00 | 400.00 |
| Variable Compensation | 88.70 | 162.70 | 292.40 | 87.75 |
| Medium and long-term variable compensation | 90.40 | | 584.80 (1) | 87.75 (2) |
| Exceptional compensation (3) | NA | NA | 41.50 | 41.50 |
| Attendance fees | NA | NA | NA | NA |
| Benefits in kind (4) | 22.90 | 22.90 | 9.40 | 9.40 |
| **TOTAL** | **602.00** | **585.60** | **1,328.10** | **626.40** |

*(1) This compensation is liable to vary on the basis of the performances and fluctuations of the Allianz and Euler Hermes share prices.*
*(2) The Mid-Term variable bonus corresponds to the Mid-Term Bonus payment, covering performances from 2008 to 2009.*
*(3) Specific allowances for lodging and international mobility.*
*(4) Benefits in kind include a company car and unemployment insurance for Executive Managers.*

| Dirk Oevermann, Member of the Management Board since February 1, 2010 | 2009 Fiscal Year | | 2010 Fiscal Year | |
|---|---|---|---|---|
| | Fixed Compensation | Paid | Due | Paid |
| Fixed Compensation | | | 256,70 | 256,70 |
| Variable Compensation | | | 177,80 | 0,00 |
| Medium- and long-term variable compensation (1) | | | 355,60 | 0,00 |
| Exceptional compensation | NA | NA | NA | NA |
| Attendance fees | NA | NA | NA | NA |
| Specific Allowances (2) | | | 64,20 | 64,20 |
| Benefits in kind (3) | | | 8,70 | 8,70 |
| **TOTAL** | | | **863,00** | **329,60** |

*(1) This compensation is liable to vary on the basis of the performances and fluctuations of the Allianz and Euler Hermes share prices.*
*(2) Specific allowances for lodging and international mobility.*
*(3) Benefits in kind include a company car and unemployment insurance for Executive Managers.*

The criteria determining the variable remuneration of members of the Group Management Board are set out in the Chairman of the Supervisory Board's report on internal control included in paragraph 2.4 of this registration document.

### 2.2.1.2 Compensation for Group Management Board members in the event of cessation of activity

Some members of the Group Management Board who are solely corporate officers and are not employees are protected by special agreements in the case of cessation of activity. These agreements are intended to replace the statutory provisions protecting salaried employees in the event of dismissal. These specific provisions concern Mr. Verstraete and Dirk Oevermann.

For Wilfried Verstraete, gross compensation would total 200% of his last fixed and variable annual remuneration.

Dirk Oevermann would receive compensation worth two years of variable remuneration (annual bonus + mid-term bonus).

In accordance with the TEPA law dated August 21st, 2007, this compensation is subject to meeting performance criteria.

Dirk Oevermann's performance condition is met if the average rate of return on risk-adjusted capital (RoRAC) as observed by the Supervisory Board in the consolidated financial statements audited over the past two financial years before his cessation of activity is greater than or equal to the rate for the budget approved in the *Planning Dialogue*. In the event of removal in the first two years of office, i.e. on or before December 31st, 2011, the performance condition is met if the RoRAC as observed by the Supervisory Board in the audited 2010 consolidated financial statements is greater than or equal to 6.23% for 2010.

For Wilfried Verstraete, the performance condition is considered to have been met if the average RoRAC as recorded by the Supervisory Board in the audited consolidated financial statements for the two years prior to the cessation of activity, exceeds 9%.

In the event of removal from office between January 1st, 2010 and December 31st, 2011, the performance condition is considered to have been met if annual RORAC as observed by the Supervisory Board in the consolidated interim financial statements available from the second half of 2009 exceeds the rate retained for the 2010 Strategic Dialogue, i.e. 7%.

In the event of a cessation of activity, Mr. Gerd-Uwe Baden, Member of Euler Hermes SA's Group Management Board, will receive a gross indemnity payment of 50% of his last annual fixed and bonus compensation paid under his contract of employment with the subsidiary Euler Hermes Kreditversicherung AG. The Supervisory Board meeting of February 15th, 2008 introduced, on the Remuneration Committee's recommendation, a condition of performance for the payment of the indemnity for a cessation of business activity. This condition is considered to be satisfied if the following criteria are respected: the average rate of return on risk-adjusted capital (RORAC) recorded by the Supervisory Board in the annual consolidated accounts audited for the last two fiscal years is more or equal to 8%.

### 2.2.1.3 Retirement plan for Group Management Board members

No members of the Group Management Board benefit from a defined benefit supplementary retirement plan (umbrella retirement).

However, all members of the Group Management Board benefit from a defined contribution supplementary retirement plan.

Wilfried Verstraete and Gerd-Uwe Baden benefit from the Allianz supplementary defined contribution executive retirement plan. The charge recognized in 2010 amounts to €159,056 for Wilfried Verstraete and €222,790 for Gerd-Uwe Baden.

Nicolas Hein and Michel Mollard, in addition to their supplementary AGIRC-ARRCO retirement plan, benefit from a supplementary ARIAL Assurances defined contribution retirement plan, for which €17,248,000 was recognized in 2010 for each.

| Corporate officers date of start and end of mandate | Employment contract | | Supplementary pension plan: Defined contribution pension plan | | Supplementary pension plan: Defined benefit pension plan | | Remuneration or benefits due or likely to be due as a result of a cessation or change of function | | Remuneration relating to a non-competition clause | |
|---|---|---|---|---|---|---|---|---|---|---|
| | yes | no | yes | no | yes | no | yes | no | yes | no |
| Wilfried Verstraete Chairman of the Group Management Board 04/01/2009 03/31/2012 | | X | X | | | X | X | | | X |
| Gerd-Uwe Baden Member of the Group Management Board 05/25/2004 03/31/2012 | X [1] | | X | | | X | X | | | X |
| Nicolas Hein Member of the Group Management Board 05/25/2004 03/31/2012 | X | | X | | | X | | X | | X |
| Dirk Oevermann Member of the Group Management Board 02/01/2010 03/31/2012 | | X | X | | | X | X | | X | |
| Michel Mollard Member of the Group Management Board 05/25/2004 03/31/2012 | X | | X | | | X | | X | X | |

*(1) German employment contract with EH KV suspended.*

Pursuant to the AFEP/MEDEF recommendations, the Chairman of the Group Management Board does not also have an employment contract with the Group.

## 2.2.2 REMUNERATION AND BENEFITS IN KIND RECEIVED BY THE SUPERVISORY BOARD MEMBERS

The members of the Supervisory Board may receive remuneration in the form of Supervisory Board members' fees, the amount of which is fixed by the Ordinary Shareholders' Meeting, and exceptional remuneration under the conditions provided for by law.

In addition, the Chairman and the Vice-Chairman may receive special remuneration, the amount of which is set by the Supervisory Board. The Company did not pay any special remuneration in 2010.

### 2.2.2.1 Attendance fees and other remuneration paid to members of the Supervisory Board (in thousands of euros)

| | Amounts paid in 2009 | Amounts paid in 2010 |
|---|---|---|
| **Clement Booth** | | |
| Attendance fees | 12.9 | 56.4 |
| Other remuneration | | |
| **Brigitte Bovermann** (1) | | |
| Attendance fees | | 23.1 |
| Other remuneration | | |
| **Elisabeth Corley** (1) | | |
| Attendance fees | | 17.3 |
| Other remuneration | | |
| **Thomas Bernd Quaas** (1) | | |
| Attendance fees | | 17.3 |
| Other remuneration | | |
| **Nicolas Dufourcq** (1) | | |
| Attendance fees | | 17.3 |
| Other remuneration | | |
| **Jacques Richier** (1) | | |
| Attendance fees | | 17.3 |
| Other remuneration | | |
| **Charles de Croisset** | | |
| Attendance fees | 55.7 | 56.4 |
| Other remuneration | | |
| **Robert Hudry** | | |
| Attendance fees | 55.7 | 56.4 |
| Other remuneration | | |
| **Yves Mansion** | | |
| Attendance fees | 55.7 | 56.4 |
| Other remuneration | | |
| **Jean-Hervé Lorenzi** | | |
| Attendance fees | 55.7 | 56.4 |
| Other remuneration | | |
| **Philippe Carli** (2) | | |
| Attendance fees | 12.9 | 42.3 |
| Other remuneration | | |
| **François Thomazeau** (3) | | |
| Attendance fees | 55.7 | 33.3 |
| Other remuneration | | |
| **TOTAL** | **360.00** | **450.00** |

*(1) Term of office began on 05/21/2010.*
*(2) Term of office began on 05/15/2009.*
*(3) End of office 05/21/2010.*

Total attendance fees paid to Supervisory Board members amounted to €450,000 in 2010, in line with the decision voted by the Shareholders' Meeting on May 21st, 2009.

Each Board member who is also a member of the Remuneration and Appointments Committee and/or a member of the Audit Committee receives an additional 1/3 of fees.

The Supervisory Board Chairman also receives 1/3 additional fees for chairing the Board.

### 2.2.2.2 Remuneration and benefits in kind received by corporate officers of Allianz France and Allianz AG, which control Euler Hermes

Moreover, in accordance with Article L. 225-102-1, § 2 of the French Commercial Code, the total remuneration and benefits in kind received by corporate officers of Allianz France and Allianz AG, which control Euler Hermes, respectively amounted to:

| Clement Booth | |
|---|---|
| Fixed annual gross compensation (1) | 700 |
| Gross variable portion (2) | 1,148 |
| Benefits in kind | 125 |
| **TOTAL (IN THOUSANDS OF EUROS)** | **1,973** |
| RSU (number) | 7,730 |
| SAR (number) | 15,572 |

| Brigitte Bovermann | |
|---|---|
| Fixed annual gross compensation (1) | 267 |
| Gross variable portion (2) | 219 |
| Benefits in kind | - |
| **TOTAL (IN THOUSANDS OF EUROS)** | **486** |
| RSU (number) | 1,337 |
| SAR (number) | 2,694 |

| Elisabeth Corley | |
|---|---|
| Fixed annual gross compensation (1) | 366.5 |
| Gross variable portion (2) | 1,600 |
| Benefits in kind | 48 |
| **TOTAL (IN THOUSANDS OF EUROS)** | **2,014.5** |
| RSU (number) | 965 |
| SAR (number) | 1,944 |

| Jacques Richier | |
|---|---|
| Fixed annual gross compensation (1) | 600 |
| Gross variable portion (2) | 693 |
| Benefits in kind | - |
| **TOTAL (IN THOUSANDS OF EUROS)** | **1,293** |
| RSU (number) | 2,499 |
| SAR (number) | 5,034 |

*(1) Paid in 2010.*
*(2) Paid in 2011 for 2010.*

# 2.3 List of functions and offices held by the directors

## 2.3.1 SUPERVISORY BOARD MEMBER OFFICES

| Name | Company in which the term of office or function is served or exercised | Country | Term of office/Function | Date of 1st appointment | Date of expiry of term of office |
|---|---|---|---|---|---|
| **Clement Booth, born in 1954, a German national, has been a member of the Allianz SE Group Management Board since 2006, where he is responsible for the insurance and reinsurance activities of the Group's large industrial accounts, and its insurance activities in the NAFTA zone, the UK, Ireland and Australia** | Euler Hermes | France | Chairman of the Supervisory Board | 01/01/2010 | SM called to approve the accounts for the 2011 financial year |
| | Allianz Australia Ltd | Australia | Member of the Board of Directors | 01/01/2006 | |
| | Allianz Australia Insurance Ltd | Australia | Member of the Board of Directors | 01/01/2006 | |
| | CIC Allianz Insurance Ltd | Australia | Member of the Board of Directors | 01/01/2006 | |
| | Allianz Australia Life Insurance Ltd | Australia | Member of the Board of Directors | 01/01/2006 | |
| | Allianz SE | Germany | Member of the Group Management Board | 01/01/2006 | |
| | Allianz Global Corporate & Specificity AG | Germany | Chairman of the Supervisory Board | 11/16/2005 | |
| | AZ Irish Life Holding | Ireland | Member of the Board of Directors | 01/01/2006 | |
| | Allianz UK Ltd | United Kingdom | Chairman of the Board of Directors | 01/01/2006 | |
| | Allianz Holdings Plc | United Kingdom | Chairman of the Board of Directors | 01/01/2006 | |
| | Allianz Insurance Plc | United Kingdom | Chairman of the Board of Directors | 01/01/2006 | |
| | Association of British Insurers (ABI) | United Kingdom | Member | 07/15/2009 | |
| **Brigitte Bovermann, born in 1956, a German national, has been responsible for Allianz's "Global *Insurance Lines* & *Anglo Markets*" division since January 2010** | Euler Hermes SA | France | Member of the Supervisory Board | 05/21/2010 | SM called to approve the accounts for the 2012 financial year |
| | AWC-Allianz Worldwide Care Ltd | Ireland | Chairman of the Board of Directors | 07/19/2002 | |
| | Allianz Ireland Plc | Ireland | Director | 01/21/1999 | |
| | Allianz Insurance Plc | United Kingdom | Director | 06/09/2006 | |
| | Allianz UK Pension Fund Trustee Ltd | United Kingdom | Member of the Board of Trustees | 05/12/2009 | |
| | Allianz Australia Ltd | Australia | Director | 04/21/2006 | |
| | AGR US | United States | Director | 08/06/2007 | |
| | AMIC-AGCS Marine Insurance Company | United States | Director | 01/01/2010 | |
| | Allianz Mexico SA | Mexico | Director | 03/27/2008 | |

| Name | Company in which the term of office or function is served or exercised | Country | Term of office/Function | Date of 1st appointment | Date of expiry of term of office |
|---|---|---|---|---|---|
| **Nicolas Dufourcq, born in 1963, a French national, is currently responsible for finance, risk management, IT and procurement at the Capgemini group** | Euler Hermes SA | France | Member of the Supervisory Board | 05/21/2010 | SM called to approve the accounts for the 2012 financial year |
| | Capgemini Reinsurance company | Luxembourg | Chairman | 09/17/2004 | SM called to approve the accounts for the 2012 financial year |
| | Capgemini Holding Inc. | | Director | 04/15/2005 | N/A |
| | Capgemini Energy GP LLC | | Director | 11/14/2005 | N/A |
| | Capgemini Mexico | Mexico | Director | 09/27/2004 | N/A |
| | CGS Holdings Ltd | | Director | 09/30/2004 | N/A |
| | Capgemini UK Plc | United Kingdom | Director | 09/30/2004 | N/A |
| | Capgemini Norge AS | | Director | 12/31/2004 | N/A |
| | Capgemini Deutschland Holding GmbH | Germany | Director | 04/23/2009 | N/A |
| | Capgemini Italia SpA | Italy | Director | 05/26/2009 | SM called to approve the accounts for the 2012 financial year |
| | Capgemini Asia Pacific Pte. Ltd | | Director | 01/31/2005 | N/A |
| | Taiwan Branch of Capgemini Asia Pacific Pte. Ltd | | Director | 02/22/2007 | N/A |
| | Capgemini Australia Pty Ltd | Australia | Director | 02/01/2005 | N/A |
| | Sogeti Sverige AB | | Director | 01/22/2006 | N/A |
| | Sogeti Denmark A/S | Denmark | Director | 07/08/2006 | N/A |
| | Sogeti Finland Oy | Denmark | Director | 01/01/2010 | N/A |
| | Sogeti Norge AS | | Director | 06/15/2007 | N/A |
| | Sogeti Nederland BV | The Netherlands | Director | 06/23/2005 | N/A |
| | Sogeti Belgium | Belgium | Director | 05/30/2008 | SM called to approve the accounts for the 2014 financial year |
| | Sogeti Luxembourg | Luxembourg | Director | 08/01/2005 | SM called to approve the accounts for the 2011 financial year |
| | Sogeti PSF | Luxembourg | Director | 05/25/2006 | SM called to approve the accounts for the 2011 financial year |
| | Sogeti Deutschland | Germany | Director | 12/21/2005 | N/A |
| | Sogeti España | | Director | 06/29/2005 | N/A |
| | Capgemini Financial Services USA Inc. | United States | Director | 03/20/2007 | N/A |
| | Capgemini Financial Services Europe, Inc. | | Director | 03/20/2007 | N/A |
| | Capgemini Financial Services (Japan) Inc. | Japan | Director | 03/20/2007 | N/A |
| | Kanbay Limited (Bermuda) | Bermuda | Director | 01/23/2008 | N/A |
| | Kanbay (Asia) Ltd (Mauritius) | | Director | 01/23/2008 | N/A |
| | Capgemini Hong Kong Ltd | Hong Kong | Director | 01/31/2005 | Being liquidated |
| | Capgemini Financial Services Australia Pty Ltd | Australia | Director | 12/28/2007 | N/A |
| | CPM Braxis | | Director | 10/01/2010 | |

| Name | Company in which the term of office or function is served or exercised | Country | Term of office/Function | Date of 1st appointment | Date of expiry of term of office |
|---|---|---|---|---|---|
| **Jacques Richier, born in 1955, a French national, has been Chairman and Chief Executive Officer of Allianz France SA since January 2010** | Euler Hermes SA | France | Member of the Supervisory Board | 05/21/2010 | SM called to approve the accounts for the 2012 financial year |
| | Allianz Global Corporate & Specificity AG | Germany | Member of the Supervisory Board | 01/12/2009 | SM called to approve the accounts for the 2014 financial year |
| | Oddo & Cie SCA | France | Member of the Supervisory Board | 12/10/2008 | 12/31/2011 |
| | Paris Orléans | France | Member of the Supervisory Board | 09/01/2010 | 03/31/2013 |
| **Thomas Bernd Quaas, born in 1952, a German national, has been Chairman and Chief Executive Officer of Beiersdorf AG since 2005** | Euler Hermes SA | France | Member of the Supervisory Board | 05/21/2010 | SM called to approve the accounts for the 2012 financial year |
| | Beiersdorf AG | Germany | Chairman | 05/18/2005 | |
| | Tesa SE | Germany | Chairman of the Supervisory Board | 04/14/2005 | |
| **Elisabeth Corley, born in 1956 in Germany, has been Chief Executive Officer of Allianz Global Investors Europe since April 2005** | Euler Hermes SA | France | Member of the Supervisory Board | 05/21/2010 | SM called to approve the accounts for the 2012 financial year |
| | Allianz Global Investors AG | Germany | Member of the Management Board | 10/01/2005 | |
| | Allianz Global Investors Europe GmbH | Germany | Member of the Board of Directors | 12/15/2005 | |
| | Allianz Global Investors Holding GmbH | Germany | Member of the Management Board | 07/01/2005 | |
| | Allianz Global Investors Deutschland GmbH | Germany | Member of the Supervisory Board | 06/30/2008 | |
| | Allianz Global Investors Advisory GmbH | Germany | Member of the Supervisory Board (Chairperson) | 07/01/2005 | |
| | Allianz Global Investors Kapitalanlage-gesellschaft GmbH | Germany | Member of the Board of Directors (Chairperson) | 06/30/2008 | |
| | AGI Italia Sgr Spa | Italy | Member of the Board of Directors | 04/19/2007 | |
| | AGI Luxembourg | Luxembourg | Member of the Board of Directors (Chairperson) | 07/01/2005 | |
| | Allianz France Global Investors France SA | France | Chairman | 01/27/2010 | |
| | Forum of European Asset Managers (FEAM) | | Member of the Management Committee (Chairperson) | | |
| | The City UK | United Kingdom | Member of the Board of Directors | | |
| | The City of London | United Kingdom | Member of the City of London International Regulatory Strategy Group | | |
| **Yves Mansion, born in 1951 in Germany, a French national** | Euler Hermes SA | France | Member of the Supervisory Board | 01/01/1992 | SM called to approve the accounts for the 2011 financial year |
| | Parholding SAS | France | Chairman | 10/06/2009 | SM called to approve the accounts for the 2010 financial year |
| | Autorité des marchés financiers (financial markets regulator) | France | Member of College | 11/01/2003 | 05/29/2011 |
| | Mansions SAS | France | Chairman | 06/13/2007 | |
| | Aviva France | France | Member of the Supervisory Board | 01/01/2008 | 12/31/2012 |
| | Aviva Participations | France | Director | | |

| Name | Company in which the term of office or function is served or exercised | Country | Term of office/Function | Date of 1st appointment | Date of expiry of term of office |
|---|---|---|---|---|---|
| **Jean-Hervé Lorenzi, born in 1947, a French national, is currently an advisor to the Board of Compagnie Edmond de Rothschild** | Euler Hermes | France | Member of the Supervisory Board | 11/19/2004 | SM called to approve the accounts for the 2012 financial year |
| | Compagnie Financière de Saint-Honoré SA | France | Member of the Supervisory Board | 06/25/2004 | SM called to approve the accounts for the 2012 financial year |
| | Edmond de Rothschild Private Equity Partners SAS | France | Chairman of the Supervisory Board | 12/12/2006 | SM called to approve the accounts for the 2010 financial year |
| | Edmond de Rothschild Capital Partners SAS | France | Chairman of the Supervisory Board | 12/12/2006 | SM called to approve the accounts for the 2010 financial year |
| | Edmond de Rothschild Investment Partners SAS | France | Chairman of the Supervisory Board | 12/12/2006 | SM called to approve the accounts for the 2010 financial year |
| | Newstone Courtage SA | France | Member of the Supervisory Board | 04/13/2007 | Term of office ends at SM called to approve the accounts for the 2010 financial year |
| | SIACI SA | France | Member of the Supervisory Board | 04/13/2007 | Term of office ends at SM called to approve the accounts for the 2010 financial year |
| | Novespace SA | France | Permanent representative on the Board of Directors of Compagnie Edmond de Rothschild Banque Permanent representative on the Board of Directors of Compagnie Financière Edmond de Rothschild Banque | | Permanent representative of Compagnie financière Edmond de Rothschild Banque on the Board of Directors |
| | Associés en Finance SA | France | Non-voting member Renewed in 2011 | | Renewed in 2011 |
| | BNP Paribas Assurances SA | France | Member of the Supervisory Board | 05/14/2007 | SM called to approve the accounts for the 2012 financial year |
| | Crédit Foncier de France SA | France | Member of the Supervisory Board | | Term of office expires on December 31st, 2011, to be renewed in 2012 |
| | Eramet | France | Member of the Supervisory Board | 02/01/2009 | SM called to approve the accounts for the 2012 financial year |
| **Robert Hudry, born in 1946, a French national, is a company director** | Euler Hermes | France | Member of the Supervisory Board | 04/07/2000 | SM called to approve the accounts for the 2012 financial year |
| **Charles de Croisset, born in 1943, a French national, is a company director** | Euler Hermes | France | Member of the Supervisory Board | 04/07/2000 | SM called to approve the accounts for the 2012 financial year |
| | Fondation du Patrimoine | France | Chairman | December 2006 | |
| | Renault | France | Director | April 2004 | SM called to approve the accounts for the 2011 financial year |
| | SA des Galeries Lafayette | France | Member of the College of Non-voting Members | May 2004 | SM called to approve the accounts for the 2011 financial year |
| | LVMH | France | Director | 05/01/2008 | SM called to approve the accounts for the 2010 financial year |
| **Philippe Carli, born in 1960, a French national, has been General Manager of Groupe Amaury since October 2010** | Euler Hermes SA | France | Director | 05/15/2009 | SM called to approve the accounts for the 2011 financial year |
| | Editions Amaury | France | CEO | 10/01/2010 | |

## 2.3.2 GROUP MANAGEMENT BOARD MEMBER OFFICES

| Name | Company in which the term of office or function is served or exercised | Country | Term of office/Function | Date of 1st appointment | Date of expiry of term of office |
|---|---|---|---|---|---|
| **Wilfried Verstraete** | Euler Hermes SA | France | Chairman of the Group Management Board | 03/31/2009 | 03/31/2012 |
| | Euler Hermes UK Plc | United Kingdom | Director | 06/25/2009 | 02/01/2012 |
| | Euler Hermes ACI | United States | Chairman of the Board of Directors | 11/13/2009 | |
| | Euler Hermes ACI Holdings Inc. | United States | Chairman of the Board of Directors | 11/13/2009 | |
| | Euler Hermes Kreditversicherungs-AG | Germany | Chairman of the Supervisory Board | 04/27/2009 | SM called to approve the accounts for the 2012 financial year |
| | Immobel | Belgium | Independent Board member | 08/29/2007 | 05/26/2011 |
| **Nicolas Hein** | Euler Hermes SA | France | Member of the Group Management Board | 05/25/2004 | 03/31/2012 |
| | Euler Hermes ACI | United States | Director | 03/31/2004 | |
| | Euler Hermes ACI Holdings Inc. | United States | Director | 03/18/2004 | |
| | Euler Hermes Credit Insurance Belgium | Belgium | Director | 05/10/2006 | SM called to approve the accounts for the 2011 financial year |
| | Euler Hermes Kredietverzekering NV | The Netherlands | Chairman of the Supervisory Board | 11/26/2004 | |
| | Euler Hermes SFAC | France | Vice-Chairman of the Supervisory Board | 05/18/2004 | SM called to approve the accounts for the 2010 financial year |
| | Euler Hermes SIAC | Italy | Chairman of the Board of Directors | 04/23/2004 | SM called to approve the accounts for the 2012 financial year |
| | Euler Hermes UK Plc | United Kingdom | Director | 12/08/2004 | SM called to approve the accounts for the 2009 financial year |
| | Euler Hermes Holdings UK Plc | United Kingdom | Director | 05/27/2004 | SM called to approve the accounts for the 2009 financial year |
| | Euler Hermes Reinsurance AG | Switzerland | Director | 11/22/2005 | No date for end of term of office |
| **Michel Mollard** | Euler Hermes SA | France | Member of the Group Management Board | 05/25/2004 | 03/31/2012 |
| | Euler Hermes UK Plc | United Kingdom | Director | 06/17/2002 | 02/28/2012 |
| | Euler Hermes Holdings UK Plc | United Kingdom | Director | 06/17/2002 | 02/28/2012 |
| | Euler Hermes ACI | United States | Vice-Chairman of the Board of Directors | 12/19/2002 | |
| | Euler Hermes ACI Holdings Inc. | United States | Vice-Chairman of the Board of Directors | 12/19/2002 | |
| | Perfectif Private Equity | France | Chairman of the Board of Directors | 09/28/2006 | 12/31/2010 |
| | COSEC | Portugal | Director | 03/27/2008 | 03/26/2010 |
| | Euler Hermes ACMAR | Morocco | Chairman of the Board of Directors | 11/09/2006 | 06/10/2010 |
| | Euler Hermes SFAC | France | Permanent representative of EH | 02/08/2010 | 12/31/2010 |
| | Euler Hermes Reinsurance AG | Switzerland | Director | June 2011 | |
| | Euler Hermes Sigorta | Turkey | Director | 02/07/2008 | 07/02/2011 |
| **Gerd-Uwe Baden** | Euler Hermes SA | France | Member of the Group Management Board | 05/25/2004 | 03/31/2012 |
| | Euler Hermes Reinsurance AG | Switzerland | Chairman of the Board of Directors | 06/26/2010 | June 2011 |
| | Euler Hermes SIAC | Italy | Vice-Chairman of the Board of Directors | 04/23/2004 | SM called to approve the accounts for the 2012 financial year |
| **Dirk Oevermann** | Euler Hermes SA | France | Member of the Group Management Board | 02/01/2010 | 03/31/2012 |
| | Euler Hermes Tech | France | Chairman | 02/01/2010 | |
| | Euler Hermes Collections sp zoo | Poland | Chairman of the Supervisory Board | 05/20/2010 | |

# 2.4 Report of the Chairman of the Supervisory Board to the Shareholders' Meeting on the composition, and the preparation and organization of the work of the Supervisory Board, and on the internal control and risk management procedures established by the Company

## Chairman's report pursuant to Article L. 225-68 of the French Commercial Code

**February 15th, 2011**

To the shareholders,

In accordance with the provisions of Article L. 225-68 of the French Commercial Code, Euler Hermes issues a report devoted to internal controls, in addition to the report of the Group Management Board.

The purpose of this report is to set out the composition of the Supervisory Board, to describe the conditions governing the preparation and organization of its work, to list any limits placed by the Supervisory Board on the powers of the Group Management Board and to comment on the implementation of the Code of Corporate Governance laid down by representative bodies, as well as to describe internal control and risk management procedures, including those relating to the preparation and processing of financial and accounting information within the Company and its subsidiaries (referred to collectively as the "Group").

Under the supervision of the Chairman, and after approval by the members of the Supervisory Board, the work carried out in the preparation of this report was based primarily on the procedures coordinated by the Company Secretary in connection with the Group Finance function, as well as the major functional and operational departments. This report is also based on discussions with the Audit Committee.

This report has also been the subject of a report by the Company's Statutory Auditors on the internal control procedures used in the preparation and processing of accounting and financial information, and includes a declaration as to the provision of other required information, pursuant to Article L. 225-235 of the French Commercial Code.

This report was approved by the Supervisory Board on February 15th, 2011.

## I THE COMPANY'S MANAGEMENT BODIES

The Group is headed by a Management Board, which is itself overseen by a Supervisory Board supported by an Audit Committee and a Remuneration and Appointments Committee.

The Company has opted for an organization that ensures the separation and balance of powers. The leadership and management powers assumed by the Group Management Board are clearly distinguished from the oversight and decision-making powers exercised by the Supervisory Board and the Shareholders' General Meeting.

These structures are supported by the managers of cross-cutting functions, who are members of the Group Management Board and provide the foundations of the Group's operational management.

### 1 Composition, preparation and organization of the work of the Supervisory Board

#### 1.1 Composition of the Supervisory Board

At the time of writing, the Supervisory Board comprised 11 members, as follows:

- Clement Booth, Chairman;
- Brigitte Bovermann, Vice-Chairman;
- Elisabeth Corley, member;
- Philippe Carli, member;

- Charles de Croisset, member;
- Nicolas Dufourcq, member;
- Robert Hudry, member;
- Jean-Hervé Lorenzi, member;
- Yves Mansion, member;
- Thomas Bernd Quaas, member;
- Jacques Richier, member.

The terms of office of the members of the Supervisory Board are staggered so as to avoid the need to replace all members at the same time, thereby helping foster a smooth transition.

In accordance with the principles advocated in the AFEP/MEDEF Code, the Supervisory Board includes a number of independent members.

A member of the Supervisory Board is deemed independent in the absence of a relationship of any kind with the Company, its Group or its management that could compromise the exercise of his or her freedom of judgment.

To this end, the criteria determining whether directors qualify for independent status match those laid down in the AFEP/MEDEF Code. Accordingly, directors are deemed independent if they:

- are not employees or corporate officers of the Company or one of its consolidated subsidiaries and have not been in such a position for the previous five years;
- are not corporate officers of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held or has been held within the past five years by an employee or a Corporate Officer of the Company;
- are not significant customers, suppliers, investment bankers or commercial bankers:
  - of the Company or its Group,
  - or for which the Company or its Group represents;
- no close family ties with a Corporate Officer;
- have not been auditors of the Company for the past five years;
- have not been directors of the Supervisory Board of the Company for more than 12 years.

Directors representing major shareholders of the Company or its parent company may be deemed independent if they do not take part in the control of the Company. Above a threshold of 10% of share capital or voting rights, the Board is required, upon a report issued by the Remuneration and Appointments Committee, to conduct a systematic review of the relevant director's independent status, taking into account the Company's shareholding structure and the existence of a potential conflict of interest.

At its meeting of February 14th, 2011, the Remuneration and Appointments Committee reviewed on a case-by-case basis the status of all Supervisory Board members with regard to the independence criteria set out in the AFEP/MEDEF Code.

The Supervisory Board has qualified the following directors as independent, in accordance with the AFEP/MEDEF criteria:

- Philippe Carli, CEO of the Amaury Group since October 2010 and a member of the Supervisory Board of Euler Hermes since May 2009;
- Nicolas Dufourcq, Head of Finance, Risk Management, Information Technology and Procurement of the Capgemini group and a member of the Supervisory Board of Euler Hermes since May 2010;
- Thomas-Bernd Quaas, Chairman and CEO of Beiersdorf AG and a member of the Supervisory Board of Euler Hermes since May 2010;
- Robert Hudry, company director, a member of the Supervisory Board of Euler Hermes since April 2000;
- Charles de Croisset, company director, a member of the Supervisory Board of Euler Hermes since April 2000.

In accordance with the AFEP/MEDEF Code, independent directors represent more than one-third of the members of the Supervisory Board.

In addition, the members of the Supervisory Board comply with the provisions of French law no. 2001-420 dated May 15th, 2001 on multiple directorships. This is an important guarantee of their commitment and availability to the Group.

Finally, as regards the AFEP/MEDEF recommendation on increasing the presence of women on company Boards and French law no. 2011-103 dated January 27th, 2011 concerning the balanced representation of women and men on management and Supervisory Boards and professional equality, two women were elected to the Supervisory Board at the May 21st, 2010 Shareholders' Meeting. The aim is that women should comprise at least 20% of the Supervisory Board within three years and at least 40% within six years of the publication of the AFEP/MEDEF recommendation on April 19th, 2010, i.e. by May 21st, 2013 and May 21st, 2016 respectively.

Women currently account for 18% of Supervisory Board members.

## 1.2 Internal regulations

The Supervisory Board has adopted internal regulations designed to complement the statutory rules, regulations and Articles of Association to which the Supervisory Board as a whole and individual members must comply.

These regulations provide for, among other aspects:

- the organization of Supervisory Board meetings;
- a charter applicable to members of the Supervisory Board, setting out directors' rights and duties;
- the establishment of an Audit Committee, a Remuneration and Appointments Committee and other specialist committees;
- the internal regulations of the Audit Committee, which govern the running of this body, especially the extent of its tasks, the frequency of its meetings and its composition, in accordance with the transposition of the 8th EU Directive on statutory audits of company accounts (Directive 2006/43/EC);
- the internal regulations of the Remuneration and Appointments Committee.

The Internal Regulations were adopted by the Supervisory Board at its meeting of May 7th, 2010 and amended at its meeting of February 15th, 2011.

## 1.3 Organization of meetings of the Supervisory Board

Members of the Supervisory Board generally receive the information and documentation relative to the topics on the agenda of Supervisory Board meetings one week before the meeting date. This allows them to examine the issues to be discussed at the meeting. Particularly sensitive and/or urgent topics may be discussed without the prior distribution of documentation or with notice of less than one week.

To facilitate members' participation in Supervisory Board meetings, they may attend in person, via teleconference or via videoconference.

The Supervisory Board nevertheless prefers that members attend meetings in person in order to foster debate.

Since 2009, as part of moves decided by Euler Hermes' management and Supervisory Board with a view to improving governance, the Supervisory Board has held regular discussions, once a year, on its functioning. More information on this point is provided in section 1.5 of this report.

The Supervisory Board is chaired by Clement Booth, who organizes and directs its work and reports to the Shareholders' Meeting. He ensures that Supervisory Board meetings cover all the points included on the agenda. He also ensures the proper functioning of the Company's management bodies and, in particular, makes certain that members of the Supervisory Board are able to carry out their duties.

The Supervisory Board also appointed a Vice-Chairman, Brigitte Bovermann, who chairs meetings in the absence of the Chairman.

## 1.4 Activities of the Supervisory Board during the year ended December 31st, 2010

The Supervisory Board met four times in 2010, with an average attendance rate of 76.53%.

The Supervisory Board carries out any audits and controls it deems appropriate at any time during the year and may request any documents it considers relevant in fulfilling its tasks.

In accordance with the law and under Article 11 of the Articles of Association, the Supervisory Board exercises permanent control over the management of the Company, carried out by the Group Management Board, and grants that body the prior authorizations required by law or the Articles of Association.

In 2010, the Supervisory Board also dealt with the following issues:

- calling the Shareholders' Annual General Meetingand recording the proposed resolutions (meeting of February 17th, 2010);
- reviewing annual and quarterly parent company and consolidated financial statements, as well as the 2009 Management Report (meetings of February 17th, May 7th, July 29th, and November 4th, 2010);
- reviewing the appointment of new Supervisory Board members (meeting of February 17th, 2010);
- appointment of members of the Remuneration and Appointments Committee and the Audit Committee (meeting of July 29th, 2010);
- authorization to sign loan agreements (meeting of July 29th, 2010);
- authorization for the issue of a letter of comfort in favor of Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium (meeting of November 4th, 2010).

In accordance with the French law n° 2011-103 dated January 27th, 2011, the Supervisory Board will every year discuss Company policy on professional equality between men and women.

### 1.4.1 PRINCIPLES GOVERNING DIRECTORS' REMUNERATION

The Supervisory Board sets corporate officers' remuneration on the basis of a report prepared by the Remuneration and Appointments Committee. For further information on directors' remuneration and benefits, *see paragraph 2.2 of the 2010 registration document*.

**Remuneration of Supervisory Board members**

Members of the Supervisory Board may receive, in the form of directors' fees, remuneration in an amount set by the Ordinary Shareholders' Meeting and extraordinary remuneration under conditions prescribed by law. The Chairman and Vice-Chairman may also receive special compensation, the amount of which is set by the Supervisory Board.

The Shareholders' Meeting of May 21st, 2010 approved the allocation of directors' fees to Supervisory Board members in the amount of €450,000, bearing in mind that the number of directors rose from 8 to 11 between 2009 and 2010.

The allocation of directors' fees between Supervisory Board members is currently as follows: the fees of the Chairman of the Supervisory Board and members of the Remuneration and Appointments Committee and/or the Audit Committee of the Supervisory Board are raised by one-third.

The amount of remuneration and allowances received by members of the Supervisory Board is set out in paragraph 2.2.2 of the 2010 registration document.

**Remuneration of Group Management Board members**

The principles governing the remuneration of Group Management Board members and its amount are determined by the Remuneration and Appointments Committee and approved by the Supervisory Board.

Members of the Group Management Board receive a fixed remuneration and a variable remuneration.

**Fixed remuneration**

Fixed remuneration is set in the light of market practice with respect to similar functions. This represents between 30% and 40% of the total remuneration of members of the Group Management Board.

**Variable remuneration**

At the end of each year, the Remuneration and Appointments Committee assesses the extent to which each objective has been achieved and submits its calculation of the variable portion to the Supervisory Board for its evaluation.

Variable remuneration represents 60% to 70% of the total remuneration of the members of the Group Management Board and with regard to 2010 depends on individual performance criteria and the following three financial criteria: the first is linked to the Group's consolidated turnover, its operating income, its net technical income and net income, the second to the achievement of operational contribution objectives, and the third to the achievement of qualitative personal objectives. These objectives are proposed by the Remuneration and Appointments Committee and approved by the Supervisory Board.

Variable remuneration breaks down into three different types of remuneration:

- the annual bonus;
- the mid-term bonus:

The members of the Group Management Board benefit from a Mid-Term Bonus (MTB) system that was implemented in the Euler Hermes group to increase the loyalty of its managers. The system works on a three-year basis: if the targets set are attained within the three-year period, an additional bonus is received at the end of the period;

- the long term bonus:

  In the context of a worldwide long-term incentive plan aimed at Euler Hermes group management personnel, the members of the Group Management Board also benefit from a long term bonus that is broken down into RSUs (Restricted Stock Units) and SARs (Stock Appreciation Rights).

  RSUs have been granted to members of the Group Management Board.

In 2010, the Board members were awarded Allianz RSUs in an amount based on change in the Allianz share price over a period of five years.

At its November 4th, 2010 meeting, the Supervisory Board amended the terms of directors' remuneration for 2011 so that remuneration received under the long term incentive plan is split equally between RSUs whose value is linked to change in the Allianz share price and RSUs whose value is linked to change in the Euler Hermes share price, with a vesting period of four years starting from the performance remuneration grant date in year N-1.

Members of the Group Management Board have also been granted SARs whose value is linked to the change in the Allianz share price over a seven-year period. There will be no more SARS granted in 2011.

#### Compensation of Management Board members in the event of termination

Management Board members who are exclusively corporate officers and do not have employee status benefit from specific agreements in the event of the termination of their term of office. In such an event, compensation is paid in accordance with Article L. 225-90-1 of the French Commercial Code, conditional to the performance criteria set out in paragraph 2.2.1 of the 2010 registration document having been met. The indemnity does not exceed two years' of compensation.

#### Supplementary pension plan for Management Board members

All Board members benefit from a supplementary pension plan in addition to their entitlements under a defined-contribution plan.

Wilfried Verstraete and Gerd-Uwe Baden benefit from the supplementary pension plan in force within the Euler Hermes group under the terms of the directorships they held previously within the Euler Hermes group. Their supplementary pension plan was terminated on January 1st, 2011.

The other Board members contribute to French supplementary pension plans (AGIRC-ARCO, ARIAL).

No director has a defined-benefit pension plan (cloth-cap scheme).

Details of remuneration for the 2010 fiscal year and severance packages paid to executives in 2010 and sums to be paid in 2011 for 2010 are described in paragraph 2.2.1 in the 2010 registration document.

### 1.4.2 SPECIALIZED COMMITTEES

The Supervisory Board may decide to set up specialist committees, the composition and powers of which it determines, to carry out specific duties under its responsibility, although it may not do so in the aim of delegating to a committee the powers vested in the Supervisory Board by law or by the Articles of Association, and such committees shall not reduce or limit the powers of the Group Management Board.

The Supervisory Board includes an Audit Committee and a Remuneration and Appointments Committee.

#### Audit Committee

***Composition of the Audit Committee***

The Audit Committee is made up of three non-executive members of the Company's Supervisory Board.

At the time of writing, the Audit Committee of the Supervisory Board comprised three members as follows:

- Robert Hudry, Chairman, independent member of the Supervisory Board with particular expertise in finance and accounting;
- Yves Mansion, independent member of the Supervisory Board;
- Brigitte Bovermann, member of the Supervisory Board.

This composition was approved at the Supervisory Board meeting of July 29th, 2010.

Pursuant to Article L. 823-19 of the French Commercial Code and the AFEP/MEDEF Code, independent members represent two-thirds of Audit Committee members.

***Organization of the Audit Committee***

The Chairman of the Audit Committee defines its tasks each year, depending on his or her assessment of the importance of a particular type of risk, in agreement with the Group Management and Supervisory Boards.

The Committee meets when convened by its Chairman, whenever the Chairman or the Supervisory Board deems it appropriate, and no less than three times a year.

Meeting agendas are set by the Committee Chairman, in conjunction with the Board when meetings are convened by that body. The agenda is given to committee members prior to the meeting, along with any information relevant to their discussions.

The Chairman is responsible for committee's secretariat.

To carry out its duties, the Audit Committee hears, if it deems fit, the Company's Statutory Auditors and directors with responsibility for the preparation of financial statements and internal controls, outside the presence of the Group Management Board.

It reviews the principles and methods, program and objectives, and the general findings of the Internal Audit function's operational control duties.

The Statutory Auditors make known to the Audit Committee:

- their work program and the various surveys conducted;
- changes they required in the financial statements of periods being closed or other accounting documents, along with any relevant comments on the assessment methods used in their preparation;
- any irregularities and inaccuracies they discovered;
- their findings relating to the aforementioned comments and corrections to the results for the period.

The Statutory Auditors also review, in conjunction with the Audit Committee, any threats to their independence and any safeguard measures taken to mitigate these risks.

They make known to the Audit Committee any material weaknesses in internal control as regards the procedures for the preparation and processing of financial and accounting information, and provide annually the documents required by law.

The Audit Committee may also, with the agreement with the Group Management Board, speak with people liable to assist them in carrying out their duties, including senior operational and financial executives, as well as people in charge of processing information.

#### *Main duties of the Audit Committee*

The Audit Committee, acting under the sole and collective responsibility of the members of the Supervisory Board, assists the Supervisory Board to ensure the accuracy and fairness of Euler Hermes' parent company and consolidated financial statements, the quality of internal controls, and information provided to shareholders and the market. The Audit Committee may issue advice and recommendations to the Supervisory Board in the areas described below.

The Audit Committee is tasked with:

- in regard to risk management and internal controls:
  - monitoring the effectiveness of internal controls and risk management systems, and in particular the evaluation of internal control systems, reviewing the work program and findings of the Audit Function, assessing recommendations and their follow-up, and looking at working relations with the Internal Control Function in preparing financial statements, and
  - carrying out regular reviews, in conjunction with the Group Management Board, of the main risks incurred by the Group, including through risk mapping;
- in regard to relations with the Statutory Auditors:
  - steering the selection of the Statutory Auditors and their replacements, issuing opinions on the amount of their fees and submitting the results of its work to the Supervisory Board,
  - ensuring that the Statutory Auditors' other assignments are not liable to affect their independence, and
  - reviewing the Statutory Auditors' work program, findings and recommendations;
- in regard to financial reporting and disclosure:
  - based on interviews with the Group Management Board and the Statutory Auditors, ensuring the pertinence and consistency of accounting policies adopted in the preparation of the parent company and consolidated financial statements, reviewing and assessing the scope of consolidation, and examining and verifying the appropriateness of accounting policies applied within the Group,
  - reviewing, before their presentation to the Supervisory Board, the parent company and consolidated financial statements, and
  - monitoring the process of preparing financial reports and disclosure and, if necessary, supervision.

This monitoring allows the Committee to issue, if necessary, recommendations for improving existing processes and, where appropriate, establishing new procedures.

The Audit Committee may be consulted on any matter relating to control procedures for unusual risks, especially when the Supervisory Board or the Group Management Board deem fit.

#### *Work of the Audit Committee*

The Audit Committee met four times during fiscal year 2010. The attendance of committee members averaged 100%.

The Audit Committee reports regularly to the Supervisory Board on the performance of its duties and notes its comments.

The Audit Committee promptly informs the Supervisory Board of any difficulties encountered.

The Audit Committee includes any advice it considers useful in its reports:

- on the aptitude of the various procedures and the overall system to achieve their goal of controlling information and risks;
- on the effective implementation of existing procedures and, where appropriate, on resources needed to achieve their implementation.

It also makes recommendations and proposals aimed at improving the effectiveness of the various procedures and the overall system or at adapting them to changed circumstances.

If, during its deliberations, the Audit Committee discovers a significant risk that does not appear to have been adequately addressed, it warns the Chairman of the Supervisory Board.

Its Chairman provides a report on the Audit Committee's work to the Supervisory Board.

In 2010, the work of the Audit Committee was focused in particular on:

- reviewing the financial statements for fiscal year 2009, discussing the new organization of the Internal Audit function, reviewing the Audit Committee Charter, looking at risk controls and reviewing the "Chairman's report" on internal controls (meeting of February 16th, 2010);
- reviewing the financial statements for the first quarter of 2010, reviewing the report on internal controls prepared for France's Prudential Control Commission (ACP – Autorité de Contrôle Prudentielle) and assessing quarterly risk controls (meeting of May 6th, 2010);
- reviewing the financial statements for the second quarter of 2010 and assessing quarterly risk controls (meeting of July 27th, 2010);
- reviewing the financial statements for the nine months to end-September, looking at the execution of the 2010 internal audit plan, assessing the 2011 plan, and evaluating quarterly risk controls (meeting of November 2nd, 2010);
- reviewing and approving of financial communications.

#### *Evaluation of the Audit Committee*

In accordance with the AMF report on Audit Committees dated June 14th, 2010, an evaluation of the Audit Committee will be made in conjunction with the assessment of the functioning of the Supervisory Board as a whole (*see paragraph 1.5*). On this occasion, the Supervisory Board will assess the tasks actually carried out by the Audit Committee in relation to the goals set and the initial work plan, and will make suggestions for improving the Committee's functioning.

### Remuneration and Appointments Committee

#### *Composition*

The Remuneration and Appointments Committee is made up of three non-executive members of the Company's Supervisory Board.

At the time of writing, the Remuneration and Appointments Committee of the Supervisory Board comprised three members as follows:

- Brigitte Bovermann, Chairman;
- Charles de Croisset, independent member;
- Jean-Hervé Lorenzi, independent member.

This composition was decided at the Supervisory Board meeting of July 29th, 2010.

The term of office of the members of the Remuneration and Appointments Committee coincides with their term of office on the Supervisory Board.

Committee members' terms may be renewed when their term on the Supervisory Board is renewed.

In accordance with the AFEP/MEDEF Code, independent members of the Supervisory Board comprise a majority of the members of the Remuneration and Appointments Committee.

The Remuneration and Appointments Committee elects a Chairman.

***Work of the Remuneration and Appointments Committee***

The Remuneration and Appointments Committee meets when convened by its Chairman, whenever the Chairman or the Supervisory Board deems it appropriate.

It met three times during fiscal year 2010. The attendance of Remuneration and Appointments Committee members averaged 100%.

The Chairman of the Supervisory Board is involved in the work of the Remuneration and Appointments Committee, with the exception of any matter that concerns him or her personally.

Meeting agendas are set by the Committee Chairman, in conjunction with the Supervisory Board when meetings are convened by that body.

***Duties***

The main duties of the Remuneration and Appointments Committee, as part of the work of the Supervisory Board, are:

- in regard to appointments:
  - to examine all requests for appointment to the Supervisory Board and to issue an opinion on these applications or a recommendation to the Supervisory Board,
  - to examine the independent status of members of the Company's Supervisory Board, and to determine the appropriate number of independent members, and
  - to prepare recommendations in time for the replacement of corporate officers;
- in regard to remuneration:
  - to make recommendations concerning remuneration, pension and employee benefit schemes, benefits in kind and other financial entitlements, including, where appropriate, grants of stock options or bonus shares to members of the Group Management Board, and
  - to make recommendations concerning the remuneration of the members of the Supervisory Board.

***Work of the Remuneration and Appointments Committee***

In 2010, the work of the Remuneration and Appointments Committee was focused in particular on:

- the remuneration of Group Management Board members (February 2010 meeting);
- a review of applications for membership of the Supervisory Board, the Audit Committee and the Remuneration and Appointments Committee (February 2010 meeting);
- the allocation of directors' fees awarded to members of the Supervisory Board by the Ordinary Shareholders' Meeting of June 21st, 2010 (November 2010 meeting);
- the pension schemes of the members of the Group Management Board (November 2010 meeting);
- the proposed modification of the RSU plan (November 2010 meeting).

### 1.5 Evaluation of the Supervisory Board

To ensure best corporate governance practice, the Supervisory Board assesses its ability to respond to shareholders who have given it a mandate to manage the Company, by periodically reviewing its composition, organization and functioning. The following questions are addressed regularly:

- reviewing the Supervisory Board's operating procedures;
- ensuring that important issues are suitably prepared and discussed;
- assessing each member's real contribution the Supervisory Board's work thanks to his or her skills and involvement in discussions.

In accordance with the AFEP/MEDEF recommendations, the Supervisory Board conducts an annual evaluation of its composition, its organization and its functioning.

The Supervisory Board evaluates its work on the basis of a self-assessment questionnaire distributed among directors. The most recent of these questionnaires was given to directors on February 15th, 2011.

After its reviews, the Supervisory Board considers possible avenues of improvement and, after discussions, decides on the appropriate measures to improve its performance.

In accordance with AFEP/MEDEF recommendations, Supervisory Board members also agreed, at their February 15th, 2011 meeting, to undertake a formal assessment of its work in the coming months, performed by an independent expert.

Shareholders will be informed of the outcome of assessments in the annual report every year and, where appropriate, of action taken.

## 2 Composition, role and organization of the Group Management Board

### 2.1 Composition of the Group Management Board

At the time of writing, the Group Management Board was composed of five members as follows:

- Wilfried Verstraete, Chairman;
- Nicolas Hein;
- Michel Mollard;
- Gerd-Uwe Baden;
- Dirk Oevermann.

### 2.2 Functioning of the Group Management Board

The Group Management Board operates according to "internal regulations" which are designed to complement the operating principles stipulated in the Articles of Association, while respecting the collegial principle of the Group Management Board and facilitating the work of the Supervisory Board. In addition, the internal regulations define the practical procedures for holding meetings and recording minutes. These regulations are regularly updated as a function of the Company's requirements and the missions the Group Management Board sets for itself and its members.

The Group Management Board can set up committees. It decides on their composition and attributes, and they carry out their activity under its responsibility, but it cannot delegate its powers to such committees.

The Group Management Board meets as often as required in the interests of the Company, usually twice a month. It met 23 times in 2010.

The members of the Group Management Board share the supervision of the activities and functions of the Group. Only the Chairman represents the Company in its relations with third parties.

At least once a quarter, the Group Management Board presents a report to the Supervisory Board.

Lastly, the members of the Group Management Board must inform each other about the following:

- the most significant decisions taken in their entity or in the area of business for which they are responsible within the Group and in particular actions aimed at developing or adapting the Group's business;
- events whose scope, even if they take place within their area of responsibility, involves several entities and in particular changes in procedures or operational methods which, although not requiring formal approval by the members of the Group Management Board, may affect other Group companies.

The Chairman (CEO) is in charge of organizing and coordinating the business of all Group companies. Currently, he supervises at Group level the areas of "internal audit", "human resources", "communications" and the activities of other members of the Group Management Board and relations with shareholders.

The four other members of the Group Management Board share supervision of the remaining cross-company functions, i.e. "risks, information and indemnification", "markets, marketing, commercial development and distribution", "finance, legal, taxation and compliance", and "operations", which includes in particular supervision of the information technology function.

The person responsible for each cross-company function sets the limits of powers granted to the managers of subsidiaries in each of the areas in question.

Since January 2010, as part of a project known as "One Euler Hermes", a new, more integrated organization and governance structure has been put in place. In concrete terms, this consists of:

- a geographic organization with the creation of six regions (Americas, Asia-Pacific, France, Germany/Austria/Switzerland, Mediterranean countries/Africa and Northern Europe) each managed by a region head responsible for applying the decisions taken by the Group Management Board;
- a governance structure based on two bodies:

– the Group Management Board composed of five members: the CEO and four other members each responsible for a key Group function (Risk Marketing/Commercial, Subscription and Distribution, Finance/Legal/Taxation/Compliance and Operations),

– and the Leadership Team, which is responsible for applying the Group Management Board's decisions, ensuring their implementation and defining the priority initiatives to be taken within the Group. The Leadership Team comprises the six Region Heads and the five members of the Group Management Board.

In addition, each member of the Group Management Board acts as the representative of the shareholder in respect of certain Group companies.

### 2.3 Limits on the Group Management Board's powers

The following decisions of the Group Management Board are subject to prior authorization from the Supervisory Board:

- the sale of property and the total or partial sale of shareholdings and the constitution of sureties on Company assets where the transaction exceeds €30,000,000;
- direct transactions or equity holdings that might significantly affect the Group's strategy and materially modify its financial structure or scope of activity where these exceed €5,000,000;
- the issue of securities, of any kind, that may result in a modification of the registered share capital regardless of the amount involved;
- transactions aimed at granting or contracting any borrowings or loans, credits or advances where these exceed €75,000,000;
- transactions aimed at constituting sureties, guarantees, deposits or bonding where these exceed €30,000,000.

When a transaction exceeds the specified amount, the approval of the Supervisory Board is required in each case.

## 3 Code of Corporate Governance

Since fiscal year 2008, the Company voluntarily adheres to the AFEP/MEDEF Code of corporate governance for listed companies. The AFEP/MEDEF Code may be consulted at its head office, 1 rue Euler, 75008 Paris.

The Euler Hermes Supervisory Board considers that these recommendations form part of the Company's approach to corporate governance, and notes that the majority of these recommendations have already been applied within the Group.

Euler Hermes applies the recommendations, with the exception of the following:

- there is no variable portion of attendance fees linked to attendance at meetings of the Supervisory Board and committees, since the participation rate for Supervisory Board meetings is high. In addition, permanently and in accordance with the Group's business, the members of the Supervisory Board are called upon outside of meetings, in particular by the Chairman of the Supervisory Board, or take the initiative to inform him of their opinions and recommendations.

## 4 The conditions for shareholders to participate in Shareholders' Meetings

In accordance with Article 20 of the Company's Articles of Association, Shareholders' General Meetings are convened and deliberate in the conditions provided for by law.

The meetings are held either at the head office or at any other place specified in the notice of meeting.

Ordinary Shareholders' Meetings include all shareholders who hold at least one share under the conditions set forth below. Special General Meetings are open to all holders of the class of share concerned who, in accordance with the conditions set out below, hold at least one share of that class.

In respect of amounts called but not paid on shares, such shares do not give right of admission to General Meetings and are deducted for purposes of the quorum calculation.

Subject to the aforementioned provisions, every shareholder is entitled, on proof of identity, to participate in Shareholders' Meetings, either by attending in person, by returning a postal voting form, or by appointing a proxy, who may be his/her spouse or another shareholder, provided that the shares have been recorded in the accounts in the name of the shareholder or of the intermediary acting on his behalf:

- for registered shareholders, in the Company's register;
- for bearer shareholders, in the bearer share accounts held by the custodian.

The above formalities must be completed by 00:00 hours Paris time on the third business day preceding the Shareholders' Meeting.

Meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice Chairman or a member of the Supervisory Board specially delegated by the Supervisory Board for this purpose. Failing this, the meeting appoints its own Chairman.

The duties of teller are performed by the two members of the General Meeting who have the greatest number of votes and who accept this role.

The officers of the meeting appoint the secretary who may be chosen from outside the shareholders.

Every member of the meeting is entitled to as many votes as the number of shares he owns or represents.

The voting right belongs to the beneficial owner in all General Meetings.

Ordinary Shareholders' Meetings meet validly only if, when they are convened for the first time, the shareholders present, represented or having voted by post own at least one quarter of the shares having a voting right. When such meeting is convened for the second time, no quorum is required.

Extraordinary Shareholders' Meetings meet validly only if the shareholders present, represented or having voted by post own at least one third of the shares having a voting right when the meeting is convened for the first time, and one quarter when it is convened for the second time.

Special General Meetings meet validly only if the shareholders present, represented or having voted by post own at least half of the shares having a voting right when the meeting is convened for the first time, and one quarter when it is convened for the second time.

Ordinary Shareholders' Meetings decide by a majority of the votes held by the shareholders present, represented or having voted by post.

Votes at an Extraordinary Shareholders' Meeting or a Special General Meeting are carried by a two thirds majority of the votes of shareholders present, represented or having voted by post.

In calculating the quorum and the majority, shareholders participating in a meeting by videoconference or by telecommunications methods that enable shareholders to be identified, and the type and conditions of which have been determined by decree issued by the Conseil d'Etat (national French "State Council"), are deemed to be present.

Minutes of meetings are prepared and copies are certified and delivered in accordance with the law.

# II INTERNAL CONTROL PROCEDURES AND THE CONTROL ENVIRONMENT

The Euler Hermes group operates mainly in the fields of credit insurance and bonding and guarantees.

## Existing regulatory obligations

Legal obligations (Financial Security Act in France, Sarbanes-Oxley Act in the United States) have been added to the existing set of regulations under which a company's Management is directly responsible for all the Company's business, including its internal control system; i.e. the achievement of objectives and the design and implementation of resources making it possible to control them. These regulations include those issued by the ACP and the Banking commission (Commission bancaire) as well as accounting standards and the recommendations made in reports on Corporate Governance. All these rules and regulations have been taken into account in the Group's procedures.

### 1 Internal control

On January 22nd, 2007, the Autorité des marchés financiers, the French securities regulator, published its guidelines for internal control, defined as follows:

Internal control forms part of a company's systems and is defined and implemented under its responsibility with a view to ensuring:

- compliance with laws and regulations;
- the application of instructions and strategies set by the General Management or by the Group Management Board;
- the correct functioning of the Company's internal procedures, in particular those intended to safeguard its assets;
- the reliability of financial reporting;

and, more generally, to contribute to the control of its activities, the effectiveness of its operations and the efficient use of its resources.

In accordance with the organizational methods common to Euler Hermes group entities, as described previously, and the existing measures and procedures, the Supervisory Board and its Chairman, the Group Management Board and the relevant parts of the Group are kept regularly informed of internal controls and of the level of exposure to risk, the areas for improvement and the progress made with regard to the corrective measures adopted.

As part of the measures taken to comply with the Sarbanes-Oxley Act, and for consistency's sake, the Euler Hermes group uses the internal control principles laid down by the COSO (Committee of Sponsoring Organizations), which apply within the Allianz group. These principles are internationally acknowledged.

The Sarbanes-Oxley Act adopted in the United States on July 25th, 2002, and which has applied since the end of 2006 to European companies listed on the New York Stock Exchange, introduced measures to increase financial and accounting transparency and to emphasize directors' responsibility. These measures relate in particular to:

- certification by the CEO and the CFO that procedures and controls relating to published information have been defined, established, tested and maintained, and in addition that the effectiveness of these procedures and controls has been evaluated (section 302 of the Sarbanes-Oxley Act);
- assessment of the internal controls in a report by the directors stating the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, an assessment of the effectiveness of this system, and certification by external auditors (section 404 of the Sarbanes-Oxley Act).

The Allianz group, of which Euler Hermes forms a part, was subject to the obligations set out in the Sarbanes-Oxley Act and took steps to comply with them as from the financial statements drawn up at December 31st, 2004. The work performed by Euler Hermes in the context of Allianz's requests in this regard is coordinated with the work required in relation to the French Financial Security Act.

Despite the fact that Allianz group was delisted from the New York Stock exchange in October 2009, the measures related to Sarbanes-Oxley are still applied within the Group.

The COSO defines internal control as a process implemented by an entity's General Management, managers and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting;
- compliance with applicable laws and regulations.

COSO's definition of internal control breaks it down into five separate areas:

- the control environment (increasing staff awareness of the need for controls);
- risk assessment (factors likely to affect achievement of objectives);
- control activities (particularly the application of standards and procedures);
- information and communication of data to manage and control activities;
- the monitoring of control systems.

Internal control is designed to provide reasonable assurance regarding the achievement of the following objectives:

- financial performance, by the efficient and appropriate use of the Group's assets and resources and protection against the risk of losses (within the Company);
- precise and regular knowledge of the data required for decision-making and risk management;
- adherence to internal and external rules;
- prevention and detection of fraud and mistakes;
- accuracy, completeness of accounting records and preparation of reliable accounting and financial information in a timely manner.

Internal control, in accordance with the COSO's description, is described below.

## 2 The control environment

The control environment inside the Euler Hermes group and its subsidiaries consists of the following:

- control structures;
- rules of conduct;
- the definition of responsibilities and control of individual objectives.

### 2.1 THE PRINCIPLES OF CORPORATE GOVERNANCE

The Group's General Management launched a new organization with effect from January 1st, 2010. The new organization is characterized by central operating functions and geographic division of the world into six regions. Direct control of the subsidiaries is split between these regions.

The Euler Hermes group has applied the principles of Corporate Governance by organizing the structures of the holding company so as to supervise and control the subsidiaries which remained in existence in 2010. It has set up the following structures within its largest subsidiaries (Euler Hermes SFAC, Euler Hermes SIAC, Euler Hermes UK, Euler Hermes ACI, Euler Hermes Credit Insurance Belgium, Euler Hermes Kredietverzekering, Euler Hermes Kreditversicherungs, Euler Hermes Nordic):

Governance structures:

- a Board of Directors or Supervisory Board, depending on the entity. It includes the representatives of the shareholder (the Group) and directors from outside the Group, and meets four times a year in the presence of the CEO. Its task is to define the strategic orientations and control the business activities of the subsidiary and of its CEO. It reviews the subsidiary's financial statements, main projects, legal risks and development. Its work is based on Group reports drawn up by Group Management control and specific indicators in the sales and marketing, risks, and litigation areas in particular;
- an Audit Committee of the Supervisory Board: This consists of two or three directors and generally meets, with the subsidiary's management, on the day before Board of Directors' meetings. It carries out a detailed review of the subsidiary's financial statements, internal controls and the activity of internal and external auditors. The internal and external auditors take part in the work. They may discuss matters outside the presence of the Company's general management at the request of members of the Committee or its Chairman. The Committee reports to the Board of Directors or Supervisory Board, depending on the entity;
- a Remuneration Committee: consisting of the CEO, the representative of the shareholder and a non-executive Chairman. The Committee decides on the remuneration of the members of the subsidiary's Management Committee on the basis of the CEO's proposals. The Group Remuneration Committee is informed of its decisions;
- a Finance Committee whose role is defined in chapter III entitled "Internal control procedures with regard to accounting and financial information", shown hereafter.

"Management" structures:

- a Management Committee or Management Board, depending on the entity, chaired by the CEO. It is made up of the main managers and meets at least once a month. It manages the subsidiary's business operationally on the basis of reports drawn up by Management control and specific indicators. Its Chairman reports to the Supervisory Board;
- a Management Audit Committee: This committee is made up of members of the Management Committee and its Chairman (or his/her deputy). It meets between four and eight times a year. It reviews in detail internal audit reports, is responsible for communicating the contents of the report within the Company and monitors the implementation of recommendations and the completion of the internal audit program.

The former Hermes Group companies have similar structures based on the Supervisory Board and the German "Vorstand" model of a Management Board.

The smaller subsidiaries have an Audit Committee, which plays the same role as in the larger subsidiaries.

### 2.2 ACTIONS AS REGARDS COMPLIANCE

The Compliance of Euler Hermes' operations is ensured by a network of Regional Compliance Officers reporting directly to the Group Compliance Officer. The Group Compliance Division's central team designs and supervises the different compliance measures deployed throughout the Group. The Group Compliance Officer reports directly to the Group Finance Officer and to the Group Risk Committee. He is also the main contact for Allianz France and Allianz SE in all matters relating to compliance.

Each year, a compliance action plan is drawn up at Group level, and each regional compliance officer is responsible for its implementation. The measures decided are based on a diagnosis of the risks – particularly compliance risk – which are summarized in a document regularly transmitted to the Group Risk Committee.

The Compliance division covers numerous domains, including anti-money laundering measures, prevention of fraud and corruption, conflicts of interest, international sanctions and anti-trust law. It also monitors respect of French capital market regulations, particularly in the domains of insider information and transactions on Euler Hermes securities conducted by its directors.

In 2010, the Compliance division mainly focused on implementing throughout the Group the first phase of its anti-corruption program in the framework of an initiative launched by Allianz. This first step consisted of assessing the risk of corruption and defining the actions to be implemented in priority. An anti-corruption Policy, accompanied by a message from the local General Manager, has been distributed to all the Group's employees. Other projects have been launched, including the elaboration of a procedure to verify the integrity of suppliers and an assessment of the existing rules concerning gifts and invitations. Other measures will follow in 2011, with the anti-corruption program notably being finalized towards the end of the year.

One of the priorities in 2010 has been to continue making all employees aware of their regulatory obligations and of Euler Hermes' approach in terms of compliance. A Compliance portal site has been opened on the Group's intranet, containing vital information on compliance risks, the domains covered and its functional organization. The Compliance division also created its own logo which is now used systematically throughout the Group on all important internal documents. Lastly, new training sessions have been organized for all the hierarchical levels on a needs basis.

In another major initiative, the particularly strict internal rules relating to insider information, i.e. information that could influence the price of Euler Hermes shares, have been further tightened. Potential insiders have been identified and individually informed of their status and their duties and obligations. These persons are not authorized to conduct transactions on Euler Hermes shares during blackout periods (transactions suspended) that precede the publication of the quarterly, half-yearly and annual results. Pursuant to AMF recommendation no. 2010-07 of November 3rd, 2010 on insider training, the blackout periods have been extended – a minimum of 30 calendar days before publication of the full quarterly, half-yearly and annual financial statements.

### 2.3 DEFINITION OF FUNCTIONS AND MONITORING INDIVIDUAL'S OBJECTIVES

The appropriate skills levels are ensured by recruitment procedures, supported by job descriptions. All staff currently participate in individual annual interviews to review their performance and set annual targets with their line manager that are consistent with the entity's objectives.

## 3 Risk assessment

### 3.1 RISK MAPPING

Risks were first mapped in 2002, by identifying operational risks in collaboration with the management teams of the subsidiaries.

This mapping has been revised to match the new Allianz Directives issued in 2010. It is based on an audit universe that covers all functional and operational domains. This audit universe consists of 409 audit targets that can be operational entities, business lines or processes.

Allianz has defined 8 categories of risk: Market, Credit, Actuarial, Costs, Operational, Liquidity, Reputation and Strategic. These categories will be implemented in 2011.

These risks are assessed for each sub-process in terms of their occurrence probability, their scale and impact upon materialization, and their susceptibility to the control environment.

The results of risk mapping are submitted to Management Audit Committees and the Audit Committee of the Supervisory Board. This review takes place systematically when audit programs are defined. The risk scores in the previous risk map have been integrated into the new risk map.

### 3.2 SOLVENCY II

The Solvency II project will be implemented as of January 1st, 2013. Until that time, the Euler Hermes group will be involved in a consultation process with regulators regarding the different elements of Solvency II.

In addition, a Steering Committee has now been set up within the risk control division.

### 3.3 THE RISK CONTROL DEPARTMENT

The Group has set up a Risk Control department with a view not only to monitoring risks but also to quantifying risks. Recent and prospective changes in the regulatory framework influence the architecture and implementation of such a structure, alongside considerations such as management's need to optimize the allocation of financial resources based on risk and to strengthen this aspect of internal control and transparency.

The role of the Risk Management department is to analyze and quantify all types of risk – including financial, credit, premium-related and operational risks – using appropriate applications and methods, in permanent interaction with all transversal functions and in liaison with the entities of the Group. Control procedures enhance the robustness of this organization. They enable information at all levels of the Group to be harmonized and reported in order to establish risk objectives in line with the implementation of limits on the various types of risk.

The decisions that concretize the Group's risk control policy and endorse the measures required for pro-active risk management are taken by the Group Risk Committee in close contact with the Committees of other cross-company functions or in conjunction with the Group Management Board. This closer management of risks is carried out as a complement to and in collaboration with the existing control structures under the independent review of the risk control function. Risk management actions are relayed to the entities by their corresponding structures, which interact with the Group's structures. The various committees and the information flows within the Group's structures that are escalated to the Group Management allow the management and control of the changing risk environment and of any exceptional risk event that may require the implementation of specific measures.

This department measures quantitative risks on the basis of capital risk and it measures qualitative risks via a series of procedures and *ad-hoc* reports.

The role of the Group's actuarial team is to coordinate and control reserves held by the entities and to oversee the application of methods for estimating reserves. This role is conducted notably through dedicated committees formed between the Central Division and the local entities responsible for maintaining reserves. These committees review calculation assumptions, the methods applied, and the principal events that could impact reserves. Changes in reserves over time and their adequacy, as well as their surpluses, are analyzed in detail. This approach ensures consistency in the methods and practices used to determine consolidated amounts, and provides an explanation of variances while also providing support and a framework for local entities, which remain responsible for maintaining their reserves.

### 3.4 ORGANIZATION OF INTERNAL CONTROL ACTIVITIES

Supervision of the internal control mechanism is deployed at 2 levels: Control of the implementation of the rules and procedures by the management, and control via audits.

**Implementation of rules by management**

Euler Hermes' rules and general principles were defined in 1999 by the Group's transversal Divisions, in agreement with the Group Management Board, in the areas of Risk, Litigation, Debt Collection, Sales/Marketing, Finance, Accounting, Reinsurance, Information Technology, Audit, Communication and Human Resources. In the Risk and Sales/Marketing domains, these rules have since been updated in 2003, in 2004, and then again in 2008. In the framework of the new organization implemented in 2010, these rules have been updated again. They have been introduced in the principal entities as procedures that include, notably, individual responsibility thresholds and the organization of specific Risk and Sales/Marketing Committees for example.

Our principal subsidiaries also have:

- a "Risk Business Model" and quality standards for management of debtor risk;
- a "Collection Business Model" and quality standards for debt collection.

**First level controls**

At Group level, there are transversal teams for the operational domains Risk/Litigation, Sales/Marketing, and Strategy/International Development and for the support domains like Operations, Information Technology, Finance and Accounting, Reinsurance, Internal Audit, Human Resources, Communication and Risk Management. Each of these teams reports to a member of the Group Management Board and supervise the implementation of the Group Directives at the Group's subsidiaries.

For example, the transversal credit risk team monitors the Group's exposure to credit risk on a Group-wide basis. To achieve this, it has access to the Group's monthly reporting drawn up by the Group management control team and to a monthly reporting on Significant Risks. Remedial actions are coordinated in the Group Risk Committee attended by the subsidiaries' Risk Officers. This committee, chaired by the Head of the Transversal Risk Team, meets every two months. Each subsidiary's Risk Officer reports to this committee. Local risk business is circumscribed by a local Risk Committee (usually attended by the CEO), and by a system of delegation of powers.

Procedures describing the processes and the main related controls have been drawn up for each department. The documentation of the control system was extended in 2004 to those departments not covered initially.

Controls are carried out by the operational units themselves. These controls may be integrated into the processing of transactions (first level) and some may be integrated into automated systems. In addition, they may be carried out by units or individuals that are independent of the above-mentioned operational units or distinct from those that carried out the first level controls (second level).

**Second level controls**

Second level controls are conducted by the Compliance Division, SOX or the Supervision that has replaced it, notably risk management. These second level controls are also detailed in this report.

**Third level controls: internal audit**

The Group has an audit service organized into different domains: Risk, Sales/Marketing, Finance/Accounting, Operations and Corporate Governance. There is still also a local audit structure in Germany to handle the specific requirements of the German financial authorities. The Group is currently appointing specific audit correspondents per region. The team's budgeted headcount is for 21 (FTE). The Head of Group Audit reports to the Euler Hermes Audit Committee and to the Group CEO. He participates, as a permanent member, in subsidiary Audit Committees with local Audit Managers.

An annual program of audit assignments is drawn up every year. This program, based on risk mapping and a pragmatic approach to requirements, includes global audits of the subsidiaries, transversal audits of processes performed simultaneously in the main subsidiaries. It is drawn up in accordance with a structured procedure in the second half of the year. It is the subject of a discussion, communication and validation process with operational staff, General Management and Audit Committees. The last stage of the validation process is the presentation of the program to the Euler Hermes Audit Committee for approval in November. In view of the new organization, it was re-designed and was presented to the Audit Committee in February 2010. The audit program has been adapted to obtain coverage of the risks over five years, in accordance with the Allianz Directives, whilst ensuring short-term coverage of the most significant risks. In the first quarter of 2010 local NB audits were organized in the subsidiaries. Over the last three quarters, there were three 'sovereign' audits (audit of subsidiaries), one of which is still underway, eight transversal audits and three IT audits.

The audit activity is circumscribed by an audit charter. The version validated in April 2001 was updated in 2008 and validated by the Audit Committee and the Supervisory Board in October 2008. It requires precise definition of missions, the organization of the various levels of control within the Euler Hermes group and its subsidiaries and it defines the conditions of intervention by Group and local Audit departments. It is complemented by the development of audit standards and procedures at local and Group levels. A new version of this charter was drawn up in 2010 in order to integrate the new Allianz Audit Charter. It will be presented to the Audit Committee at the beginning of 2011.

In 2010, the Euler Hermes group audit function issued two documents (Euler Hermes group Audit Policy and the Standard Audit Manual), which the Euler Hermes group has adopted.

AGF conducted a quality audit of the Group's audit structure in 2008. The audit's findings regarding the implementation of AGF's recommendations were very satisfactory.

In addition, at the request of the Euler Hermes group audit team, the Euler Hermes audit team has conducted a self-assessment of its audit practices. The results of the self-assessment were satisfactory.

**Specific procedures regarding information security**

Information security procedures within the Group are carried out by two principal functions:

- the Group security function;
- the Group information systems security function.

***Security***

The Group Security Officer is responsible for:

- implementing security policies and procedures within the Group;
- ensuring compliance with those policies and procedures by all Group entities;
- defining new policies and procedures, where required;
- coordinating the business continuity management plans within the Group. A review of major entities' plans is currently underway;
- assessing the security risks in the Euler Hermes group Security Risk Log and proposing mitigation activities to the Group Security Committee.

More particularly, he has responsibility for all user aspects of information security, and coordinates a network of correspondents in the business units (two workshops annually).

***Information systems security***

The Group IT Security Officer is responsible for:

- ensuring the implementation of technical means within the Euler Hermes group to improve IT security (e.g. firewall systems for the corporate network, antivirus software to protect our network from attacks from outside, encryption software to protect confidential data, authentication and authorization software to make sure that every user can only access those data he is allowed to);
- establishing and monitoring controls to ensure compliance to the EH information security policies.

The Group IT Security Officer in the Group's Information Technology management team is in charge of coordinating actions relating to IT security with the Security Managers in the subsidiaries, in particular as regards the introduction of information system security technical standards.

Both functions work on the basis of the given Allianz standards on Information Security and Business Continuity Management serving as minimum requirements for all Allianz organisational entities.

Within the framework of the Sarbanes-Oxley project initiated in 2004 and implemented within the Euler Hermes group under the responsibility of the various Group companies, controls have been identified and documented to secure the information systems used in Group companies, and also to introduce procedures to protect information in general against any unauthorized use, disclosure or modification, and against any damage or loss (logical access controls ensuring that only authorized users have access to systems, data and programs).

All the controls identified have been described and documented in detail.

**IT quality assurance and new developments**

The Group IT division oversees the design and development of software applications by the IT departments of the largest Group entities. Quality audits (IT Architecture and Quality – ITAQ) are also organized when requested by the Group IT Director, a local IT Manager or the Group IT Architecture and Strategy department.

**Consolidation and harmonization of systems**

The Euler Hermes group's IT systems are currently undergoing consolidation. Subsidiaries are inter-connected by means of a long-distance network.

The resources (data, equipment) required to manage the Group's credit insurance commitments are centralized at one site. There is a back-up site in the event of any problem and data recovery tests are carried out regularly.

The Group production centre and local production centers apply data back-up procedures and use off-site data storage.

In accordance with Allianz's policy, in 2010 Euler Hermes updated and tested the business continuity plans introduced throughout the Group in 2004.

The Group is pursuing the development of a policy of harmonization and integration of systems (infrastructure and applications): Risks (IRP), Sales/Marketing, Litigation & Collection, Reporting (Rebus) and Financial Their progressive deployment within the Group will help to reinforce access control procedures and the standardization of subsidiaries' internal control systems.

The Group's internal audit structure and Group subsidiaries' audit teams work together on reviews of IT projects or reviews of recently implemented applications.

**Procedures for the assessment of financial internal controls by the Group**

The Allianz Group was delisted from the New York stock exchange in October 2009, but decided nevertheless to keep all procedures related to ICOFR, ("Internal Controls Over Financial Reportings", formerly SOX).

Within the Euler Hermes group, five subsidiaries – Euler Hermes SFAC, Euler Hermes Kreditversicherung, Euler Hermes UK, Euler Hermes ACI and Euler Hermes SIAC – which had implemented all the procedures related to ICOFR between 2004 and 2009, also maintained these requirements in 2010.

## III ACCOUNTING AND FINANCIAL INTERNAL CONTROL PROCEDURES

The accounting and financial controls are carried out by the Group Financial Division, which is split into three departments:

- the Consolidation department;
- the Financial Control department;
- the Asset/Liability Management department.

All three departments report to the Group CFO, and carry out regular controls and monitoring of accounting and financial information and of management indicators specific to the activity.

Both the Consolidation and the Financial Control department are broken down by geographical area, which means that each geographical area is covered by a consolidator and a financial controller.

### 3.1 The Consolidation department

Euler Hermes is consolidated by the Allianz group, which since 1998 has been drawing up its consolidated financial statements in accordance with IAS/IFRS (International Accounting Standards/International Financial Reporting Standards).

Euler Hermes has been presenting its consolidated accounts in accordance with IFRS since 2005.

All of the principles and rules applicable to the companies of the Euler Hermes group are described in a consolidation manual which is made available to all of the entities.

The IFRS accounting and appraisal principles are described in Note 2 of the notes to the 2010 IFRS consolidated financial statements.

The Consolidation department includes three consolidators which report to the Department Head.

Its role is to produce the reported consolidated financial statements of the Euler Hermes group and to provide the shareholders, with the information needed for the integration of the accounts of Euler Hermes into their own consolidated financial statements.

The Consolidation department's direct contacts are the Accounting and Financial Divisions of the consolidated entities and the Consolidation Division of the shareholding company.

All of the Group companies that fulfill the relevant legal and regulatory requirements are consolidated, with the exception of those that are expressly excluded for clearly specified reasons. Exclusion applies to newly created Group companies.

The consolidated financial statements of Euler Hermes are drawn up on a quarterly basis. They are signed off by the Group Management Board of Euler Hermes and are presented to the Group Audit Committee followed by the Supervisory Board.

They are published four times a year and are signed off on a quarterly and an annual basis in accordance with the regulations of the AMF. The financial statements for the period ended June 30th are subject to a limited review by the Statutory Auditors while the annual financial statements, including both the individual financial statements of the consolidated entities and the consolidated financial statements *per se*, are subject to a full audit.

In addition, the quarterly financial statements drawn up by the Group companies and sent to the Consolidation department are subject to a certificate of compliance signed by the Chairman and the CFO of the subsidiary.

An identical certificate signed by the Chairman of the Group Management Board and the Group CFO is submitted to the shareholders.

The consistency and regularity of the consolidated data is ensured by the application of a standard consolidation package, regular updating of Group instructions and monitoring of their application.

A common chart of accounts allowing retrieval of information in accordance with the principles used by our shareholders has been implemented for all Group companies.

### Consolidation package

This is a standard document that has been configured and formatted using the software application Finance (SAP) which is used by all of the Group companies, and includes three modules:

- financial statements: consolidated statement of financial position, consolidated income statement, statement of cash flows, evidence of tax liabilities and ancillary tables;
- statistical statements providing details and analysis of the information included in the financial statements;
- statements related to the commitments given and received which must be listed and appraised on a periodic basis.

### Instruction manual

Available to all of the consolidated entities via the network, this document describes the general accounting principles applicable to the Group, the appraisal and accounting methods used for each item in the consolidated statement of financial position and the consolidated income statements, and instructions for reporting the consolidation package.

## 3.2 The Financial Control department

### Organized into three levels

Financial control is carried out jointly by the Financial Control department of each subsidiary, by the Regional Controllers, and by the Financial Control department of the Group Financial Division.

This structure allows the Group financial control function, which is organized by region, to carry out second-level controls.

The Group Financial Control department reports to the member of the Group Management Board in charge of finance.

On top of this are the controls carried out by the shareholders (Allianz).

### Directly dependent on the corporate governance bodies

The Group Financial Control department gives a presentation of the results on a monthly basis to the Group Management Board, and on a quarterly basis to the Audit Committee and the Supervisory Board.

### Assignments of the Financial Control department

The main tasks of the Financial Control department are as follows:

- draw up the budgets and budget forecasts during the year;
- analyze on a monthly basis the evolution of the activity using operational and financial indicators;

and at Group level:

- monitor the consistency of the data in the consolidation packages;
- consolidate the operating data and reported data sent by the subsidiaries;
- draw up the budgets and budget forecasts of the Holding company and the central entities;
- make comparisons between the subsidiaries;
- draw up the data to be reported to the shareholders.

### Use of harmonized tools within the Group

The control functions are based on harmonized reporting procedures defined by the Group Financial Control department. This harmonization facilitates comparisons based on time and place and benchmarking (notably of costs).

The statements reported by the subsidiaries must be accompanied by comments on the activity written by the Chief Financial Officer and validated by the Chief Executive Officer. These comments must highlight any material discrepancies from one month to another or in relation to the budget, the budget forecasts or the previous year.

### One data analysis process covering all activity

Regardless of the activity in question (monthly analysis, quarterly accounts closure, forecasts or budget preparation), the control procedures mainly relate to the following data:

- external data: reinsurance terms and conditions, financial assumptions and tax rates;

- internal data: commercial activity (premiums, premium rates, etc.), changes in claim ratios and in cost ratios, and monitoring of employee numbers;
- compliance with accounting rules: provisions booked on premiums, provisions booked on claims, monitoring of liquidated provisions;
- analysis of the economic added value of the subsidiaries and consolidation of that of the Group.

This analysis is carried out by business line.

#### Specific features of procedures for drawing up budgets and for budget forecasting

Budgets are drawn up based on the following cycle:

- the Group Financial Control department sends out budget guidelines which are approved by the Group Management Board and to which a harmonized budget package is attached (mid-July);
- the regions send their specific budget instructions and their internal assumptions so that these can be checked for consistency (internal and external) in relation to the interim results;
- each subsidiary draws up its budget which is then approved by the CEO. Their budget packages are then sent to the CFO and CEO of that particular region, who consolidate the region's budgets and carry out second-level controls;
- the budget packages are sent to the Group Financial Control department (mid-September);
- budget meetings are held for the Group, as represented by the Group Management Board, the Group Financial Control department and the shareholder representative, and the regions, as represented by the CEO, the CFO and in some cases the Head of Financial Control;
- presentation of the budget to shareholders for approval (mid-November).

A comprehensive and detailed review of the annual forecasts is conducted once a year, in September. At this point the budgets are adjusted to take account of recent developments in relation to the activity. This formally leads to the sending of budget guidelines and the return transmission of a budgetary package to the Group, which is the subject of in-depth discussions between the subsidiaries, the regions and the Group.

In addition, a simplified review of the local rolling forecasts is carried out on a monthly basis and is used to rapidly identify any changes in the subsidiaries that would have an impact on the Group results.

### 3.3 Asset/Liability Management department

The role of this department is to carry out cross checks on the coherence of the financial investment policies of the subsidiaries and their compliance with the instructions provided by the Group.

The latter relate to the breakdown of portfolios by asset class, the level of recommended risk, notably for the maturity of the bond portfolios and for the credit rating of issuers, the calculation of benchmark indices, the choice of Portfolio Managers and the choice of establishments responsible for the custody of the securities.

This supervision involves monthly financial meetings between the CEO and the CFO of the subsidiary, the representatives of the portfolio management company and the Group CFO.

At these meetings, recommendations are issued concerning the purchase and sale of securities and the reinvestment strategy to be used for cash flows from operating activities.

The Group Management Board of Euler Hermes holds the decision-making power.

The Asset/Liability Management department organizes two Group financial meetings each year with the Group Management Board and the shareholder representatives. At this meeting, past management performance is reviewed and future strategies are decided.

Lastly, the Asset/Liability Management department manages the debt of the Holding company, and negotiates new loans and related hedging instruments. It obtains prior approval from the Group Management Board.

### Conclusion

This report has been presented to and approved by the Audit Committee and the Supervisory Board.

Date: February 15th, 2011.

Clement Booth

Chairman of the Supervisory Board of Euler Hermes

# 2.5 Statutory Auditors' report, pursuant to Article L. 225-235 of the French Commercial Code, on the report of the Chairman of the Supervisory Board of Euler Hermes SA

**Fiscal year ended December 31st, 2010**

Dear Ladies and Gentlemen,

We, in our capacity as Statutory Auditors of Euler Hermes SA and pursuant to the provisions of Article L. 225-235 of the French Commercial Code, we hereby present our report on the report prepared by your Company's Chairman in accordance with the provisions of Article L. 225-68 of the French Commercial Code for the year ended December 31st, 2010.

The Chairman is required to establish and submit for the approval of the Supervisory Board a report on the internal control and risk management procedures set up in the Company, and giving the other information required by Article L. 225-68 of the French Commercial Code relating in particular to corporate governance procedures.

It is our responsibility:

- to inform you of our opinion on the information contained in the Chairman's report on the internal control and risk management procedures when preparing and processing accounting and financial information; and
- and to certify whether this report includes the other information required by Article L. 225-68 of the French Commercial Code, although it is not our responsibility to check the accuracy of this other information.

We conducted our work in accordance with the professional standards applicable in France.

## Information on the internal control and risk management procedures when preparing and processing accounting and financial information

The professional standards require us to perform tests designed to verify the accuracy of the information contained in the Chairman's report on the internal control and risk management procedures when preparing and processing accounting and financial information. In particular, these tests involve:

- examining the internal control and risk management procedures for preparing and processing the accounting and financial information underlying the information presented in the Chairman's report, as well as the existing documentation;
- examining the work from which this information and the existing documentation was prepared;
- determining if any major internal control weaknesses relating to the preparation and processing of accounting and financial information we may have identified during our assignment are appropriately disclosed in the Chairman's report.

Based on this work, we have no observation to make concerning the information provided on the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Supervisory Board, prepared pursuant to the provisions of Article L. 225-68 of the French Commercial Code.

## Other information

We certify that the report of the Chairman of the Supervisory Board contains the other information required pursuant to Article L. 225-68 of the French Commercial Code.

Paris, La Défense, April 12th, 2011

KPMG Audit
*Département de KPMG S.A.*

Régis Tribout
*Partner*

Paris, April 12th, 2011

ACE - Auditeurs et Conseils d'Entreprise

François Shoukry
*Partner*

# ANALYSIS OF THE FINANCIAL INFORMATION AS OF DECEMBER 31ST, 2010

# 3.1 Selected financial information

| (in € million) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Consolidated turnover | 2,147.7 | 2,085.7 | 2,166.5 |
| Gross technical result | 573.3 | (27.3) | 50.0 |
| Net technical result | 348.6 | (64.8) | 35.6 |
| Investment income (1) | 123.2 | 148.4 | 132.9 |
| Current operating income | 471.9 | 83.6 | 168.5 |
| • "Excellence" project | (72.5) | - | - |
| • Other operating income (expense) | (10.4) | (8.8) | 0.0 |
| Operating income | 389.0 | 74.7 | 168.5 |
| **CONSOLIDATED NET INCOME** | **294.5** | **19.0** | **83.6** |

*(1) Net of expenses.*

# 3.2 Key events

## 3.2.1 KEY EVENTS OF 2010

The following significant events occurred in the year 2010:

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

As at December 31st, 2010, the Allianz group owned 30,744,048 shares out of a total of 45,102,732 shares, corresponding to 68.16% of the share capital of Euler Hermes. Consequently, Euler Hermes is integrated into Allianz scope of consolidation.

During the year 2010, 19,522 new shares were created by the exercise of options. As at December 31st, 2010, Euler Hermes' share capital was composed of 45,102,732 shares, including 1,267,444 shares held in treasury stock.

### Euler Hermes Credit Insurance Belgium's situation

On April 15th, 2010 the management of Euler Hermes Credit Insurance Belgium communicated its decision to put its retail business in run off. This implies the implementation of a restructuring plan. On September 30th, 2010 the negotiations between the direction of Euler Hermes Credit Insurance Belgium and the social partners were concluded. A provision has been booked for €10.4 million on September 2010.

### Euler Hermes begins operations in Chile and Turkey

Euler Hermes opened its fifth Latin American subsidiary in Chile in July 2010, after Brazil and Mexico, opened in 1999, Argentina in 2007 and Colombia in 2008.

The Group also obtained the licence to operate as a stand-alone insurer in Turkey in September 2010. Euler Hermes had already opened a risk office in Turkey in 2007 but the insurance business was fronted by Allianz so far.

Both initiatives reflect the Group's commitment to grow in emerging markets.

### One Euler Hermes go live

Euler Hermes has implemented "One Euler Hermes" as from January 1st, 2010, with the aim of setting the organisational changes needed to create a customer-oriented and even more efficient group.

This new organisation is based on six geographical regions with clear development and return target ownership: Germany/Switzerland/Austria, France, Northern Europe, Mediterranean Countries and Africa, Americas and Asia/Pacific.

The main changes are the new Mediterranean Countries and Africa area which includes Italy and the former French IDC (Greece, Spain & Morocco) and the Northern Europe area with United-Kingdom, Belgium, Netherland, Sweden, Norway, Finland, Denmark & Poland. Asia has become a stand-alone region.

Regional data have been modified to take into account the changes from January 2010 onwards and the 2009 sectoral information has been adjusted in order to ensure consistency between the two periods.

### "Excellence" project

In the economic environment with low current visibility, Euler Hermes has for objective to manage its activity in a most effective way. The Group launched in this perspective "Excellence", a program of transformation in three years to strengthen his long-term competitive advantage from the point of view of market and costs. On the market side, Euler Hermes wants to accelerate the growth through a world client segmentation and a model of service allowing to improve the satisfaction of the customers. On the costs side, Euler Hermes aims to build an effective world platform which allows operational productivity gains thanks to harmonized processes and simplified legal structures. Euler Hermes opened discussions with the personnel representatives to present in detail the program "Excellence". On December 31st, after discussions with the worker's council, Euler Hermes recorded in its accounts a restructuring provision for €57 million as well as other current restructuring costs for €16 million, mainly composed by consulting costs supporting the Excellence project and accelerated depreciation of IT investments that will be replaced by new applications. In the majority of Euler Hermes entities, discussions with the workers' council and personnel representatives have started but are not finalised yet.

### "Convergence" project

EH decided to launch in 2006 a new IT project in order to implement a Group IT tool for claims handling and claims collection under the project name "Convergence".

At this stage, only EH Germany is using the system. A detailed technical audit of the project in April 2010 has identified that EH would have to increase the investment envelop quite significantly in order to allow its implementation to other EH entities.

Therefore EH Management decided to freeze the project and requested an impairment test on this project in order to determine its net present value.

This impairment test integrated all potential efficiency gains, the maintenance savings on old IT systems, the maintenance costs of the new tool and the eventual restructuring costs to be taken into account. The outcome of this impairment test was showing a net present value of €5 million.

Based on these calculations, EH management Board took the decision to do partial write down of the project for €13.4 million in order to adjust the net book value of the IT tool end of June 2010 to its net present value.

## 3.2.2 KEY EVENTS POST DECEMBER 31ST, 2010

No important event likely to affect the financial statements occurred between year-end 2010 and the date at which this document was published.

# 3.3 Activity report

## 3.3.1 ACTIVITY OF EULER HERMES SA

Euler Hermes SA is the parent company of the Euler Hermes group. It does not conduct any commercial or industrial activities and generates the bulk of its revenues from shareholdings.

### 3.3.1.1 Acquisition of subsidiaries and participating interests

In 2010, Euler Hermes subscribed the totality of the capital increases of Euler Hermes Reinsurance AG and Euler Hermes World Agency in amounts of, respectively €122.8 million and €1.5 million.

During the year, Euler Hermes acquired the totality of the shares of the following entities:

- Euler Hermes Magyar Követeléskezelö Kft, for €6.5million (Hungary);
- Euler Hermes Servicii Financiare SRL, for €0.993 million (Italy);
- Euler Hermes Servis s.r.o., for €2.1 million (Czech);
- Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o., for €26 million (Poland);
- Euler Hermes Services Sp z o.o. for €2 thousands (Poland),

The situation of Euler Hermes UK Plc. allowed to write back the provision stated December 31st, 2009 for €6.2 million.

### 3.3.1.2 Comments on the results

Net income for the year came to €166.8 million compared with €171.9 million in 2009. The table below shows the main components of the Company's income:

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Income from participating interests (1) | 193,935 | 174,776 | 11.0% |
| Other net financial expenses (2) | (12,928) | (11,117) | 16.3% |
| Net operating expenses (3) | (32,302) | (18,426) | 75.3% |
| Provision for (-) or writeback of (+) depreciation of treasury shares | 4,770 | 26,162 | -81.8% |
| **ORDINARY INCOME** | **153,475** | **171,396** | **-10.5%** |
| Exceptional items (4) | 392 | 972 | -59.6% |
| Corporation tax (5) | 12,963 | (492) | -2732.4% |
| **NET INCOME** | **166,830** | **171,875** | **-2.9%** |

*(1) Revenue from investments in associates increased by €19.2 million.*
*(2) This heading comprised mainly interest expense on financial debt taken out with associates for €12 million. The increase by 16.3% is due to the renegotiation of financing terms and to a higher debt level.*
*(3) The €13.9 million increase in net operating expense compared with 2009 includes €6.2 million of write back of provision on UK, the actual increase being of €20.1 million. The increase is mainly attributable to the build-up of the corporate structure, part of which is charged out to the regions and part of which is carried by Euler Hermes SA. The remaining increase is due to higher HR costs linked higher bonus accruals.*
*(4) Non-recurrent items include mainly a €2.8 million boni and a €2.4 million mali on the purchase of own shares by the Company.*
*(5) Euler Hermes SA also heads the tax group for French companies that are more than 95%-owned.*

### 3.3.1.3 Dividends

As recommended by the Group Management Board, the Supervisory Board recommends to the General Meeting that dividend should be paid in cash for €180.4 million:

| Proposed allocation of income | 2010 |
|---|---|
| **Source** | |
| Retained earning from previous year | 345,675 |
| Net income for the year | 166,830 |
| | **512,506** |
| **Allocation** | |
| Allocation to reserves: | |
| Legal reserve | 0 |
| Special reserve for long-term capital gains | 0 |
| Proposed dividend | 180,411 |
| Retained earnings | 332,095 |
| | **512,506** |

Dividend per share: €4.00.

## 3.3.2 PERFORMANCE OF THE GROUP'S MAIN GEOGRAPHIC REGIONS

Euler Hermes has implemented "One Euler Hermes" as from January 1st, 2010, with the aim of setting the organisational changes needed to create a customer-oriented and even more efficient group.

This new organisation is based on six geographical regions with clear development and return target ownership: Germany/Switzerland/Austria, France, Northern Europe, Americas, Mediterranean Countries and Africa and Asia/Pacific.

The main changes are the creation of the Mediterranean Countries and Africa area including Italy and the former French IDC (Greece, Spain & Morocco) and the Northern Europe including United-Kingdom, Belgium, Netherland, Sweden, Norway, Finland, Denmark & Poland. Asia has become a stand-alone region.

Regional data have been modified to take into account the changes from January 2010 onwards and the 2009 sectoral information has been adjusted in order to ensure consistency between the two periods.

Figures presented hereunder are after intra-region eliminations but before inter-region eliminations.

### 3.3.2.1 Germany

This region includes the direct insurance and reinsurance activities carried out by the German companies in Germany, Austria and Switzerland, as well as insurance business in Australia and New-Zealand.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 621,572 | 593,810 | 4.7% |
| Premium related revenues | 169,984 | 180,122 | -5.6% |
| **Turnover** | **791,556** | **773,932** | **2.3%** |
| Net financial income | 69,938 | 54,930 | 27.3% |
| **Total revenues from ordinary activities** | **861,494** | **828,862** | **3.9%** |
| Insurance service expense | (246,029) | (451,718) | -45.5% |
| Reinsurance and retrocession expense | (124,749) | 32,136 | -488.2% |
| Other expenses | (317,982) | (326,760) | -2.7% |
| **Total other expenses** | **(688,760)** | **(746,342)** | **-7.7%** |
| **ORDINARY OPERATING INCOME** | **172,734** | **82,520** | **109.3%** |
| *Net combined ratio* | *-61.1%* | *-89.7%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

Turnover grew by 2.3% for the German zone in 2010. This performance was attributable to the 4.7% increase in earned premiums, which offset a 5.6% fall in premium-related revenues.

Increase in earned premiums was especially connected to the good performance of the line of business credit insurance. In addition also bonding business developed well by 3.4% compared to 2009. The fall in premium-related revenues was attributable to a decline in information sales and monitoring fees due to a lower number of limits and requests for coverage at the beginning of 2010. Secondly, collection business has been transferred from German Region to a separated collection company according to the EH Group collection business model (EH Collection, Potsdam).

The increase in financial income is essentially due to realised gains out of the sale of its service companies in April 2010 to the Holding linked to the project of implementing a single third risk carrier in Europe, besides Germany and France. Returns on invested bond portfolio remained approximately at the same level as previous year.

Insurance service expenses decrease by 45.5% in 2010. This decrease reflects the sharp fall in claims for the year, both in terms of number and amount, resulting from the upswing in the global economy.

Reinsurance income decreased as the result of the significant fall in claims assigned for the attachment year.

Operating expenses are -2.7% below previous year as a result of lower legal and consulting fees, external information expenses and marketing expenses.

Operating income rose sharply, principally as the result of the decrease in claims costs for the year.

### 3.3.2.2 France

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 315,251 | 292,640 | 7.7% |
| Premium related revenues | 75,037 | 77,451 | -3.1% |
| **Turnover** | **390,288** | **370,091** | **5.5%** |
| Net financial income | 43,298 | 72,204 | -40.0% |
| **Total revenues from ordinary activities** | **433,586** | **442,295** | **-2.0%** |
| Insurance service expense | (103,989) | (148,952) | -30.2% |
| Reinsurance and retrocession expense | (43,228) | (16,924) | 155.4% |
| Other expenses | (152,517) | (149,691) | 1.9% |
| **Total other expenses** | **(299,734)** | **(315,567)** | **-5.0%** |
| **ORDINARY OPERATING INCOME** | **133,852** | **126,728** | **5.6%** |
| *Net combined ratio* | *-52.4%* | *-76.5%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

The turnover increases by 5.5% resulting from the growth in premiums of 7.7%, due to dynamic new production and a positive evolution of the insured turnover. Service revenues decreased by 3.1% mainly as a result of the drop in collection revenues linked to the downward trend in claims.

The financial income was significantly reduced compared to last year, due to the drop of realized gains on investment properties and securities gains, after years of high realized gains, especially on bonds in 2009.

The claims ratio decreased for the second consecutive year as a combined result of risk action plans put in place in 2008 and 2009 which effects lasted in 2010, and following the stabilization of the economy in 2010.

The increase in operating expenses is due to the rise of brokerage costs which are linked to the premium growth.

### 3.3.2.3 Northern Europe

This Region includes the direct insurance and reinsurance activities carried out in North European countries (Belgium, Netherlands, United Kingdom, Finland, Sweden, Denmark and Norway) and in Eastern European (Hungary, Poland, Czech Republic, Romania, Slovakia and Russia).

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 404,322 | 377,578 | 7.1% |
| Premium related revenues | 67,389 | 75,401 | -10.6% |
| **Turnover** | **471,711** | **452,979** | **4.1%** |
| Net financial income | 11,065 | 16,023 | -30.9% |
| **Total revenues from ordinary activities** | **482,776** | **469,002** | **2.9%** |
| Insurance service expense | (212,163) | (375,911) | -43.6% |
| Reinsurance and retrocession expense | (71,046) | 54,292 | -230.9% |
| Other expenses | (174,014) | (174,955) | -0.5% |
| **Total other expenses** | **(457,223)** | **(496,574)** | **-7.9%** |
| **ORDINARY OPERATING INCOME** | **25,553** | **(27,572)** | **-192.7%** |
| *Net combined ratio* | *-90.6%* | *-125.1%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

Turnover increased by 4.1% in 2010 thanks to strong growth (7.1%) in premiums. All companies were able to increase their premium income despite a difficult economic environment and despite the decline of the insured turnover. Premium related revenues have been adversely affected by the decrease in collection revenues, consequence of a lower inflow of claims.

Net financial income has been negatively affected by the low interest rates on the bond portfolio and the absence of realised capital gains.

Insurance service expenses decreased by 43.6% between 2010 and 2009 with the consequence that the region started again to cede positive results to reinsurers compared to 2009.

Due to the strong improvement of the claims costs and the increase of its top line, the region generated a strong turnaround of its net operating income in 2010.

### 3.3.2.4 Mediterranean countries & Africa

This region includes all the activities carried out by the Group's companies in Italy, Spain, Greece, Morocco.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 173,986 | 195,516 | -11.0% |
| Premium related revenues | 48,004 | 56,227 | -14.6% |
| **Turnover** | **221,990** | **251,743** | **-11.8%** |
| Net financial income | 8,070 | 13,739 | -41.3% |
| **Total revenues from ordinary activities** | **230,060** | **265,482** | **-13.3%** |
| Insurance service expense | (74,194) | (104,132) | -28.8% |
| Reinsurance and retrocession expense | (39,280) | (44,687) | -12.1% |
| Other expenses | (107,495) | (111,315) | -3.4% |
| **Total other expenses** | **(220,969)** | **(260,134)** | **-15.1%** |
| **ORDINARY OPERATING INCOME** | **9,091** | **5,348** | **70.0%** |
| *Net combined ratio* | *-98.3%* | *-108.1%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

Earned premiums decreased by €21.5 million or 11.0%. This is attributable mainly to a negative adjustment of €13 million made this year on 2009 EBNR (accrued premium) in Italy. This adjustment is explained by lower than expected 2009 policyholders' annual turnover declarations done in 2010. Excluding the effect of this adjustment, earned premiums have grown by 2.4% or €4.5 million, mainly due to positive commercial performance all along the year in retention, rate variation and new production. Premium-related revenues fell by 14.6% compared with 2009, reflecting a drop of 6.1% in information fees and 37.0% in debt collection fees. Turnover as a whole fell by 11.8%, or €29.8 million.

Financial income decreased by 41.3% or €5.7 million due to €3.6 million less net realised gains and to lower interest rates.

Insurance service expense is down by 28.8% or €29.9 million relative to 2009 thanks to a very positive trend of claims with 57% less frequency and 64% lower covered amounts recorded in 2010 compared to 2009. In addition, the region benefited from €55.7 million of positive run-offs in 2010 (€41.0 million in 2009)

The reinsurance and retrocession expenses decreased by 12.1% and Expenses decreased by 3.4%, slightly less than turnover, due to fixed costs as well as the build up of the new collections activity in Italy.

The net combined ratio actually improved by 9.8 points due to lower net claims.

### 3.3.2.5 Americas

This region includes all the direct activities carried out in the United States, Mexico, Brazil, Argentina Colombia and Chile, the corresponding reinsurance and collection activities and the business carried out by EH ACI through its Canadian Branch.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 182,366 | 170,279 | 7.1% |
| Premium related revenues | 32,701 | 28,223 | 15.9% |
| **Turnover** | **215,067** | **198,502** | **8.3%** |
| Net financial income | 10,572 | 13,121 | -19.4% |
| **Total revenues from ordinary activities** | **225,639** | **211,623** | **6.6%** |
| Insurance service expense | (53,445) | (136,311) | -60.8% |
| Reinsurance and retrocession expense | (51,084) | 7,829 | -752.5% |
| Other expenses | (86,128) | (78,132) | 10.2% |
| **Total other expenses** | **(190,657)** | **(206,614)** | **-7.7%** |
| **ORDINARY OPERATING INCOME** | **34,982** | **5,009** | **598.4%** |
| *Net combined ratio* | *-60.8%* | *-109.8%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

Turnover increased by 8.3% for this region compared with 2009. The North America zone posted turnover of €189.3 million, up by 5.6% versus 2009. At constant exchange rates, turnover of this North America Zone is flat, as the dollar strengthened against the euro during the reporting period. Turnover increase of the region, of 2.5% at constant exchange rate, is driven by South American countries.

The 19.4% decrease in financial income is linked to lower returns on financial portfolio and to a €1 million capital loss compared to €2 million capital gains in 2009

Insurance service expenses decreased by 60.9% due to positive run-offs primary in the US, Canada and Mexico combined with improved loss ratios for the current year. The gross loss ratio, all attachment years improved over 50.7 percentage points from 80.0% in 2009 to 29.3% in 2010.

Cessions resulted in an expense this year, in contrast to last year, as operating income before reinsurance was very positive, reflecting the fall in claims recorded. In addition, the cession rate increased from 45% to 60% and the ceding commission fell over 10 percentage points from year to year.

Other income and charges increased by 10.2% due primarily to the strengthening of the dollar versus the euro as this line item remained flat year to year with constant exchange rates despite the increase in total revenues.

Ordinary operating income increased 598.4% as a the result of the increase in revenues and the significant reduction of claims partially offset by the negative change in net insurance and retrocession income year on year.

### 3.3.2.6 Asia & Pacific

This region includes insurance and service activities carried out by branches based in Asia, as well as service activities in Australia and New Zealand.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 44,406 | 42,446 | 4.6% |
| Premium related revenues | 15,833 | 12,418 | 27.5% |
| **Turnover** | **60,239** | **54,864** | **9.8%** |
| Net financial income | 5,022 | (1,788) | -380.9% |
| **Total revenues from ordinary activities** | **65,261** | **53,076** | **23.0%** |
| Insurance service expense | (18,491) | (37,115) | -50.2% |
| Reinsurance and retrocession expense | (9,374) | 6,084 | -254.1% |
| Other expenses | (31,474) | (24,038) | 30.9% |
| **Total other expenses** | **(59,339)** | **(55,069)** | **7.8%** |
| **ORDINARY OPERATING INCOME** | **5,922** | **(1,993)** | **-397.1%** |
| *Net combined ratio* | *-94.4%* | *-101.1%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

Generally speaking, the turnover in Asia-Pacific which grew by 9.8% in 2010 benefited from the strength of local currencies compared to euro.

Earned premiums increased thanks to the regional success of the Euler Hermes Multinational Program ("World Agency"). The existing portfolio suffered on the first half of the year from a decrease in insured turnover following 2009 risk action plan, a trend which started to reverse on the second half of the year.

Premium-related services for local policyholders grew by 9.8%, twice as much as local premium. Services provided to policyholders from other regions grew by 33.0%, reflecting the development of export activity within the Group. Altogether, services revenues increased by 27.5% in 2010.

The financial income is strongly impacted by foreign exchange movements, positive in 2010, negative in 2009.

The regional gross loss ratio was -41.6% in 2010 reflecting a substantial recovery from 2009 (46 points improvement), with very few losses experienced in Hong-Kong and Japan branches but higher losses coming from India.

Other expenses increased by 30.9% or €7.4 million, due to additional information expenses required to sustain the development of service activity on one side and further investments in Asia Pacific to sustain the growth, both in personnel and IT.

Ordinary operating income was up by €7.9 million, as a consequence of the low claims situation and currency strength, and despite increased investments.

### 3.3.2.7 Group reinsurance

This region includes the Group reinsurance activities in Luxembourg and Switzerland. On one side, it reflects the cession from the Group companies centralized towards the Luxembourg and Swiss reinsurance subsidiaries. On the other side, it details the retrocession of the premium and claims to the reinsurance market external to Euler Hermes.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Earned premiums | 882,331 | 703,153 | 25.5% |
| Premium related revenues | 0 | 0 | 0.0% |
| **Turnover** | **882,331** | **703,153** | **25.5%** |
| Net financial income | 11,701 | (2,079) | -662.8% |
| **Total revenues from ordinary activities** | **894,032** | **701,074** | **27.5%** |
| Insurance service expense | (277,465) | (583,401) | -52.4% |
| Reinsurance and retrocession expense | (213,548) | 23,633 | -1,003.6% |
| Other expenses | (243,905) | (215,410) | 13.2% |
| **Total other expenses** | **(734,918)** | **(775,178)** | **-5.2%** |
| **ORDINARY OPERATING INCOME** | **159,114** | **(74,104)** | **-314.7%** |
| *Net combined ratio* | *-62.4%* | *-130.9%* | |

*Area contribution: after intra-region eliminations & before inter-region eliminations.*

The growth in turnover is significant (+25.5%) due to the growth in cession from the largest companies of the Group to the reinsurance subsidiaries, which is in line with the Group policy since 2008. The biggest part of this turnover is eliminated at Group level in the consolidated financial statements. Only remains the inward business from non consolidated companies, Graydon (Netherlands) Cosec (Portugal), ICIC (Israel), OeKB (Austria).

Net financial income contributes for €11.7 million in the total revenues, as a result of an increasing investment base and a more dynamic investment policy. Higher premium and lower claims costs contributed to increase the asset base.

The growth in turnover and in financial income led to a 27.5% increase in revenues from ordinary activities.

The cost of claims dropped significantly in 2010 (-52.4%), due to a low level of claims ceded by the companies, as a result of strong action plans implemented by these companies to face the crisis.

In 2010, EH Reinsurance is ceding a positive result to the market, contrary to 2009, so that the result on reinsurance is negative.

The "other expenses" mainly include the reinsurance commissions paid to the ceding companies according to the quota-share reinsurance treaties. These are eliminated in the consolidated financial statements. The commissions paid went down in 2010, in a context of lower claims, which explains a lower growth than the earned premiums one.

Accordingly, the "Ordinary operating income" shows a profit of €159 million vs. a loss of €74 million in 2009. The net combined ratio declined from 130.9% in 2009 to 62.4% in 2010.

## 3.3.3 PERFORMANCE OF THE GROUP'S BUSINESS

Consolidated turnover consists of premium income, comprising earned premiums generated by direct insurance and premiums from incoming reinsurance, and service revenues, premium-related or not.

### Premiums

Credit insurance policies are designed to cover the risk of non payment by the policyholder's customers.

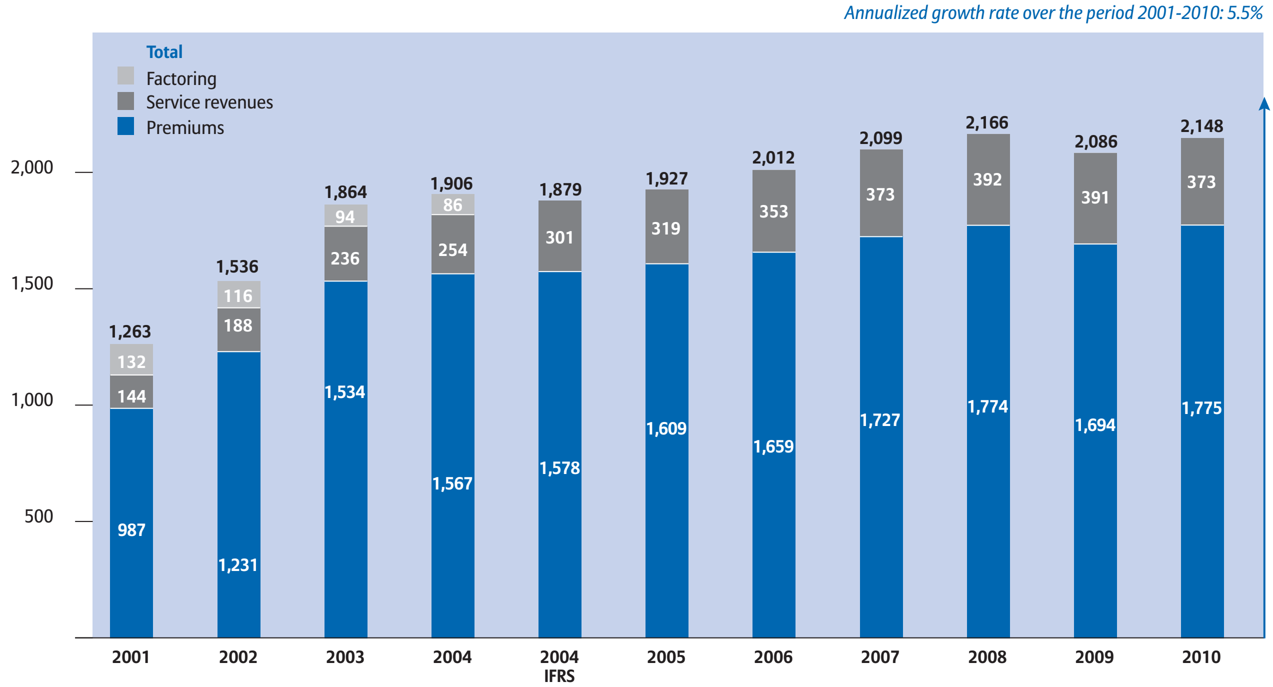
The premiums are based mainly on our policyholder's sales or their outstanding customer risk, which also depends on their sales.

### Service revenues

Service revenues consist mainly of two types of service fees: information and collection fees.

- information fees: these consist of billings for research and analysis carried out to provide our policyholders with the required credit insurance cover, and amounts billed for monitoring the solvency of their customers. All these revenues are directly related to our credit insurance business and Euler Hermes does not sell services offering access to business solvency information to third parties that are not policyholders;
- collection fees: these correspond to the amounts billed for debt collection services provided to policyholders and to companies that are not policyholders.

### 3.3.3.1 Consolidated turnover (in € million)




Turnover for 2010 equals to €2,147.7 million, up by 3.0% compared with €2,085.7 million in 2009.

### 3.3.3.2 Consolidated turnover per region

| (in € million) | 2010 (1) | 2009 (2) | Variation % (1)/(2) | 2009 (3) | Variation % (1)/(3) |
|---|---|---|---|---|---|
| **Regions** | | | | | |
| Germany | 764.5 | 743.7 | 2.8% | 744.0 | 2.8% |
| France | 384.2 | 364.7 | 5.3% | 364.7 | 5.3% |
| Northern Europe | 454.4 | 431.2 | 5.4% | 448.7 | 1.3% |
| Med. Countries & Africa | 209.2 | 241.2 | -13.3% | 241.2 | -13.3% |
| Americas | 209.7 | 193.7 | 8.3% | 206.5 | 1.5% |
| Asia Pacific | 59.3 | 54.3 | 9.3% | 55.1 | 7.6% |
| EH Reinsurance + others | 66.5 | 57.0 | 16.6% | 58.3 | 14.1% |
| **EULER HERMES GROUP** | **2,147.7** | **2,085.7** | **3.0%** | **2,118.5** | **1.4%** |

*Group contribution: after inter-region eliminations & intra-region eliminations.*
*(1) Turnover with geographical reclassification (average rate December 2010).*
*(2) Turnover with geographical reclassification (average rate December 2009).*
*(3) Turnover with geographical reclassification at constant exchange rate.*

Turnover 2010 is back to pre-crisis levels and amounts to €2147.7 million, 3.0% above last year and 1.4% at constant exchange rate.

Compared to last year, turnover is increasing in all markets except in the Mediterranean region which continued to be impacted by the portfolio reduction initiated by Euler Hermes in 2009. This increase is driven by the rise in premium rates initiated in 2009, which overcompensates the negative impact of lower insured turnover. Since second quarter 2010, Euler Hermes registered a continuous volume recovery of the insured turnover in all Euler Hermes core markets, although weaker in Germany.

Turnover's increase was achieved despite the significant increase in rebates granted to the holders of profitable policies (€58 million impact) and despite lower service revenues (€19 million impact).

### 3.3.3.3 Breakdown of turnover between premiums income and related revenues

| (in € thousands) | 2010 | 2009 | Variation in amount | Variation % |
|---|---|---|---|---|
| Premiums | 1,775,199 | 1,694,486 | 80,713 | 4.8% |
| Other Revenues | 372,535 | 391,226 | (18,691) | -4.8% |
| **TOTAL CREDIT INSURANCE TURNOVER** | **2,147,734** | **2,085,712** | **62,022** | **3.0%** |

Premiums equal to €1,775 million in 2010, up by 4.8% against last year, but up 7.9% at constant rebates level.

Lower service revenues down by (-4.8%) mainly result from lower collection fees linked to fewer incoming claims.

# 3.4 Consolidated results

The information regarding the operating results and financial position is consistent with recommendations 27 and 32 CESR.

The loss ratio is defined as the cost of claims relative to earned premiums after deduction of policyholders' refunds. The cost ratio is defined as the sum of the contract acquisition expense, administration expense, other underwriting income and expense after deduction of premium-related services, relative to earned premiums after deduction of refunds. Other non-technical income and expense is excluded from the cost ratio (with the exception of buildings used for operations).

## 3.4.1 EARNED PREMIUMS

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Gross earned premiums | 1,775,199 | 1,694,486 | 4.8% |
| Ceded premiums | (635,385) | (583,325) | 8.9% |
| **Net earned premiums** | **1,139,814** | **1,111,161** | **2.6%** |
| Cession rate | -35.8% | -34.4% | |

Compared to an increase of 4.8% on gross earned premium level, net earned premiums rose by 2.6% due to a slight increase in premium cession to reinsurance, following the Group's decision, initiated in 2009 to assign more business to reinsurers.

## 3.4.2 COSTS OF CLAIMS

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Gross claims costs | (704,799) | (1,276,079) | -44.8% |
| Ceded claims costs | 224,525 | 363,935 | -38.3% |
| **NET CLAIMS COSTS** | **(480,274)** | **(912,144)** | **-47.3%** |
| **Gross Claims ratio** | **39.7%** | **75.3%** | |
| **Net Claims ratio** | **42.1%** | **82.1%** | |

The gross claims costs fell by 44.8% in 2010 compared to 2009. This exceptional improvement is a combination of both lower claims on current attachment year for €347 million and positive run off for €259 million whereas run-off for 2009 amounted to €35 million.

Net claims costs decreased even more sharply than gross claims, as the average cession rate was higher in 2010 than in 2009.

### 3.4.2.1 Cost of claims on current attachment year

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Gross claims costs current attachment year | (964,231) | (1,311,371) | -26.5% |
| Ceded claims costs current attachment year | 289,057 | 414,612 | -30.3% |
| **NET CLAIM COSTS CURRENT ATTACHMENT YEAR** | **(675,174)** | **(896,760)** | **-24.7%** |

| | 2010 | 2009 | Variation pts |
|---|---|---|---|
| **Regions** | | | |
| Germany | 45% | 81% | -37 pts |
| France | 51% | 58% | -6 pts |
| Northern Europe | 60% | 88% | -28 pts |
| Med. Countries & Africa | 75% | 74% | 0 pts |
| Americas | 41% | 52% | -11 pts |
| Asia & Pacific | 67% | 146% | -79 pts |
| **GROSS CLAIMS RATIO CY** | **54%** | **77%** | **-23 pts** |

*Area contribution: before inter-region eliminations & after intra-region eliminations.*

Gross claims costs current year are down 26.5% against last year. The gross claims ratio current year, at 54%, is hitting historical lows mainly due to very low claims' frequency.

Claims' notifications hit historical lows in August 2010 but are back to higher levels at year-end as the Group has increased its risk appetite in recent months. The low level of claims observed in 2010 is not sustainable in the long run and the average claims ratio across the cycle is expected to reach 55%. Net claims are decreasing slightly less than gross claims as the average cession rate came down from 32% in 2009 to 30% in 2010.

### 3.4.2.2 Net liquidation surpluses/deficits

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Gross claims costs previous attachment years | 259,432 | 35,293 | 635.1% |
| Ceded claims costs previous attachment years | (64,532) | (50,677) | 27.3% |
| **NET CLAIMS COSTS PREVIOUS ATTACHMENT YEARS** | **194,900** | **(15,384)** | **-1,366.9%** |

Gross run-off levels on previous attachment years reached €259 million in 2010, against €35 million in 2009.

All regions contributed to this run-off whereas in 2009, positive run-offs in Germany, France and the Mediterranean region had offset negative run-offs in Northern Europe and Americas, leading to a much lower run-off overall.

The high level of run-off is mostly due to higher recoveries than expected, about everywhere but especially in Latin America, Northern Europe and Italy.

Overall net positive run-offs stand at €195 million against a negative run-off of €15 million last year.

The damage ratio for 2010 cannot be sustained over the long term and we expect that it will settle at 55% at the end of the cycle.

## 3.4.3 OPERATING EXPENSES

| (in € thousands) | 2010 | 2009 | 2009 *pro forma* | Variation amount | Variation % |
|---|---|---|---|---|---|
| HR expenses | 458,925 | 434,728 | 436,828 (1) | 22,097 | 5.1% |
| Brokerage | 205,536 | 208,690 | 204,315 (1) (3) | 1,221 | 0.6% |
| IT & Communications | 104,365 | 86,645 | 86,645 | 17,720 | 20.5% |
| Facilities & Occupancy | 47,221 | 43,283 | 45,883 (2) | 1,339 | 2.9% |
| Non IT depreciation & amortization | 8,053 | 8,191 | 8,191 | (138) | -1.7% |
| Legal, Consulting fees & Marketing | 30,229 | 30,678 | 30,678 | (449) | -1.5% |
| Accomodation and travel expenses | 16,527 | 13,858 | 13,858 | 2,670 | 19.3% |
| External information & collection expenses | 64,441 | 62,019 | 62,019 | 2,422 | 3.9% |
| Other Operating Expenses | 45,555 | 44,255 | 43,930 (2) (3) | 1,625 | 3.7% |
| **GROSS EXPENSES BY NATURE** | **980,853** | **932,346** | **932,346** | **48,507** | **5.2%** |
| Claims Handling Operating Expenses | (94,806) | (72,905) | (72,905) | (21,901) | -30.0% |
| Investment Management Expenses | (7,813) | (10,341) | (10,341) | 2,528 | 24.4% |
| **GROSS OPERATING EXPENSES** | **878,234** | **849,100** | **849,100** | **29,134** | **3.4%** |

| (in € thousands) | 2010 | 2009 | 2009 *pro forma* | Variation amount | Variation % |
|---|---|---|---|---|---|
| Total recurrent expenses | (878,234) | (843,310) | (843,310) | (34,924) | -4.1% |
| Total non recurrent expenses | 0 | (5,790) | (5,790) | 5,790 | 100.0% |
| **Total gross expenses** | **(878,234)** | **(849,100)** | **(849,100)** | **(29,134)** | **-3.4%** |
| of which non technical expenses | (8,633) | (12,153) | (12,153) | 3,520 | 29.0% |
| **Total Gross Technical Expenses** | **(869,601)** | **(836,947)** | **(836,947)** | **(32,654)** | **-3.9%** |
| Service fees | (372,535) | (391,226) | (391,226) | 18,691 | 4.8% |
| **Expenses net of fees** | **(497,066)** | **(445,721)** | **(445,721)** | **(51,345)** | **-11.5%** |
| **Gross earned premiums** | **1,775,200** | **1,694,486** | **1,694,486** | **80,714** | **4.8%** |
| Reinsurance commission | 194,783 | 194,073 | 194,073 | 710 | 0.4% |
| Ceded premiums | (635,385) | (583,325) | (583,325) | (52,060) | -8.9% |
| **Net technical expenses** | **(302,283)** | **(251,648)** | **(251,648)** | **(50,635)** | **-20.1%** |
| **Net premium** | **1,139,815** | **1,111,161** | **1,111,161** | **28,654** | **2.6%** |
| **Gross technical expense ratio** | **-28.0%** | **-26.3%** | **-26.3%** | **-1.7%** | |
| **Net technical expense ratio** | **-26.5%** | **-22.6%** | **-22.6%** | **-3.9%** | |

*(1) New commission standard on Germany's own sales force leads to a shift from brokerage to salaries in 2010. 2009 was retreated accordingly. Impact: €2.1 million.*
*(2) First consolidation of the Groupement d'Intérêt Economique in France in 2010 induces correct cost allocation by nature where in 2009 costs on GIE were all booked in "other operating expenses". Main impact on facilities and occupancy. 2009 figures were retreated accordingly with an impact of €2.6 million.*
*(3) Misbooking of part of acquisition expenses located in "other operating expenses" in brokerage in Asia in 2009. 2009 figures restated accordingly with a €2.3 million impact.*

- Personnel expenses are up 5.1% due to higher fixed salaries linked to sector conventions signed with trade unions and higher bonus accruals linked to the financial over-performance of the Company.
- Commissions are only up 0.6% against last year, compared to the 4.8% increase in gross earned premium. Commissions increased slower in 2010 due to the loss of high commissioned inward business in Germany and to positive run-offs on 2009 brokerage accruals in Asia.
- IT expenses increase by €17.7 million of which €13.4 million is due to the write-off of the project Convergence (P&L impact in claims handling expenses) and the remaining increase is due to the mainframe migration project in Germany.
- Accommodation and travel expenses are up €2.7 million against last year following the implementation of One Euler Hermes and the Group being now a more integrated company.
- External information and collection expenses are up €2.4 million following the increase in Group exposure after the low levels reached during the crisis.

As service fees decreased by 4.8% over the period, expenses net of fees increased by 11.5% over the period, so that, despite the increase in gross earned premium by 4.8%, the gross technical expense ratio deteriorated by 1.7 points.

Reinsurance commissions remained stable but, as a higher proportion of premium were ceded, the net technical expense ratio deteriorated by 3.9 points.

## 3.4.4 ORDINARY OPERATING INCOME BEFORE FINANCIAL INCOME

Ordinary operating income before financial income reached €349 million in 2010 against a loss of €65 million last year. This profit can be attributed mainly to lower claims both on current and previous attachment years.

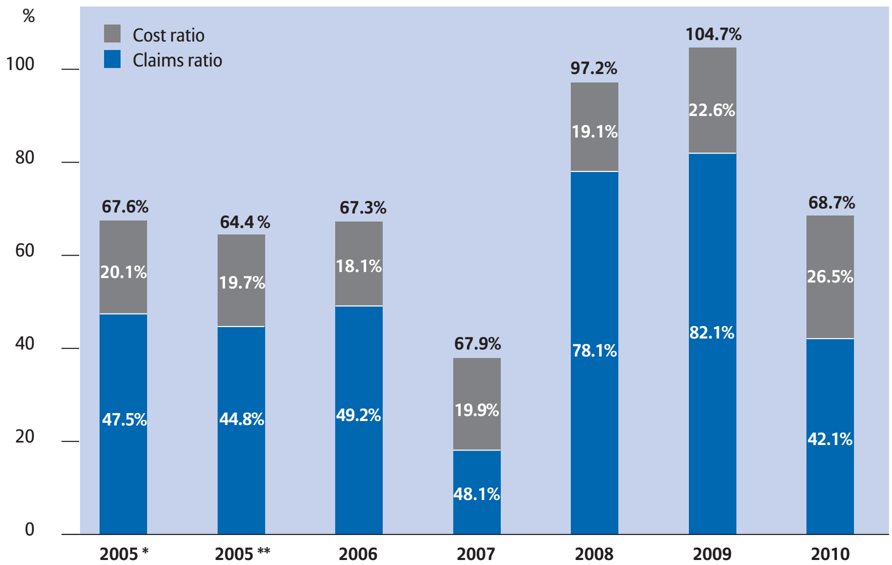
| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Net earned premium | 1,139,814 | 1,111,161 | 2.6% |
| Net claims costs | (480,274) | (912,144) | -47.3% |
| Net operating expenses | (302,283) | (251,648) | 20.1% |
| Other non technical charges | (8,633) | (12,153) | -29.0% |
| **ORDINARY OPERATING INCOME EXCLUDING FINANCIAL INCOME** | **348,624** | **(64,784)** | **-638.1%** |
| **Combined ratio** | **-68.7%** | **-104.7%** | |

## 3.4.5 NET COMBINED RATIO

The net combined ratio after reinsurance equals to 68.7% for 2010, down by 36 points compared to 2009.

The decrease reflects the decreasing loss ratio by 40 points, partially balanced by the deterioration of the cost ratio by 3.9 points.

### NET COMBINED RATION AFTER REINSURANCE, IN % OF NET EARNED PREMIUM




** Historical dates (non-IFRS)*
*** New definition (rebate deducted from premium, non technical expense excluded)*

## 3.4.6 FINANCIAL MARKETS

2010 was characterized by a strong recovery in global growth due to fiscal stimulus and expansionary policies, both in the G8 countries and in the emerging economies, while the Euro Zone had to face an unprecedented debt crisis.

A paralysis subsequent to the excessive indebtedness of the States and to the deflation expectations has been avoided. Thus, over the past year, the various asset classes – equities, bonds, commodities – were valued substantially above their level at the beginning of the year.

In the developed countries, monetary policies remained expansionary with central banks interest rates being maintained at very low levels (0.25% for the Fed Funds Rate in the US, 0.5% for the Bank of England, 1% for the European Central Bank in the Euro Zone).

In the US, the Federal Reserve decided to extend its quantitative easing on November 3rd, 2010, with a programme of US Treasury Notes purchases amounting to $600 billion that would last for 8 months (until June 2011).

In the meantime, in order to face the debt crisis and preserve the financial stability in the Euro Area, the European Union created new mechanisms. Indeed, in May 2010, the fears of Greece's insolvency and its contagion to the peripheral countries of the Euro Area resulted in a sharp rise in the yields of bonds issued by these countries, Greek yields rising to more than 12%.

On the 10th of May, the European Union and the IMF agreed on a rescue package of €750 billion, resulting in the creation of various devices designed to finance countries that could face debt issues.

On the fixed income market, the economic recovery and the tensions in the Euro Zone ended up in a rise in bond yields after hitting their lowest in August. The US 10Y Treasury Notes yields finished the year at 3.30% and the German Bund, serving as a safe haven, at 2.96%.

The equity markets have generally performed well. The US market (S&P500) increased by 15%. The Euro Zone equity market were flat over the year but revealed substantial disparities between the German market, who performed very well at a 16% increase and the Spanish market, losing 17.5%.

On the foreign exchange market, the US dollar increased against the Euro during the first semester of the year as the tensions were rising on the European peripheral countries. The lowest was reached in June as the Euro was trading at $1.19, the dollar being considered as safe haven by most of the investors during the Greek crisis. As European fundamentals strengthened throughout the second semester, the Euro went back up to $1.33 at the end of the year, 7% lower than one year ago.

On the commodity market, the rise in gold prices continued, reaching a historical highest price at $1,423 and increasing by more than 23% over the year. The crude oil barrel rose by 13% to $89.2 and the agricultural commodities also performed very well, wheat prices rising by more than 27%.

## 3.4.7 FINANCIAL INCOME

The Group's financial income came to €123.2 million, net inflows on bonds portfolios reduced the impact of lower interest rates and positive impact of foreign exchange gains partly offset the decline of realised gains.

Capital gains were mainly realised on real estate and equities.

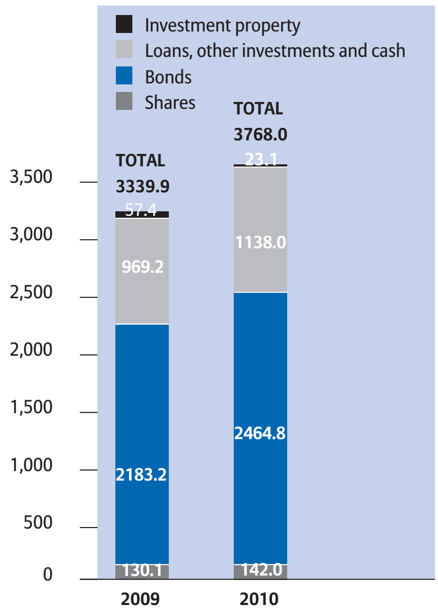
| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Income from investment property | 1,683 | 5,741 | -70.7% |
| Income from securities | 68,764 | 65,916 | 4.3% |
| Other financial income | 22,909 | 25,320 | -9.5% |
| Investments income | 93,356 | 96,976 | -3.7% |
| Investment expenses | (7,813) | (10,341) | -24.4% |
| Net FX result | 13,022 | (9,525) | 236.7% |
| Net gains and losses on sales of investments less impairment and amortization | 24,683 | 71,300 | -65.4% |
| **NET FINANCIAL INCOME (EXCLUDING FINANCING EXPENSE)** | **123,248** | **148,409** | **-17.0%** |

At end-December 2010, the market value of the Group's investment portfolio increased by €428 million to €3,768 million.

Taking into account the capital gains realised for €24.7 million and the overall evolution of the markets, unrealised capital gains reserves decreased by €25.3 million to €76.4 million, corresponding to a little more than 2.0% of the investment portfolio.

| | December 31st, 2010 | | | | | December 31st, 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € million) | Amortised cost | Unrealised gain reserve | Net book value | Market value | Unrealised gains and losses | Amortised cost | Unrealised gain reserve | Net book value | Market value | Unrealised gains and losses |
| • Shares | 119.5 | 22.5 | 142.0 | 142.0 | - | 110.6 | 19.4 | 130.1 | 130.1 | - |
| • Bonds | 2,424.7 | 40.2 | 2,464.9 | 2,464.9 | - | 2,133.4 | 49.9 | 2,183.2 | 2,183.2 | - |
| • Loans and other investments | 831.8 | - | 831.8 | 831.8 | - | 527.5 | - | 527.5 | 527.5 | - |
| **Total financial investments** | **3,376.1** | **62.7** | **3,438.8** | **3,438.8** | **-** | **2,771.5** | **69.3** | **2,840.7** | **2,840.7** | **-** |
| **Buildings third party use** | **-** | **-** | **9.3** | **23.1** | **13.7** | **-** | **-** | **24.9** | **57.4** | **32.5** |
| **Cash** | **-** | **-** | **306.2** | **306.2** | **-** | **-** | **-** | **441.8** | **441.8** | **-** |
| **TOTAL** | **-** | **-** | **3,754.3** | **3,768.0** | **13.7** | **-** | **-** | **3,307.4** | **3,339.9** | **32.5** |

**INVESTMENT PORTFOLIO (IN € MILLION) – MARKET VALUE AS AT DECEMBER 31, 2010**




## 3.4.8 ORDINARY OPERATING INCOME

After including net financial income, ordinary operating income from the credit insurance business amounted to €471.9 million in 2010 compared with €83.6 million in 2009.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| Technical result | 348,625 | (64,783) | 638.1% |
| Financial income net of expenses | 123,248 | 148,409 | -17.0% |
| **ORDINARY OPERATING INCOME** | **471,873** | **83,625** | **464.3%** |

## 3.4.9 CONSOLIDATED NET INCOME

After interest expense and tax, consolidated net income came to €294 million, compared to €19 million at end of December 2009.

| (in € thousands) | 2010 | 2009 | Variation % |
|---|---|---|---|
| **Ordinary operating income** | **471,873** | **83,625** | **464.3%** |
| Other non ordinary income and expense | (82,943) | (8,856) | 836.6% |
| Financing expenses | (13,572) | (10,013) | 35.5% |
| Income from companies accounted for by equity method | 15,802 | 6,644 | 137.8% |
| Corporation tax | (93,377) | (48,259) | 93.5% |
| Minority interest | (3,331) | (4,153) | -19.8% |
| **CONSOLIDATED NET INCOME** | **294,452** | **18,988** | **1,450.8%** |
| **Tax rate** | **-23.9%** | **-67.6%** | |

Euler Hermes recorded in its financial statements restructuring costs for a global amount of €82.9 million linked for €10.4 million to the decision to put retail business in Belgium in run off and for €72.5 million linked to project Excellence. The €72.5 million restructuring costs booked for Project Excellence cover a restructuring reserve for €56.6 million as well as additional restructuring charges of €15.9 million linked to the consulting costs related to the project, and the decision to anticipate the write-off of local SAP systems in Northern Europe in the context of legal and IT restructuring in this area.

In 2009, the tax rate was exceptionally high at 67.6%, penalizing the net income due to significant parent/subsidiary tax rate differentials (mainly in the UK and Switzerland) and special tax situations in the Baltic and Asian branches of EH KV that did not enable the Group to record deferred tax assets.

In 2010, through the booking of the restructuring costs, tax base in most of the operating entities dropped significantly, and on the other side, EH Reinsurance, our reinsurance company, profited from recovery of gross technical result. Besides, EH Reinsurance was not impacted by exceptional restructuring costs, so that it recovered a significant part of the tax losses carried forward, booked during the crisis years 2008 and 2009. Furthermore, an exceptional €6 million tax provision release was booked in France linked to tax regime change on capitalisation reserves.

# 3.5 Cash and capital

The information contained in this section complements the table on capital flows (paragraph 5.3 of this registration document) and Note 12 “Cash and equivalents” contained in the annex of the consolidated accounts in paragraph 5.5 of this document.

During FY 2010, four different elements led to an increase in Euler Hermes’ cash position:

- no dividend was paid out to shareholders for 2009;
- Euler Hermes SA received dividend payments worth a total of €193.9 million;
- the debt burden increased. Loans worth €157 million were reimbursed on maturity. At the same time, an additional €250 million was borrowed.

  This led to an increase in financial costs of €2.5 million because the amount contracted higher than the reimbursed debt as well as the interest rate for the €250 million borrowed (3.05% instead of Euribor 6 months plus 64 basis points);
- a new 10-year loan at 4.04% replaces a matured loan at Euribor 6 months plus 20 basis points.

These different elements increased the cash position by €44 million in 2009 to €138 million in 2010.

In 2010, the drop in claims (the claims/payout ratio dropped from 82.1% in 2009 to 42.1% in 2010) led to a sharp increase in operating cash.

Cash flows from operations rose to €308,876 thousand from €-25,161 thousand in the previous year.

Primarily due to the renegotiation of loans reaching maturity accompanied by a total increase in debt of €93 million, cash flows from financing activities reached €103,644 thousand.

The cash position rose from €441,442 thousand at the start of the year to €305,851 thousand at year-end.

The combination of these developments, the strong growth in operating cash flows and the improvements to the debt and cash positions enabled the Group to increase placements by €545,396 thousand.

Liquidities are principally held in euros, as the Company’s main area of business is the euro zone.

# 3.6 Financing

## 3.6.1 BORROWING CONDITIONS

The information contained in this section is a complement to Note 17 "Financing debt" contained in the annexes of the consolidated accounts in paragraph 5.5 of this document.

Outstanding loans held by Euler Hermes SA in 2010 were taken out under the following terms:

- a 5-year loan of €125 million from Crédit Agricole Corporate and Investment Bank. The loan expires on June 18th, 2015 and has a fixed interest rate of 3.05% a year. Euler Hermes SA has the right to reimburse all or part of the loan at an earlier date after two years, being June 18th, 2012;
- a €125 million loan from HSBC France. The 5-year loan also reaches maturity on June 18th, 2015 and has a fixed interest rate of 3.05% a year. Euler Hermes SA has the right to reimburse all or part of the loan at an earlier date after two years, being June 18th, 2012;
- a 10-year loan of €135 million with Allianz Belgium at a fixed interest rate of 4.04% a year. The loan reaches maturity on June 24th, 2020.

## 3.6.2 RESTRICTIONS ON USE OF CAPITAL

Euler Hermes took out two loans of €125 million each at a fixed rate of 3.05% a year, expiring in 2015, with two banks *(see paragraph 3.6.1 above)*. The interest rate may be adjusted according to the external rating of Euler Hermes as follows:

| Rating of Standard & Poor's or equivalent agency | Applicable interest rate |
|---|---|
| AA- or higher rating | 3.05% a year |
| A+ | 3.05% a year |
| A | 3.15% a year |
| A- | 3.15% a year |
| BB+ or lower rating | 3.95% a year |

Euler Hermes also took out a loan of €135 million from Allianz Belgique (*mentioned in paragraph 3.6.1 above*), also subject to an interest-rate adjustment clause tied to Euler Hermes' rating.

In addition, since Euler Hermes operates in the insurance-credit sector, it must comply with regulatory ratios limiting the use of capital *(see paragraph 7.1.1 (c) of this registration document)*.

## 3.6.3 SOURCES OF FINANCING

The Company made no firm commitments for major investments in 2010, notably as regards external growth, which could require establishing new sources of financing.

# 3.7 Consolidated shareholders' equity and adjusted capital

## 3.7.1 CONSOLIDATED SHAREHOLDERS' EQUITY

At end-December 2010, consolidated shareholders' equity amounted to €2,148.4 million compared with €1,816.5 million at the end of 2009. The table below describes the main changes in shareholders' equity during the year.

| | | | | | Other | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (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 |
| **Shareholders' equity as at December 31st, 2009 – IFRS** | **14,426** | **451,959** | **1,430,684** | **43,500** | **(59,273)** | **(85,517)** | **1,795,779** | **20,698** | **1,816,477** |
| Available-for-sale assets (AFS) | - | - | - | - | - | - | - | - | - |
| Measurement gain/(loss) taken to shareholders' equity | - | - | - | 1,946 | - | - | 1,946 | (221) | 1,725 |
| Impact of transferring realised gains and losses to income statement | - | - | - | (6,574) | - | - | (6,574) | - | (6,574) |
| Other variations | - | - | - | (48) | - | - | (48) | - | (48) |
| Impact of translation differences | - | - | - | 575 | 25,441 | - | 26,016 | - | 26,016 |
| **Net income recognised in shareholders' equity** | **-** | **-** | **-** | **(4,101)** | **25,441** | **-** | **21,340** | **(221)** | **21,119** |
| Net income for the year | - | - | 294,452 | - | - | - | 294,452 | 3,331 | 297,783 |
| **Total revenues and losses recognised for the period** | **-** | **-** | **294,452** | **(4,101)** | **25,441** | **-** | **315,792** | **3,110** | **318,902** |
| Capital movements | 7 | 666 | - | - | - | 18,858 | 19,531 | - | 19,531 |
| Dividend distributions | - | - | 6 | - | - | - | 6 | (4,143) | (4,137) |
| Shareholders' equity component of share-based payment plans | - | - | 217 | - | - | - | 217 | - | 217 |
| Other movements | - | - | (904) | - | - | - | (904) | (1,650) | (2,554) |
| **Shareholders' equity as at December 31st, 2010 – IFRS** | **14,433** | **452,625** | **1,724,455** | **39,399** | **(33,832)** | **(66,659)** | **2,130,421** | **18,015** | **2,148,436** |

At end-December 2010, Euler Hermes' share capital was composed of 45,102,732 fully paid in shares, including 1,267,444 treasury shares. In accordance with IAS 39, available for sale securities have been restated at fair value through the revaluation reserve without any impact on the income statement. The change in the revaluation reserve for the period came to €4.1 million net of tax.

The change in translation differences for the year relates mainly to the US dollar, for an impact of €13.5 million, and the British pound, which had a positive impact of €5.2 million.

19,522 new shares were created as the result of the exercise of stock options in 2010. As a result, the share premium of Euler Hermes SA increased by €0.666 million.

The movement of €0.217 million corresponds to the expenses relating to stock option plans in application of IFRS 2.

## 3.7.2 ADJUSTED CAPITAL

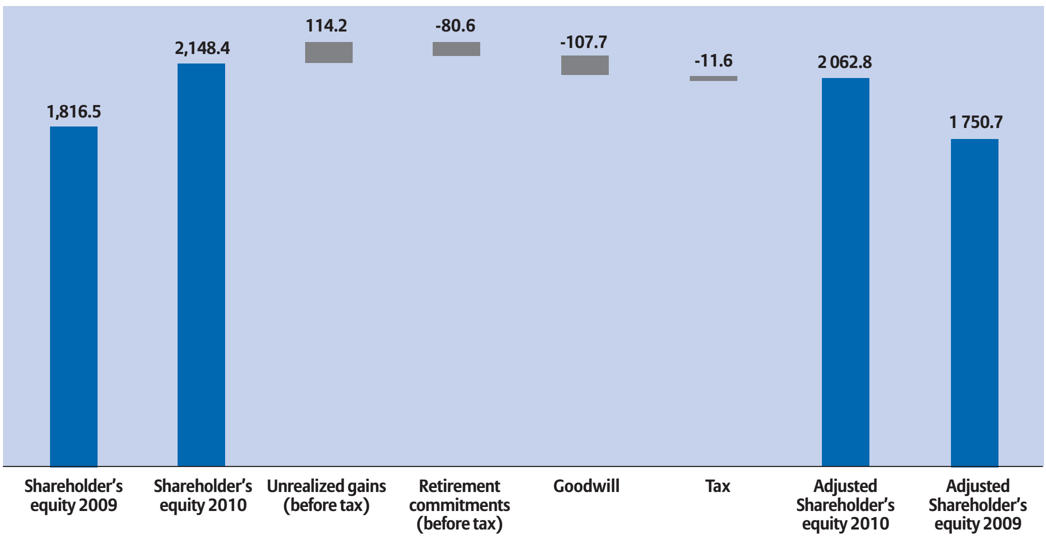
The Group's adjusted capital after tax corresponds to its consolidated shareholders' equity after adjusting for the following:

- unrealised gains on assets not recognised at fair value (mainly investment property and property used in the Group's operations);
- retirement commitments (IAS 19 corridor);
- goodwill;
- tax effect on unrealised capital gains and retirement commitments.

Adjusted capital after tax amounted to €2,062.8 million versus €1,750.7 million at end-2009, corresponding to an increase of 17.8%. This was the result of:

- the increase of shareholders' equity resulting from the full impact of the 2010 net result, as no dividend has been paid during the year;
- a 7.75% decrease in unrealised capital gains, attributable to the decrease in investment property resulting from sales of property;
- a slight increase in non-amortised actuarial differences on retirement commitments;
- a slight increase in the goodwill on consolidated entities.

**ADJUSTED CAPITAL AFTER TAX – DECEMBER 31ST, 2010 (IN € MILLION)**

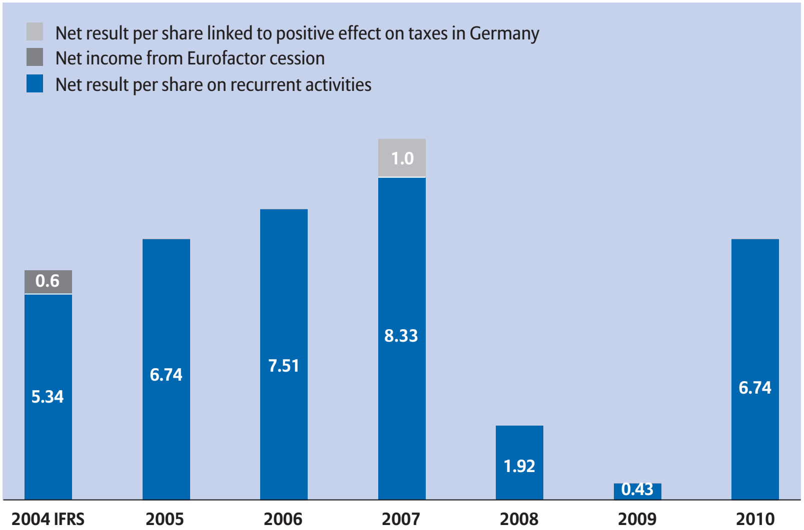


# 3.8 Creation of value for the shareholder

## 3.8.1 EARNINGS PER SHARE

Earnings per share before dilution came to €6.74 in 2010 versus €0.43 in 2009.

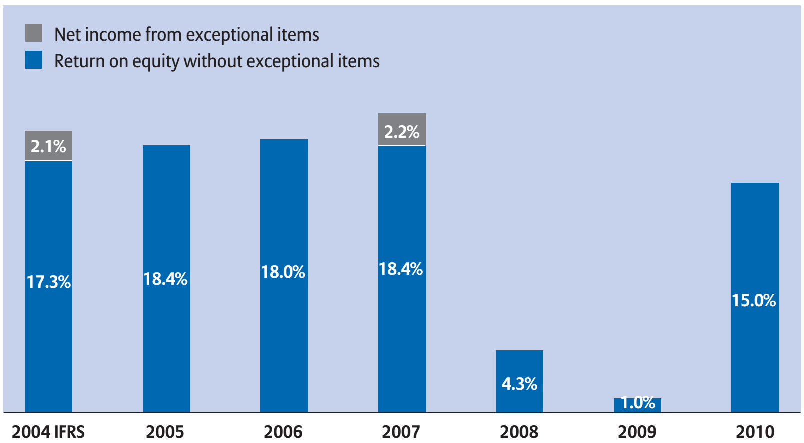
**NET RESULT PER EULER HERMES SHARE (IN EUROS)**




## 3.8.2 RETURN ON EQUITY

The return on equity in accounting terms [(1)] equals to 15.0%, up by 14 points relative to 2009 at comparable scope and excluding exceptional items.

**RETURN ON EQUITY (IN %)**




*(1) Calculated on the basis of net income, Group share relative to the average of shareholders' equity (excluding minority interests) Group share between end-December 2009 and end-December 2010.*

## 3.8.3 RETURN ON ALLOCATED CAPITAL

As a member of the Allianz group, Euler Hermes uses the concept of return on allocated capital as an indicator of performance and of the creation of shareholder value. This indicator measures the surplus value created by the Company's operations in relation to the cost of the capital allocated to those operations.

The operating contribution of the activity is measured using the method applied in the Allianz group. This method formerly consisted of replacing actual results with normalised results so as to determine as accurately as possible the underlying economic performance of the Group's businesses. Namely actual financial income was replaced by a normalised financial income based on the expected medium-term return on each asset class, independently of market volatility, and took into account the opportunity cost of surplus capital.

The method was simplified in 2010, net result is no longer normalised, just the opportunity cost of surplus capital is deducted from the actual net income.

Total capital allocated to the business amounted to €1,712 million in 2010. The return on allocated capital was 17.0%, up by 15.9 points relative to 2009 due to strong improvement of operating profit.

The following table sets out the element of the calculation of return on allocated capital:

The calculation has been simplified and 2009 is a *pro forma*.

| (in € thousands) | 2010 | 2009 *pro forma* |
|---|---|---|
| Net income, Group share | 294,452 | 18,988 |
| Opportunity cost of surplus capital after tax | (2,956) | (989) |
| **OPERATING CONTRIBUTION OF ACTIVITY** | **291,496** | **17,999** |
| Allocated capital (based on S&Ps quotation A) | 1,712,068 | 1,667,767 |
| **Return on allocated capital** | **17.0%** | **1.1%** |

# 3.9 Trends and outlook

## 3.9.1 TRENDS

### 3.9.1.1 Review of 2010: a contrasting global recovery

Three years after the onset of the global financial crisis that emerged from the problems in the US mortgage market, and two years after the collapse of US investment bank Lehman Brothers, which paralyzed global interbank markets and precipitated the real economy into an unprecedented decline across the world, bringing it to the brink of a Great Depression, 2010 will be remembered as the year during which the global recovery consolidated. The recovery began tenuously in mid-2009. It then gradually gathered pace throughout 2010, in three main phases: a robust upturn in the first quarter (annualized quarter-on-quarter growth of 4.5%), helping lift quarterly global GDP volumes above their pre-crisis levels; a slowdown between the second and third quarters (+4.6% and +3.1% respectively), reviving fears and highlighting the risk of a relapse; and the gradual recovery of a large number of confidence indicators and surveys starting in the autumn, providing reassurance about the sustainability of the recovery, at least in the very short term. In total, global GDP growth reached 4% over the full year in 2010 (after a 2% contraction in 2009), on the back of a sharp rebound in international trade (growth of 14% in international trade volumes, after a decline of 12.4% in 2009). But the overall performance masked highly contrasted situations. The rebound in economic activity was generally much more muted in industrialized countries (+2.6%), which account for roughly 66% of global GDP, particularly in Western Europe, despite a notable acceleration in the second quarter. There were wide disparities between a group of growth-driving countries including the United States (+2.9%), Canada (+3%) and Sweden (+5.2%), as well as bigger exporters such as Japan (+4.2%) and Germany (+3.6%). Their robust performances contrasted with those of countries experiencing prolonged difficulties, generally amidst sovereign debt turbulence, such as Greece and Ireland, not to mention all the others. Broadly speaking, growth was stronger in the emerging markets (+6.7%), particularly in Asia (+8.5%), which enjoyed traction both from China (+10.3%) and from stimulus plans that often had greater breadth and had been implemented more swiftly. There were, however, big disparities here as well: +3.5% for Central and Eastern European countries, which were penalized by their European partners; +4.2% for the Middle East and North Africa; and +5.7% for Latin America, driven by the strength of Brazil (+7.5%) and global demand for raw materials. In other words, despite the recovery, a large majority of countries had not seen their economic activity return to pre-crisis levels by the end of 2010 (with respect to industrial production, retail sales or international trade), and the minority of countries whose growth had taken them above pre-crisis levels were located mainly in emerging Asia.

### 3.9.1.2 Outlook for 2011: a year of transition

2011 began with the return of a positive outlook in terms of economic growth, but is unlikely to avoid a slowdown. Growth is expected to slow in response to a two-pronged phenomenon: on the one hand, the disappearance of the factors that triggered the rebound and provided massive support (initial monetary stimulus, governmental interventions of all types and the end of the inventory-reduction process); and on the other hand, the persistence of numerous cyclical and structural checks in the countries where the crisis is still being felt keenly, particularly in Europe (overcapacity, unemployment, need for household deleveraging and the consolidation of public finances, etc.), as well as in the emerging markets that are leading the recovery (inflationary pressure, dependence on exports to developed countries, higher exchange rates, etc.). In our central scenario, we expect the slowdown in growth to +3.2% in 2011 to be visible in international trade trends (+8%). It looks set to be proportionately stronger for OECD countries (+1.9%) than for the others (+5.5%). This is unlikely to reduce the risks and threats weighting on the economies of the most vulnerable developed countries, nor the sources of economic, commercial, financial and monetary pressures between countries, but it should pave the way for the consolidation of global growth in 2012.

### 3.9.1.3 Trends in corporate insolvencies

Against this backdrop, Euler Hermes' Global Insolvencies Index, which shows trends in global corporate insolvencies, is expected to show a decline in 2010 (-4%), after two years of record increases (+28% in 2008 and 2009). The decline, reflecting an overall improvement in corporations' financial health, is attributable in large part to the gradual recovery of the global economy, not to mention the continuation of a number of support measures taken in several countries (tax cuts or moratoriums, sector support, etc.) and the significant restructuring and flexibility measures undertaken in the business world since 2009 in response to the economic and financial shocks sparked by the crisis. The trend towards an overall improvement, with the definitive figure for 2010 not due out until the second quarter of 2011, was seen in more than half the countries in the sample, with a more marked decline in insolvencies in the regions that have been the main drivers of the global recovery: Asia-Pacific (-12%) and, ending two years of big increases, America (-8%). Europe nevertheless stood out, with a less favorable and more contrasted situation across the board: corporate insolvencies are still on the rise in many European countries – northern (Denmark, Ireland), southern (Greece, Portugal, Italy), central (Belgium, Luxembourg, Switzerland) and eastern Europe (Hungary, Russia, Poland, Czech Republic).

Increases in these countries limited the extent of the improvement in the Global Insolvencies Index in 2010. The global economy's continued recovery, albeit at a slower pace, should enable the downward trend in insolvencies to spread to a larger number of countries and to all regions of the world in 2011; the overall pace is, however, expected to remain moderate (-5%), with the exception of a few countries, generally stemming from the economic environment (Greece, Ireland, Portugal, etc.) or coming on the back of low insolvency levels in 2010 (Asia). Against this backdrop, the combined declines in the Global Index in 2010 and 2011 will have been insufficient to erase the record increases seen in 2008-2009; in other words, global insolvencies are set to remain at a high level in 2011.

### 3.9.1.4 Corporate insolvencies of more than €100 million in 2010 (list established at end-October)

Table of the largest corporate insolvencies in 2010 known at the start of November 2010, as identified by Euler Hermes subsidiaries in the following countries: Germany, Austria, Belgium, South Korea, Spain, United States, France, Hungary, Italy, Japan, Poland, United Kingdom, Sweden, and Czech Republic.

| Country | Company | Last known turnover (in € million) | Activity |
|---|---|---|---|
| Japan | Japan Airlines Corporation | 17,421 | Air transport |
| Japan | Japan Airlines International Co., Ltd | 17,403 | Air transport |
| USA | Blockbuster Inc. | 3,125 | Motion picture, radio, television and other entertainment activities |
| USA | Ambac Financial Group Inc. | 3,008 | Auxiliary activities to insurance and pension funding |
| USA | Movie Gallery, Inc. | 1,886 | Publishing, printing and reprod. of recorded media |
| Japan | Willcom Inc. | 1,813 | Telecommunications |
| South Korea | Daewoo Motor Sales Corp. | 1,733 | Car manufacturer |
| Austria | A-Tec | 2,900 | Drive technologies, mechanical engineering, metal industry |
| USA | Mesa Air Group, Inc. | 1,020 | Air transport |
| USA | Affiliated Media, Inc. | 815 | Publishing, printing and reprod. of recorded media |
| Japan | U.F.O. kk | 800 | Wholesaling of household goods |
| Italy | Mariella Burani Fashion Group spa | 700 | Retailing |
| South Korea | Namyang Construction Co Ltd | 610 | Construction |
| Germany | Honsel AG | 540 | Manuf. of parts and accessories for motor vehicles and their engines |
| Germany | Böwe Systec AG | 450 | Manuf. of machinery and equipment |
| UK | Jarvis Plc | 389 | Construction |
| Italy | Eutelia spa | 370 | Telecommunications |
| UK | British Seafood Ltd | 363 | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacoo |
| UK | Bloomsbury International Ltd | 363 | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacoo |
| Spain | Media producción, SLU | 352 | Telecommunications |
| Czech Republic | Oleofin, a.s. | 306 | Currency brokerage |
| Spain | Air Comet, SAU | 301 | Air transport |
| South Korea | Kumkwang Engineering & Construction Corp. | 295 | Construction |
| Italy | Tirrenia Di Navigazione spa | 280 | Shipping |
| UK | Strobe 3 Ltd | 273 | Restaurants, bars and canteens |
| Spain | Payzone Payment Services, SA | 270 | Financial brokerage |
| South Korea | Sungwon Corp. | 268 | Construction |
| Spain | Viajes Marsans, SA | 255 | Air transport |
| UK | Colorama Pharmaceuticals Ltd | 240 | Wholesaling |
| Italy | Cavamarket spa | 235 | Retailing |
| Spain | Industrias Cárnicas Vilaro, SA | 218 | Manuf. of other food products |
| Austria | COSMOS Elektrohandels GmbH & Co KG | 200 | Electric household appliances |
| France | Seafrance | 176 | Shipping |
| Belgium | Stelman Intern. Diamond Sales | 170 | Diamond merchant |
| Italy | Interauto Import spa | 159 | Sale of motor vehicles |

| Country | Company | Last known turnover (in € million) | Activity |
|---|---|---|---|
| Germany | SaarGummi Deutschland GmbH | 154 | Manuf. of parts and accessories for motor vehicles and their engines |
| Czech Republic | EQUUS spol. s r.o. | 150 | Fishing |
| France | Jules Cailles Auto | 146 | Wholesaling |
| France | Groupe EM2C | 140 | Construction |
| South Korea | Sungjee Construction Corp Ltd | 131 | Construction |
| France | Sodexpro | 128 | Wholesaling |
| Austria | AvW Gruppe AG und AvW Invest AG | 124 | Business services |
| France | Marsans International | 117 | Business services |
| Germany | HI Luftverkehrsgesellschaft mbH & Co. Betriebs – KG | 117 | Air transport |
| Czech Republic | Oděvní podnik, a.s. | 104 | Manuf. of textiles |
| Czech Republic | Javořice, a.s. | 103 | Saw milling and wood planing |
| Austria | Scheier Gruppe | 100 | Car gas retailing |

## 3.9.2 OUTLOOK

Euler Hermes expects, after a generalised 2010 recovery, that the world economy will consolidate its growth in 2011. Nevertheless the world GDP growth will be driven mainly outside of Europe and only modest GPD growth around 1.5% is expected for OECD countries.

In this context, Euler Hermes expects that the demand for credit insurance coverage remains strong for different reasons in the different markets. In OECD markets, risk-conscious companies will try to protect their assets and their cash-flow base. Therefore constant dialogue with our prospects and our policyholders will remain a key driver of Euler Hermes strategy for 2011 as the priority aim is to optimise clients' loyalty when their policies come up for renewal. Euler Hermes not only targets a high customer retention rate but also a strong new production. As for developing countries, they will be driven by a dynamic macroeconomic environment.

Euler Hermes premiums are directly linked to policyholders' turnover which shows recovery since second semester 2010. The economic recovery has so far lead to a premium increase of more than 10% in the second half of 2010. Euler Hermes foresees a premium increase in the first semester 2011 compared to the same period last year by nearly 10%, mainly driven by higher exposure volume built up during 2010 (13%). The second half of the year could also support a dynamic premium growth, depending on the pace of the economic growth and on the market pressure on rates. The Group is determined to support its customers in their business development and expects that demand for credit insurance remains solid.

The different economic environments, in which Euler Hermes is conducting its business, require a risk underwriting policy adapted to these individual circumstances. The Group has set up a permanent risk monitoring programme for its portfolio, with specific monitoring plans for large and small risks. Euler Hermes' objective is to avoid a deterioration in the quality of its portfolio and to limit the negative impact of the rise in corporate insolvencies in major economies when it occurs. This proactive risk management enabled Euler Hermes to avoid major claims in 2010 and to benefit from a drop of the claims frequency to historical lows in the third quarter 2010. The fourth quarter of 2010 registered a slight increase in incoming claims although the level is still very low compared to 2008 and 2009, implying for the full year 2010 a net loss ratio below 50%, which is not a sustainable level. Euler Hermes expects that the low combined ratio (68%) registered in the fourth quarter 2010 will deteriorate throughout 2011 to reach the low eighties at the end of 2011, mainly linked to claims frequency returning to a normal level.

Reinsurance is an essential tool for managing the capital required to cover the Group's business. At the end of 2008, in response to the steep rise in the claim rate, Euler Hermes decided to increase its level of sales to reinsurers. As a consequence, the Group decided to lower the retention rate to under 70%. Euler Hermes also put in place effective risk coverage for major claims by limiting to €90 million the impact of any claim of this scale on its net technical result.

In light of the capital surplus, the Group has decided to increase its retention rate for the credit insurance activity to 70%, and to strengthen the coverage against major risks that was in place in 2010. This means that in the event of several major claims in a single year, the net retention on these claims is smaller than for the first event. The Group has also maintained its stop-loss coverage, which limits the claims rate for the reinsurance company to 70%.

The new reinsurance cover will enable to limit risk capital requirements to €1.9 billion in 2011, which is to be compared to the net equity of €2.15 billion at the end of 2010.

The setting-up of the reinsurance cover in 2011 also brings higher excess of loss capacities and an improvement of the minimum variable reinsurance commissions paid by the reinsurers on premiums ceded by Euler Hermes through quota-share treaties. Consequently, Euler Hermes expects a positive impact of nearly €15 million on its net technical result. Finally, the price of protecting against point risk has also been reviewed downwards.

With the project "Excellence", the Group intends to continue to harmonise its IT tools so as to improve its service quality, maintain its competitive edge and keep its costs under control.

Euler Hermes also foresees to rationalise the risk carrier structure in Europe by reducing the existing European risk carriers from 13 to 3 in the next 2 years. Euler Hermes targets to manage its European portfolio out of 3 risk carriers: France Germany and Belgium. This last one will become the risk carrier platform for all Euler Hermes European insurance activity outside France and Germany with the creation of a branch network which will replace the actual risk carrier network. The creation of this new carrier will be done based on cross-border merger principle. The scope of this cross-border merger will cover following main markets: UK, Italy, Poland, Scandinavia, Hungary, Czech Republic, Netherland, Belgium, Ireland and Spain. Euler Hermes has initiated first discussions with all concerned local regulators in order to launch the merger processes.

Euler Hermes will also pursue its prudent investment portfolio management policy. It significantly reduced its exposure to equities in 2007 and 2008 and does not intend to increase exposure to equities in the short term. The Group expects its bond portfolio to continue to be the main contributor for its financial income in 2011, but expects no significant realised capital gains in 2011, clearly below the €25 million realized gains in 2010.

Euler Hermes intends to follow its international expansion by continuing to invest in new economic powers (China, Brazil, Turkey) in order to follow-up its clients' development.

Credit insurance is a business based on economies of scale and Euler Hermes has proved its capacity to keep up with changes in international trade so as to offer quality services. As well as significant internal investment, the Group will continue to examine any acquisition opportunities that arise in the trade receivables financing and management market.

The Group is confident in its strategy. Euler Hermes has a strong financial structure and efficient management tools that should enable it to emerge from the crisis in a strong position. The volatile macroeconomic outlook makes it difficult to set precise financial targets, but Euler Hermes' internal goal is to keep the combined ratio in the range at 80% to 85%, provided no major claim occurs.

4

# MAJOR RISK FACTORS AND THEIR MANAGEMENT WITHIN THE GROUP

Its activities expose the Euler Hermes Group to various risks, including credit insurance risk, reserve risk, market risk, counterparty risk and operational risk.

These risks are those that had been identified by the Group at the filing date of this registration document, the realization of which would be likely to materially affect the Group's operations, consolidated net income or financial position, prompt a substantial decline in the share price or cause reported earnings to differ materially from earnings forecasts or the earnings contained in the projections issued by the Company or on its behalf. The description of risks provided below is not exhaustive. Other risks and uncertainties that are currently unknown or that the Company may currently regard as minor could in the future significantly affect its business, financial position, consolidated net income or cash flows.

Most of the risks described below are inherent to the nature of the Group's operations and to its economic, competitive and regulatory environments. Due to the contingencies and uncertainties associated with these risks, management is not always able to quantify the impact with accuracy.

It has nevertheless implemented numerous processes and risk-management procedures and controls in the aim of monitoring and managing risks permanently. These processes, procedures and controls are set out in section 4.1 of this registration document and in the report of the Chairman of the Supervisory Board on internal control in section 2.4 hereof.

In section 4.3 of this chapter, management gives a presentation of the most significant risks. This presentation aims to reflect management's current views on the potential consequences of each risk to the Group. While management devotes significant resources to risk management on a permanent basis, as described in section 4.1 of this registration document, the Group's risk-management activities, like any system of control, are subject to inherent limits and cannot provide absolute certainty or protect the Group against the risks described in section 4.3.

# 4.1 The Risk Management function

## 4.1.1 OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

Risks are managed directly by the various functions of the Euler Hermes group, and followed up by the Group Risk Office to consolidate the main risks to which the Group is exposed.

In a rapidly changing environment, risk perception, as well as the realization of certain major risks, has heightened risk awareness among all companies in the insurance market. The management and quantification of risks have become a major part of the Euler Hermes group's strategy. The priorities are to protect the Company's solvency and to optimize its risk-reward profile. As such, the goal in optimizing risk management is to reduce earnings volatility and facilitate the optimal allocation of capital, thereby fostering sustainable and consistent growth. This approach forms part of a framework consistent with the demands of the reference shareholder.

Responsibility for risk management lies with the various Group companies. The Group Risk Office liaises with the control structures of each subsidiary in order to monitor risk trends and their quantification, and coordinates the risk management functions across the Group, while at the same time ensuring the proper dissemination of a culture of risk management. It measures any changes or any accumulation of risks that may impact the Group's results.

To accomplish its mission, the Group Risk Office applies a principle of independence in respect to activities that have a direct impact on the income statement, and does not have any operational role; this principle also applies to actuarial teams reporting to the Group Risk Office, which perform controls of reserves estimated locally.

As such, the Group Risk Office is responsible for:

- measuring capital at risk in all risk categories;
- monitoring operational risk;
- taking part in the allocation of resources based on risk measures;
- consolidating Group results;
- coordinating local teams.

It also monitors the return on all types of risk, including the coverage of certain actuarial activities involving estimates of reserves at fair value, measuring the impact of reinsurance and pricing methods based on risk and activity-risk indicators. Lastly, it coordinates and manages the Solvency II framework.

All activities and the results of risk analysis are subject to regular reporting.

## 4.1.2 RISK-MANAGEMENT ACTIVITIES

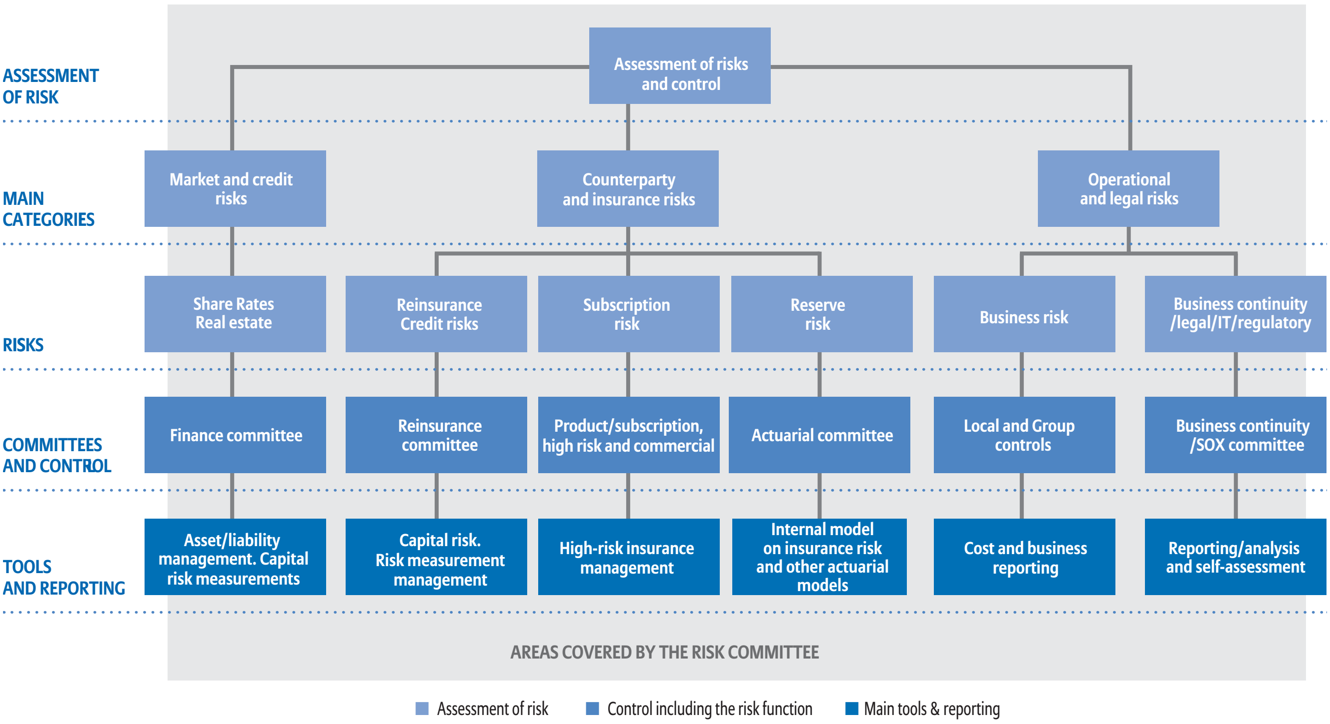
The Group Risk Office is responsible for identifying, measuring, controlling and proactively managing any risks that the Group may face. To achieve this, it relies on each entity and the Group's cross-company functions to monitor and consolidate information. This coordination provides detailed information on local situations, which in turn is used to prepare a consolidated view for submission to the Group's senior management to enable it to optimize resource allocation.

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 its commitments, may guide certain choices such as the contractual terms proposed to policyholders or the concentration of certain risks. The strict management of these risks provides the foundations of a risk-management policy designed to secure the Group's capital base or to reconstitute adequate margins, while at the same time striking a balance between its solvency, especially within the framework of standards imposed under the "Solvency II" directive, and that of its subsidiaries, in addition to resource allocation.

The Groups' main functions and subsidiaries have their own organizational structures, with local committees and Group committees, whose tasks include risk monitoring, with independent oversight by the Group Risk Office. The Group Risk Committee supervises the Group's risk management and risk strategy, using summaries of information reported by the entities as well as consolidated analyses. The Group Risk Committee comprises on the one hand the Group Management Board and on the other hand the Group Risk Officer, a representative of the Group Risk and Information department, a representative of the Group Commercial department, the Group Head of Reinsurance, the Group Chief Investment Officer and the Actuary Chief of the Group. This group of managers sets limits for all categories of risk. Some measurement tools are more specific to certain functions. The control and support mechanism also involves risk modeling and regular analysis of information that is more specific to the various risk categories. The models monitor the business as closely as possible, with regular updates of parameters and the development of new instruments suited to change in the environment.

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

## MAIN RISK CONTROL FLOW




In addition to the structure shown above, the Group Risk Office may place increased emphasis on the analysis or control of specific functions or subsidiaries. As such, besides the need to quantify and analyze the various types of risk, the complexity of the credit insurance business causes the Group Risk Office to strengthen certain measurement tools covering the underwriting of insurance risk and the management of financial investments.

This structure aims to identify and proactively monitor all risks by maintaining responsibility for their management at the operational level.

Risks are accordingly managed at various levels, and limits of cover are set in accordance with the capital allocated by risk, while at the same time benefiting from operational experience. This allows routine risk management to be spread across the operations of the entire Group, while at the same time allowing the function to respond to specific events as efficiently as possible. The Group Risk Office prepares risk reports in collaboration with the operational functions in order to keep management informed. Committees are important channels, as centers of responsibility and decision-making for risk management, but also in spreading a culture of risk awareness and identifying the strengths and weaknesses of the risk-management process. All these elements combine to form an ongoing risk-management mechanism that includes a forward-looking view of major risks, especially with regard to any changes in the environment or trends. As such, Euler Hermes is particularly well prepared to monitor adverse developments and take appropriate action. When launching new products, all these skills come together to assess the internal and external impacts and define action to be taken to reduce risk, minimize costs and set new management limits for the product. The ultimate responsibility for launching new products remains with the business line.

# 4.2 Overview of risks related to the Group's activities

## 4.2.1 CREDIT INSURANCE RISK

This is the main risk facing Euler Hermes. Credit insurance risk is the risk of incurring losses on the portfolio of credit insurance policies. It is managed globally and for all insurance companies belonging to the Euler Hermes group on the basis of the impact of sensitivity scenarios measuring the impact of frequency risk and peak risk.

Frequency risk is the risk of a sudden and substantial increase in a multitude of outstanding receivables. It is mainly covered by reserves, and is measured using a statistical model that simulates the loss ratio on the basis of observed and ongoing change in claims.

Peak risk is the risk of abnormally high losses recorded in a single year with a single debtor (or group of debtors), or the accumulation of losses in a single year in a single country exposed to country risk (excluding the most developed countries).

Euler Hermes has a diversified portfolio of credit insurance risks, the aim being to minimize the potential impact on claims stemming from the insolvency of a single debtor, a downturn in a particular sector or a credit event in a specific country.

### 4.2.1.1 Management of credit insurance contracts and service to clients

The management of technical credit insurance risk is based on a strong risk culture combined with contract management and client service. In addition to managing the subscription of contracts, the Group provides a service to policyholders to reduce risks weighing on their receivables.

As such, during the period of insurance, all requests for insurance cover on a given customer are analyzed in accordance with specific solvency criteria for the customer in question (financial analysis, prior claims). Cover is then issued on the basis of the risk profile of the commercial transaction associated with the request. Ultimately, by managing risk coverage on the basis of the solvency of policyholders' customers, Euler Hermes actively modulates the transfer of policyholders' client risk. To this end, each entity has a dedicated department, which, in liaison with policyholders, monitors and analyzes its positions and requests. These departments are coordinated by a Group function that ensures the consistency of the underwriting rules of such cover, including the issuance of an equivalent rating for the entire Group. In addition, insurance-risk underwriting committees in each entity and at Group level determine commitments on the basis of the solvency of debtors, notably regarding the most sensitive risks. On the commercial side, a specific function coordinates contractual changes and all the Group's marketing activities.

Credit insurance contracts are fairly homogenous within the Group, their objective being to cover the risk of non-payment by policyholders' customers. Euler Hermes reviews certain policy terms in order to adjust them to suit the current crisis, when necessary. Such reviews and the conditions of new policies are carried out and decided at local level. Some contracts limit cover to a debtor's formal bankruptcy. The underlying risk is conditioned by local bankruptcy laws, which offer debtors varying degrees of latitude. The insurance company must therefore anticipate the behavior and practices stemming from such laws in order to optimize the control of its own risks.

Credit insurance contracts specify the terms of credit management and parameters (excess, maximum liability, etc.), differentiated in accordance with the specific policyholder's risk profile. They also require the policyholder to declare payment defaults within a given timeframe. During the policy period, there is ongoing collaboration with the policyholder, in particular through the provision of the necessary cover of its customers. The principle of providing comprehensive cover for policyholders' turnover is an important factor in increasing risk diversification, but also in limiting the effects of non-selection. The Euler Hermes group also offers debt-collection services that enable it to keep track of outstanding sums and to act quickly to collect these amounts. While credit risk relating to the insurance of commercial transactions is the main risk facing Euler Hermes, it must be borne in mind that the crisis has also affected – albeit to a lesser extent – its commercial portfolio, which has seen a decline in premium income and potential insolvencies of policyholders themselves. Such effects have nevertheless been offset by the robustness of the portfolio and the strength of demand for credit insurance during the recent period.

### 4.2.1.2 Insurance portfolio and diversification

Given its leading position in its main markets, Euler Hermes' exposure is spread across many debtors. Moreover, the Group's geographical coverage provides a diversification of risk across many countries, bearing in mind that it factors the notion of country risk into its underwriting. This diversification takes into account not only the policyholder's location but also – and more importantly – that of its customers.

Theoretical gross exposure in credit insurance corresponds to the maximum amount of commitments that the Group has agreed to cover on its policyholders' claims. The actual amounts covered are much lower, in line with the actual turnover generated by the policyholder at a given date. As is the case with the transfer of reinsurance risk, excesses and liability limits also reduce the Group's final exposure.

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

| (in € millions) | 2010 | % | 2009 | % |
|---|---|---|---|---|
| **Total Europe** | **538,896** | **85.2%** | **487,957** | **86.9%** |
| of which: | | | | |
| France | 186,676 | 29.5% | 175,030 | 31.2% |
| United-Kingdom | 44,763 | 7.1% | 40,131 | 7.1% |
| Germany | 123,326 | 19.5% | 116,130 | 20.7% |
| Italy | 59,186 | 9.4% | 48,127 | 8.6% |
| Belgium Luxembourg | 13,313 | 2.1% | 12,663 | 2.3% |
| Netherlands | 18,144 | 2.9% | 14,677 | 2.6% |
| Spain | 17,468 | 2.8% | 13,268 | 2.4% |
| Eastern Europe | 26,114 | 4.1% | 22,926 | 4.1% |
| Scandinavia | 22,271 | 3.5% | 21,167 | 3.8% |
| Other Europe | 27,635 | 4.4% | 23,838 | 4.2% |
| **Total Americas** | **56,180** | **8.9%** | **45,773** | **8.2%** |
| of which: | | | | |
| United States | 37,494 | 5.9% | 32,368 | 5.8% |
| Canada | 6,521 | 1.0% | 5,137 | 0.9% |
| Other Americas | 12,165 | 1.9% | 8,268 | 1.5% |
| **Asia-Oceania** | **26,498** | **4.2%** | **19,211** | **3.4%** |
| **Near/Middle East** | **5,969** | **0.9%** | **4,619** | **0.8%** |
| **Africa** | **5,012** | **0.8%** | **3,814** | **0.7%** |
| **TOTAL** | **632,555** | **100.0%** | **561,374** | **100.0%** |

As illustrated in this table of the geographical split of gross exposure, the debtors of a given policyholder may be located in very different geographical areas, and this split contributes to risk diversification. At the Group portfolio level, this diversification limits the effects of insolvencies of individual companies, clearly defined groups of companies or business sectors. The table shows change in exposure in 2010 and an increase of 13% of gross exposure. This growth of covers is directly linked to the proactive policy developed by Euler Hermes in 2010 to support its policyholders in their business development by offering a risk cover in adequacy to their needs.

The second table shows gross exposure by sector. The sector breakdown highlights another effect of diversification, namely the reduced impact of individual insolvencies. Regular and individual sector analyses are prepared using Group information-management applications.

Change in exposure is reviewed at the most granular level on a debtor-by-debtor basis and at portfolio level, while ensuring that a proper balance is maintained between premiums received and the actual risk represented by the relevant cover.

| (in € millions) | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Metal Industry | 117,162 | 18.5% | 102,773 | 18.3% |
| Agrifood | 92,110 | 14.6% | 80,892 | 14.4% |
| Construction | 75,082 | 11.9% | 68,119 | 12.1% |
| Textiles – leather | 23,226 | 3.7% | 21,386 | 3.8% |
| Electronics | 57,716 | 9.1% | 45,836 | 8.2% |
| Services | 112,372 | 17.8% | 101,609 | 18.1% |
| Wood – Paper | 33,739 | 5.3% | 29,945 | 5.3% |
| Chemicals | 61,652 | 9.7% | 51,560 | 9.2% |
| Various | 59,497 | 9.4% | 59,254 | 10.6% |
| **TOTAL** | **632,555** | **100.0%** | **561,374** | **100.0%** |

### 4.2.1.3 Management of underwriting risk

In recent years, the Euler Hermes group has developed a specific organizational structure and special-purpose IT applications to optimize its handling of insurance risk, with a dedicated organization across all Group entities. The system receives policyholders' requests for cover, stores details of cover underwritten together with debtor positions, and checks all information received and sent.

Underwriting of cover draws on an optimized organization based on a single IT system comprising a database used specifically for the underwriting of cover. The risk-rating system used by specialized staff enables responses to requests for cover to be prepared and submitted to clients very quickly.

The application facilitates the monitoring, both locally and centrally, of cover based on numerous criteria. It makes it easier to analyze details of cover by sector or by country.

While risks are underwritten locally, central monitoring of the most sensitive risks, carried out by a team of experts and credit committees, is used to verify the application of written underwriting rules and change in exposure on a real-time basis. The central risk underwriting function accordingly has access to considerable resources to monitor sensitive risks and risk concentrations and to limit them, both centrally and locally, in accordance with change in solvency. The Internal Audit function has primary responsibility for regularly controlling the application of these rules.

All debtors included in policyholder requests for cover are subject to a solvency assessment accompanied by the issuance of a rating (on a scale ranging from 1, for the most solvent, to 10, in cases of default) on the capacity of the debtor to honor its commitments to suppliers.

In this assessment, information quality and the proximity to the risk 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 other entities, whose policyholders work with debtors located in the geographical region that it covers.

When an assessment is performed for another entity, information is disclosed on the basis of rules set centrally, leading to the determination of a solvency 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 organization provides clients with a high level of service quality and facilitates close control of the underwriting risks.

Some debtors, especially large groups, whose ratings reflect a very high level of solvency, have more substantial theoretical gross exposure. The 50 largest debtors or groups of debtors fall within the most robust 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 terms of the insurance contract and the protection offered by reinsurance. Internal sensitivity tests show that no potential claim net of reinsurance on these exposures would exceed 6% of capital. It is also noteworthy that dynamic management of Euler Hermes' exposure to the bankruptcies of major groups with significant theoretical gross exposure has enabled the Group to avoid the impact resulting from domino effects. After the collapse of Woolworth's in 2008, no major loss occurred either in 2009 or in 2010, in particular thanks to the reinforcement of monitoring guidelines for this type of debtor, more in keeping with the prevailing environment. The permanent balance between the terms and conditions of insurance policies and the management of cover or the transfer of risk ensure steady cash flows at Group level. Policy terms and conditions are appropriate to the risk of each client. In addition to the service provided, the management of insurance cover allows the risks borne by the Group to be modulated on a case-by-case basis, as well as to reflect change in the economic environment. In the event of adverse change in the economic environment, cover is reduced on the least solvent debtors in order to maintain the loss ratio.

The frequency of claims has decreased compared with 2009. This evolution is mainly due to action plans implemented during the crisis, which plans have led to reduce the risks held by Euler Hermes and consequently the claims.

As a reminder, theoretical gross exposure, 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 solvency. The actual exposure depends on the use, which varies over time, of this cover by the policyholders and the terms of each contract (excess, 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.

As such, the progression from the gross exposure on a debtor at a given point in time to the potential claim amount is complex and variable. Likewise, the amount of exposure net of reinsurance can be calculated only in accordance with the excess and maximum liability applicable to specific policyholders.

## 4.2.2 CLAIMS RESERVES

The purpose of claims reserves is to cover on the one hand, claims that have been notified and on the other hand those that have not yet been notified but which relate to the current fiscal year. They are estimated on the one hand for the portion of each individual reported claim or on the other hand by the application of statistical methods based on historical data and claims trends. Claims reserves are not discounted.

As shown in the table below, the Group's claims decreased significantly compared with previous years, a direct consequence of the action plan to reduce risks implemented during the 2009 financial crisis.

| | 2004 | 2005 *pro-forma* | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Ratio of Claims/Premiums (1) | 45.9% | 44.8% | 49.2% | 48.1% | 78.1% | 82.1% | 42.1% |

*(1) In accordance with IFRS.*

### 4.2.2.1 Determining claims reserves

As part of their insurance activity, Group subsidiaries are required to establish sufficient reserves to guarantee the payment of future claims. As provided for in the policy, policyholders are required to declare a customer's default or insolvency to Euler Hermes, which, in turn, establishes a reserve for a sufficient amount to cover the payment of the related claim. A collection procedure is implemented when the declaration is made. After the claim has been settled, the loss may also be subject to collection services.

As such, the claims-handling process involves three separate phases.

First, claims relating to a given fiscal year but not yet declared are subject to IBNR (incurred but not reported) estimates to cover future claims payments and costs.

Reported claims are analyzed based on the insurance cover granted. Upon receipt of the specific claims notification, a cover analysis is performed to determine the amount of the provision to be recorded against this claim. Next, the amount in reserve for a claim is updated for each new notification or recovery to cover potential payments on the relevant 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 accordingly established on a claim-by-claim basis.

Once the claim has been settled, the sums may be partially or fully recovered. As such, an estimate of related future cash flows is made.

Reserves for reported claims are established based on the information available at the balance sheet date. Claims are settled rapidly in credit insurance. Moreover, based on the aggregate individual reserve amounts of each claim, the estimates are made using the same statistical methods in all Group entities in order to achieve a more accurate estimate of the final cost, in line with 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 make a distinction between two criteria that have a considerable bearing on the split of claims costs between reserves and claims paid:

First, the type of cover provided by the contracts: Insurance cover based solely on insolvency only covers the policyholder's exposure in the event of insolvency. An analysis of debtor defaults enables the Group to identify insolvencies, thereby helping reduce the uncertainty regarding the potential claim amounts.

Although insurance cover comes into force when an invoice is issued or on delivery, actual payment default must take place before determining the amounts concerned and receipt of the claim notification from the policyholder. The period of uncertainty includes the time taken for payment, which varies depending on the countries or sectors concerned, and the time taken to notify the claim.

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

The second parameter relates to the indemnification period.

When they are estimated, reserves take into account the likelihood of claims occurring, the possible impact of local regulations and foreseeable change in the economic environment. However, due to their nature, reserves include a certain level of uncertainty. Ongoing monitoring is therefore performed to keep existing reserves at an adequate level. Specific technical reserve control committees have been set up in all subsidiaries to ensure the consistency and appropriateness 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 the chain-ladder, Bornhuetter Ferguson and bootstrap methods. Simulation models for calculating potential losses are also used to a certain extent. The chain-ladder method is based on a calculation of claims-development triangles.

The Bornhuetter Ferguson method draws on a projection of the loss ratio. The bootstrap method is an extension of the chain-ladder method, using multiple simulations to determine margins of error. Simulation methods estimate the potential loss as a function of exposure and the probability of losses; their probabilistic approach also allows for the calculation of a confidence interval.

The development of claims shows that uncertainty is highest in 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 attributable to the specific nature of IBNR reserves in credit insurance. Claims relating to the fiscal 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 arises on the issuance of the policyholder's invoice, which is also the basis for the premium; the bankruptcy, followed by the notification of the claim, may only occur some months later.

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

The approaches used to calculate the claims reserve cover the two main risks encountered in estimating reserves. The first of these is the short-term nature of credit insurance, with the development of the reserve almost completed at the end of the second year. The second aspect relates to the fact that the liability for any claim is limited to the amount of invoices covered, which limits any errors in the estimate of adjustments to reserves for recovery and the estimate of reserves for unknown claims. As noted in the previous paragraphs, the assessment of the claims or the recovery reserve is based on actuarial techniques, the assumptions and results of which are reviewed by the reserve committee.

Following 2008 that showed a lack of reserves booked at the end of the first period to cover claims to be paid, 2009 shows an over estimation of claims expense at the end of the first year. The importance of this margin compared with 2007 and previous periods is mainly due to the economic uncertainty that existed at 2009 closing date (risk of second phase of recession), anticipation that led to position in the upper part of the reasonable interval of estimation.

Positive trends linked to the economic recovery and the decrease of claims frequency in 2010, have been taken into account for establishing 2010 reserves.

| | Year ended December 31st, 2010 | | | Year ended December 31st, 2009 | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Gross operations | Assignments and special concessions | Net operations | Gross operations | Assignments and special concessions | Net operations |
| **Charges for claims in current year** | **1,092,840** | **(334,480)** | **758,360** | **1,452,108** | **(454,240)** | **997,868** |
| Claims paid | 227,949 | (85,783) | 142,166 | 443,443 | (130,963) | 312,480 |
| Charges for claims provisions | 775,381 | (244,264) | 531,117 | 929,492 | (318,538) | 610,954 |
| Management fees | 89,510 | (4,433) | 85,077 | 79,173 | (4,739) | 74,434 |
| **Sums recovered for the current year** | **(128,609)** | **45,423** | **(83,186)** | **(140,738)** | **39,628** | **(101,110)** |
| Sums recovered | (39,998) | 27,171 | (12,827) | (13,142) | 3,195 | (9,947) |
| Variation in provisions for sums recovered | (88,611) | 18,252 | (70,359) | (127,596) | 36,433 | (91,163) |
| **Charges for claims in previous years** | **(269,805)** | **68,741** | **(201,064)** | **57,620** | **41,612** | **99,232** |
| Claims paid | 694,617 | (205,924) | 488,693 | 944,564 | (186,126) | 758,438 |
| Charges for claims provisions | (954,615) | 273,359 | (681,256) | (878,122) | 228,456 | (649,666) |
| Management fees | (9,807) | 1,306 | (8,501) | (8,822) | (718) | (9,540) |
| **Sums recovered on previous years** | **10,373** | **(4,209)** | **6,164** | **(92,911)** | **9,063** | **(83,848)** |
| Sums recovered | (153,865) | 30,220 | (123,645) | (158,164) | 22,044 | (136,120) |
| Variation in provisions for sums recovered | 164,238 | (34,429) | 129,809 | 65,253 | (12,981) | 52,272 |
| **Charges for claims** | **704,799** | **(224,525)** | **480,274** | **1,276,079** | **(363,937)** | **912,142** |

The claims' costs decreased in 2010 due mostly to a significant decrease of the claims frequency and the absence of major claims.

| (in € thousands) | December 31st, 2010 Gross operations | Assignments and special concessions | Net operations | December 31st, 2009 Gross operations | Assignments and special concessions | Net operations |
|---|---|---|---|---|---|---|
| **Provisions for gross claims** | **1,557,083** | **(470,718)** | **1,086,365** | **1,727,088** | **(494,645)** | **1,232,443** |
| Current year | 819,386 | (247,103) | 572,283 | 978,315 | (322,827) | 655,488 |
| Previous years | 737,697 | (223,615) | 514,082 | 748,773 | (171,818) | 576,955 |
| **Claims to pay** | **(229,888)** | **51,958** | **(177,930)** | **(302,327)** | **67,419** | **(234,908)** |
| Current year | (89,986) | 19,163 | (70,823) | (127,752) | 36,507 | (91,245) |
| Previous years | (139,902) | 32,795 | (107,107) | (174,575) | 30,912 | (143,663) |
| **Provisions for claims** | **1,327,195** | **(418,760)** | **908,435** | **1,424,761** | **(427,226)** | **997,535** |

### 4.2.2.2 Development of claims reserves

The claims for a given year follow the process of notification and indemnification, 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. Large claims at year-end impact the development of claims reserves. Major claims such as Moulinex and Kmart in 2001 and Parmalat in 2003 initially impacted the ultimate cost before reinsurance for the year in question 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 for these years.

The information used in claims-development triangles is provided by most Group entities.

**ESTIMATE OF FINAL COST OF CLAIMS FROM DIRECT ACTIVITY, EXCLUDING ACCEPTANCE OF THE MAJORITY OF GROUP ENTITIES (INCLUDING REINSURANCE) (1)**

| Year accident/ development (in € thousands) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Difference (2) | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | 1,199,660 | 1,064,054 | 1,048,945 | 1,018,887 | 991,728 | 974,651 | 966,002 | 957,142 | 947,088 | 939,913 | 259,747 | 21.7% |
| 2002 | 1,074,320 | 885,987 | 860,735 | 832,950 | 824,542 | 818,679 | 808,282 | 800,194 | 797,674 | | 276,646 | 25.8% |
| 2003 | 989,123 | 769,240 | 702,802 | 698,247 | 690,282 | 684,669 | 656,450 | 654,463 | | | 334,659 | 33.8% |
| 2004 | 820,011 | 675,162 | 629,896 | 621,518 | 616,174 | 609,534 | 614,372 | | | | 205,639 | 25.1% |
| 2005 | 835,604 | 753,293 | 717,036 | 715,393 | 705,182 | 706,368 | | | | | 129,236 | 15.5% |
| 2006 | 840,274 | 788,358 | 744,969 | 730,265 | 740,994 | | | | | | 99,280 | 11.8% |
| 2007 | 852,572 | 843,549 | 828,773 | 833,015 | | | | | | | 19,558 | 2.3% |
| 2008 | 1,344,139 | 1,413,872 | 1,447,934 | | | | | | | | (103,795) | -7.7% |
| 2009 | 1,162,653 | 895,245 | | | | | | | | | 267,408 | 23.0% |
| 2010 | 868,298 | | | | | | | | | | | |

*(1) All figures (for the current year and previous years) have been converted, if necessary, on the basis of the end-of-year conversion rate.*
*(2) Difference: surplus or shortfall of the initial provision in relation to the current estimate of the final cost for the year.*

Aggregate claims-development tables, excluding the elimination of cash flows between entities, cover more than 99% of the technical reserves of all Group entities, but do not include the run-off for years prior to 2001.

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 in terms of 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 33.8% observed for the 2003 insurance year. In 2008, the deepening crisis led to an increase in the cost of claims in the second year compared with the first. The change in the economic cycle was particularly brutal; uncertainty relating to change in claims in a challenging economic environment and trends in 2008 necessitated a more nuanced approach to the calculation of reserves. Reserves were calculated on the basis of a more conservative approach to cover a possible deterioration due to the economic environment, with the possibility of more positive development if the situation stabilized or improved.

**TRIANGLE OF AGGREGATE PAID CLAIMS DEVELOPMENT, NET OF RECOVERIES, OF THE MAJORITY OF GROUP ENTITIES (INCLUDING REINSURANCE)** (1)

| Year accident/ development (in € thousands) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | 284,164 | 850,299 | 945,107 | 966,214 | 963,865 | 960,828 | 950,794 | 946,902 | 939,385 | 938,861 |
| 2002 | 300,229 | 681,726 | 772,461 | 789,223 | 792,479 | 792,279 | 793,747 | 789,796 | 789,424 | |
| 2003 | 236,960 | 559,671 | 608,472 | 632,426 | 639,429 | 638,115 | 641,262 | 640,963 | | |
| 2004 | 222,797 | 531,200 | 580,499 | 589,783 | 591,496 | 588,852 | 596,626 | | | |
| 2005 | 258,087 | 621,360 | 664,067 | 677,755 | 676,282 | 678,087 | | | | |
| 2006 | 278,571 | 658,853 | 701,155 | 701,391 | 721,456 | | | | | |
| 2007 | 266,584 | 700,081 | 766,085 | 791,691 | | | | | | |
| 2008 | 376,248 | 1,116,744 | 1,274,133 | | | | | | | |
| 2009 | 403,527 | 728,190 | | | | | | | | |
| 2010 | 212,283 | | | | | | | | | |

*(1) All figures (for the current year and previous years) have been converted, if necessary, on the basis of the end-of-year conversion rate.*

The short-term nature of credit insurance is illustrated by the development of claims payments, which take place 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. More than 60% of the claims reserves for the direct business on the balance sheet at year-end will be used in the following year, 80% within two years and more than 95% after six years.

## 4.2.3 INVESTMENT POLICY

Each Group entity has an investment portfolio, with investments managed locally in compliance with guidelines laid down at Group level. Compliance with these guidelines is overseen within each entity by a Finance Committee, which reviews the portfolio's performance and selects new investments.

At Group level, governance is provided by a Group investment management function and a Finance Committee, which together lay down short- and medium-term guidelines for the management of the portfolio.

The Group Risk Office helps manage the investment portfolio by establishing and calculating risk indicators associated with different asset classes. These indicators are calculated quarterly. And the resultant risk measures are factored into the Investment Committee's decision-making process, both in defining the allocation of the investment portfolio and in choosing to invest in specific securities. Lastly, the Group Risk Office sets investment limits, so as to avoid concentration risk.

This approach is backed up by the calculation of case-by-case scenarios depending on the options being considered.

The investment portfolio is diversified, both by type of investment (with an emphasis on bonds) and by issuer. Risk concentrations on a single issuer are very rare.

Euler Hermes does not use futures in managing its investment portfolio.

# 4.3 Key risk factors

## 4.3.1 CREDIT INSURANCE RISK

Credit insurance risk measures the risk that premiums charged to policyholders will be inadequate to cover claims and the costs associated with managing the portfolio of policies.

Euler Hermes has developed a pricing system based on the policy's underlying risk. This system helps reduce the risk of inadequate premium income at the portfolio level.

## 4.3.2 RESERVE RISK

Reserve risk measures the risk that claim reserves recorded on the balance sheet may be insufficient to meet future claims.

Euler Hermes guards against this risk through careful management and prudent claim reserves.

## 4.3.3 MARKET RISK

Market risk is the risk of losses that may result from fluctuations in the prices of the financial instruments comprising the Group's investment portfolio.

### 4.3.3.1 Interest-rate risk

Interest-rate risk measures the sensitivity of the value of assets and liabilities to changes in the yield curve.

Interest rate risk management, while recognizing 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.

| | 12/31/2010 | | 12/31/2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| 0 to 1 year | 421 | 17% | 510 | 23% |
| 1 to 3 years | 862 | 35% | 942 | 43% |
| 3 to 5 years | 522 | 21% | 486 | 22% |
| 5 to 7 years | 314 | 13% | 140 | 6% |
| 7 to 10 years | 291 | 12% | 66 | 3% |
| beyond 10 years | 55 | 2% | 39 | 2% |
| **TOTAL** | **2,465** | **100%** | **2,183** | **100%** |

This table represents the bond portfolio split by maturity.

### 4.3.3.2 Exchange-rate risk

Exchange-rate risk measures the sensitivity of assets and liabilities to changes in the exchange rates of the reporting currency and the currencies in which assets and liabilities are recorded on the balance sheet.

Euler Hermes faces exchange-rate risk in various ways, mainly with respect to:

- limits granted to a policyholder in a currency other than the reporting currency, potentially leading to change in the cash position or the levels of reserves (under the procedures of claims handling or recovery) recorded in currencies other than the reporting currency;
- reinsurance in a currency other than the reporting currency;
- investment in a currency other than the reporting currency;
- presence of divisions or subsidiaries operating in a currency other than the reporting currency of the parent company.

To limit exchange-rate risk, the Group adheres rigorously to matching rules required by local regulators.

As at December 31st, 2010, assets held by Euler Hermes in currencies other than the euro amounted to 19.8% of the market value of the portfolio.

**FINANCIAL PORTFOLIO OF THE GROUP BY CURRENCY**

| | 12/31/2010 | | 12/31/2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| EUR | 2,775 | 80.2% | 2,249 | 77.6% |
| GBP | 295 | 8.5% | 215 | 7.4% |
| USD | 210 | 6.0% | 249 | 8.6% |
| Other currencies | 182 | 5.3% | 185 | 6.4% |
| **TOTAL** | **3,462** | **100%** | **2,898** | **100%** |

Assets comprise the investment portfolio, technical reserves recorded as assets and the sold portion of technical reserves recorded as liabilities.

Liabilities comprise technical reserves and financial liabilities.

The principle of matching assets and liabilities at the local level and the emphasis on the euro in the Company's business has allowed the Group to avoid the need of hedging residual exchange-rate risk.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Currency risk** (amounts in € millions) | **United States** | **United Kingdom** | **Group** | **United States** | **United Kingdom** | **Group** |
| Net income Group share in thousands of euros at 12/2010 | 21,333 | - 4,448 | 294,452 | 2,636 | - 12,111 | 18,988 |
| Exchange rate at year end | 0.7484 | 1.1618 | | 0.6942 | 1.1260 | |
| **Net income Group share in local currency** | **28,505** | **- 3,829** | | **3,797** | **- 10,756** | |
| Variation in exchange rate of 100 basis points (sign of Net result) | 0.7384 | 1.1718 | | 0.6842 | 1.1360 | |
| Net income in euros after exchange rate variation | 21,048 | - 4,486 | 294,129 | 2,598 | - 12,219 | 18,842 |
| **% Variation in relation to initial result** | **-1.34%** | **0.86%** | **-0.11%** | **-1.44%** | **0.89%** | **-0.77%** |

### 4.3.3.3 Equity-market risk

Equity-market risk measures the sensitivity of the value of assets to change in equity prices.

By extension, minority stakes in unlisted companies and investments in funds dominated by equities or convertible bonds are deemed to be equities.

| | 12/31/2010 | | 12/31/2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| Bonds | 2,465 | 65% | 2,183 | 65% |
| Shares | 142 | 4% | 130 | 4% |
| Real estate investment | 23 | 1% | 57 | 2% |
| Loans, deposits and other financial investments | 832 | 22% | 528 | 16% |
| **TOTAL FINANCIAL INVESTMENTS** | **3,462** | **92%** | **2,898** | **87%** |
| Cash | 306 | 8% | 442 | 13% |
| **TOTAL FINANCIAL INVESTMENTS + CASH** | **3,768** | **100%** | **3,340** | **100%** |

Equities accounted for around 4% of the Euler Hermes group's investment portfolio at end-2010.

The strategic allocation of the investment portfolio, in addition to the tactical allocation defined by the Investment Committee, sets the limits to which the Company may invest in equities or funds dominated by equities or convertible bonds.

It is then up to the asset manager to make investments within these limits, without breaching limits placed on the concentration of risk on individual counterparties, in the aim of outperforming the benchmark index used by the Investment Committee for the equity asset class.

### 4.3.3.4 Liquidity risk

Liquidity risk is the risk of Euler Hermes' financial resources not being sufficient to cover its cash needs. Euler Hermes' financial resources include the resources generated by its operations and those obtained externally.

Each entity carries out projections of the cash flows derived from its insurance operations, its investment portfolio and any dividends received from subsidiaries, and then monitors these flows. These cash-flow projections are reviewed during Finance Committee meetings.

With the exception of Euler Hermes' German entity, which pools cash with the various German entities comprising the Euler Hermes group, Group entities manage their liquidities on an independent basis.

As at December 31st, 2010, there were no special clauses attached to the Euler Hermes group's financial liabilities (except for general clauses related to the existence of reserves or refusal of accounts certification) that would, if realized, lead to unanticipated cash flows. For a detailed description of the Group's borrowings, please refer to Note 17 of chapter 5 of this registration document.

Sources of liquidity available to Euler Hermes (excluding the divestment of its investment portfolio) are mainly as follows:

- the excess liquidity of a company;
- shareholders;
- the banking market;
- the bond market.

Based on short- and medium-term cash projections and stress tests applied to these projections (liabilities as well as assets), Euler Hermes considers its liquidity risk to be low.

### 4.3.3.5 Property risk

Property risk measures the sensitivity of the value of property assets to change in the value of the property market.

This risk covers buildings housing the Group's operations as well as properties leased to other parties.

Property assets or products account for 1% of the value of the investment portfolio, *i.e.* €23 million.

## 4.3.4 COUNTERPARTY RISK

Counterparty risk is the loss Euler Hermes would incur in the event of the insolvency of one of its business partners, namely the failure of a reinsurer, a bank, a bond or equity counterparty, or the non execution by a policyholder of its commitments.

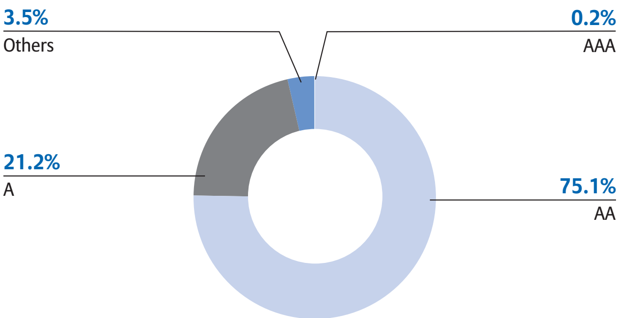
### 4.3.4.1 Failure of a reinsurer

Euler Hermes acts at different levels to limit the impact of failures of reinsurers:

- selection of reinsurers on the basis of their counterparties (rated A or higher or subject to the special prior approval of the Euler Hermes Board of Management in the event of the rating being below A);
- limits on concentration risk on a single reinsurer;
- constant monitoring by the various operational entities via maturity analysis of reinsurers' credits and debits, and the amount of technical reserves transferred to them;
- requests for letters of credit or security deposits from reinsurers;
- cut-offs of reinsurance treaties a few years after the implementation of the reinsurance contract.

In the event of the failure of a reinsurer or any event that may result in the failure of a reinsurer, the Company would conduct a risk analysis of the event. It would then take steps, on the basis of its findings, to minimize the negative impact on Euler Hermes.

In such cases, assets carried by Euler Hermes in connection with the relevant counterparty would be impaired.




**DISTRIBUTION OF TECHNICAL PROVISIONS CEDED* BY RATING OF REINSURERS (THE PERIMETER COVERED REPRESENTS 94.2% OF THE PROVISIONS CONSIDERED OUT OF THE GROUP TOTAL AT DECEMBER 31ST, 2010)**

| | |
|---|---|
| AAA | 809 |
| AA | 353,988 |
| A | 99,807 |
| Others | 16,724 |
| **TOTAL** | **471,328** |

### 4.3.4.2 Failure of a bank

Euler Hermes acts at different levels to limit the impact of failures of banks:

- selection of banks on the basis of their rating (rated A or higher);
- limits on the available cash held in bank accounts;
- increase in the number of banks with which companies deal.

In the event of the failure of a banking counterparty, all the Company's cash on the accounts held by the bank in question would be impaired.

### 4.3.4.3 Failure of a bond or equity counterparty

To limit the impact of failures of a bond or equity counterparty, Euler Hermes has a very strict investment policy by limiting the total investment in a same private issuer up to 5% of the total of the assets.

| | 12/31/2010 | | 12/31/2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| AAA | 1,679 | 68% | 1,411 | 65% |
| from AA+ to AA- | 367 | 15% | 499 | 23% |
| from A+ to A- | 363 | 15% | 261 | 12% |
| Others | 56 | 2% | 12 | 1% |
| **TOTAL** | **2,465** | **100%** | **2,183** | **100%** |

### 4.3.4.4 Failure of a policyholder

The Company has established procedures for the proactive management of funds held with policyholders, in particular to avoid a financial loss in the event of the default of a policyholder.

**MATURITY**

| | December 31st, 2010 | | | | |
|---|---|---|---|---|---|
| (in thousands) | < 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| Gross receivables | 368,530 | 2,040 | - | - | 370,570 |
| Reinsurers' share | 132,231 | 20 | - | - | 132,250 |
| Net receivables from guaranteed debtors | 88,513 | - | - | - | 88,513 |
| **TOTAL CREDIT INSURANCE RECEIVABLES** | **€589,273** | **€2,060** | **-** | **-** | **€591,333** |

The receivables are carefully taken care of and 99% of these receivables have a maturity below three months. Any outstanding receivable above six months is fully reserved.

## 4.3.5 OPERATIONAL RISKS

### 4.3.5.1 Risk related to the business

A risk related to the business can be defined as an inherent factor of any business and its preservation at a level sufficient to avoid impacts on earnings or capital. Credit insurance, involving insurance cover and the analysis of debtors' solvency, does not inherently amplify procyclical effects. However, economic crises can have direct effects by increasing claims, or indirect effects on the portfolio of policyholders. Indirect effects are seen in the increase of cancellations, which may stem from the Company or from the policyholder's declining revenues, which provide the foundations for the price of premiums. In periods marked by a surge in corporate failures, this risk can be limited by good management of insurance cover, but also by the price of premiums. This is how Euler Hermes has sought to contain the indirect impact in the current pFhase of the cycle. In difficult situations, such as the Baltic countries, Euler Hermes has significantly scaled down its operations to reduce risks related to the business, and potential future impacts are therefore very limited.

### 4.3.5.2 Legal risks

#### 4.3.5.2.1 Constraints relating to specific legislative and regulatory aspects bearing on insurance activities

The credit insurance business is subject to specific regulations in different countries. Changes to the laws and regulations governing the insurance business could significantly affect the conduct of operations and Euler Hermes' offer of insurance products.

Euler Hermes' subsidiaries are structured to comply with the regulations of the countries in which they are located. They apply the laws of their country of establishment and comply with administrative requirements or those set by local supervisory authorities, as well as specific prudential rules.

In addition, each entity has appointed a correspondent tasked with implementing the EU directive on data protection, and the Group has strengthened its control over the application of regulations by making a person within the Group responsible for this function, in conjunction with correspondents within each entity. The Group's international dimension exposes it to changes that must be managed with great responsiveness so as to reduce any possible adverse effects at all levels of the Group structure.

Furthermore, the insurance business has recently been the subject of new European regulations with significant implications for internal risk management at Group level. Following the Solvency I directive, which imposed a solvency margin determined on the basis of percentages of premiums and claims, the Directive of the European Parliament and Council no. 2009/138/EC dated November 25th, 2009, known as "Solvency II," requires insurers and reinsurers to measure their risks and ensure they have sufficient capital to cover them (Solvency Capital Requirement). Solvency II, which will become effective on January 1st, 2013, will be implemented either by applying a standard formula or by the use of an internal model. Euler Hermes is particularly active in implementing measures to comply with the requirements of this reform. The Group is currently developing its own internal model to be submitted for validation to France's Prudential Regulatory Authority ("ACP") and the German financial regulator ("BaFin"). It has also established a steering committee within its Group Risk Office. Lastly, the Group has undertaken the restructuring of its European units in order to streamline carrier risks into a single entity located in Belgium, with a view to maintaining its AA-rating from Standard & Poor's.

At the time of establishment of this document, Euler Hermes could not be certain of obtaining the validation of its internal model by the ACP or BaFin. Should its internal model not be approved, the need to apply the standard formula defined under the Solvency II directive could result in additional operating costs.

#### 4.3.5.2.2 Ongoing litigation and litigation risk

Euler Hermes SA is not involved in any judicial proceedings in any of the countries in which it operates.

However, certain Group subsidiaries are involved in various legal proceedings. Only disputes representing a threshold of materiality of more than €1 million will be discussed below.

**AMERICA**

In the United States, Euler Hermes' subsidiaries (Euler Hermes ACI and Euler Hermes UMA) are involved in five main disputes in the various states in which they operate. These disputes involve claims totaling roughly €8.8 million, which Euler Hermes is contesting.

In Canada, Euler Hermes ACI is facing claims in two disputes, for a total of roughly €3.8 million.

**EUROPE**

In Germany, Euler Hermes Kreditversicherungs-AG has been cited in two disputes, with claims totaling €2 million, for which reserves have been set aside. Euler Hermes' German subsidiary is facing demands for indemnification, including two that were lodged in the year ended December 31st, 2010, totaling €7.79 million and €2.2 million respectively, both of which have been fully provisioned.

In Switzerland, Euler Hermes KV Niederlassung in Zurich is facing demands for indemnification in two cases, totaling €9 million and €1.34 million respectively, provisioned in the amount of €3 million and €1.2 million respectively.

In Italy, SAFIM FACTOR (in liquidation) filed a claim for damages against Euler Hermes SIAC, the Italian subsidiary, on November 18th, 1996, alleging its partial responsibility in the financial difficulties that led to its liquidation. SAFIM FACTOR is claiming damages in the amount of €77,5 million. After a favorable ruling at the first trial on September 14th, 1999, followed by the July 21st, 2009 decision by an appeals court in Rome to order a retrial, a final decision is expected in the first half of 2011. Euler Hermes has undertaken a detailed review of this issue. It has accordingly reappraised, with the help of its legal advisors, the financial risks associated with this dispute. It set aside the sum of €24 million to cover this risk in 2010.

The unfavorable outcome of any pending or future litigation could have an adverse impact on Euler Hermes' business, financial position, consolidated net income, reputation or image. Euler Hermes carefully manages its relationships with external parties, and each entity has a local structure or the necessary legal means to take the appropriate action in the event of disputes.

There are no other governmental, judicial or arbitration proceedings, including any proceedings of which the Company is aware, either pending or threatened, which have had over the last 12 months or may in the future have a material impact on the financial position or profitability of the Company and/or Group.

### 4.3.5.3 Risk of rating downgrades

Ratings of capacity to settle claims or financial strength have increasingly become important elements in determining insurance companies' relative competitive positions. Rating agencies review their ratings and methodologies on an ongoing basis, and can revise their ratings at any time. Accordingly, our current ratings may vary. Amidst a financial crisis and given the deteriorating financial markets in recent months, some rating agencies have downgraded their outlook on the life insurance industry and have cut the ratings of an increasingly large number of companies. However, the Standard & Poor's AA- rating of Euler Hermes was not re-questioned by Standard & Poor's throughout the 2008-2009 financial crisis.

A ratings downgrade or the potential for one, and more importantly the loss of the AA rating, could have adverse effects on the Company, by (i) undermining its competitive position, (ii) preventing it from distributing new insurance policies, (iii) increasing the rate of redemption or termination of existing insurance policies, (iv) lifting the cost of reinsurance, (v) limiting its access to sources of financing and/or increasing the cost of such financing, (vi) imposing the need to provide additional guarantees for certain contracts, (vii) having an adverse impact on relations with creditors or trading counterparties and/or (viii) having a significantly adverse impact on public confidence. Any of these outcomes could have an adverse impact on Euler Hermes' operations, liquidity, consolidated net income, turnover and financial position.

### 4.3.5.4 Compliance risk

Compliance risk relates to the application of appropriate rules of behavior for a given period or situation. To deal with this risk, a Group Head of Compliance, working in conjunction with correspondents in every region, monitors compliance with rules governing ethics, fraud, money laundering and the observance of periods during which trading in Euler Hermes securities is suspended.

### 4.3.5.5 Environmental risk

The insurance business is inherently non-polluting. Moreover, no fact or information pertaining to this risk and liable to have a material impact on Euler Hermes' financial statements, results or business has been identified.

## 4.3.6 CAPITAL RISK

The Group Risk Office has undertaken, in coordination with the reference shareholder, the implementation of risk measures aimed at determining the amount of capital necessary to cover the Group's operations. These measures also form the basis of the calculation of economic value added, one of the performance indicators of each entity. EVA is a crucial instrument in the implementation of a risk strategy aimed at protecting the capital base, in the management of resource allocation and in the transfer of risk. It enables the Group Risk Office to compare the Company's needs with the available resources in order to offer management a base that defines available resources and to establish guidelines for the management of the credit insurance business, in addition to the necessary level of risk transfer and possible asset allocation.

The calculation of insurance risk is a prerequisite in defining an internal credit insurance model. It is the most difficult calculation to carry out because it must factor in all the parameters affecting contracts, debtors and risk transfers. The classification of debtors by rating, combined with a probability of default, provides a basis for complex processing aimed at simulating actual exposure to insurance risk cover derived from theoretical credit insurance cover.

Each entity regularly performs a detailed calculation of its own positions. Individual results are subsequently aggregated and modulated on the basis of the diversification effect (by entity and by risk category). The calculation of the capital necessary to cover quantifiable risks is based on an economic approach. The consistency of this model is expected to make it a key instrument in risk management. The model measures all aspects of credit insurance risk, and the comparison of results over time can ensure its validity and robustness.

The current approach is relatively conservative, both in defining the parameters used in the calculation method and in applying them. It is a genuine management system: it delivers information at the aggregate level to determine capital requirements by entity, as well as detailed information at the most granular level for risk-management purposes. It also provides the basis for developing models for calculating premiums and calculating quantitative limits applied to all risk categories. All Euler Hermes entities keep the Group Risk Office informed of their regulatory solvency position. Regulatory limits are well below the current capital of individual entities. If this were not the case, appropriate action, in terms of trading or capital, would be considered.

The new internal model currently in development aims to improve the approach used to date, which was inspired by Standard & Poor's methodology.

The model assigns risk factors to different balance sheet items. As such, portfolio securities are classified by rating, as well as exposure to reinsurers. Insurance and reserve risk is deduced by the direct application of factors to net amounts, after reinsurance, of net premiums and claim reserves respectively. Standard & Poor's updated the factors in 2007, increasing the weighting of credit insurance. While some assumptions may be questionable and involve a weighting that may be deemed excessive in the absence of an adjustment by an analyst, it nevertheless provides a basis for calculating the capital required to cover risks. Simulation was therefore carried out using this new model for 2009 and 2010 evidencing a slight increase of the capital risk of 2.6% compared to 2009.

The amounts needed to achieve an A rating, simulated on the basis of this method, are presented in the following table:

| **Capital Risk** (in € millions) | **2010** | **2009** |
|---|---|---|
| C1: Financial risks | 254 | 195 |
| C2: Counterparty risks | 56 | 109 |
| C4: Premium risks | 1,083 | 1,054 |
| C5: Reserve risks | 319 | 310 |
| **S&P RAC* SIMULATION** | **1,712** | **1,668** |

* *New S&P model simulation for an A rating.*

The model shows that Euler Hermes' risk capital requirements increase marginally compared with 2009. This simulation is based on an internal approach and adjustments potentially made by rating-agency analysts could alter the outcome slightly.

The Euler Hermes group is present in many countries, and each entity complies with local regulatory constraints. The consolidated amount resulting from local constraints is well below the amount of the Group's consolidated equity.

### Sensitivity tests

In addition to calculating the capital required to cover risk, the Group performs regular sensitivity tests to ensure the consistency of its protection and its sensitivity to scenarios involving heightened risk. The results are illustrative of the risk under consideration, but they also, like all simulations, have limits. The simulation is based on the situation at a given date, the year-end in the present case. As such, the results do not reflect the possibility that events could be managed gradually or ex-post. The lack of dynamic management precludes simulations of all but extreme cases, with no capacity to adapt positions or structures in the event of significant adverse change.

| Risk of shares and bonds in portfolio at 12/31/2010 (amounts in € millions) | Market value at December 31st 2010 | Impact of 100 basis point rate rise* | Impact of 10% fall in equity market | Market value at December 31st, 2009 | Impact of 100 basis point rate rise** | Impact of 10% fall in equity market |
|---|---|---|---|---|---|---|
| Bonds | 2,465 | (81.1) | 0.0 | 2,183 | (50.2) | 0.0 |
| Shares | 142 | 0.0 | (12.6) | 130 | 0.0 | (11.4) |
| **TOTAL** | **2,607** | | | **2,313** | | |

* *Average sensitivity 3%, calculated on the main subsidiaries representing over 99% of the bond portfolio at the end of 2010.*
** *Average sensitivity 3%, calculated on the main subsidiaries representing over 99% of the bond portfolio at the end of 2009.*

| Risk of shares in portfolio at 12/31/2010 (amounts in € millions) | Market value at 12/31/2010/ scenarios impact | Revaluation reserve/ shareholders' equity impact | Amortized cost/economic account impact |
|---|---|---|---|
| Total | 142 | 22 | 120 |
| Impact of 10% fall in equity markets | (13) | (13) | 0 |
| Impact of 30% fall in equity markets | (38) | (23) | (15) |

*Shareholders' equity impact does not take account of deferred taxes. Income statement impact is before tax.*

| (in € millions)) | Net income 2010 | Fall in premiums -10% | 10% rise in cost of claims in 2010 | Increase in management costs of 10% | Net income 2009 | Fall in premiums -10% | 10% rise in cost of claims in 2009 | Increase in management costs of 10% |
|---|---|---|---|---|---|---|---|---|
| **Variation in net income** | **294** | **(45)** | **(44)** | **(52)** | **19** | **(15)** | **(63)** | **(49)** |

*Assumption: Constant effective tax rate in 2010 and 2009.*

5

# CONSOLIDATED ACCOUNTS

Pursuant to Article 28-1 section 5 of (EC) Regulation 809/2004 of the European Commission of April 29th, 2004, the Group's consolidated financial statements for the year ending December 31st, 2009 (established in accordance with IFRS including comparative data for fiscal 2008 under the same standards) and for the year ending December 31st, 2008 (established in accordance with IFRS including comparative data for fiscal 2007 under the same standards) and the related report of the auditors are included by reference in this Reference Document. They appear in pages 77 to 181 of the reference document of the Company for 2009 financial year registered by the AMF on April 20th, 2010 under no. D 10-0293 and in pages 77 to 175 of the reference document of the Company for 2008 financial year registered by the AMF on April 20th, 2009 under no. D 09-0276.

# 5.1 Consolidated statement of financial position

| (in € thousands) | Notes | December 31st, 2010 | December 31st, 2009 |
|---|---|---|---|
| Goodwill | 3 | 107,713 | 103,582 |
| Other intangible assets | 4 | 65,554 | 90,752 |
| **Intangible assets** | | **173,267** | **194,334** |
| Investment property | 5 | 9,323 | 24,917 |
| Financial investments | 6 | 3,438,756 | 2,840,735 |
| Derivatives | | 5,099 | 4,313 |
| **Investments- insurance businesses** | | **3,453,178** | **2,869,965** |
| **Investments accounted for by the equity method** | **7** | **98,066** | **89,254** |
| **Share of assignees and reinsurers in the technical reserves and financial liabilities** | **18** | **500,364** | **517,581** |
| Operating property and other property and equipment | 8 | 151,262 | 158,319 |
| Acquisition costs capitalised | | 45,671 | 42,649 |
| Deferred tax assets | 9 | 43,209 | 42,938 |
| Inwards insurance and reinsurance receivables | 10 | 478,913 | 459,723 |
| Outwards reinsurance receivables | 10 | 112,420 | 114,795 |
| Corporation tax receivables | | 77,777 | 34,724 |
| Other receivables | 11 | 218,854 | 183,879 |
| **Other assets** | | **1,128,106** | **1,037,027** |
| Cash | 12 | 306,201 | 441,792 |
| **TOTAL ASSETS** | | **5,659,182** | **5,149,953** |
| Capital stock | | 14,433 | 14,426 |
| Additional paid-in capital | | 452,625 | 451,959 |
| Reserves | | 1,363,344 | 1,326,179 |
| Net income, group share | | 294,452 | 18,988 |
| Revaluation reserve | | 39,399 | 43,500 |
| Translation reserve | | (33,832) | (59,273) |
| **Shareholders' equity, group share** | | **2,130,421** | **1,795,779** |
| Minority interests | 14 | 18,015 | 20,698 |
| **Total shareholders' equity** | | **2,148,436** | **1,816,477** |
| **Provisions for risks and charges** | **15** | **230,187** | **165,035** |
| Bank borrowings | | 255,118 | 1,261 |
| Other borrowings | | 249,168 | 405,882 |
| **Borrowings** | **17** | **504,286** | **407,143** |
| Non-life technical reserves | 18 | 1,781,394 | 1,836,551 |
| **Liabilities related to contracts** | | **1,781,394** | **1,836,551** |
| Deferred tax liabilities | 9 | 365,633 | 326,055 |
| Inwards insurance and reinsurance liabilities | 19 | 194,625 | 208,197 |
| Outwards reinsurance liabilities | 19 | 172,356 | 170,400 |
| Corporation tax payables | | 14,612 | 38,298 |
| Other payables | 20 | 247,653 | 181,797 |
| **Other liabilities** | | **994,879** | **924,747** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **5,659,182** | **5,149,953** |

# 5.2 Consolidated income statement

| (in € thousands excepted for the earnings per share) | Notes | Year ended December 31st 2010 | Year ended December 31st 2009 | 4th Quarter ended December 31st 2010 | 4th Quarter ended December 31st 2009 |
|---|---|---|---|---|---|
| Premiums written | | 1,891,266 | 1,736,217 | 437,163 | 358,340 |
| Premiums refunded | | (120,885) | (63,079) | (25,031) | (17,724) |
| Change in unearned premiums | | 4,818 | 21,347 | 57,476 | 57,930 |
| **Earned premiums** | | **1,775,199** | **1,694,485** | **469,608** | **398,546** |
| Premium-related revenues | | 372,535 | 391,226 | 97,287 | 89,954 |
| **Turnover** | **21** | **2,147,734** | **2,085,711** | **566,895** | **488,500** |
| Investment income | | 93,356 | 96,976 | 24,663 | 23,203 |
| Investment management charges | | (7,813) | (10,341) | (1,843) | (3,265) |
| Net gain (loss) on sales of investments less impairment and depreciation writebacks | | 28,465 | 71,272 | (3,327) | 11,421 |
| Change in fair value of investments recognised at fair value through profit or loss | | 200 | 1,363 | 314 | 125 |
| Change in investment impairment provisions | | (3,982) | (1,335) | (1,255) | (22) |
| Net change in foreign currency | | 13,022 | (9,525) | 1,950 | (1,971) |
| **Net investment income** | **22** | **123,248** | **148,410** | **20,502** | **29,491** |
| **Insurance services expense** | | **(704,799)** | **(1,276,079)** | **(207,598)** | **(263,080)** |
| Outwards reinsurance income | | (635,385) | (583,325) | (166,274) | (153,827) |
| Outwards reinsurance expense | | 419,308 | 558,008 | 120,710 | 149,630 |
| **Net outwards reinsurance income or expense** | **21** | **(216,077)** | **(25,317)** | **(45,564)** | **(4,197)** |
| **Contract acquisition expense** | **24** | **(349,124)** | **(331,923)** | **(93,206)** | **(88,860)** |
| **Administration expense** | **24** | **(193,643)** | **(175,919)** | **(44,020)** | **(37,386)** |
| **Other ordinary operating income** | **25** | **28,021** | **13,703** | **13,731** | **4,630** |
| **Other ordinary operating expense** | **25** | **(363,487)** | **(354,959)** | **(97,467)** | **(93,326)** |
| **Ordinary operating income** | | **471,873** | **83,627** | **113,273** | **35,772** |
| **Other non ordinary operating income and expense** | | **(82,943)** | **(8,856)** | **(72,048)** | **(1,238)** |
| **Operating income** | **21** | **388,930** | **74,771** | **41,225** | **34,534** |
| Financing expense | | (13,572) | (10,013) | (4,639) | (2,344) |
| Income from companies accounted for by the equity method | 7 | 15,802 | 6,644 | 3,975 | 4,250 |
| Corporation tax | 26 | (93,377) | (48,261) | (1,167) | (16,913) |
| **Consolidated net income** | | **297,783** | **23,141** | **39,394** | **19,527** |
| **o/w** | | | | | |
| **Net income, Group share** | | **294,452** | **18,988** | **38,606** | **18,105** |
| Minority interests | | 3,331 | 4,153 | 788 | 1,422 |

| (in € thousands excepted for the earnings per share) | Notes | Year ended December 31st 2010 | Year ended December 31st 2009 | 4th Quarter ended December 31st 2010 | 4th Quarter ended December 31st 2009 |
|---|---|---|---|---|---|
| **Other comprehensive income elements** | | | | | |
| Change in fair market value of asset held for sale transfered through profits & losses (Gross amount) | | (9,292) | (39,876) | 2,560 | (2,126) |
| Change in fair market value of asset held for sale transfered through profits & losses (Tax amount) | | 2,718 | 10,682 | (709) | 160 |
| Change in fair market value of asset held for sale booked through equity (Gross amount) | | 3,196 | 31,339 | (35,409) | 2,420 |
| Change in fair market value of asset held for sale booked through equity (Tax amount) | | (1,250) | (7,442) | 10,190 | (117) |
| Change in fair market value of asset held for sale booked - minority interests share net of corporation tax | | (221) | (13) | (74) | 81 |
| Other change in fair market value of asset held for sale booked through equity | | (47) | (1,483) | 6 | (1,483) |
| Change in translation reserve (included impact on revaluation reserve) booked through equity (Gross amount) | | 41,925 | 22,493 | 13,692 | 14,249 |
| Change in translation reserve (included impact on revaluation reserve) booked through equity (Tax amount) | | (15,910) | (8,575) | (7,694) | (6,690) |
| **Total other comprehensive income net of taxes** | | **21,119** | **7,125** | **(17,438)** | **6,494** |
| **Total comprehensive income** | | **318,902** | **30,266** | **21,956** | **26,021** |
| Total comprehensive income, group share | | 315,792 | 26,126 | 21,242 | 24,703 |
| Total comprehensive income, minority interests | | 3,110 | 4,140 | 714 | 1,318 |
| **Earnings per share** | **27** | **6.74** | **0.43** | | |
| **Diluted earnings per share** | **27** | **6.73** | **0.43** | | |
| **Earnings per share of continuing activities** | | **6.74** | **0.43** | | |
| **Diluted earnings per share of continuing activities** | | **6.73** | **0.43** | | |

The other operational expenses recorded on December 31st, 2010 correspond to:

- the cost related to the implementation of the Excellence project for €72.5 million (*see Note 1 – significant events*);
- the cost of the plan of departure following the closing of the retail activity in Belgium for €10.4 million (*see Note 1 – significant events*).

# 5.3 Consolidated statement of cash flows

| (in € thousands) | Notes | Twelve months ended December 31st, 2010 | 2009 |
|---|---|---|---|
| **Net income, group share** | | **294,452** | **18,988** |
| Corporation tax | | 93,344 | 50,325 |
| Financing expense | | 13,572 | 10,199 |
| **Operating income before tax** | | **401,369** | **79,512** |
| Minority interests | | 3,331 | 4,153 |
| Allocation to and writebacks of depreciation, amortisation and reserves | | 165,451 | 59,092 |
| Change in technical reserves | | (62,695) | (128,480) |
| Change in deferred acquisition costs | | 9,071 | 10,659 |
| Change in fair value of financial instruments recognised at fair value through the income statement (excluding cash and cash equivalents) | | 61 | (1,067) |
| Realised capital gains/(losses) net of writebacks | | (32,681) | (70,832) |
| Unrealised foreign exchange gain (loss) in company accounts | | (14,630) | 13,087 |
| Revenues and expenses linked to stock options and similar | | 217 | 444 |
| Interest revenues received accrued | | (4,538) | (2,092) |
| **Adjustment for elements included in operating income that do not correspond to cash flows and reclassification of financing and investment flows** | | **63,586** | **(115,037)** |
| Income (loss) of companies accounted for by the equity method | | (15,802) | (6,645) |
| Dividends received from companies accounted for by the equity method | | 7,918 | 10,555 |
| Change in liabilities and receivables relating to insurance and reinsurance transactions | | (55,812) | 89,469 |
| Change in inventories | | - | - |
| Change in operating receivables and liabilities | | 42,673 | (32,793) |
| Change in other assets and liabilities | | (14,693) | (41,057) |
| Corporation tax | | (120,363) | (9,165) |
| **Cash flow related to operating activities** | | **(156,079)** | **10,364** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | **308,876** | **(25,161)** |
| Acquisitions of subsidiaries and joint ventures, net of acquired cash | | 1,791 | - |
| Disposals of subsidiaries and joint ventures, net of acquired cash | | - | - |
| Acquisitions of equity interests in companies accounted for by the equity method | | - | - |
| Cessions de participations dans des entreprises mises en équivalence | | - | - |
| Merger | | - | - |
| Others | | - | - |
| **Cash flow linked to changes in the consolidation scope** | | **1,791** | **-** |
| Disposals of AFS securities | | 910,403 | 1,254,064 |
| Matured HTM securities | | 595 | 5,297 |
| Disposals of investment properties | | 45,267 | 71,939 |
| Disposals of securities held for trading | | 1,882 | 172 |
| **Cash flow linked to disposals and redemptions of investments** | | **958,147** | **1,331,472** |
| Acquisitions of AFS securities | | (1,181,396) | (1,464,175) |
| Acquisitions of HTM securities | | - | - |
| Acquisitions of investment properties | | (3,825) | (1,318) |
| Acquisitions of trading securities | | (2,726) | (580) |
| **Cash flow linked to acquisitions of investments** | | **(1,187,947)** | **(1,466,073)** |
| Disposals of other investments and intangible assets | | 654,335 | 451,439 |
| Acquisitions of other investments and intangible assets | | (971,722) | (483,842) |
| **Cash flow linked to acquisitions and disposals of other investments and intangible assets** | | **(317,387)** | **(32,402)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | **(545,396)** | **(167,002)** |

| (in € thousands) | Notes | Twelve months ended December 31st, 2010 | 2009 |
|---|---|---|---|
| Increases and decreases in capital | | 3,952 | 12 |
| *Increases in capital* | | *3,822* | *(30)* |
| *Decreases in capital* | | *130* | *42* |
| Change in treasury stock | | 18,858 | (820) |
| Dividends paid | | (4,137) | (68,986) |
| **Cash flow linked to transactions with the shareholders** | | **18,673** | **(69,794)** |
| Change in non voting shares | | - | - |
| Changes in loans and subordinated securities | | 91,625 | 106,866 |
| *Issue* | | *251,018* | *246,278* |
| *Repayment* | | *(159,393)* | *(139,412)* |
| Interest paid | | (6,653) | (9,482) |
| **Cash flow from group financing** | | **84,971** | **97,384** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | **103,644** | **27,590** |
| Impact of foreign exchange differences on cash and cash equivalents | | 7,457 | (2,557) |
| Reclassification | | (10,172) | (3,750) |
| **OTHER NET CHANGES IN CASH** | | **(2,715)** | **(6,307)** |
| **Change in cash flows** | | **(135,591)** | **(170,881)** |
| **Change in cash and cash equivalents** | | **(135,591)** | **(170,881)** |
| **Cash and cash equivalents at begining of period** | **12** | **441,442** | **612,323** |
| **Cash and cash equivalents at end of period** | **12** | **305,851** | **441,442** |

The reclassification of €10 million mainly corresponds to certificates of deposit with maturity higher than 3 months wrongly recorded in equivalent of treasury at Euler Hermes SA openings.

In 2010, the decline of the claims (net claims ratio moved from 82.1% in 2009 to 42.1% in 2010) was translated in a strong increase of the operational cash. The cash flows from operating activities strongly progressed from €(25,161) thousand to €308,876 thousand.

On the portfolio, the investments have been concentrated on the bonds with intent to increase the return. In this perspective, the duration of the portfolio was stretched out and investments were diversified except for the sovereign debts in particular with the increase of the private secure bonds issues.

The renegotiation of loans at maturity date generated a debt consolidation on 5 and 10 years, with an increase of the long term debts of € 93,000 thousand to strengthen the short term financial resources of the Company.

The cash flows from financing activities reached € 103,644 thousand.

The cash position at the end of 2010 decreased from € 441,442 thousand in the opening balance to € 305,851 thousand in the closing. This reduction of the cash position is explained notably by the strong increase of flows resulting from investment activities for € 545,396 thousand.

# 5.4 Consolidated statement of changes in equity

## FOR THE YEAR 2010

| (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 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening Shareholders ' equity** | **14,426** | **451,959** | **1,430,684** | **43,500** | **(59,273)** | **(85,517)** | **1,795,779** | **20,698** | **1,816,477** |
| Available-for-sale assets (AFS) | - | - | - | - | - | - | | - | |
| Measurement gain / (loss) taken to shareholders' equity | - | - | - | 1,946 | - | - | 1,946 | (221) | 1,725 |
| Impact of transferring realised gains and losses to income statement | - | - | - | (6,574) | - | - | (6,574) | - | (6,574) |
| Other movements | - | - | - | (48) | - | - | (48) | - | (48) |
| 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 | - | - | - | 575 | 25,441 | - | 26,016 | - | 26,016 |
| Current and deferred tax taken directly to or transferred to shareholders' equity | - | - | - | - | - | - | - | - | - |
| **Net income recognised in shareholders' equity** | **-** | **-** | **-** | **(4,101)** | **25,441** | **-** | **21,340** | **(221)** | **21,119** |
| **Net income for the year** | **-** | **-** | **294,452** | **-** | **-** | **-** | **294,452** | **3,331** | **297,783** |
| **Total revenues and losses recognised for the period** | **-** | **-** | **294,452** | **(4,101)** | **25,441** | **-** | **315,792** | **3,110** | **318,902** |
| Capital movements | 7 | 666 | - | - | - | 18,858 | 19,531 | - | 19,531 |
| Dividend distributions | - | - | 6 | - | - | - | 6 | (4,143) | (4,137) |
| Shareholders' equity component of share-based payment plans | - | - | 217 | - | - | - | 217 | - | 217 |
| Cancellation of gains/losses on treasury shares | - | - | - | - | - | - | - | - | - |
| Other movements | - | - | (904) | - | - | - | (904) | (1,650) | (2,554) |
| **Closing shareholders ' equity** | **14,433** | **452,625** | **1,724,455** | **39,399** | **(33,832)** | **(66,659)** | **2,130,421** | **18,015** | **2,148,436** |

## 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening Shareholders ' equity** | **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 | - | - | - | - | - | - | - | - | - |
| **Net income recognised in shareholders' equity** | **-** | **-** | **-** | **(6,779)** | **13,918** | **-** | **7,138** | **(13)** | **7,125** |
| **Net income for the year** | **-** | **-** | **18,988** | **-** | **-** | **-** | **18,988** | **4,153** | **23,141** |
| **Total revenues and losses recognised for the period** | **-** | **-** | **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 |
| **Closing shareholders ' equity** | **14,426** | **451,959** | **1,430,684** | **43,500** | **(59,273)** | **(85,517)** | **1,795,779** | **20,698** | **1,816,477** |

At December 31st, 2010, the capital stock of Euler Hermes consisted of 45,102,732 fully paid-up shares. At the same date the Group holds 1,267,444 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 €(4101) thousand net of taxes.

Variances in translation differences during the year concerned mainly the US dollar (€13,470 thousand) and the British pound (€5,204 thousand).

19,522 new shares were created as a result of the exercise of stock options during 2010. Following these transactions, the additional paid-in capital of Euler Hermes SA increased by €666 thousand.

The variance of €217 thousand corresponds to an expense in respect of stock option plans in accordance with the application of IFRS 2.

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

# 5.5 Notes to the consolidated financial statements

## Detailed summary of the notes to the consolidated financial statements

## NOTE 1. SIGNIFICANT EVENTS

The following significant events occurred in the year 2010:

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

As at December 31st, 2010, the Allianz group owned 30,744,048 shares out of a total of 45,102,732 shares, corresponding to 68.16% of the share capital of Euler Hermes. Consequently, Euler Hermes is integrated into Allianz scope of consolidation.

During the year 2010, 19,522 new shares were created by the exercise of options. As at December 31st, 2010, Euler Hermes' share capital was composed of 45,102,732 shares, including 1,267,444 shares held in treasury stock.

### Evolution of the retention rate

The premium retention rate is the ratio of premiums after reinsurance to earned premiums before reinsurance. This rate decreases from 65.6% at end-December 2009 to 64.2% at end-December 2010. Earned premiums gross of reinsurance increased by 4.76% end-December 2009 compared to end-December 2010; the earned premiums net of reinsurance increased by 2.58% end-December 2009 compared to end-December 2010.

### Euler Hermes Credit Insurance Belgium's situation

On April, 15th 2010 the management of Euler Hermes Credit Insurance Belgium communicated its decision to liquidate its retail business. It implies the implementation of a restructuring plan. On September 30th, 2010 the negotiations between the direction of Euler Hermes Credit Insurance Belgium and the social partners have reached. A provision is booked of €10,4 million on September 2010.

On September, 3rd 2010 Euler Hermes Credit Insurance Belgium SA sold his building located 15 street Montoyer in Brussels to the Belgian real estate group Immobel for €12.1 million.

### "One Euler Hermes" go live

The Euler Hermes group announced the go live of "One Euler Hermes" from January 1st, 2010. It focuses on implementing the organisational changes needed to create a customer-oriented and even more efficient group.

This new organisation focused on six completely given responsibilities regions: Germany/Switzerland/Austria, Americas, Asia/Pacific, France, Northern Europe and Mediterranean Countries/Africa.

The main changes are the new Mediterranean Countries/Africa area which contents Greece, Spain & Morocco (previously the French International Development Center) and Italy and the Northern Europe area with United-Kingdom, Belgium, Netherlands, Sweden, Norway, Finland, Denmark & Poland.

The segment data had been modified in 2010 & 2009 in order to ensure the comparison between the two periods.

### "Excellence" project

In the economic environment with low current visibility, Euler Hermes has for objective to manage its activity in a most effective way. The Group launched in this perspective "Excellence", a program of transformation in three years to strengthen his long-term competitive advantage from the point of view of market and costs. On the market side, Euler Hermes wants to accelerate the growth through a world clientele segmentation and a model of service allowing to improve the satisfaction of the customers. On the costs side, Euler Hermes has for objective to build an effective world platform which allows providing with operational productivity gains thanks to harmonized processes and simplified legal structures. Euler Hermes opened discussions with the representatives of the worker councils to present in detail the program "Excellence". On December 31st, 2010 after discussion with the representatives of the worker councils, Euler Hermes recorded in its accounts a restructuring reserve for 56.6 million euro as well as a restructuring charge of 15.9 million euro.

### "Convergence" project

Euler Hermes group decided to launch in 2006 a new IT project in order to implement a group IT tool for claims handling and collection handling under the project name "Convergence". Target was to generate a common claims handling and collection handling tool for all Euler Hermes entities with full roll-out beginning of 2011.

At this stage, only Euler Hermes Germany is using the system. A detailed technical audit of the project in April 2010 has identified that EH would have to increase the investment envelop quite significantly in order to allow a roll out to the other Euler Hermes entities.

Therefore Euler Hermes Management has decided to freeze the project and has requested an impairment test on this project in order to determine its actual net present value.

This test has lead Euler Hermes Management Board to do partial write down of the project of €13,4 million in order to adjust the net book value of the IT tool to its net present value.

## NOTE 2. IFRS ACCOUNTING AND VALUATION RULES

Euler Hermes SA is a company domiciled in France. The headquarter of Euler Hermes SA is located 1 rue Euler 75008 Paris. The consolidated financial statements as at December 31st, 2010 include Euler Hermes SA and its subsidiaries (the whole designated as "the Group" and each subsidiary individually as "the entities of the Group") and the quota-share of the Group in its associated companies or joint ventures.

Euler Hermes SA is registered at the Register of Commerce and Companies under number 552 040 594.

The financial statements of the Euler Hermes group as at December 31st, 2010 were approved by the Board of Director's of February 14th, 2011 and presented to the Supervisory Board of February 15th, 2011. They will be submitted for validation to the Shareholders' General Meeting of May 20th, 2011.

### 2.1. General Principles

In accordance with European regulation no. 1606/2002 of July 19th, 2002, the interim consolidated financial statements published at December 31st, 2010 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 31st, 2010 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.

As at December 31st, 2010, Euler Hermes didn't apply the following standards and interpretations published by IASB that are not mandatory as at January 1st, 2010:

- IFRS 1 update - limited exemption from comparative IFRS 7 disclosures;
- IAS 32 update – Classification of the emitted application rights;
- IAS 24 revised – Related parties;
- IFRS 7 update – Information to provide in transfers of financial assets;
- IFRIC 19 –Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 update – Prepayments of a Minimum Funding Requirement.

Euler Hermes group has applied as at January 1st, 2010 the following standards and updates:

- IAS 27 update – Business combination;
- IFRS 2 update – Intercompanies 'transactions settled in treasury.

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

- IFRS 1 revised – First-time adoption of IFRS;
- IFRS 3 update – Business combination;
- IAS 39 – Financial instruments – Hedge accounting recognition;
- IFRS 1 update – Limited exemption from comparative IFRS 7 disclosures.

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.

#### IAS 8 § 5 Accounting policies, changes in accounting estimates and errors related to change in presentation of segment data

The standard mentions "Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements". The new organisation of the Group related to One Euler Hermes go live modified the 2009 segment data and it has been updated to be compared to the new geographical segments.

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.

### 2.2 Consolidation scope

Euler Hermes has announced the start up of a new subsidiary in Chile during the third quarter.

On December 22nd, 2010 Euler Hermes liquidated its Codinf Service Direct subsidiary.

## 2.3 List of consolidated companies

| French companies | Consolidation method | December 31st, 2010 % control | December 31st, 2010 % interest | December 31st, 2009 % control | December 31st, 2009 % interest |
|---|---|---|---|---|---|
| **Euler Hermes SA** [(1)]<br>1, rue Euler - 75008 Paris<br>No. Siren: 552 040 594 | Held by Allianz SA: 68,16% | Parent company | | Parent company | |
| **Bilan Services SNC**<br>25, boulevard des Bouvets - 92000 Nanterre<br>No. Siren: 333 192 631 | Full | 50.00 | 50.00 | 50.00 | 50.00 |
| **Euler Hermes SFAC Asset Management SA**<br>1, rue Euler - 75008 Paris<br>No. Siren: 422 728 956 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services SAS**<br>1, rue Euler - 75008 Paris<br>No. Siren: 414 960 377 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes SFAC SA**<br>1-3-5 rue Euler - 75008 Paris<br>No. Siren: 348 920 596 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes SFAC Credit SAS**<br>1, rue Euler - 75008 Paris<br>No. Siren: 388 236 853 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes SFAC Recouvrement SAS**<br>1, rue Euler - 75008 Paris<br>No. Siren: 388 238 026 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Tech SAS**<br>1, rue Euler - 75008 Paris<br>No. Siren: 388 237 091 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euro Gestion**<br>1, rue Euler - 75008 Paris<br>FR0007047568 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Gestion**<br>1, rue Euler - 75008 Paris<br>FR0007434980 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes World Agency**<br>8 Rue Euler - 75008 Paris<br>No Siren: 487 550 907 | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Gie Euler Hermes SFAC Services**<br>1 rue Euler 75008 Paris<br>No. Siren: 393 302 708 | Full | 100.00 | 100.00 | 100.00 | 100.00 |

*(1) Proportion held is based on a total of 45,102,732 shares (before restatement of treasury shares).*

| Foreign companies | Country | Consolidation method | December 31st, 2010 % control | December 31st, 2010 % interest | December 31st, 2009 % control | December 31st, 2009 % interest |
|---|---|---|---|---|---|---|
| **Bürgel Wirtschaftsinformationen GmbH & Co. KG**<br>Gasstr.18 - D-22761 Hambourg | Germany | Full | 50.10 | 50.10 | 50.10 | 50.10 |
| **Bürgel Wirtschaftsinformationen Verwaltungs-GmbH**<br>Gasstr.18 - D-22761 Hambourg | Germany | Full | 50.40 | 50.40 | 50.40 | 50.40 |
| **Euler Hermes Forderungsmanagement GmbH**<br>Friedensallee 254 - Hambourg | Germany | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Rating GmbH**<br>Friedensallee 254 - Hambourg | Germany | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Collections GmbH**<br>Zeppelin Str. 48 - DE-14471 - Potsdam | Germany | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Kreditversicherungs AG**<br>Friedensallee 254 - Hambourg | Germany | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Argentina**<br>San Martin 550- C1004AAL Buenos Aires | Argentina | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Trade Credit Underwriting Agents**<br>Level 14, 2 Market Street Sydney NSW 2000 Australia | Australia | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Prisma Kreditversicherungs AG**<br>Himmelpfortgasse 29 - 1010 Vienne | Austria | Equity | 49.00 | 49.00 | 49.00 | 49.00 |
| **OeKB EH Beteiligungs- u. Manag**<br>Strauchgasse 1-3 - 1011 - Vienne | Austria | Equity | 49.00 | 49.00 | 49.00 | 49.00 |
| **Euler Hermes Credit Insurance Belgium SA (NV)**<br>15, rue Montoyer - 1000 Bruxelles - RC Bruxelles: 31 955 | Belgium | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services Belgium SA (NV)**<br>15, rue Montoyer - 1000 Bruxelles - RC Bruxelles: 45 8033 | Belgium | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Graydon Belgium (NV)**<br>Uibreidingstraat 84 Bus 1 - 2500 Berchem | Belgium | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Euler Hermes Seguros de Crédito SA**<br>Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo | Brasil | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Serviços Ltda**<br>Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo | Brasil | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Do Brasil Exportaçao**<br>Alameda Santos 2335 Conj. 51 - Cerqueira César 01419-002 - São Paulo | Brasil | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Canada Services**<br>1155, René-Lévesque Blvd West, suite 1702 - Montréal H3B 3Z7 | Canada | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Information Consulting (Shanghai) Co. Ltd**<br>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 |
| **Euler Hermes Seguros de Crédito SA**<br>Avda. Presidente Kennedy 5735, of. 801, Torre Poniente - Las Condes, Santiago | Chile | Full | 100.00 | 100.00 | 0.00 | 0.00 |
| **Euler Hermes Chile Servicios Limitada**<br>Avda. Presidente Kennedy 5735, of. 801, Torre Poniente - Las Condes, Santiago | Chile | Full | 100.00 | 100.00 | 0.00 | 0.00 |
| **Euler Hermes Colombie**<br>Carrera 13A no. 29–24, Torre Colseguros - Bogota | Colombia | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Crédito Sucursal en Espana de EH SFAC SA**<br>Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid | Spain | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Servicios de Credito SL**<br>Paseo de la Castellana, 95 - Edificio Torre Europa - Planta 14 - 28046 Madrid | Spain | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services Estonia OÜ**<br>Pirita tee 20, T-building, 10127 - Tallinn, Estonia | Estonia | 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.*

| Foreign companies | Country | Consolidation method | December 31st, 2010 % control | December 31st, 2010 % interest | December 31st, 2009 % control | December 31st, 2009 % interest |
|---|---|---|---|---|---|---|
| **Euler Hermes ACI Inc.**<br>800, Red Brook Boulevard - Owings Mills, MD 21117 | United States | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes ACI Holding Inc.**<br>800, Red Brook Boulevard - Owings Mills, MD 21117 | United States | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes ACI Services, LLC**<br>800, Red Brook Boulevard - Owings Mills, MD 21117 | United States | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes UMA**<br>600 South 7th Street – Louisville, LA 4020 | United States | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Emporiki SA**<br>16 Laodikias & 1-3 Nymfeou Str, GR 115 28 Athens, Greece | Greece | Full | 60.00 | 60.00 | 60.00 | 60.00 |
| **Euler Hermes Emporiki Services Limited**<br>16 Laodikias & 1-3 Nymfeou Str, GR 115 28 Athens, Greece | Greece | Full | 60.00 | 60.00 | 60.00 | 60.00 |
| **Euler Hermes Credit Underwriters Hong Kong Ltd**<br>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 |
| **Euler Hermes Services (HK) Ltd**<br>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 |
| **Euler Hermes Magyar Követeléskezelö Kft**<br>Kiscelli u.104 - 1037 Budapest | Hungary | Full | 74.90 | 74.90 | 74.90 | 74.90 |
| **Euler Hermes Magyar Hitelbiztosító Rt**<br>Kiscelli u.104 - 1037 Budapest | Hungary | Full | 74.89 | 74.89 | 74.89 | 74.89 |
| **Euler Hermes Services India Private Limited**<br>4th Floor, Voltas House - 23, J N Heredia Marg - Ballard Estate - Mumbai 400 001 | India | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Credit Management Service Ireland Ltd**<br>The Arch, Blackrock Business Park, Craysfort Avenue, Blackrock, Co Dublin, Republic of Ireland | Ireland | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Israël Credit Insurance Company Ltd (ICIC)**<br>2, Shenkar Street - 68010 Israël - Tel Aviv | Israel | Equity | 33.33 | 33.33 | 33.33 | 33.33 |
| **Euler Hermes SIAC**<br>Via Raffaello Matarazzo - 00139 Rome | Italy | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes SIAC Services SRL**<br>Via Raffaello Matarazzo - 00139 Rome | Italy | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Logica Sofware SRL**<br>Via Borsellino - Reggio Emilia | Italy | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Credit Services (Japan) Ltd**<br>08-07, Kyobashi 1-chome, Chuo-Ku - Tokyo | Japan | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services Latvija SIA**<br>Cesu 31/8, LV-1012 Riga | Latvia | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **UAB Euler Hermes Services Baltic**<br>Konstitucijos ave 7, Vilnius - Lithuania | Lituanie | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Ré**<br>19, rue de Bitbourg - L-2015 Luxembourg | Luxembourg | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Acmar**<br>37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca | Morocco | Full | 55.00 | 55.00 | 55.00 | 55.00 |
| **Euler Hermes Acmar Services**<br>37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca | Morocco | Full | 55.00 | 55.00 | 55.00 | 55.00 |
| **Euler Hermes Seguro de Crédito SA**<br>Blvd Manuel Avila Camacho #164, 8° piso - Col. Lomas de Barrilaco - Mexico, DF CP 11010 | Mexico | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Servicios SA**<br>Blvd Manuel Avila Camacho #164, 8° piso - Col. Lomas de Barrilaco - Mexico, DF CP 11010 | Mexico | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Trade Credit Ltd Lumley Centre**<br>Level 1, 152 Fanshawe Street, Auckland 1010 | New Zealand | 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.*

| Foreign companies | Country | Consolidation method | December 31st, 2010 % control | December 31st, 2010 % interest | December 31st, 2009 % control | December 31st, 2009 % interest |
|---|---|---|---|---|---|---|
| **Euler Hermes Interborg NV**<br>Hoogoorddreef 5 - Postbus/ PO 1100 AL Amsterdam | Netherlands | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Kredietverzekering NV**<br>Pettelaarpark 20 - Postbus 70571 - NL-5201 CZ's-Hertogenbosch | Netherlands | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services BV**<br>Pettelaarpark 20 - Postbus 70571 - NL-5201 CZ's-Hertogenbosch | Netherlands | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Graydon Creditfink BV**<br>Hullenbergweg 260 - 1101 B.V. Amsterdam | Netherlands | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Graydon Holding NV**<br>Hullenbergweg 260 - 1101 B.V. Amsterdam | Netherlands | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Graydon Nederland BV**<br>Hullenbergweg 260 - 1101 B.V. Amsterdam | Netherlands | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Kisys Krediet Informatie Systemen BV**<br>Hullenbergweg 270 - 1101 B.V. Amsterdam | Netherlands | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **MarkSelect BV**<br>Diemerhof 26 - Postbus 22969 - 1100 DL Amsterdam | Netherlands | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Interpolis Kredietverzekeringen NV**<br>Pettelaarpark 20 - 5216 PD's Hertogenbosch | Netherlands | Proportional | 45.00 | 45.00 | 45.00 | 45.00 |
| **Euler Hermes Collections Sp. z o.o.**<br>ul. Domaniewska 50B, 02-672 Warsaw | Poland | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Towarzystwo Ubezpieczen Euler Hermes SA**<br>ul. Domaniewska 50B, 02-672 Warsaw | Poland | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes, Mierzejewska-Kancelaria Prawna Sp.k**<br>ul. Domaniewska 50B, 02-672 Warsaw | Poland | Full | 99.98 | 99.98 | 99.98 | 99.98 |
| **Euler Hermes Services Sp. z.o.o.**<br>ul. Domaniewska 50B, 02-672 Warsaw | Poland | Full | 100.00 | 100.00 | 0.00 | 0.00 |
| **Companhia de Seguro de Creditos SA (COSEC)**<br>Avenida de Republica, no. 58 - 1069-057 Lisboa | Portugal | Equity | 50.00 | 50.00 | 50.00 | 50.00 |
| **Euler Hermes Cescob, uverova pojist'ovna, a.s.**<br>Molakova 576/11, 186 00 Pragues 8 | Czech Republic | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Cescob Service, s.r.o.**<br>Molakova 576/11, 186 00 Prague 8 | Czech Republic | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Servicii Financiare SRL**<br>6 Petru Maior street, Bucharest 011264 | Romania | Full | 79.92 | 79.92 | 79.92 | 79.92 |
| **OOO Euler Hermes Credit Management**<br>ul. Krymskij Val 3, Building 3, 2, Office 210 - 119049 - Moscow | Russia | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes UK PLC**<br>01, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Collections UK Ltd**<br>01, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Guarantee PLC**<br>Surety House, Lyons Crescent - Tonbridge Kent TN9 1EN | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Holdings UK PLC**<br>01, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Risk Services UK Ltd**<br>01, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes International Ltd**<br>01, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Management Services UK Ltd**<br>1, Canada Square - London E14 5DX | United Kingdom | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Graydon UK Limited**<br>Hyde House, Edgware road - Colindale - Londres NW9 6LW | United Kingdom | Equity | 27.50 | 27.50 | 27.50 | 27.50 |
| **Euler Hermes Credit Insurance Agency (S) Pte. Ltd**<br>3 Temasek Avenue - # 08-01 Centennial Tower - Singapore 039130 | Singapore | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Serwis SRO Bratislava**<br>Plynarenska 4659/1 821 09 Bratislava, Slovakia | Slovakia | 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.*

| Foreign companies | Country | Consolidation method | December 31st, 2010 % control | December 31st, 2010 % interest | December 31st, 2009 % control | December 31st, 2009 % interest |
|---|---|---|---|---|---|---|
| **Euler Hermes Credit Insurance Nordic AB**<br>Klara Norra Kyrkogata 29 - SE 101 34 Stockholm | Sweden | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Service AB**<br>Klara Norra Kyrkogata 29 - SE 101 34 Stockholm | Sweden | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Services AG**<br>Tödistrasse 65 - 8002 Zurich | Switzerland | Full | 99.50 | 99.50 | 99.50 | 99.50 |
| **Euler Hermes Reinsurance AG**<br>Tödistrasse 65 - 8002 Zurich | Switzerland | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Risk Yönetimi**<br>Dereboyu Sokak, Sun Plaza, Plaza Cubes, Maslak - 34398 Istanbul | Turkey | Full | 100.00 | 100.00 | 100.00 | 100.00 |
| **Euler Hermes Sigorta Anonim Sirketi**<br>Dereboyou Sokak - Sun Plaza, Floor 13, Plaza Cubes, Off. No. 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.

Changes in the participation of a parent company in a subsidiary which don't lead to a loss of control are accounted for like transactions on equity.

### Subsidiaries

Subsidiaries are entities that are controlled by Euler Hermes. Control is the power 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 its 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 investor doesn't record his quota-share in the futures losses anymore.

When the quota-share of the investor is equal to zero, the additional losses generate a provision, and a liability is accounted for, only if the investor is submitted to legal or implicit obligation or made payments on behalf of the Company. 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:

- OeKB EH Beteiligungs- und Managment AG;
- Graydon Holding N.V;
- Companhia de Seguro de Creditos SA (COSEC);
- Israel Credit Insurance Company Ltd (ICIC).

### 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).<br>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 15 | Provisions for risks and charges | Provisions for risks and charges are measured in accordance with IAS 37 and are reviewed and adjusted at each balance sheet date to reflect the best estimate at this date. |
| 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.<br>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:<br>The claims which occurred before the closing and will be known only on the next period.<br>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.<br>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. |

| | Estimate | Communicated Information |
|---|---|---|
| Note 16 | 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 32 | 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. |

## 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:

| | December 31st, 2010 | | December 31st, 2009 | |
|---|---|---|---|---|
| (in euro vs currency) | closing | average | closing | average |
| Pound sterling | 0.8608 | 0.8560 | 0.8881 | 0.8900 |
| US dollar | 1.3362 | 1.3207 | 1.4406 | 1.3963 |
| Swedish krona | 8.9655 | 9.4926 | 10.2520 | 10.5875 |
| Brazilian real | 2.2177 | 2.3234 | 2.5113 | 2.7642 |
| Hong Kong dollar | 10.3856 | 10.2611 | 11.1709 | 10.8234 |
| Swiss franc | 1.2504 | 1.3700 | 1.4836 | 1.5076 |
| Polish Złoty | 3.9750 | 4.0049 | 4.1045 | 4.3469 |

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

For business combinations made prior to March 31st, 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 January 1st, 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 3 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 has to be identifiable, controlled and provider of future economical benefits.

An asset complies with the criteria of identification in the definition of intangible assets when 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).

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.

The calculation parameters adopted as at December 31st 2010 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. Goodwill 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.

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

Properties are valued periodically by independent experts. The fair value of buildings is estimated based on market prices, adjusted, where applicable, to take into account the nature, location or other specific features of the building concerned. The fair value is presented in the Note 5. Investment and operating property.

### 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/fittings | 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:

#### 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 (Not cumulative criterion):

- at the closing date 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;
- 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, impairment is accounted through net income only in case of a recognized 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

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 32 – 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

These headings essentially comprise 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 movement in acquisition costs capitalised is included in acquisition expense reported in the income statement.

## 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.

## 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:

- 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.

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 1st, 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

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:

- 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 18th, 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 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, 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) or late claims.

#### 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 based in particular on the level of claims observed during prior years and on the analysis of the development of the recent level of claims.

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 recognized in liabilities arising on assigned reinsurance transactions. Receivables due from reinsurers are subject to impairment write-downs only if an event with an assessable impact occurs and if the ceded company will not receive all amounts due at the end of the contract.

## 2.24 Borrowings

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

The measurement and recognition of borrowings are defined by IAS 39. With the exception of derivatives (see § *2.14.Financial instruments - Derivatives*), borrowings and other financial liabilities are recognised originally 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. 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 form 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 collections.

The recognition principles applied to these items are those set out in IFRS 4 and are described in section 2.23. 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.

| | December 31st, 2010 | | | | | | | December 31st, 2009 |
|---|---|---|---|---|---|---|---|---|
| (in € thousands) | France | Italy | United Kingdom | United States | Benelux countries | Other | Total | Total |
| **Opening balance** | | | | | | | | |
| 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) |
| **Net carrying amount** | **393** | **5,820** | **51,651** | **29,431** | **8,242** | **8,045** | **103,582** | **102,678** |
| **Change during the year** | | | | | | | | |
| Openning net carrying amount | 393 | 5,820 | 51,651 | 29,431 | 8,242 | 8,045 | 103,582 | 102,678 |
| Changes in gross value | - | - | - | - | - | - | - | - |
| Outgoing entities & Held for sale transfer | (393) | - | - | - | - | - | (393) | - |
| Other changes | - | - | - | - | - | - | - | - |
| Reclassifications | - | - | - | - | - | - | - | - |
| Changes in foreign currency translation adjustments | - | - | 1,641 | 2,300 | - | 583 | 4,524 | 3,103 |
| Impairment losses | - | - | - | - | - | - | - | (2,199) |
| **Closing net carrying amount** | **-** | **5,820** | **53,292** | **31,731** | **8,242** | **8,628** | **107,713** | **103,582** |
| **Closing Balance** | | | | | | | | |
| Gross value | - | 6,229 | 63,890 | 31,731 | 8,242 | 8,628 | 118,720 | 114,262 |
| Impairment losses | - | (409) | (10,598) | - | - | - | (11,007) | (10,680) |
| **Net carrying amount** | **-** | **5,820** | **53,292** | **31,731** | **8,242** | **8,628** | **107,713** | **103,582** |

The changes in geographical organisation which modified the segment data didn't impact the level of impairment tests.

In accordance with IFRS 3, Euler Hermes did an impairment test of the goodwill comparing the value in use of the cash generated units (CGU) included goodwill and the book value (contribution of group consolidated net asset included goodwill).

The value in use is the actual value of future cash flows as presented in the business plan of the concerned entity.

The main hypothesis for the calculation of the value in use is the perpetuity growth rate defined by CGU. The model is build on 3 years forecast elaborated by the management with a final year build on combined ratio and target retention rate. Moreover, since the creation of an internal reinsurance entity, the scope of CGU is larger in order to add the reinsurance flows to the captive and so its contribution of group consolidated net asset.

For each CGU, an average value in use is calculated on the perpetuity growth rate.

## Results of impairments tests

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

| | United States | Italy | United Kingdom | Belgium | Netherlands | Germany |
|---|---|---|---|---|---|---|
| Parameters | | | | | | |
| Cost of capital (net of tax) | 8.36% | 9.69% | 8.58% | 9.03% | 8.25% | 8.04% |
| *of which, risk-free rate* | *3.32%* | *4.65%* | *3.54%* | *3.99%* | *3.21%* | *3.00%* |
| *of which, risk premium (bêta = 1.008)* | *5.04%* | *5.04%* | *5.04%* | *5.04%* | *5.04%* | *5.04%* |
| Effective tax rate | 35.0% | 48.0% | 28.0% | 33.0% | 25.5% | 31.0% |
| Normalised return on financial portfolio | 2.48% | 4.08% | 2.64% | 3.37% | 2.34% | 2.22% |
| Net combined ratio | 85.0% | 83.0% | 87.0% | 80.0% | 80.0% | 80.0% |
| Target retention rate | 30.0% | 30.0% | 30.0% | 40.0% | 30.0% | 35.0% |
| Long-term growth | 2.0% | 1.5% | 2.0% | 1.5% | 1.3% | 1.5% |
| Long-term growth (upper and lower assumptions) | 1.5% 2.5% | 0.5% 2.5% | 1.5% 2.5% | 0.5% 2.5% | 0.8% 1.8% | 1.0% 2.0% |
| Average value in use (in thousands of euros) | 398,403 | 250,620 | 270,966 | 139,671 | 68,175 | 1,206,506 |
| Contribution of group consolidated net asset | 248,797 | 116,049 | 256,354 | 82,331 | 39,185 | 944,181 |
| Amount of the utility value the contribution of grup net asset | 149,606 | 134,571 | 14,612 | 57,340 | 28,990 | 262,325 |

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

| | United States | Italy | United Kingdom | Belgium | Netherlands | Germany |
|---|---|---|---|---|---|---|
| Hypothesis - value in use = book value | | | | | | |
| Long-term growth | -2.88% | -11.70% | 1.58% | -5.48% | -5.69% | -0.71% |

## Sensibility analysis in plausible valorisation

The values in use of Euler Hermes ACI Inc. range from €371,998 thousand to €424,807 thousand, corresponding to an assumed long-term growth rates ranging from 1.5% to 2.5%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes SIAC range from €224,201 thousand to €277,039 thousand, corresponding to assumed long-term growth rates ranging from 0.5% to 2.5%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes UK Plc. range from €253,004 thousand to €288,928 thousand, corresponding to assumed long-term growth rates ranging from 1.5% to 2.5%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes Belgium range from €124,333 thousand to €155,009 thousand, corresponding to assumed long-term growth rates ranging from 0.5% to 2.5%. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes Netherlands Inc. range from €64,032 thousand to €72,319 thousand, corresponding to an assumed long-term growth rates ranging from 0.8% to 1.8% respectively. These valuations support the fact that no complementary goodwill impairment is recognised.

The values in use of Euler Hermes Germany range from €1,127,711 thousand to €1,285,300 thousand, corresponding to an assumed long-term growth rates ranging from 1% to 2% respectively. These valuations support the fact that no complementary goodwill impairment is recognised.

For the Euler Hermes group, an impairment would have to be booked for a long term growth that would be lower than -3.4%.

## NOTE 4. OTHER INTANGIBLE ASSETS AND CONTRACTS PORTFOLIO

| (in € thousands) | December 31st, 2010 | | | | December 31st, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Contract porfolio | IT development and software | Other intangible assets | TOTAL | Contract porfolio | IT development and software | Other intangible assets | TOTAL |
| **Balance as opening period** | | | | | | | | |
| Gross value | 4,635 | 155,049 | 22,850 | 182,534 | 4,506 | 132,936 | 19,463 | 156,905 |
| Amortisation | (3,709) | (74,816) | (13,257) | (91,782) | (3,102) | (57,311) | (13,255) | (73,668) |
| Impairment | - | - | - | - | - | - | - | - |
| **Net carrying amount** | **926** | **80,233** | **9,593** | **90,752** | **1,404** | **75,625** | **6,208** | **83,237** |
| **Change during the year** | | | | | | | | |
| **Net carrying amount as opening period** | **926** | **80,233** | **9,593** | **90,752** | **1,404** | **75,625** | **6,208** | **83,237** |
| Acquisitions | (625) | 24,155 | 2,320 | 25,850 | - | 31,010 | 5,176 | 36,186 |
| Expenses capitalised | - | - | - | - | - | - | - | - |
| Changes in consolidation scope | - | - | (2) | (2) | - | - | - | - |
| Disposals | - | (3,250) | (62) | (3,312) | - | (9,015) | (68) | (9,083) |
| Reclassifications | 33 | (2) | - | 31 | - | 843 | (772) | 71 |
| Foreign exchange differences | 43 | 441 | (3) | 481 | 111 | 268 | 4 | 383 |
| Net amortisation | (709) | (25,712) | (907) | (27,328) | (589) | (18,497) | (919) | (20,005) |
| Net provisions for impairment | - | (20,931) | - | (20,931) | - | (1) | (36) | (37) |
| Other changes | 14 | (1) | - | 13 | - | - | - | - |
| **Net carrying amount as closing period** | **(318)** | **54,933** | **10,939** | **65,554** | **926** | **80,233** | **9,593** | **90,752** |
| **Balance as closing period** | | | | | | | | |
| Gross value | 4,127 | 176,658 | 25,005 | 205,790 | 4,635 | 155,049 | 22,850 | 182,534 |
| Amortisation | (4,445) | (121,725) | (14,066) | (140,236) | (3,709) | (74,816) | (13,257) | (91,782) |
| Impairment | - | - | - | - | - | - | - | - |
| **Net carrying amount** | **(318)** | **54,933** | **10,939** | **65,554** | **926** | **80,233** | **9,593** | **90,752** |

The increase of IT development and software mainly results from the applications developed by the Group (IRP, Collection…).

The nets provisions of impairment mainly include a €13.4 million depreciation accounted on the segment Germany, Austria and Switzerland and linked to the impairment of the IT project Convergence (*cf. Note 1. Significant events*).

The net impairment for complementary losses of 6.6 million euro corresponds to the depreciation of the accounting tool FIT+1 in Great Britain, Belgium, Netherlands and Italy due to the decision of the Group to abandon this tool at the end of the year 2011 in the context of the reorganization of the group.

## NOTE 5. INVESTMENT AND OPERATING PROPERTY

| (in € thousands) | December 31st, 2010 Investment property | December 31st, 2010 Operating property | December 31st, 2009 Investment property | December 31st, 2009 Operating property |
|---|---|---|---|---|
| **Balance as opening period** | | | | |
| Gross value | 35,663 | 185,370 | 91,071 | 195,192 |
| Depreciation | (10,746) | (48,801) | (19,237) | (61,878) |
| Impairment losses | - | (6,797) | - | (554) |
| **Net carrying amount** | **24,917** | **129,772** | **71,834** | **132,760** |
| **Change during the year** | | | | |
| Net carrying amount as opening period | 24,917 | 129,772 | 71,834 | 132,760 |
| Acquisitions | - | 3,825 | - | 1,318 |
| Change in consolidation scope | - | - | - | - |
| Disposals | (16,958) | (4,074) | (45,423) | (73) |
| Reclassifications | 1,621 | 1,891 | - | (169) |
| Changes in foreign currency translation adjustments | - | 109 | - | (54) |
| Net depreciation | (257) | (4,323) | (1,494) | (4,010) |
| Net provisions for impairment | - | - | - | - |
| Other changes | - | - | - | - |
| **Net carrying amount at the end of the period** | **9,323** | **127,200** | **24,917** | **129,772** |
| **Balance at the end of the period** | | | | |
| Gross value | 13,232 | 184,231 | 35,663 | 185,370 |
| Depreciation | (3,909) | (50,234) | (10,746) | (48,801) |
| Impairment losses | - | (6,797) | - | (6,797) |
| **Net carrying amount** | **9,323** | **127,200** | **24,917** | **129,772** |
| **Fair value** | **23,070** | **227,650** | **57,391** | **221,122** |

| Amounts recorded in the income statement | Twelve months ended December 31st | |
|---|---|---|
| **Investment property** | **2010** | **2009** |
| Rental revenues from investment property | 1,683 | 5,741 |
| Direct operating expenses relating to property | (290) | (1,812) |

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 for December 31st, 2009:

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

As at December 31st, 2010, disposals in investment property concern sales realized by:

- Euler Hermes SFAC for a selling price of € 30.7 million, carrying the realized profit to € 18 million (before tax impact);
- Euler Hermes SFAC Credit for a selling price of € 2.5 million, carrying the realized profit to € 1.3 million (before tax impact);
- Euler Hermes Belgium for a selling price of €12.1 million, carrying the realized profit to € 4.9 million (before tax impact).

The row “Acquisitions” on operating property concerns the repairing of two buildings in Paris (Euler Hermes SFAC) and in Louisville (Euler Hermes ACI).

## 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 an asset held or a liability to be issued and the offer price for an asset intended to be purchased or a liability intended to be held. If such prices are not available, the fair value is estimated based on the most recent transaction price.

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

### Classification by investment category

| (in € thousands) | December 31st, 2010 | | | | | | December 31st, 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized cost | Revaluation reserve | Net carrying amount | Fair value | Listed | Non listed | Amortized cost | Revaluation reserve | Net carrying amount | Fair value | Listed | Non listed |
| Held-to-maturity assets | | | | | | | | | | | | |
| Bonds | 1,071 | - | 1,071 | 1,071 | 700 | 371 | 1,674 | - | 1,674 | 1,674 | 1,208 | 466 |
| **Total held-to-maturity assets** | **1,071** | **-** | **1,071** | **1,071** | **700** | **371** | **1,674** | **-** | **1,674** | **1,674** | **1,208** | **466** |
| Available-for-sale assets | | | | | | | | | | | | |
| Equities | 119,523 | 22,517 | 142,040 | 142,040 | 2,546,894 | 58,960 | 110,646 | 19,428 | 130,074 | 130,074 | 2,251,408 | 60,203 |
| Bonds | 2,423,654 | 40,162 | 2,463,816 | 2,463,816 | | | 2,131,687 | 49,850 | 2,181,537 | 2,181,537 | | |
| **Total Available-for-sale assets** | **2,543,177** | **62,679** | **2,605,856** | **2,605,856** | **2,546,894** | **58,960** | **2,242,333** | **69,278** | **2,311,611** | **2,311,611** | **2,251,408** | **60,203** |
| Loans, deposits and other financial investments | 831,829 | - | 831,829 | 831,829 | - | - | 527,450 | - | 527,450 | 527,450 | - | - |
| **Total loans, deposits and other financial investments** | **831,829** | **-** | **831,829** | **831,829** | **-** | **-** | **527,450** | **-** | **527,450** | **527,450** | **-** | **-** |
| **TOTAL FINANCIAL INVESTMENTS** | **3,376,077** | **62,679** | **3,438,756** | **3,438,756** | **2,547,594** | **59,331** | **2,771,457** | **69,278** | **2,840,735** | **2,840,735** | **2,252,616** | **60,669** |

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 mortgage bonds (Pfandbriefe).

| (in € thousands) | December 31st, 2010 | | | | December 31st, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized cost | Revaluation reserve | Net carrying amount | Fair value | Amortized cost | Revaluation reserve | Net carrying amount | Fair value |
| • Equities | 119,523 | 22,517 | 142,040 | 142,040 | 110,646 | 19,428 | 130,074 | 130,074 |
| • Bonds | 2,424,725 | 40,162 | 2,464,887 | 2,464,887 | 2,133,361 | 49,850 | 2,183,211 | 2,183,211 |
| • Loans and other investments | 831,829 | - | 831,829 | 831,829 | 527,450 | - | 527,450 | 527,450 |
| **TOTAL FINANCIAL INVESTMENTS** | **3,376,077** | **62,679** | **3,438,756** | **3,438,756** | **2,771,457** | **69,278** | **2,840,735** | **2,840,735** |

EH Group didn't account any significant impairment as of December 31st, 2010. EH Group hadn't any financial assets such as "dynamic treasury mutual funds" or "subprime investments".

## Fair value hierarchy

| | December 31st, 2010 | | |
|---|---|---|---|
| (in € thousands) | Level 1 | Level 2 | Level 3 |
| Available-for-sale assets | 2,399,887 | 162,491 | 43,478 |

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 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.

## Classification by geographical zone

| (in € thousands) | France | Other Countries | Groupe |
|---|---|---|---|
| **Held-to-maturity assets** | | | |
| Bonds | - | 1,071 | 1,071 |
| **Total held-to-maturity assets** | **-** | **1,071** | **1,071** |
| **Available-for-sale assets** | | | |
| Equities | 127,810 | 14,230 | 142,040 |
| Bonds | 639,657 | 1,824,159 | 2,463,816 |
| **Total Available-for-sale assets** | **767,467** | **1,838,390** | **2,605,857** |
| Loans, deposits and other financial investments | 212,536 | 619,293 | 831,829 |
| **Total loans, deposits and other financial investments** | **212,536** | **619,293** | **831,829** |
| **TOTAL FINANCIAL INVESTMENTS** | **980,003** | **2,458,753** | **3,438,756** |

## Classification by investment category

| | December 31st, 2010 | | | | December 31st, 2009 |
|---|---|---|---|---|---|
| (in € thousands) | Held-to-maturity investments | Available-for-sale investments | Loans, deposits and other financial investments | Total | Total |
| **Net carrying amount as opening period** | **1,674** | **2,311,611** | **527,450** | **2,840,735** | **2,590,986** |
| Increase in gross value | - | 1,181,398 | 945,872 | 2,127,270 | 1,911,831 |
| Decrease in gross value | (595) | (901,012) | (651,023) | (1,552,630) | (1,657,243) |
| Revaluation | - | (7,326) | - | (7,326) | (9,660) |
| Impairment | - | (2,997) | - | (2,997) | (942) |
| Changes in foreign currency translation adjustments | - | 39,508 | 3,138 | 42,646 | 8,058 |
| Reclassifications | - | (3,024) | 9,934 | 6,910 | 4,017 |
| Other changes | (8) | (12,302) | (3,542) | (15,852) | (6,312) |
| **Net carrying amount as closing period** | **1,071** | **2,605,856** | **831,829** | **3,438,756** | **2,840,735** |

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

| | | December 31st, 2010 | | | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Country | Assets (1) | Shareholders' equity (2) | Turnover | Net income | % of capital held |
| **Company** | | | | | | |
| OeKB Beteiligungs- und Management AG | Austria | 181,349 | 105,955 | 71,145 | 13,639 | 49.00% |
| Graydon Holding NV | Netherlands | 52,718 | 4,135 | 72,519 | 14,462 | 27.50% |
| Companhia de Seguro de Creditos SA (COSEC) | Portugal | 103,646 | 38,106 | 39,259 | 6,472 | 50.00% |
| Israel Credit Insurance Company Ltd | Israel | 63,893 | 30,474 | 25,352 | 5,719 | 33.33% |
| | | **401,606** | **178,670** | **208,275** | **40,291** | |

*(1) Assets based on company financial statements as at September 30th, 2010.*
*(2) Shareholders' equity based on company financial statements as at September 30th, 2010 including goodwill.*

| | | December 31st, 2009 | | | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Country | Assets | Shareholders' equity | Turnover | Net income | % of capital held |
| **Company** | | | | | | |
| OeKB Beteiligungs- und Management AG | Austria | 197,790 | 109,118 | 60,299 | 1,404 | 49.00% |
| Graydon Holding NV | 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% |
| | | **410,680** | **176,767** | **189,050** | **21,756** | |

### Movements during the period

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Balance as opening period** | **89,254** | **93,550** |
| Increases | - | - |
| Decreases | - | - |
| Reclassification | (1) | - |
| Share of income for the period | 15,802 | 6,644 |
| Dividends paid | (7,918) | (10,554) |
| Impairment | - | - |
| Foreign exchange differences | 291 | (319) |
| Other changes | 638 | (67) |
| **Net book value as closing period** | **98,066** | **89,254** |

## Contribution to shareholders' equity (without equity method income of 2010)

| (in € thousands) | | December 31st, 2010 | December 31st, 2009 |
|---|---|---|---|
| OeKB Beteiligungs- und Management AG | Austria | 51,917 | 53,468 |
| Graydon Holding NV | Netherlands | 1,137 | 675 |
| Companhia de Seguro de Creditos SA (COSEC) | Portugal | 19,053 | 20,209 |
| Israel Credit Insurance Company Ltd | Israel | 10,157 | 8,258 |
| **SHARE OF SHAREHOLDERS' EQUITY** | | **82,264** | **82,610** |

## Contribution to income

| | | Twelve months ended December 31st, | |
|---|---|---|---|
| (in € thousands) | | 2010 | 2009 |
| OeKB Beteiligungs- und Management AG | Austria | 6,683 | 688 |
| Graydon Holding NV | The Netherlands | 3,977 | 4,175 |
| Companhia de Seguro de Creditos SA (COSEC) | Portugal | 3,236 | 173 |
| Israel Credit Insurance Company Ltd | Israel | 1,906 | 1,608 |
| **SHARE OF TOTAL INCOME** | | **15,802** | **6,644** |

## NOTE 8. OPERATING PROPERTY AND OTHER PROPERTY AND EQUIPMENT

| | December 31st, 2010 | | | December 31st, 2009 | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Operating property | Other property and equipment | Total | Operating property | Other property and equipment | Total |
| **Balance as opening period** | | | | | | |
| Gross value | 185,370 | 143,809 | 329,179 | 195,192 | 141,134 | 336,326 |
| Amortisation | (48,801) | (115,152) | (163,953) | (61,878) | (111,468) | (173,346) |
| Impairment | (6,797) | (110) | (6,907) | (554) | - | (554) |
| **Net carrying amount** | **129,772** | **28,547** | **158,319** | **132,760** | **29,666** | **162,426** |
| **Change during the year** | | | | | | |
| **Net carrying amount as opening period** | **129,772** | **28,547** | **158,319** | **132,760** | **29,666** | **162,426** |
| Acquisitions | 3,825 | 16,051 | 19,876 | 1,318 | 10,396 | 11,714 |
| Changes in consolidation scope | - | 655 | 655 | - | (19) | (19) |
| Disposals | (4,074) | (9,349) | (13,423) | (73) | (2,288) | (2,361) |
| Reclassifications | 1,891 | (3,513) | (1,622) | (169) | 167 | (2) |
| Foreign exchange differences | 109 | 505 | 614 | (54) | 157 | 103 |
| Net depreciation | (4,323) | (8,850) | (13,173) | (4,010) | (9,406) | (13,416) |
| Net provisions for impairment | - | - | - | - | (110) | (110) |
| Other changes | - | 16 | 16 | - | (16) | (16) |
| **Net carrying amount as closing period** | **127,200** | **24,062** | **151,262** | **129,772** | **28,547** | **158,319** |
| **Balance as closing period** | | | | | | |
| Gross value | 184,231 | 138,750 | 322,981 | 185,370 | 143,809 | 329,179 |
| Depreciation | (50,234) | (114,578) | (164,812) | (48,801) | (115,152) | (163,953) |
| Impairment | (6,797) | (110) | (6,907) | (6,797) | (110) | (6,907) |
| **Net carrying amount** | **127,200** | **24,062** | **151,262** | **129,772** | **28,547** | **158,319** |

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

The release of building of exploitation corresponds mainly to the sale of the head office of the Belgian subsidiary.

The related realized gain is €3,042 thousand.

## NOTE 9. DEFERRED TAX

### Breakdown by type of tax

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Deferred tax assets | 134,264 | 172,015 |
| Deferred tax liabilities | (456,688) | (455,133) |
| **Net deferred tax** | **(322,424)** | **(283,118)** |
| Tax losses | 28,232 | 49,096 |
| Deferred tax assets linked to revaluation of AFS investments | 8,365 | 9,217 |
| Deferred tax assets - provisions for retirement commitments | 1,409 | 1,728 |
| Deferred tax assets - technical reserves | 44,417 | 63,508 |
| Other deferred tax assets | 51,841 | 48,466 |
| **Total deferred tax assets** | **134,264** | **172,015** |
| Deferred tax liabilities linked to revaluation of AFS investments | (27,615) | (27,341) |
| Deferred tax liabilities - provisions for retirement commitments | (13,582) | (14,838) |
| Deferred tax liabilities - technical reserves | (365,605) | (363,000) |
| Other deferred tax liabilities | (49,886) | (49,954) |
| **Total deferred tax liabilities** | **(456,688)** | **(455,133)** |
| **Net deferred tax** | **(322,424)** | **(283,118)** |
| After offsetting deferred tax assets and liabilities by tax entity | | |
| Deferred tax assets | 43,209 | 42,938 |
| Deferred tax liabilities | (365,633) | (326,056) |
| **NET DEFERRED TAX** | **(322,424)** | **(283,118)** |

The activated tax losses concern for €14.5 million the reinsurance subsidiaries (Switzerland and Luxemburg), for €8 million the Belgian subsidiary and Euler Hermes Forderungsmanagement GmbH for €4.1 million.

The non-activated tax losses are mainly due to the German Branches for €52.7 million, the future use of these tax losses being unpredictable until now.

### Movement in deferred tax by geographical region

| (in € thousands) | December 31st, 2009 | Change through income statement | Change relating to revaluation of AFS inv. | Foreign exchange difference | Other movements | December 31st, 2010 |
|---|---|---|---|---|---|---|
| France | (122,988) | (3,686) | 114 | - | 2 | (126,558) |
| GAS | (190,920) | (25,741) | (116) | 9 | - | (216,768) |
| Northern Europe | (4,611) | 2,037 | 409 | (180) | 70 | (2,275) |
| Southern Europe | 4,687 | 5,208 | 1,084 | (1) | 223 | 11,201 |
| Asia & Pacific countries | 28 | - | - | 4 | - | 32 |
| America | (915) | (1,156) | (220) | (42) | (223) | (2,556) |
| Reinsurance | 31,940 | (28,888) | 404 | 3,133 | (1,775) | 4,814 |
| Other Countries | 509 | (850) | 23 | - | - | (318) |
| Group Services / Holdings | (848) | 10,852 | - | - | - | 10,004 |
| | **(283,118)** | **(42,224)** | **1,698** | **2,923** | **(1,703)** | **(322,424)** |

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

## Change in standard tax rate

| | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Group rate** | **23.87%** | **67.59%** |
| France | 34.43% | 34.43% |
| Germany | 32.28% | 32.28% |
| Italy | 32.47% | 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 2010 is provided in Note 26.

# NOTE 10. INSURANCE AND REINSURANCE RECEIVABLES

## Breakdown by type

| | December 31st, 2010 | | | December 31st, 2009 |
|---|---|---|---|---|
| (in € thousands) | Gross | Provisions | Net | Net |
| Receivables from policyholders and agents | 221,919 | (17,751) | 204,168 | 199,062 |
| Earned premiums not yet written | 159,718 | - | 159,718 | 134,420 |
| Receivables from guaranteed debtors | 88,513 | - | 88,513 | 101,656 |
| Receivables from reinsurance transactions | 140,875 | (1,941) | 138,934 | 139,380 |
| **TOTAL CREDIT INSURANCE RECEIVABLES** | **611,025** | **(19,692)** | **591,333** | **574,518** |

## Breakdown of net receivables from guaranteed debtors

| | December 31st, 2010 | | | December 31st, 2009 |
|---|---|---|---|---|
| (in € thousands) | Gross | Provisions | Net | Net |
| Gross receivables | 88,513 | - | 88,513 | 101,656 |
| Reinsurers' share | 18,985 | - | 18,985 | 10,250 |
| **NET RECEIVABLES FROM GUARANTEED DEBTORS** | **107,498** | **-** | **107,498** | **111,906** |

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

## Breakdown by maturity

| (in € thousands) | December 31st, 2010 | | | | |
|---|---|---|---|---|---|
| | < 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| Gross receivables | 368,530 | 2,040 | - | - | 370,570 |
| Reinsurers' share | 132,231 | 20 | - | - | 132,250 |
| Net receivables from guaranteed debtors | 88,513 | - | - | - | 88,513 |
| **TOTAL CREDIT INSURANCE RECEIVABLES** | **589,273** | **2,060** | **-** | **-** | **591,333** |

## Provisions for bad debts from policyholders and agents

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Balance as opening period** | **(16,558)** | **(18,663)** |
| Change in consolidation scope | - | - |
| Provision | (3,830) | (5,769) |
| Write back | 3,662 | 3,678 |
| Foreign exchange differences | (20) | (1) |
| Other changes | (1,005) | 4,197 |
| **Balance as closing period** | **(17,751)** | **(16,558)** |

# NOTE 11. OTHER RECEIVABLES

## Breakdown by type and by maturity

| (in € thousands) | December 31st, 2010 | | | December 31st, 2009 |
|---|---|---|---|---|
| | Gross | Provision | Net | Net |
| Current account receivables | 19,163 | - | 19,163 | 18,005 |
| Other taxes receivable | 32,482 | - | 32,482 | 21,410 |
| **Other receivables** | **164,863** | **(9,402)** | **155,461** | **133,724** |
| of which, accrued interest not due | 47,745 | - | 47,745 | 40,561 |
| Deferred charges | 10,483 | - | 10,483 | 9,891 |
| Other adjustment accounts | 676 | - | 676 | 744 |
| Other assets | 589 | - | 589 | 105 |
| **TOTAL OTHER RECEIVABLES** | **228,256** | **(9,402)** | **218,854** | **183,879** |

## Breakdown by maturity

| (in € thousands) | 3 months or less | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **TOTAL OTHER RECEIVABLES** | **194,617** | **24,162** | **75** | **-** | **218,854** |

## NOTE 12. CASH AND CASH EQUIVALENTS

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Cash in bank and at hand | 255,774 | 403,762 |
| Cash pooling | 50,427 | 38,030 |
| **Total cash** | **306,201** | **441,792** |
| **Total cash per balance sheet** | **306,201** | **441,792** |
| Cash equivalents reflected in the cash flow statement | - | - |
| Cash pooling creditor with Allianz | (350) | (350) |
| **TOTAL CASH AND CASH EQUIVALENTS** | **305,851** | **441,442** |

## NOTE 13. REVALUATION RESERVE

| (in € thousands) | Investments | Tax | Foreign exchange difference | Associated companies | Other | Revaluation reserve except minority interests | Minority interests | Revaluation reserve |
|---|---|---|---|---|---|---|---|---|
| **Opening balance** | **68,997** | **(23,943)** | **180** | **(1,134)** | **(600)** | **43,500** | **63** | **43,563** |
| Change in fair market value of asset held for sale transfered through profits & losses (Gross amount) - Group | (9,292) | 2,718 | - | - | - | (6,574) | - | (6,574) |
| Change in fair market value of asset held for sale booked through equity (Gross amount) - Group | 1,998 | (1,201) | - | - | - | 797 | - | 797 |
| Change in fair market value of asset held for sale booked through equity (Gross amount) - COSEC associated company | - | - | - | 638 | - | 638 | - | 638 |
| Change in fair market value of asset held for sale booked through equity (Gross amount) - OeKB associated company | - | - | - | - | - | - | - | - |
| Change in fair market value of asset held for sale booked through equity (Gross amount) - minority | - | - | - | - | - | - | (223) | (223) |
| Other movements | - | - | - | - | 1,038 | 1,038 | (33) | 1,005 |
| **CLOSING BALANCE** | **61,703** | **(22,426)** | **180** | **(496)** | **438** | **39,399** | **(193)** | **39,206** |

## NOTE 14. MINORITY INTERESTS

### Movements during the year

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Minority interests at start of period** | **20,698** | **20,328** |
| **Minority shareholders' share of net income** | **3,331** | **4,153** |
| **Movements on latent reserves (excluding currency translation impact)** | **(256)** | **(13)** |
| Other movements | | |
| Foreign currency translation differences | (7) | (34) |
| Dividends paid to minority shareholders | (4,143) | (3,712) |
| Capital increases and other movements | (1,608) | (24) |
| **Minority interests at end of period** | **18,015** | **20,698** |

### Breakdown by country

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Euler Hermes in France | 994 | 918 |
| Switzerland | 5 | - |
| Hungary | - | 1,831 |
| Romania | - | 268 |
| Germany | 11,458 | 11,737 |
| Morocco | 3,254 | 3,135 |
| Greece | 2,304 | 2,809 |
| **MINORITY INTERESTS** | **18,015** | **20,698** |

## NOTE 15. PROVISIONS FOR RISKS AND CHARGES

| (in € thousands) | December 31st, 2009 | Allowance | Writeback (used) | Writeback (not used) | Reclassification | Other changes | December 31st, 2010 |
|---|---|---|---|---|---|---|---|
| **Retirement scheme** | **54,982** | **14,715** | **(6,043)** | **(2,058)** | **(4,764)** | **(3,904)** | **52,928** |
| Defined benefit retirement plans | 53,405 | 14,715 | (6,043) | (2,058) | (3,187) | (3,904) | 52,928 |
| Defined contribution retirement plans | 1,577 | - | - | - | (1,577) | - | - |
| **Other provisions for risks and charges** | **110,053** | **113,575** | **(20,270)** | **(20,064)** | **(1,290)** | **(4,745)** | **177,259** |
| Provision for tax liabilities | 19,047 | - | - | - | - | (4,811) | 14,236 |
| Provision for tax litigation | - | - | - | - | - | 65 | 65 |
| Provision for tax uncertainties | 28,439 | 9,527 | (1,503) | (7,254) | - | - | 29,209 |
| Provisions for employee benefits | 40,810 | 32,089 | (11,303) | (11,101) | 1,346 | 5 | 51,846 |
| Provisions for reinsurer default | - | - | - | - | - | - | - |
| Provisions for policyholder disputes | - | - | - | - | - | 1 | 1 |
| Provisions for debtor disputes | 2,259 | - | - | - | - | - | 2,259 |
| Guarantee of liabilities | 8 | - | - | - | - | - | 8 |
| Provision for restructuring | 7,561 | 67,128 | (3,571) | (31) | - | (13) | 71,074 |
| Provisions for sundry disputes | 11,929 | 4,831 | (3,893) | (1,678) | (2,636) | 8 | 8,561 |
| **TOTAL PROVISIONS FOR RISKS AND CHARGES** | **165,035** | **128,290** | **(26,313)** | **(22,122)** | **(6,054)** | **(8,649)** | **230,187** |

Defined contribution retirement plans have been reclassified in “Other debts”.

## 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;
- 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 accounted as defined benefit plans since December 31st, 2009.

| (in € thousands) | France | United States | United Kingdom | Scandinavia | Total |
|---|---|---|---|---|---|
| **Provision at December 31st, 2010** | **-** | **(1,383)** | **-** | **-** | **(1,383)** |
| Expense booked in 2010 | (801) | (611) | (1,257) | (1,563) | (4,232) |
| **Provision at December 31st, 2009** | **-** | **(1,581)** | **-** | **-** | **(1,581)** |
| Expense booked in 2009 | (600) | - | (970) | (1,498) | (3,068) |
| **Provision at December 31st, 2008** | **-** | **(1,783)** | **-** | **-** | **(1,783)** |
| Expense booked in 2008 | (207) | (186) | (705) | (1,476) | (2,574) |
| **Provision at December 31st, 2007** | **-** | **(1,470)** | **-** | **-** | **(1,470)** |
| Expense booked in 2007 | (391) | (230) | (1,020) | (1,374) | (3,015) |
| **Provision at December 31st, 2006** | **-** | **(1,402)** | **-** | **-** | **(1,402)** |
| Expense booked in 2006 | (413) | (2,093) | (912) | (118) | (3,536) |

Defined contribution retirement plans are accounted for in “Other debts” as at December 31st, 2010.

## 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 17 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 31st, 2001. Under this plan, employees will be granted a pension on retirement (the normal age being 63 years), which will be a fraction of their salary upon retirement and based on their length of service within the Company.

  The Company funds these rights through a dedicated fund. The retirement rights are revalued annually based on the constraints set by law, which provides for the mandatory application of different revaluation rates according to the vesting date of the rights.

  The revaluation of certain rights, notably those earned prior to April 6th, 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 31st, 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 31st, 2010, the present value of pension commitments in respect of this plan came to £118 million, funded partly by the fund as the market value of the assets stood at £118 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 Unterstûtzungskasse 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.

| | France & Greece | | | | | | | | Nordic | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31/12/2010** (in € thousands*) | Retirement indemnities | PSAD | CARDIF | Italy | United-Kingdom | Germany | Belgium | Nether-lands | FTP | VITAL | CEO's PLAN | Total |
| **Actuarial obligation - total** | **(5,118)** | **(3,655)** | **(2,647)** | **(7,390)** | **(127,413)** | **(353,375)** | **(18,916)** | **(4,032)** | **(4,000)** | **(1,095)** | **(591)** | **(528,233)** |
| • Current period service cost | (312) | - | - | - | (2,172) | (7,520) | (845) | (251) | (157) | (255) | - | (11,512) |
| • Interest on obligation | (247) | (185) | 60 | - | (7,347) | (18,244) | (973) | (227) | (154) | (45) | - | (27,362) |
| • Employee contributions | - | - | - | (508) | - | (2,746) | (87) | (220) | - | - | - | (3,561) |
| • Plan amendment | - | - | - | - | - | - | - | - | - | - | - | - |
| • Acquisitions/disposals of subsidiaries | - | - | - | - | - | (1,029) | - | - | - | - | - | (1,029) |
| • Plan curtailments | - | - | - | - | - | - | 525 | - | - | - | - | 525 |
| • Plan settlements | - | - | - | - | - | - | - | - | - | - | 638 | 638 |
| • Exceptional events | - | - | - | - | - | - | - | - | - | - | - | - |
| • Actuarial gains (losses) due to a change in assumptions | (1,025) | (259) | (334) | (107) | (2,959) | (26,515) | (885) | (450) | - | - | - | (32,534) |
| • Actuarial gains (losses) due to a change in experience | (207) | (171) | 171 | - | 4,780 | 4,156 | - | (745) | - | - | - | 7,984 |
| • Benefits paid | 386 | 405 | 156 | 2,135 | 3,153 | 10,639 | 292 | 543 | 8 | - | - | 17,717 |
| • Currency translation difference | - | - | - | - | (4,017) | - | - | - | (592) | (175) | (47) | (4,831) |
| • Other (please insert comment) | (479) | (63) | (63) | - | (1,163) | 3,658 | - | (289) | - | - | - | 1,602 |
| • Removal of the discretionary clause | - | - | - | - | - | - | - | - | - | - | - | - |
| **Actuarial obligation - total** | **(7,002)** | **(3,928)** | **(2,657)** | **(5,870)** | **(137,137)** | **(390,976)** | **(20,889)** | **(5,671)** | **(4,894)** | **(1,570)** | **-** | **(580,595)** |
| **Fair value of plan assets - total** | **2,251** | **-** | **2,764** | **-** | **115,352** | **288,599** | **13,137** | **3,556** | **2,593** | **546** | **692** | **429,490** |
| • Actual return on plan assets | 110 | - | 49 | - | 7,575 | 14,132 | 570 | (36) | 105 | 35 | - | 22,539 |
| • Experience effect on returns from assets | - | - | 127 | - | 6,140 | 821 | (52) | 1,195 | - | - | - | 8,231 |
| • Employee contributions | - | - | - | - | - | 2,746 | 87 | 220 | 383 | - | - | 3,436 |
| • Employer contributions | 747 | - | - | - | 5,329 | 6,764 | 1,687 | 534 | - | - | - | 15,061 |
| • Acquisitions /disposals of subsidiaries | - | - | - | - | - | (2,613) | - | (543) | - | - | - | (3,156) |
| • Plan curtailments | - | - | (226) | - | - | - | - | - | - | - | - | (226) |
| • Plan settlements | - | - | - | - | - | - | - | 18 | - | 29 | (747) | (700) |
| • Benefits paid | (371) | - | (156) | - | (3,153) | (6,950) | (292) | (1) | (8) | - | - | (10,931) |
| • Currency translation difference | - | - | - | - | 3,565 | - | - | - | 400 | 11 | 55 | 4,032 |
| • Other (please insert comment) | 78 | - | 141 | - | 2,327 | (84) | - | 45 | - | 26 | - | 2,533 |
| **Fair value of plan assets - total** | **2,815** | **-** | **2,699** | **-** | **137,135** | **303,415** | **15,137** | **4,987** | **3,473** | **647** | **-** | **470,307** |
| **Actuarial differences still to be amortised** | **(979)** | **-** | **22** | **-** | **(23,174)** | **(53,372)** | **(2,653)** | **(170)** | **(565)** | **339** | **-** | **(80,552)** |
| **Net commitments <0** | **(3,208)** | **(3,928)** | **-** | **(5,870)** | **-** | **(34,189)** | **(3,099)** | **(514)** | **(857)** | **(1,262)** | **-** | **(52,928)** |
| **Net commitments >0** | **-** | **-** | **20** | **-** | **23,172** | **-** | **-** | **-** | **-** | **-** | **-** | **23,192** |
| **Expenses for the period** | **(454)** | **(678)** | **-** | **(615)** | **(9,519)** | **(11,696)** | **(791)** | **(484)** | **(214)** | **(275)** | **-** | **(24,725)** |
| • Current period service cost | (312) | - | - | - | (2,172) | (7,520) | (845) | (251) | (157) | (255) | - | (11,512) |
| • Finance cost (effect of undiscounting) | (247) | (185) | 60 | - | (7,347) | (18,244) | (973) | (227) | (154) | (45) | - | (27,362) |
| • Expected return on plan assets | 99 | - | (51) | - | - | 14,132 | 570 | (57) | 105 | 35 | - | 14,832 |
| • Expected return on any other assets | - | - | - | - | - | - | - | (7) | - | - | - | (7) |
| • Amortization of actuarial gains and losses | 6 | (493) | - | (615) | - | (64) | - | - | (8) | - | - | (1,174) |

* *Except for actuarial assumptions*

| 31/12/2010 (in € thousands*) | France & Greece | | | | | | | | Nordic | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Retirement indemnities | PSAD | CARDIF | Italy | United-Kingdom | Germany | Belgium | Nether-lands | FTP | VITAL | CEO's PLAN | Total |
| • Amortization of prior service cost | - | - | - | - | - | - | - | - | - | - | - | - |
| • Amortization of unrecognized initial obligation | - | - | - | - | - | - | - | - | - | - | - | - |
| • Profit/loss on curtailment/ settlement | - | - | (9) | - | - | - | 457 | - | - | - | - | 448 |
| • Asset ceiling limitation | - | - | - | - | - | - | - | - | - | - | - | - |
| • Exceptional events | - | - | - | - | - | - | - | - | - | - | - | - |
| • Other | - | - | - | - | - | - | - | 58 | - | (9) | - | 49 |
| **Actuarial assumptions** | | | | | | | | | | | | |
| • Discounting rates used | 3.50% | | | 4.30% | 5.30% | 4.80% | 4.80% | 5.30% | 3.50% | 3.80% | | |
| • Inflation rate used | 2.00% | 2.00% | 2.00% | | | 1.60% | 2.50% | 1.50% | 2.00% | | | |
| • Expected return on plan assets | 3.50% | | 4.00% | | 5.70% | 4.70% | 3.50% | 5.50% | 3.50% | 5.80% | | |
| • Expected return on reimbursement rights (assets) | | | | | | | | | | | | |
| • Expected rate of salary increase | 2.60% | | | 2.00% | 4.40% | 2.30% | 4.00% | | 3.00% | 4.00% | | |
| • Expected rate of increase of medical costs | | | | | | | | | | | | |
| • Rate of increase of benefit used by plan | | | | | 3.30% | | 4.00% | 0.90% | | | | |
| • Plan retirement age | 60 | | 60 | | 63 | 63 | 60 | 65 | | | | |
| • Plan residual service period | 10 | | 5 | | 20 | 15 | | 30 | | | | |
| • Oth significant actuarial assumption used (1) | | 60% | | | | | | | | | | |

* *Except for actuarial assumptions*

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

**Structure of plan assets (2)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| • Shares | | | 39.50% | 6.1% / 10% | 15.00% | 12.5% | 17.00% | 30.00% |
| • Bonds | 100.00% | 100.00% | 54.80% | 90.9% / 90% | 85.00% | 80% | 48.00% | 70.00% |
| • Real estate | | | | 2.5% | | 7.5% | 16.00% | |
| • Other instruments | | | 5.80% | 0.5% | | 0% / 100% | 19.00% | |

(2) *Structure of hedging assets by entity*

| | Germany | | | Netherlands | |
|---|---|---|---|---|---|
| | Euler Hermes Rating Gmbh | Forderungsmanagement Gmbh | Allianz AG | NV Interpolis Kredietverzekeringen | Euler Hermes Kredietverzekering NV |
| • Shares | 6.10% | 6.10% | 10.00% | 12.50% | |
| • Bonds | 90.90% | 90.90% | 90.00% | 80.00% | |
| • Real estate | 2.50% | 2.50% | | 7.50% | |
| • Other instruments | 0.50% | 0.50% | | | 100.00% |

| | France | | | | | | | | Nordic | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31/12/2009** (in € thousands*) | Retirement indemnities | PSAD | CARDIF | Italy | United-Kingdom | Germany | Belgium | Netherlands | FTP | Vital | CEO's plan | Total |
| **Actuarial liability at start of period** | **(4,937)** | **(4,264)** | **(2,499)** | **(9,437)** | **(94,377)** | **(307,727)** | **(16,041)** | **(3,488)** | **(4,044)** | **(887)** | **(482)** | **(448,183)** |
| • 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 | - | - | 116 | 381 |
| • Removal of the discretionary clause | - | - | - | - | - | - | - | - | - | - | - | - |
| **Actuarial liability at end of period** | **(5,118)** | **(3,655)** | **(2,647)** | **(7,390)** | **(127,413)** | **(353,375)** | **(18,916)** | **(4,032)** | **(4,000)** | **(1,095)** | **(591)** | **(528,232)** |
| **Fair value of assets at start of period** | **1,540** | **-** | **2,990** | **-** | **94,927** | **266,492** | **12,490** | **2,839** | **2,299** | **575** | **495** | **384,648** |
| • 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) |
| **Fair value of assets at end of period** | **2,251** | **-** | **2,764** | **-** | **115,352** | **288,599** | **13,137** | **3,556** | **2,593** | **546** | **692** | **429,490** |
| **Actuarial differences still to be amortised** | **653** | **-** | **117** | **-** | **(32,877)** | **(31,895)** | **(1,795)** | **19** | **(530)** | **53** | **101** | **(66,154)** |
| **Negative net commitments** | **(3,520)** | **(3,655)** | **-** | **(7,390)** | **-** | **(32,881)** | **(3,984)** | **(495)** | **(878)** | **(602)** | **(0)** | **(53,405)** |
| **Positive net commitments** | **-** | **-** | **-** | **-** | **20,816** | **-** | **-** | **-** | **-** | **-** | **-** | **20,816** |
| **Expenses for the period** | **(462)** | **156** | **-** | **(305)** | **(3,003)** | **(27,490)** | **(1,062)** | **(407)** | **201** | **234** | **253** | **(31,885)** |

* *Except for actuarial assumptions*

| 31/12/2009 (in € thousands*) | France: Retirement indemnities | France: PSAD | France: CARDIF | Italy | United-Kingdom | Germany | Belgium | Netherlands | Nordic: FTP | Nordic: Vital | Nordic: CEO's plan | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| • Current period service cost | (285) | - | - | (39) | (1,584) | (6,928) | (749) | (206) | 141 | 223 | 193 | (9,234) |
| • Finance cost (effect of undiscounting) | (276) | (241) | - | (259) | (6,288) | (18,133) | (958) | (185) | 119 | 33 | 25 | (26,163) |
| • Expected return on plan assets | 83 | - | - | - | 5,734 | (2,625) | 645 | 21 | (81) | (33) | (20) | 3,724 |
| • Expected return • on any other assets | - | - | - | - | - | - | - | - | - | - | - | - |
| • Amortization of actuarial gains and losses | 16 | 397 | - | (7) | (745) | 196 | - | - | 22 | - | 2 | (119) |
| • Amortization of prior service cost | - | - | - | - | - | - | - | - | - | - | - | - |
| • Amortization of unrecognized initial obligation | - | - | - | - | - | - | - | - | - | - | - | - |
| • Profit/loss on curtailment/ settlement | - | - | - | - | - | - | - | - | - | - | - | - |
| • Asset ceiling limitation | - | - | - | - | - | - | - | - | - | - | - | - |
| • Exceptional events | - | - | - | - | - | - | - | - | - | - | - | - |
| • Other | - | - | - | - | (120) | - | - | (37) | - | 11 | 53 | (93) |
| **Actuarial assumptions** | | | | | | | | | | | | |
| • 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 | - | 60 | 60-65 | 63 | 63 | 60 | 65 | - | - | - | |
| • Remaining length of service | 10 | - | 5 | - | 20 | 15 | 11 | 28 | - | - | - | |
| • Other major assumptions used (1) | - | 60.00% | - | - | - | - | - | - | - | - | - | |

* *Except for actuarial assumptions*

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

**Structure of plan assets**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| • 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 | - | - | V- | - | - | 2.43% | - | - | - | 17.00% | - |
| • Other | - | - | 50.00% | - | - | 0.02% | 100.00% | 100.00% | - | 11.00% | - |

| 31/12/2008 (in € thousands*) | France | | | Italy | United-Kingdom | Germany | Belgique | Nether-lands | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Retirement indemnities | PSAD | CARDIF | | | | | | |
| **Actuarial liability at start of period** | **(4,933)** | **(4,497)** | **(2,792)** | **(9,791)** | **(131,573)** | **(311,943)** | **(14,824)** | **(3,146)** | **(483,499)** |
| • 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 assumptions | 218 | 67 | 212 | | 11,951 | 19,647 | 401 | 343 | 32,839 |
| • Actuarial gains (losses) due to a change in experience | (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 | | | | | - | - | | - | - |
| **Actuarial liability at end of period** | **(4,937)** | **(4,264)** | **(2,499)** | **(9,437)** | **(94,377)** | **(307,727)** | **(16,041)** | **(3,488)** | **(442,770)** |
| **Fair value of assets at start of period** | **1,164** | **-** | **3,320** | **-** | **128,235** | **264,265** | **11,038** | **2,528** | **410,551** |
| • Actual return on plan assets | 68 | | 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) |
| **Fair value of assets at end of period** | **1,540** | **-** | **2,990** | **-** | **94,927** | **266,492** | **12,490** | **2,839** | **381,278** |
| **Actuarial differences still to be amortised** | **502** | **-** | **491** | **-** | **(17,150)** | **(9,801)** | **442** | **12** | **(25,504)** |
| **Negative net commitments** | **(3,899)** | **(4,264)** | **-** | **(9,437)** | | **(31,434)** | **(3,993)** | **(661)** | **(53,688)** |
| **Positive net commitments** | | | | | **17,699** | | | | **17,699** |

* *Except for actuarial assumptions*

| **31/12/2008** (in € thousands*) | France | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Retirement indemnities** | **PSAD** | **CARDIF** | **Italy** | **United-Kingdom** | **Germany** | **Belgique** | **Nether-lands** | **Total** |
| **Expenses for the period** | **(437)** | **(247)** | **-** | **(851)** | **(3,172)** | **(11,606)** | **(957)** | **(461)** | **(17,731)** |
| • Current period service cost | (277) | | | (431) | (2,922) | (8,322) | (721) | (238) | (12,911) |
| • Finance cost (effect of undiscounting) | (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 any other assets | - | | | | - | - | | - | - |
| • Amortization of actuarial gains and losses | 9 | (21) | | | (457) | (191) | | - | (660) |
| • Amortization of prior service cost | - | | | | - | - | | - | - |
| • Amortization of unrecognized initial obligation | - | | | | - | - | | - | - |
| • Profit/loss on curtailment/ settlement | - | | | | - | - | | - | - |
| • Asset ceiling limitation | - | | | | - | - | | 40 | 40 |
| • Exceptional events | - | | | | - | - | | (193) | (193) |
| • Other | - | | | | (120) | - | | (46) | (166) |
| **Actuarial assumptions** | | | | | | | | | |
| • 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 | | 60 | 60-65 | 63 | 63 | 60 | 65 | |
| • Remaining length of service | 10 | | 5 | | 20 | 15 | 11 | 28 | |
| • Other major assumptions used (1) | - | 60.00% | - | - | - | - | - | - | |

*   *Except for actuarial assumptions*

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

**Structure of plan assets**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| • Equities | - | - | 23.00% | - | 40.00% | 20.34% | - | - |
| • Bonds | 100.00% | - | 27.00% | - | 60.00% | 77.21% | - | - |
| • Property | - | - | - | - | - | 2.43% | - | - |
| • Other | - | - | 50.00% | - | - | 0.02% | 100.00% | 100.00% |

| 31/12/2007 (in € thousands*) | France | | | Italy | United Kingdom | Germany | Belgium | The Netherlands | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Retirement indemnities | PSAD | CARDIF | | | | | | |
| **Actuarial liability at start of period** | **(5,278)** | **(5,078)** | **(3,040)** | **(10,364)** | **(147,090)** | **(329,006)** | **(15,138)** | **(4,219)** | **(519,213)** |
| • 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 assumptions | 467 | 230 | 295 | - | 12,225 | 30,777 | (275) | 29 | 43,748 |
| • Actuarial gains (losses) due to a change in experience | 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 | - | - | - | - | - | - | - | - | - |
| **Actuarial liability at end of period** | **(4,933)** | **(4,497)** | **(2,792)** | **(9,791)** | **(131,573)** | **(311,943)** | **(14,824)** | **(3,146)** | **(483,499)** |
| **Fair value of assets at start of period** | **838** | **-** | **3,301** | **-** | **135,294** | **258,878** | **9,418** | **2,941** | **410,670** |
| • 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) |
| **Fair value of assets at end of period** | **1,164** | **-** | **3,320** | **-** | **128,235** | **264,265** | **11,038** | **2,528** | **410,551** |
| **Actuarial differences still to be amortised** | **427** | **-** | **528** | **-** | **(18,657)** | **(18,703)** | **496** | **161** | **(35,748)** |
| **Negative net commitments** | **(4,196)** | **(4,497)** | **-** | **(9,791)** | **-** | **(28,975)** | **(4,282)** | **(779)** | **(52,520)** |
| **Positive net commitments** | **-** | **-** | **-** | **-** | **15,319** | **-** | **-** | **-** | **15,319** |

* *Except for actuarial assumptions*

| 31/12/2007 (in € thousands*) | France: Retirement indemnities | France: PSAD | France: CARDIF | Italy | United Kingdom | Germany | Belgium | The Nether-lands | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Expenses for the period** | **(475)** | **96** | **(135)** | **(1,210)** | **(4,259)** | **(11,523)** | **(1,021)** | **(668)** | **(19,195)** |
| • 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) |
| **Actuarial assumptions** | | | | | | | | | |
| • 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 | - | 60 | 60-65 | 63 | 63 | 60 | 65 | |
| • Remaining length of service | 10 | - | 5 | - | 20 | 15 | 12 | 28 | |
| • Other major assumptions used (1) | - | 60.00% | - | - | - | - | - | - | |

* *Except for actuarial assumptions*

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

**Structure of plan assets**

| | Retirement indemnities | PSAD | CARDIF | Italy | United Kingdom | Germany | Belgium | The Netherlands |
|---|---|---|---|---|---|---|---|---|
| • Equities | - | - | 23.00% | - | 40.00% | 20.34% | - | - |
| • Bonds | 100.00% | - | 27.00% | - | 60.00% | 77.21% | - | - |
| • Property | - | - | - | - | - | 2.43% | - | - |
| • Other | - | - | 50.00% | - | - | 0.02% | 100.00% | 100.00% |

| 31/12/2006 (in € thousands*) | France | | | Italy | United Kingdom | Germany | Belgium | The Nether-lands | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Retirement indemnities | PSAD | CARDIF | | | | | | |
| **Actuarial liability at start of period** | **(5,132)** | **(5,036)** | **(4,672)** | **(10,608)** | **(138,042)** | **(332,607)** | **(14,719)** | **(2,280)** | **(513,096)** |
| • Cost of services provided during the period | (345) | - | - | (978) | (3,970) | (9,761) | (761) | (416) | (16,231) |
| • Interest expense | (198) | (192) | (185) | (267) | (6,585) | (13,525) | (573) | (171) | (21,696) |
| • Employee contributions | - | - | - | - | - | (2,598) | (158) | - | (2,756) |
| • Change of pension plan | - | - | - | - | - | 1,925 | - | - | 1,925 |
| • Acquisitions/disposals of subsidiaries | 66 | (193) | - | - | - | (605) | - | - | (732) |
| • Reductions of pension plans | - | - | 1,473 | - | - | - | - | 8 | 1,481 |
| • Disposals of pension plans | - | - | - | - | - | - | - | - | - |
| • Exceptional events | - | - | - | - | - | - | - | - | - |
| • Actuarial gains (losses) due to a change in assumptions | - | - | - | - | (2,256) | 26,082 | 412 | 447 | 24,685 |
| • Actuarial gains (losses) due to a change in experience | (46) | (145) | 222 | - | (389) | (6,256) | - | (437) | (7,051) |
| • Benefits paid | 377 | 488 | 122 | 1,489 | 3,156 | 8,505 | 200 | 1 | 14,338 |
| • Translation differences | - | - | - | - | (2,837) | - | - | - | (2,837) |
| • Other | - | - | - | - | 210 | (166) | 461 | (1,817) | (1,312) |
| • Removal of the discretionary clause | - | - | - | - | 3,623 | - | - | 446 | 4,069 |
| **Actuarial liability at end of period** | **(5,278)** | **(5,078)** | **(3,040)** | **(10,364)** | **(147,090)** | **(329,006)** | **(15,138)** | **(4,219)** | **(519,213)** |
| **Fair value of assets at start of period** | **858** | **-** | **4,672** | **-** | **125,154** | **245,321** | **8,093** | **1,664** | **385,762** |
| • Actual return on plan assets | 57 | | 224 | - | 7,690 | 12,310 | 535 | 5 | 20,821 |
| • Experience effect on returns from assets | | | | | 325 | (2,032) | | | (1,707) |
| • Employee contributions | - | | - | - | - | 2,598 | | - | 2,598 |
| • Employer contributions | 98 | | - | - | 2,919 | 6,125 | 158 | 308 | 9,608 |
| • Acquisitions/disposals of subsidiaries | 74 | | - | - | - | - | 832 | 210 | 1,116 |
| • Reductions of pension plans | - | | (1,473) | - | - | - | - | - | (1,473) |
| • Disposals of pension plans | - | | - | - | - | - | - | - | - |
| • Benefits paid | (249) | | (122) | - | (3,156) | (5,444) | (200) | (1) | (9,172) |
| • Translation differences | - | | - | - | 2,572 | - | - | - | 2,572 |
| • Other | - | | - | - | (210) | - | - | 755 | 545 |
| **Fair value of assets at end of period** | **838** | **-** | **3,301** | **-** | **135,294** | **258,878** | **9,418** | **2,941** | **410,670** |
| **Actuarial differences still to be amortised** | **(283)** | **-** | **261** | **-** | **(30,124)** | **(43,325)** | **(422)** | **(110)** | **(74,003)** |
| **Provision for defined benefit plan** | **(4,157)** | **(5,078)** | **-** | **(10,364)** | **18,328** | **(26,803)** | **(5,298)** | **(1,168)** | **(34,540)** |

* *Except for actuarial assumptions*

| 31/12/2006 (in € thousands*) | France Retirement indemnities | France PSAD | France CARDIF | Italy | United Kingdom | Germany | Belgium | The Nether-lands | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Expenses for the period** | **(513)** | **(530)** | **1,473** | **(1,245)** | **4,255** | **(11,078)** | **(994)** | **(955)** | **(9,587)** |
| • Cost of services provided during the period | (345) | | - | (978) | (3,970) | (9,761) | (761) | (416) | (16,231) |
| • Financial cost (discounting effect) | (198) | (192) | (185) | (267) | (6,585) | (13,525) | (573) | (171) | (21,696) |
| • Expected return on plan assets | 35 | | 185 | - | 7,690 | 12,310 | 340 | 5 | 20,565 |
| • Expected return on all other assets | - | | - | - | - | - | - | - | - |
| • Amortisation of actuarial gains and losses | (2) | | - | - | (1,324) | (2,027) | - | - | (3,353) |
| • Amortisation of past service costs | - | | - | - | - | 1,925 | - | 200 | 2,125 |
| • Amortisation of initial unrecognised liability | - | | - | - | - | - | - | - | - |
| • Profit or loss resulting from reduction or liquidation | (3) | | 1,473 | - | - | - | - | 8 | 1,478 |
| • Asset ceiling | - | | - | - | - | - | - | - | - |
| • Exceptional events | - | | - | - | - | - | - | - | - |
| • Other (*see explanatory Note above*) | - | (338) | - | - | 8,444 | - | - | (581) | 7,525 |
| **Actuarial assumptions** | | | | | | | | | |
| • Discount rate | 4.00% | 4.60% | 4.00% | 4.50% | 5.10% | 4.60% | 4.50% | 4.60% | |
| • Rate of inflation | 2.00% | 2.00% | - | 2.00% | 3.15% | 1.50% | 2.00% | 2.00% | |
| • Expected rate of return on plan assets | 4.00% | - | 4.00% | - | 6.40% | 5.00% | 4.50% | 4.60% | |
| • Expected rate of return on all reimbursement rights | - | - | - | - | - | - | - | - | |
| • Expected rate of salary increases | 3.00% | - | - | 2.50% | 4.15% | 2.40% | 3.50% | 2.00% | |
| • Rate of increase in medical costs | - | - | - | - | - | - | - | 2.00% | |
| • Rate of increase in annuities | - | 1.90% | - | - | 3.15% | 1.50% | - | - | |
| • Retirement age | 60 | - | 60 | 60-65 | 63 | 63 | 60 | 65 | |
| • Remaining length of service | 10 | - | 5 | - | 20 | 15 | 12 | 28 | |
| • Other major assumptions used (1) | - | 60.00% | - | - | - | - | - | | |

* *Except for actuarial assumptions*

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

| **Structure of plan assets** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| • Equities | - | - | 23.00% | - | 49.00% | 20.34% | - | - | |
| • Bonds | 100.00% | - | 27.00% | - | 31.00% | 77.21% | - | - | |
| • Property | - | - | - | - | - | 2.43% | - | - | |
| • Other | - | - | 50.00% | - | 20.00% | 0.02% | 100.00% | 100.00% | |

## 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) | Pension Benefits | Post-Retirement Benefits |
|---|---|---|
| 2010 | 17,592 | 324 |
| 2011 | 15,819 | 153 |
| 2012 | 17,114 | - |
| 2013 | 18,334 | 102 |
| 2014 | 19,971 | 351 |
| 2015 | 21,036 | 159 |
| 2016 - 2020 | 126,501 | 2,093 |

# NOTE 17. BORROWINGS

## Breakdown by type

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Subordinated debt** | **-** | **-** |
| Term loans and other term borrowings | 255,118 | 1,261 |
| Demand accounts | - | - |
| **Borrowings from banking sector businesses** | **255,118** | **1,261** |
| Other borrowings | 249,168 | 405,882 |
| **TOTAL BORROWINGS** | **504,286** | **407,143** |

Borrowings from banking sector businesses correspond to the following items:

- loan 2010 from Crédit Agricole of €125 million in term in 18/06/2015, in the annual fixed rate of 3.05%;
- loan 2010 from HSBC of €125 million in term in 18/06/2015, in the annual fixed rate of 3.05%;
- loan from Emporiki Bank to Euler Hermes Emporiki Credit Insurance for €1 million;
- accrued interest for €4.15 million

Other borrowings mainly correspond to two loans contracted with Alllianz France International and Allianz Belgium:

- loan 2009 of €110 million in term in 10/09/2012, in the fixed rate Mid-Swaps 3 years + 60 basic points;
- loan 2010 of €135 million in term in 24/06/2020, in the annual fixed rate of 4.04%;
- accrued interest for €3.82 million.

## Breakdown by maturity

| (in € thousands) | 3 months or less | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **TOTAL BORROWINGS** | **2,367** | **6,919** | **360,000** | **135,000** | **504,286** |

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

| | 2010 | 2011 | 2012 | 2013 to 2019 (1) | 2020 |
|---|---|---|---|---|---|
| Borrowing 2009 of €110m maturity 10/09/2012, rate fixe Mid-Swaps 3 years + 60 basis points | 3.05 | 3.05 | 2.38 | | |
| Borrowing 2010 of €135m maturity 24/06/2020, annual rate fix to 4.04% | 2.73 | 5.45 | 5.45 | 38.18 | 2.73 |
| **TOTAL FUTUR INTEREST EXPENSES WITH ALLIANZ GROUP** | **5.78** | **8.50** | **7.83** | **38.18** | **2.73** |

| | 2010 | 2011 | 2012 | 2013 to 2014 (2) | 2015 |
|---|---|---|---|---|---|
| Borrowing 2010 of €125m maturity 18/06/2015, annual rate fix to 3.05% | 1.91 | 3.81 | 3.81 | 7.63 | 1.91 |
| Borrowing 2010 of €125m maturity 18/06/2015, annual rate fix to 3.05% | 1.91 | 3.81 | 3.81 | 7.63 | 1.91 |
| **TOTAL FUTUR INTEREST EXPENSES WITH OTHERS THAN ALLIANZ GROUP** | **3.81** | **7.63** | **7.63** | **15.25** | **3.81** |

*(1) This amount of interests is accumulated over 7 years; the annual amount of interest on loans amounts to 5.45 million euro.*
*(2) This amount of interests is accumulated over 2 years; the annual amount of interest by loan amounts to 3.81 million euro.*

## NOTE 18. TECHNICAL RESERVES

| (in € thousands) | December 31st, 2009 | Allowance net of writebacks | Foreign exchange differences | Other changes | December 31st, 2010 |
|---|---|---|---|---|---|
| Reserve for unearned premiums | 298,736 | (4,820) | 7,974 | 1,799 | 303,689 |
| Reserve for claims net of forecasts of recoveries | 1,424,760 | (117,146) | 18,887 | 694 | 1,327,195 |
| Reserve for no-claims bonuses and refunds | 113,055 | 39,226 | (1,907) | 136 | 150,510 |
| **Gross technical reserves** | **1,836,551** | **(82,740)** | **24,954** | **2,629** | **1,781,394** |
| Reserve for unearned premiums | 68,952 | (18,326) | 2,940 | (3,056) | 50,510 |
| Reserve for claims net of forecasts of recoveries | 427,226 | (13,852) | 4,934 | 452 | 418,760 |
| Reserve for no-claims bonuses and refunds | 21,403 | 11,223 | (1,654) | 122 | 31,094 |
| **Reinsurers' share of technical reserves** | **517,581** | **(20,955)** | **6,220** | **(2,482)** | **500,364** |
| **Net technical reserves** | **1,318,970** | **(61,785)** | **18,734** | **5,111** | **1,281,030** |

## Cost of claims

| (in € thousands) | Year ended December 31st, 2010 Gross | Reinsurance | Net | Year ended December 31st, 2009 Gross | Reinsurance | Net |
|---|---|---|---|---|---|---|
| **Cost of claims for the current period** | **1,092,840** | **(334,480)** | **758,360** | **1,452,108** | **(454,240)** | **997,868** |
| of which, claims paid | 227,949 | (85,783) | 142,166 | 443,443 | (130,963) | 312,480 |
| of which, claims reserves | 775,381 | (244,264) | 531,117 | 929,492 | (318,538) | 610,954 |
| of which, claims handling expenses | 89,510 | (4,433) | 85,077 | 79,173 | (4,739) | 74,434 |
| **Recoveries for the current period** | **(128,609)** | **45,423** | **(83,186)** | **(140,738)** | **39,628** | **(101,110)** |
| Recoveries received | (39,998) | 27,171 | (12,827) | (13,142) | 3,195 | (9,947) |
| Change in reserves for recoveries | (88,611) | 18,252 | (70,359) | (127,596) | 36,433 | (91,163) |
| **Cost of claims from prior periods** | **(269,805)** | **68,741** | **(201,064)** | **57,620** | **41,612** | **99,232** |
| of which, claims paid | 694,617 | (205,924) | 488,693 | 944,564 | (186,126) | 758,438 |
| of which, claims reserves | (954,615) | 273,359 | (681,256) | (878,122) | 228,456 | (649,666) |
| of which, claims handling expenses | (9,807) | 1,306 | (8,501) | (8,822) | (718) | (9,540) |
| **Recoveries from prior periods** | **10,373** | **(4,209)** | **6,164** | **(92,911)** | **9,063** | **(83,848)** |
| Recoveries received | (153,865) | 30,220 | (123,645) | (158,164) | 22,044 | (136,120) |
| Change in reserves for recoveries | 164,238 | (34,429) | 129,809 | 65,253 | (12,981) | 52,272 |
| **Cost of claims** | **704,799** | **(224,525)** | **480,274** | **1,276,079** | **(363,937)** | **912,142** |

## Claims reserves

| (in € thousands) | December 31st, 2010 Gross | Reinsurance | Net | December 31st, 2009 Gross | Reinsurance | Net |
|---|---|---|---|---|---|---|
| **Claims reserves gross of recoveries** | **1,557,083** | **(470,718)** | **1,086,365** | **1,727,088** | **(494,645)** | **1,232,443** |
| Current period | 819,386 | (247,103) | 572,283 | 978,315 | (322,827) | 655,488 |
| Prior periods | 737,697 | (223,615) | 514,082 | 748,773 | (171,818) | 576,955 |
| **Recoveries to be received** | **(229,888)** | **51,958** | **(177,930)** | **(302,327)** | **67,419** | **(234,908)** |
| Current period | (89,986) | 19,163 | (70,823) | (127,752) | 36,507 | (91,245) |
| Prior periods | (139,902) | 32,795 | (107,107) | (174,575) | 30,912 | (143,663) |
| **Claims reserves** | **1,327,195** | **(418,760)** | **908,435** | **1,424,761** | **(427,226)** | **997,535** |

## Breakdown by type of reserve

| (in € thousands) | December 31st, 2010 Gross | Reinsurance | Net | December 31st, 2009 Gross | Reinsurance | Net |
|---|---|---|---|---|---|---|
| **Reserves for unearned premiums** | **303,689** | **(50,510)** | **253,179** | **298,736** | **(68,952)** | **229,784** |
| **Claims reserves** | **1,327,195** | **(418,760)** | **908,435** | **1,424,760** | **(427,226)** | **997,534** |
| of which, reserves for known claims | 922,871 | (313,706) | 609,165 | 1,157,922 | (348,067) | 809,855 |
| of which, reserves for late claims | 532,256 | (146,324) | 385,932 | 461,422 | (137,999) | 323,423 |
| of which, reserves for claims handling expenses | 94,995 | (7,842) | 87,153 | 109,030 | (8,580) | 100,450 |
| of which, other technical reserves | 6,960 | (2,846) | 4,114 | (1,286) | 1 | (1,285) |
| of which, recoveries to be received | (229,887) | 51,958 | (177,929) | (302,328) | 67,419 | (234,909) |
| **No-claims bonuses and rebates** | **150,510** | **(31,094)** | **119,416** | **113,055** | **(21,403)** | **91,652** |
| **Technical reserves** | **1,781,394** | **(500,364)** | **1,281,030** | **1,836,551** | **(517,581)** | **1,318,970** |

## NOTE 19. INSURANCE AND REINSURANCE LIABILITIES

### Breakdown by type and by maturity

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Policyholders' guarantee deposits and miscellaneous | 91,001 | 105,366 |
| Due to policyholders and agents | 103,624 | 102,831 |
| **Liabilities arising from inwards insurance and reinsurance transactions** | **194,625** | **208,197** |
| Due to reinsurers and assignors | 147,495 | 131,148 |
| Deposits received from reinsurers | 24,861 | 39,252 |
| **Outwards reinsurance liabilities** | **172,356** | **170,400** |
| **TOTAL INSURANCE AND REINSURANCE LIABILITIES** | **366,981** | **378,597** |

| (in € thousands) | 3 months or less | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **TOTAL INSURANCE AND REINSURANCE LIABILITIES** | **366,189** | **793** | **-** | **-** | **366,981** |

## NOTE 20. OTHER LIABILITIES

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Tax and social liabilities | 120,211 | 93,215 |
| Other operating liabilities | 105,413 | 67,822 |
| Deferred income | 9,763 | 8,343 |
| Other accrued expenses | - | 0 |
| Other liabilities | 12,266 | 12,417 |
| **TOTAL OTHER LIABILITIES** | **247,653** | **181,797** |

| (in € thousands) | 3 months or less | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **TOTAL OTHER LIABILITIES** | **236,822** | **3,575** | **5,055** | **2,201** | **247,653** |

The other liabilities are mainly liabilities under service agreement for €12.2 million.

## NOTE 21. BREAKDOWN OF INCOME NET OF REINSURANCE

| | Twelve months ended December 31st, 2010 | | | Twelve months ended December 31st, 2009 | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| Premiums and commissions | 1,891,266 | (660,868) | 1,230,398 | 1,736,217 | (619,659) | 1,116,558 |
| Premiums refunded | (120,885) | 33,354 | (87,531) | (63,079) | 19,637 | (43,442) |
| Gross premiums written - credit insurance | 1,770,381 | (627,514) | 1,142,867 | 1,673,138 | (600,022) | 1,073,116 |
| Change in unearned premiums | 4,818 | (7,871) | (3,053) | 21,347 | 16,697 | 38,044 |
| **Earned premiums** | **1,775,199** | **(635,385)** | **1,139,814** | **1,694,485** | **(583,325)** | **1,111,160** |
| Premium-related revenues | 372,535 | - | 372,535 | 391,226 | - | 391,226 |
| **Turnover** | **2,147,734** | **(635,385)** | **1,512,349** | **2,085,711** | **(583,325)** | **1,502,386** |
| **Net investment income** | **123,248** | **-** | **123,248** | **148,409** | **-** | **148,409** |
| Claims paid | (727,006) | 234,316 | (492,690) | (1,216,700) | 291,849 | (924,851) |
| Claims reserves expense | 102,568 | (12,918) | 89,650 | 10,974 | 66,631 | 77,605 |
| Claims handling expense | (80,361) | 3,127 | (77,234) | (70,353) | 5,457 | (64,896) |
| **Insurance services expense** | **(704,799)** | **224,525** | **(480,274)** | **(1,276,079)** | **363,937** | **(912,142)** |
| Brokerage commissions | (174,432) | - | (174,432) | (175,724) | - | (175,724) |
| Other acquisition costs | (172,254) | - | (172,254) | (153,216) | - | (153,216) |
| Change in acquisition costs capitalised | (2,438) | - | (2,438) | (2,983) | - | (2,983) |
| **Contract acquisition expense** | **(349,124)** | **-** | **(349,124)** | **(331,923)** | **-** | **(331,923)** |
| **Impairment of portfolio securities and similar** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Administration expense** | **(193,643)** | **-** | **(193,643)** | **(175,919)** | **-** | **(175,919)** |
| **Commissions received from reinsurers** | **-** | **194,783** | **194,783** | **-** | **194,071** | **194,071** |
| **Other ordinary operating income and expense** | **(335,466)** | **-** | **(335,466)** | **(341,256)** | | **(341,256)** |
| **Ordinary operating income** | **687,950** | **(216,077)** | **471,873** | **108,943** | **(25,317)** | **83,626** |

## NOTE 22. NET FINANCIAL INCOME

| (in € thousands) | Year ended December 31st 2010 | 2009 |
|---|---|---|
| **Revenues from investment property** | **1,683** | **5,741** |
| Revenues from securities | 68,723 | 65,840 |
| Available for sale assets through equity | - | - |
| Held to maturity | 41 | 76 |
| **Revenues from equity & debt securities** | **68,764** | **65,916** |
| Revenues from loans, deposits and other financial investments | 19,996 | 23,340 |
| Other financial income | 2,913 | 1,979 |
| **Investment income** | **93,356** | **96,976** |
| Depreciation of investment property | (258) | (1,493) |
| Investment management expenses | (7,177) | (8,507) |
| Interest paid to reinsurers | (377) | (341) |
| Other financial expenses | (1) | - |
| **Investment expense** | **(7,813)** | **(10,341)** |
| **Profits (losses) on sales of property** | **19,969** | **26,420** |
| Available for sale assets through equity | 8,495 | 40,776 |
| Trading assets | - | - |
| Held to maturity | - | - |
| On sales of loans to banks and customers | - | 4,076 |
| **Profits (losses) on sales of securities** | **8,495** | **44,852** |
| Profits (losses) on sales of participating interests | 1 | - |
| **Net gain (loss) on sales of investments less impairment and depreciation writebacks** | **28,465** | **71,272** |
| Change in fair value of derivatives | 200 | 1,363 |
| Change in fair value of trading assets | - | - |
| **Change in fair value of investments recognised at fair value through the income statement** | **200** | **1,363** |
| Reserve for impairment of investments | (3,982) | (1,335) |
| **Change in impairment of investments** | **(3,982)** | **(1,335)** |
| **Net change in foreign currency** | **13,022** | **(9,525)** |
| **Net financial income (excluding financing expense)** | **123,248** | **148,410** |

## NOTE 23. OPERATING LEASES

| | December 31st, 2010 | | | |
|---|---|---|---|---|
| (in € thousands) | United Kingdom | United States | Netherlands | Scandinavia |
| Less than 1 year | 194 | 1,527 | 0 | 0 |
| 1 to 5 years | 681 | 4,810 | 873 | 0 |
| More than 5 years | 1,918 | 3,382 | 0 | 0 |
| **TOTAL** | **2,793** | **9,720** | **873** | **0** |

| | December 31st, 2009 | | | |
|---|---|---|---|---|
| (in € thousands) | 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 |
| **TOTAL** | **3,748** | **9,957** | **865** | **1,075** |

## NOTE 24. EXPENSES BY DESTINATION ALLOCATED BY NATURE

| | Year ended December 31st, | | |
|---|---|---|---|
| (in € thousands) | 2010 | 2009 | Evolution |
| Other ordinary operating income and expense | (335,466) | (341,256) | -1.70% |
| Contract acquisition expense | (349,124) | (331,923) | 5.18% |
| Administration expense | (193,643) | (175,919) | 10.08% |
| Claims handling expenses | (94,806) | (72,905) | 30.04% |
| Investment management charges | (7,813) | (10,341) | -24.45% |
| **TOTAL EXPENSES BY DESTINATION** | **(980,852)** | **(932,344)** | **5.20%** |

| | Year ended December 31st, | | |
|---|---|---|---|
| (in € thousands) | 2010 | 2009 | Evolution |
| Expenses linked to personal | (458,925) | (434,728) | 5.57% |
| Commissions | (205,536) | (208,690) | -1.51% |
| IT expenses | (104,365) | (63,476) | 64.42% |
| Renting and maintenance expenses | (47,221) | (43,283) | 9.10% |
| Allowance & amortisation | (8,053) | (31,692) | -74.59% |
| Legal, advertising & consulting expenses | (30,229) | (30,678) | -1.46% |
| Other non recurring expenses | - | (5,790) | -100.00% |
| Other recurring expenses | (126,523) | (114,008) | 10.98% |
| **TOTAL EXPENSES BY NATURE** | **(980,852)** | **(932,345)** | **5.20%** |

## NOTE 25. OTHER ORDINARY OPERATING REVENUES AND EXPENSES

| (in € thousands) | Year ended December 31st, 2010 | 2009 |
|---|---|---|
| Other technical income | 28,021 | 13,703 |
| Other non-technical income | - | - |
| **Other ordinary operating income** | **28,021** | **13,703** |
| Other technical expense | (354,854) | (342,809) |
| Other non-technical expense | (306) | (1,987) |
| Employee profit sharing and bonuses | (8,327) | (10,163) |
| **Other ordinary operating expense** | **(363,487)** | **(354,959)** |
| **Other ordinary operating income and expense** | **(335,466)** | **(341,256)** |

The other non-technical expense are mainly interests on defined benefit plans (€11.7 million) net of interest income of counterpart asset plans (€9.3m).

The other technical expense mainly concern information fees and collection fees.

## NOTE 26. CORPORATION TAX

### Breakdown of tax charge

| (in € thousands) | December 31st, 2010 |
|---|---|
| Corporation tax | 52,136 |
| Adjustments relating to prior years | (133) |
| Provision for tax uncertainties & penalties | 5,450 |
| Other | (4,577) |
| **Total current tax** | **52,876** |
| Timing differences | 51,613 |
| Change in tax rate or new tax | (9,458) |
| Tax benefits relating to prior years | (1,654) |
| Other | - |
| **Total differed tax** | **40,501** |
| **TOTAL CORPORATION TAX AS REPORTED IN THE INCOME STATEMENT** | **93,377** |

## Tax proof

(in € thousands)

| | | |
|---|---|---|
| **Consolidated income before taxes** | **391,160** | |
| Theoretical tax rate | | 34.43% |
| Tax at theoretical tax rate | (134,676) | |
| Tax at effective tax rate | (93,377) | 23.87% |
| **Difference** | **(41,300)** | **10.56%** |
| **Impact of differences between group and local tax rates** | **31,268** | **-7.99%** |
| o/w Swiss tax rate impact 17,5% | 25,346 | -6.48% |
| o/w British tax rate impact 28% | 1,245 | -0.32% |
| o/w German tax rate impact 32,28% | 1,880 | -0.48% |
| o/w German special tax rate impact 17,67% (Bürgel) | 1,489 | -0.38% |
| **Local specific taxes** | **(404)** | **0.10%** |
| o/w CVAE - France (1%) | (2,400) | 0.61% |
| o/w IRAP - Italy (4,97%) | 678 | -0.17% |
| o/w German trade tax | 1,318 | -0.34% |
| **Specitic rates** | **590** | **-0.15%** |
| o/w Reduced tax rate on internal selling of shares | (506) | 0.13% |
| o/w Realized gains on real estate - lower rate of 19,627% - France | 1,096 | -0.28% |
| **Tax impact on capitalisation reserve (Exit tax & cancellation of the basis) - France** | **6,573** | **-1.68%** |
| **Restatement of the equity method net income impact** | **5,211** | **-1.33%** |
| **Prior years tax reappraisal (mainly Belgium for 1,7€m)** | **3,339** | **-0.85%** |
| **Non taxable local net income for the funds Euler & Euro Gestion** | **2,219** | **-0.57%** |
| **Utilization of Net Ordinary Losses previously unrecognized** | **1,416** | **-0.36%** |
| **Belgian nationals interests** | **1,119** | **-0.29%** |
| **Net tax integration Boni - France** | **1,047** | **-0.27%** |
| **Non deductible dividends (5%)** | **(5,168)** | **1.32%** |
| **Tax impact of British & Hong Kong branches in Germany** | **(3,361)** | **0.86%** |
| **Provision for tax uncertainties** | **(1,453)** | **0.37%** |
| **Other** | **(1,099)** | **0.28%** |

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 23.87%.

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 31st, | |
|---|---|---|
| | 2010 | 2009 |
| Distributable net income (in € thousands) | 294,452 | 18,988 |
| Weighted average number of ordinary shares before dilution | 43,687,621 | 43,919,192 |
| **Earnings per share (€)** | **6.74** | **0.43** |
| Distributable net income (in € thousands) | 294,452 | 18,988 |
| Weighted average number of ordinary shares after dilution | 43,782,712 | 43,946,746 |
| **Diluted earnings per share (€)** | **6.73** | **0.43** |

The dilution impact takes into account the exercise of options.

The average number of shares resulting from dilution is 95 091 in 2010 (27,554 in 2009).

The Group share of net income is used as the basis for this calculation.

### Dividend per share

Considering 2009 results, Euler Hermes group decided not to pay dividends to protect its stockholders' equity.

## 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.

Since January 1st, 2010, the implementation of the project One Euler Hermes has generated a new well-balanced geographical organization. These changes aroused the creation of six completely given responsibilities regions: Germany/Austria/Switzerland, Americas, Asia/Pacific, France, Northern Europe and Mediterranean Countries/Africa.

In order to provide a comparison between the nine months ended December 31st, 2010 and December 31st, 2009, the segment data of December 31st, 2009 had been modified to fit with the 2010 geographical area applied since January 1st, 2010.

## Profit & loss by segment

| | Twelve months ended December 31st, 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Germany, Austria, Switzerland | France | Northern Europe | Mediterranean Countries & Africa | Americas | Asia Pacific | Reinsurance Group | Group services | Inter-segment eliminations | Group |
| Premiums written | 674,944 | 347,498 | 424,326 | 177,539 | 188,678 | 44,528 | 955,988 | - | (922,235) | 1,891,266 |
| Premiums refunded | (54,339) | (32,685) | (23,635) | (5,200) | (2,562) | (1,326) | (59,517) | - | 58,379 | (120,885) |
| Change in unearned premiums | 967 | 438 | 3,631 | 1,647 | (3,750) | 1,204 | (14,140) | - | 14,821 | 4,818 |
| **Earned premiums - non-Group** | **621,572** | **315,251** | **404,322** | **173,986** | **182,366** | **44,406** | **882,331** | **-** | **(849,035)** | **1,775,199** |
| Premium-related revenues - non-Group | 169,984 | 75,037 | 67,389 | 48,004 | 32,701 | 15,833 | - | 24,281 | (60,694) | 372,535 |
| **Turnover - intra-sectoral** | **791,556** | **390,288** | **471,711** | **221,990** | **215,067** | **60,239** | **882,331** | **24,281** | **(909,729)** | **2,147,734** |
| Investment income | 69,938 | 43,298 | 11,065 | 8,070 | 10,572 | 5,022 | 11,701 | 197,883 | (234,301) | 123,248 |
| *Of which, dividends* | *(3,958)* | *(1)* | - | - | - | - | - | *(193,935)* | *197,894* | - |
| **Total ordinary income** | **861,494** | **433,586** | **482,776** | **230,060** | **225,639** | **65,261** | **894,032** | **222,164** | **(1,144,030)** | **2,270,982** |
| Insurance services expense | (246,029) | (103,989) | (212,163) | (74,194) | (53,445) | (18,491) | (277,465) | - | 280,977 | (704,799) |
| Outwards reinsurance expense | (357,500) | (124,938) | (249,724) | (113,763) | (120,148) | (28,368) | (489,979) | - | 849,035 | (635,385) |
| Outwards reinsurance income | 232,751 | 81,710 | 178,678 | 74,483 | 69,064 | 18,994 | 276,431 | - | (512,803) | 419,308 |
| Other income and expense | (317,982) | (152,517) | (174,014) | (107,495) | (86,128) | (31,474) | (243,905) | (56,615) | 291,897 | (878,233) |
| **Total other income and expense** | **(688,760)** | **(299,734)** | **(457,223)** | **(220,969)** | **(190,657)** | **(59,339)** | **(734,918)** | **(56,615)** | **909,106** | **(1,799,109)** |
| **Ordinary operating income** | **172,734** | **133,852** | **25,553** | **9,091** | **34,982** | **5,922** | **159,114** | **165,549** | **(234,924)** | **471,873** |
| Autres produits et charges opérationnels | (41,540) | (2,634) | (23,619) | (9,126) | (1,799) | - | - | (4,225) | - | (82,943) |
| **Operating income** | **131,194** | **131,218** | **1,934** | **(35)** | **33,183** | **5,922** | **159,114** | **161,324** | **(234,924)** | **388,930** |
| Financing expense | (532) | (102) | (1,693) | (290) | (417) | (14) | (126) | (16,257) | 5,859 | (13,572) |
| Income from companies accounted for by the equity method | 10,660 | 5,142 | - | - | - | - | - | - | - | 15,802 |
| Corporation tax | (29,473) | (39,462) | 3,945 | 21 | (11,433) | (589) | (28,822) | 12,436 | - | (93,377) |
| **Consolidated net income** | **111,849** | **96,796** | **4,186** | **(304)** | **21,333** | **5,319** | **130,166** | **157,503** | **(229,065)** | **297,783** |
| *o/w* | - | | | | | | | | | |
| **NET INCOME, GROUP SHARE** | **108,689** | **96,424** | **4,186** | **(103)** | **21,333** | **5,319** | **130,166** | **157,503** | **(229,065)** | **294,452** |
| Minority interests | 3,160 | 372 | - | (201) | - | - | - | - | - | 3,331 |

| (in € thousands) | Year ended December 31st, 2009 Germany, Austria, Switzerland | France | Northern Europe | Mediterranean Countries & Africa | Americas | Asia Pacific | Reinsurance Group | Group services | Inter-segment eliminations | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Premiums written | 616,882 | 311,023 | 382,035 | 192,228 | 164,793 | 43,083 | 726,405 | - | (700,232) | 1,736,217 |
| Premiums refunded | (34,418) | (18,243) | (11,345) | 4,103 | - | (614) | (28,814) | - | 26,252 | (63,079) |
| Change in unearned premiums | 11,346 | (140) | 6,888 | (815) | 5,486 | (23) | 5,562 | - | (6,957) | 21,347 |
| **Earned premiums - non-Group** | **593,810** | **292,640** | **377,578** | **195,516** | **170,279** | **42,446** | **703,153** | **-** | **(680,937)** | **1,694,485** |
| Premium-related revenues - non-Group | 180,122 | 77,451 | 75,401 | 56,227 | 28,223 | 12,418 | - | 17,742 | (56,358) | 391,226 |
| **Turnover - intra-sectoral** | **773,932** | **370,091** | **452,979** | **251,743** | **198,502** | **54,864** | **703,153** | **17,742** | **(737,295)** | **2,085,711** |
| Investment income | 54,930 | 72,204 | 16,023 | 13,739 | 13,121 | (1,788) | (2,079) | 177,535 | (195,275) | 148,410 |
| *Of which, dividends* | - | - | - | - | - | - | - | - | - | - |
| **Total ordinary income** | **828,862** | **442,295** | **469,002** | **265,482** | **211,623** | **53,076** | **701,074** | **195,277** | **(932,570)** | **2,234,121** |
| Insurance services expense | (451,718) | (148,952) | (375,911) | (104,132) | (136,311) | (37,115) | (583,401) | - | 561,461 | (1,276,079) |
| Outwards reinsurance expense | (326,037) | (60,594) | (204,161) | (92,326) | (87,342) | (23,792) | (470,010) | - | 680,937 | (583,325) |
| Outwards reinsurance income | 358,173 | 43,670 | 258,453 | 47,639 | 95,171 | 29,876 | 493,643 | - | (768,617) | 558,008 |
| Other income and expense | (326,760) | (149,691) | (174,955) | (111,315) | (78,132) | (24,038) | (215,410) | (32,334) | 263,537 | (849,098) |
| **Total other income and expense** | **(746,342)** | **(315,567)** | **(496,574)** | **(260,134)** | **(206,614)** | **(55,069)** | **(775,178)** | **(32,334)** | **737,318** | **(2,150,494)** |
| **Ordinary operating income** | **82,520** | **126,728** | **(27,572)** | **5,348** | **5,009** | **(1,993)** | **(74,104)** | **162,943** | **(195,252)** | **83,627** |
| Other operating income (expense) | - | - | - | (8,856) | - | - | - | - | - | (8,856) |
| **Operating income** | **82,520** | **126,728** | **(27,572)** | **(3,508)** | **5,009** | **(1,993)** | **(74,104)** | **162,943** | **(195,252)** | **74,771** |
| Financing expense | (181) | (189) | (1,127) | (228) | (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 | (30,409) | (43,346) | 9,750 | (2,971) | (1,974) | (361) | 12,866 | 8,184 | - | (48,261) |
| **Consolidated net income** | **56,793** | **84,974** | **(18,949)** | **(6,707)** | **2,636** | **(2,370)** | **(61,066)** | **154,931** | **(187,101)** | **23,141** |
| *o/w* | | | | | | | | | | |
| **NET INCOME, GROUP SHARE** | **53,459** | **84,604** | **(18,981)** | **(7,124)** | **2,636** | **(2,370)** | **(61,066)** | **154,931** | **(187,101)** | **18,988** |
| Minority interests | 3,334 | 370 | 32 | 417 | - | - | - | - | - | 4,153 |

## Depreciation, amortisation and provisions by segment

| | Year ended December 31st, 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Germany, Austria, Switzerland | France | Northern Europe | Mediterranean Countries & Africa | Americas | Asia Pacific | Reinsurance group | Group services | Inter-segment eliminations | Group |
| **Provisions for loans and receivables** | (13,352) | (2,910) | (289) | (11) | (985) | - | - | 88 | - | **(17,459)** |

| | Year ended December 31st, 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Germany | IDC Germany Europe | IDC Germany Asia | France & IDC | Italy | United Kingdom | North & South America | Belgium | Netherlands | Group Reinsurance |
| **Provisions for loans and receivables** | 360 | (2,749) | (43) | (38) | - | - | - | 1,005 | - | **(1,465)** |

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 2009 and 2010 financial statements.

The impairment of €13.4 million accounted in the segment Germany, Austria & Switzerland is linked to the IT project Convergence (*cf. Note 1. Significant events*).

## Balance sheet by segment

| | December 31st, 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Germany, Austria, Switzerland | France | Northern Europe | Mediterranean Countries & Africa | Americas | Asia Pacific | Reinsurance group | Group services | Inter-segment eliminations | Group |
| Goodwill | - | - | 65,117 | 7,803 | 31,731 | 3,064 | - | (2) | - | 107,713 |
| Other intangible assets | 29,662 | 10,849 | 8,363 | 3,125 | 3,571 | 977 | 1,371 | 9,902 | (2,266) | 65,554 |
| Investments - insurance businesses | 551,257 | 782,450 | 149,059 | 151,836 | 87,926 | 9,877 | 193,776 | 1,843,071 | (316,074) | 3,453,178 |
| Investments accounted for by the equity method | 63,715 | 34,352 | - | - | - | - | - | (1) | - | 98,066 |
| Share of assignees and reinsurers in the technical reserves and financial liabilities | 222,274 | 61,825 | 221,549 | 167,103 | 69,183 | 28,497 | 283,996 | 110 | (554,173) | 500,364 |
| Insurance and reinsurance receivables | 94,718 | 80,982 | 196,466 | 53,264 | 61,565 | 17,930 | 241,015 | (47) | (154,560) | 591,333 |
| Other assets | 304,794 | 154,907 | 134,938 | 87,539 | 76,993 | (14,930) | 51,180 | 170,069 | (122,513) | 842,977 |
| **TOTAL ASSETS** | **1,266,420** | **1,125,365** | **775,492** | **470,670** | **330,969** | **45,415** | **771,338** | **2,023,102** | **(1,149,586)** | **5,659,185** |
| Technical reserves | 461,371 | 234,352 | 482,308 | 352,984 | 194,756 | 49,544 | 553,208 | 48 | (547,177) | 1,781,394 |
| Liabilities related to inwards insurance and reinsurance transactions | 19,962 | 69,770 | 32,885 | 21,697 | 3,402 | 4,581 | (6,923) | 442 | 48,809 | 194,625 |
| Liabilities related to outwards reinsurance transactions | 36,356 | 10,664 | 108,235 | 36,389 | 24,679 | 433 | 211,053 | 43 | (255,497) | 172,355 |
| Other liabilities | 423,890 | 264,267 | 131,753 | 68,605 | 43,456 | 6,989 | 9,088 | 732,439 | (318,115) | 1,362,372 |
| **TOTAL LIABILITIES** | **941,579** | **579,053** | **755,181** | **479,675** | **266,293** | **61,547** | **766,426** | **732,972** | **(1,071,980)** | **3,510,746** |

| (in € thousands) | December 31st, 2009 Germany, Austria, Switzerland | France | Northern Europe | Mediter-ranean Countries & Africa | Americas | Asia Pacific | Reinsurance group | Group services | Inter-segment eliminations | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | - | 393 | 63,285 | 7,803 | 29,429 | 2,672 | - | - | - | 103,582 |
| Other intangible assets | 42,388 | 13,485 | 16,375 | 6,244 | 2,555 | 979 | 1,517 | 8,849 | (1,640) | 90,752 |
| Investments - insurance businesses | 481,472 | 637,519 | 85,014 | 163,037 | 114,326 | 4,538 | 125,218 | 1,570,516 | (311,675) | 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 | 238,286 | 32,884 | 210,535 | 169,369 | 58,348 | 31,209 | 315,185 | 110 | (538,345) | 517,581 |
| Insurance and reinsurance receivables | 102,501 | 79,633 | 248,372 | 83,021 | 56,540 | 15,805 | 130,478 | (47) | (141,785) | 574,518 |
| Other assets | 270,377 | 255,762 | 120,386 | 92,377 | 65,993 | (9,295) | 92,855 | 127,434 | (111,588) | 904,301 |
| **TOTAL ASSETS** | **1,194,031** | **1,049,923** | **743,967** | **521,851** | **327,191** | **45,908** | **665,253** | **1,706,862** | **(1,105,033)** | **5,149,953** |
| Technical reserves | 492,332 | 218,417 | 480,485 | 393,646 | 175,404 | 55,671 | 558,730 | 48 | (538,182) | 1,836,551 |
| Liabilities related to inwards insurance and reinsurance transactions | 20,907 | 70,814 | 24,596 | 34,835 | 4,186 | 3,334 | 98,323 | (5) | (46,385) | 210,605 |
| Liabilities related to outwards reinsurance transactions | 13,769 | (2,217) | 99,467 | 40,219 | 82,534 | 482 | 121,682 | 43 | (185,579) | 170,400 |
| Other liabilities | 347,795 | 239,705 | 104,584 | 58,878 | 23,861 | 9,746 | 9,953 | 610,667 | (289,269) | 1,115,920 |
| **TOTAL LIABILITIES** | **874,803** | **526,719** | **709,132** | **527,578** | **285,985** | **69,233** | **788,688** | **610,753** | **(1,059,415)** | **3,333,476** |

## NOTE 29. RELATED PARTIES

Euler Hermes is owned mainly by the Allianz France group, which in turn is 100%-owned by the Allianz group.

The breakdown of the Euler Hermes group is as follows:

| | Number of shares | % |
|---|---|---|
| Allianz SA | 26,864,230 | 59.56% |
| Allianz Vie | 3,879,818 | 8.60% |
| Treasury shares | 1,267,444 | 2.81% |
| **Sub-total** | **32,011,492** | **70.97%** |
| Public (bearer securities) | 13,091,240 | 29.03% |
| **TOTAL** | **45,102,732** | **100.00%** |

### Transactions

| | Year ended December 31st, 2010 | | | | Year ended December 31st, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Allianz SE | Allianz Belgium | Allianz SA & International | Related companies and joint ventures | Allianz SE | Allianz Belgium | Allianz SA & International | Related companies and joint ventures |
| Operating income | 41,447 | - | - | 16,328 | 41,161 | - | - | 37,395 |
| Insurance services expense | (43,535) | - | - | (1,178) | (26,560) | - | - | (19,549) |
| Net income or expense on reinsurance | (57,517) | - | - | (68) | 1,047 | - | - | (125) |
| Financing expense | - | (3,662) | (4,268) | - | - | (1,712) | (7,897) | - |
| Other financial net incomes | (9,993) | - | - | (2,109) | (10,052) | - | - | (11,529) |

### Receivables and liabilities

| | December 31st, 2010 | | | | December 31st, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| (in € thousands) | Allianz SE | Allianz Belgium | Allianz France SA & International | Related companies and joint ventures | Allianz SE | Allianz Belgium | Allianz France SA & International | Related companies and joint ventures |
| Financial Investments (Allianz SE bond) | 160,000 | - | - | - | 160,000 | - | - | - |
| Current accounts (accrued interests included) | (22,854) | - | (237) | (200) | 37,940 | - | - | 44 |
| Net operating receivables | 1,831 | - | - | 3,087 | 1,458 | - | - | 594 |
| Borrowings (accrued interests included) | - | 137,879 | 110,936 | - | - | 135,031 | 268,016 | - |
| Operating liabilities | 1,140 | - | 201 | 237 | 2,046 | - | 220 | 113 |

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

- Euler Hermes Reinsurance AG;
- Euler Hermes Kreditversicherungs AG;
- Euler Hermes holdings UK Plc;
- Euler Hermes SIAC spa;
- Euler Hermes SFAC SA.

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 two loans contracted with Allianz France International and Allianz Belgium:

- 2009 loan of €110 million maturing in September 2012, at fixed interest rate Mid-Swaps 3 years + 60 basis points;
- 2010 loan of €135 million maturing in June 2020, at the annual fixed rate of 4.04%.

In June, Euler Hermes re-financed two loans with Allianz France SA company (€90 million in term in June 19th, 2010 and €67 million in term in June 21st, 2010) by two loans with the Crédit Agricole (€125m in term in June 18th, 2015) and of HSBC (€125m in term in June 18th, 2015).

## Remuneration of senior executives

### MEMBERS OF THE GROUP MANAGEMENT BOARD

| (in € thousands) | December 31st, 2010 | 2009 |
|---|---|---|
| Salaries and other short term benefits for the year | 5,902 | 2,862 |
| Benefits in kind | 51 | 39 |
| Other indemnities | 206 | 372 |
| **TOTAL** | **6,159** | **3,273** |
| Share-based attribution (number) | | |
| • Euler Hermes options | - | - |
| • SAR/RSU | 19,374 | 4,634 |

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.

Some members of the Group Management Board who are solely corporate officers and are not employees are protected by special agreements in the case of cessation of activity. These agreements are intended to replace the statutory provisions protecting salaried employees in the event of dismissal. These specific provisions concern Mr. Verstraete, Dirk Oevermann and Gerd-Uwe Baden.

For Wilfried Verstraete, gross compensation would total 200% of his last fixed and variable annual remuneration.

Dirk Oevermann would receive compensation worth two years of variable remuneration (annual bonus + mid-term bonus).

In accordance with the TEPA law dated August 21st, 2007, this compensation is subject to meeting performance criteria.

Dirk Oevermann's performance condition is met if the average rate of return on risk-adjusted capital (RoRAC) as observed by the Supervisory Board in the consolidated financial statements audited over the past two financial years before his cessation of activity is greater than or equal to the rate for the budget approved in the Planning Dialogue. In the event of removal in the first two years of office, i.e. on or before December 31st, 2011, the performance condition is met if the RoRAC as observed by the Supervisory Board in the audited 2010 consolidated financial statements is greater than or equal to 6.23% for 2010.

For Wilfried Verstraete, the performance condition is considered to have been met if the average RoRAC as recorded by the Supervisory Board in the audited consolidated financial statements for the two years prior to the cessation of activity, exceeds 9%.

In the event of removal from office between January 1st, 2010 and December 31st, 2011, the performance condition is considered to have been met if annual RoRAC as observed by the Supervisory Board in the consolidated interim financial statements available from the 2nd half of 2009 exceeds the rate retained for the 2010 Strategic Dialogue, i.e. 7%.

Should he be removed from office, Gerd-Uwe Baden, Member of the Group Management Board of Euler Hermes SA AG, would be entitled, under his employment contract with the Euler Hermes Kreditversicherung AG subsidiary, to compensation equal to 50% of his final gross fixed and variable compensation. The Supervisory Board, at its meeting of February 15, 2008, on the advice of the Remuneration Committee, made the compensation payment due upon removal from office conditional to a performance condition. This performance condition is deemed to be met if the following criterion is fulfilled: if the average rate of return on risk-adjusted capital (RORAC), as recorded by the Supervisory Board per the audited consolidated financial statements for the two years prior to the removal from office, is equal to or above 8%.

### MEMBERS OF THE SUPERVISORY BOARD

| (in € thousands) | December 31st, 2010 | 2009 |
|---|---|---|
| Salaries and other short term benefits for the year | 5,592 | 4,771 |
| Capital gain from SAR/RSU exercise | - | - |
| Benefits in kind | 173 | 173 |
| **TOTAL** | **€ 5,765** | **€ 4,944** |
| Share-based payments (number) | | |
| • SAR/RSU | 36,356 | 48,638 |

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.

## NOTE 30. GROUP EMPLOYEES

| | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| Germany | 2,022 | 2,041 |
| Switzerland | 51 | 50 |
| **Total Germany & Switzerland** | **2,073** | **2,091** |
| France | 1,137 | 1,100 |
| **Total France** | **1,137** | **1,100** |
| United-States | 444 | 453 |
| Mexico | 42 | 40 |
| Brazil | 26 | 27 |
| Argentina | 6 | 7 |
| Chile | 5 | - |
| Colombia | 5 | 5 |
| **Total America** | **528** | **532** |
| United-Kingdom | 472 | 505 |
| Belgium | 219 | 214 |
| Nordic | 164 | 152 |
| Netherlands | 117 | 143 |
| Poland | 114 | 97 |
| Hungaria | 61 | 71 |
| Czeck Republic | 54 | 49 |
| Lithuania | - | 20 |
| Slovakia | 30 | 36 |
| Romania | 28 | 27 |
| Latvia | - | 5 |
| Estonia | - | 11 |
| Russia | 17 | 1 |
| **Total Northern Europe** | **1,276** | **1,331** |
| Italy | 407 | 394 |
| Spain | 86 | 95 |
| Greece | 53 | 61 |
| Turkey | 17 | - |
| Morocco | 40 | 39 |
| **Total Mediterranean Countries & Africa** | **603** | **589** |
| Singapore | 40 | 100 |
| Australia | 19 | 16 |
| Honk Kong | 41 | 57 |
| China | 23 | 26 |
| Japan | 21 | 25 |
| New-Zealand | 11 | 9 |
| India | 11 | 14 |
| **Total Asia Pacific** | **166** | **247** |
| Switzerland | 9 | 7 |
| Luxembourg | - | - |
| **Total Captive of reinsurance** | **9** | **7** |
| Poland | 412 | 304 |
| **Total Collection** | **412** | **304** |
| **TOTAL EULER HERMES GROUP** | **6,204** | **6,201** |

Staff costs totalled €458.9 million for the year ended December 31st, 2010 against €434.7 million in 2009. Remuneration paid to members of the Group Management Board during the year came to € 6,159 thousand and €5,765 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 NV Interpolis Kreditverzekeringen). The headcount of companies accounted for by the equity method is not taken into account.

## NOTE 31. COMMITMENTS RECEIVED AND GIVEN

| (in € thousands) | December 31st, 2010 | December 31st, 2009 |
|---|---|---|
| **Commitments received** | **11,125** | **12,770** |
| Deposits, sureties and other guarantees | 11,125 | 12,770 |
| **Commitments given** | **14,519** | **27,611** |
| Deposits, sureties and other guarantees | 14,519 | 27,611 |
| o/w commitments associated with membership of an EIG | 54 | 11,897 |
| o/w securities buyback agreement | - | 630 |

## NOTE 32. STOCK OPTION PLANS

### Amount charged in the consolidated income statement

| (in € thousands) | 2010 | 2009 |
|---|---|---|
| Charge in respect of the June 22nd, 2008 allocation of share purchase options | 217 | 444 |
| **TOTAL** | **217** | **444** |

### 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 | |
|---|---|---|---|---|---|
| | July 2003 | July 2004 | June 2005 | September 2006 | June 2008 |
| Fair value of options allocated | 8.93 | 11.66 | 13.10 | 22.29 | 6.83 |
| Characteristics | | | | | |
| Date of EGM | 04/23/2003 | 04/23/2003 | 04/23/2003 | 05/22/2006 | 05/22/2006 |
| Period of validity of options | 8 years | 8 years | 8 years | 8 years | 8 years |
| Rights vesting period | 2 years | 2 years | 2 years | 2 years | 2 years |
| Assumptions | | | | | |
| Risk-free interest rate | 3.80% | 4.16% | 3.01% | 4.01% | 4.72% |
| Expected volatility (1) | 30% | 30% | 25% | 25% | 33% |
| Rate of return on shares | 2.81% | 4.14% | 3.98% | 3.74% | 10.51% |

*(1) Expected volatility is calculated using historical market prices.*

## Sundry restrictions

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

  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 04/23/2003

  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 05/22/2006

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

## Information on plans currently in effect

At December 31st, 2010, the following options are potentially exercisable:

| | Subscription plans (1) | | | Purchase plans (2) | |
|---|---|---|---|---|---|
| **Allocation date** | **July 2003** | **July 2004** | **June 2005** | **September 2006** | **June 2008** |
| Number of options outstanding | 39,445 | 80,633 | 143,450 | 152,300 | 129,200 |
| End of subscription period | July 2011 | July 2012 | June 2013 | September 2014 | June 2016 |
| Exercise price of valid options at end of period | 27.35 | 44.41 | 63.08 | 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 7th, 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 22nd, 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 20th, 2008 approved the request from the Conseil de Surveillance of June 15th, 2008 related to the granted of purchase plan (which is authorised by the EGM of May 22nd, 2006).*

Transactions under the share option plans since January 1st, 2009 may be summarised as follows:

| | Year ended December 31st, 2010 | | | | |
|---|---|---|---|---|---|
| | Average exercise price (€) | Number of options | Average price of EH share on exercise dates (€) | Average residual term (years) | Exercise price range of options still outstanding at end of period (€) |
| **Start of period** | **63.00** | **566,750** | **-** | **-** | **-** |
| Allocation | - | - | - | - | - |
| Exercise | 34.45 | 19,522 | 34.45 | - | - |
| Cancellation | 65.74 | 2,200 | - | - | - |
| **End of period** | **64.01** | **545,028** | **0.00** | **3.24** | **27,35-91,82** |

| | Year ended December 31st, 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 (€) |
| **Start of period** | **62.53** | **587,140** | **-** | **-** | **-** |
| Allocation | 0.00 | 0 | - | - | - |
| Exercise | 36.05 | 980 | 48.79 | - | - |
| Cancellation | 50.33 | 19,410 | - | - | - |
| **End of period** | **63.00** | **566,750** | **0.00** | **4.16** | **27,35-91,82** |

## 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 Shareholders' Meeting.

## Characteristics of the SAR and RSU plans

| (in € thousands) | 05/13/03 | 05/19/04 | 05/18/05 | 05/17/06 | 03/08/07 | 03/06/08 | 03/12/09 | 03/11/10 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Fair value at December 31st, 2010 (in euros)** | **0.00** | **3.65** | **5.18** | **1.34** | **0.95** | **6.43** | **36.98** | **17.31** | |
| Total commitment | 0 | 97 | 177 | 45 | 26 | 170 | 608 | 565 | 1,688 |
| Opening commitment | 0 | 294 | 385 | 93 | 59 | 176 | 108 | 0 | 1,115 |
| Charge recognised during the period | 0 | 197 | 208 | 48 | 33 | 6 | 152 | 202 | 137 |
| Exercise of options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Closing commitment** | **0** | **97** | **177** | **45** | **26** | **170** | **260** | **202** | **977** |

| | RSU Plans | | | | |
|---|---|---|---|---|---|
| (in € thousands) | 03/08/07 | 03/06/08 | 03/12/09 | 03/11/10 | Total |
| **Fair value at December 31st, 2010 (in euros)** | **84.45** | **79.52** | **74.20** | **68.54** | **-** |
| Total commitment | 1,150 | 1,020 | 600 | 1,110 | 3,880 |
| Opening commitment | 596 | 325 | 80 | - | 1,001 |
| Charge recognised during the period | 259 | 223 | 121 | 326 | 929 |
| Exercise of options | - | - | - | - | - |
| **Closing commitment** | **855** | **548** | **201** | **326** | **1,930** |

## 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 December 31st, 2010

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 31st, 2010, the liability relating to the SAR and RSU still to be exercised amounted to € 2, 907 thousand.

## Information on plans currently in effect

| | Year ended December 31st, 2010 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SAR | | | | | | | RSU | | | | | |
| Allocation date | Rights vesting period (years) | Reference price (€) | SAR at the opening | SAR granted | SAR cancelled | SAR exercised | SAR transfered | Rights vesting period (years) | RSU granted | RSU at the opening | RSU cancelled | RSU exercised | RSU transfered |
| 05/13/03 | 2 | 65.91 | - | - | - | - | - | - | - | - | - | - | - |
| 05/19/04 | 2 | 83.47 | 26,632 | - | - | - | - | - | - | - | - | - | - |
| 05/18/05 | 2 | 92.87 | 34,190 | - | - | - | - | - | - | - | - | - | - |
| 05/17/06 | 2 | 132.41 | 34,565 | - | - | - | (1,277) | - | - | - | - | - | - |
| 03/08/07 | 2 | 160.13 | 28,544 | - | - | - | (1,482) | 5 | 14,365 | - | - | - | (746) |
| 03/06/08 | 2 | 117.38 | 27,439 | - | - | - | (1,003) | 5 | 13,313 | - | - | - | ( 487) |
| 03/12/09 | 4 | 51.95 | 16,851 | - | - | - | (399) | 5 | 8,277 | - | - | - | (196) |
| 03/11/10 | 4 | 87.36 | - | 32,629 | - | - | - | 5 | - | 16,197 | - | - | - |

The attribution for 2010 for the Group Management Board is:

- SAR 12,948;
- RSU 6,426.

## NOTE 33. AUDITORS' FEES

| | KPMG Audit | | | | ACE | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | % | | Amount | | % | |
| (in € thousands) | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Audit** | | | | | | | | |
| • Statutory audit and report on company and consolidated financial statements | | | | | | | | |
| - Issuer | 405 | 460 | 12% | 14% | 126 | 126 | 31% | 30% |
| - Fully-consolidated subsidiaries | 2,379 | 2,475 | 72% | 75% | 267 | 275 | 64% | 65% |
| • Other services directly related to appointment as statutory auditor | | | | | | | | |
| - Issuer | 294 | 103 | 9% | 3% | 19 | 19 | 5% | 5% |
| - Fully-consolidated subsidiaries | 153 | 140 | 5% | 5% | | | | |
| **Sub total** | **3,231** | **3,178** | **98%** | **97%** | **412** | **420** | **100%** | **100%** |
| **Other services provided to fully-consolidated subsidiaries** | | | | | | | | |
| • Legal, tax and social | 31 | 75 | 1% | 2% | | | | |
| • IT | 14 | 36 | 1% | 1% | | | | |
| • Strategy | | | | | | | | |
| • Human resources | | | | | | | | |
| • Other | 9 | | 0% | | | | | |
| **Sub total** | **54** | **111** | **2%** | **3%** | | | | |
| **TOTAL** | **3,285** | **3,289** | **100%** | **100%** | **412** | **420** | **100%** | **100%** |

## NOTE 34. SUBSEQUENT EVENTS

No subsequent events occurred since December 31st, 2010 closing which would impact the hypothesis of the annual closing.

# 5.6 Risk management

Its activities expose the Euler Hermes Group to various risks, including credit insurance risk, reserve risk, market risk, counterparty risk and operational risk.

These risks are those that had been identified by Euler Hermes at the date hereof, the realization of which would be likely to materially affect the Group's operations, consolidated net income or financial position, prompt a substantial decline in the share price or cause reported earnings to differ materially from earnings forecasts or the earnings contained in the projections issued by the Company or on its behalf. The description of risks provided below is not exhaustive. Other risks and uncertainties that are currently unknown or that the Company may currently regard as minor could in the future significantly affect its business, financial position, consolidated net income or cash flows.

Most of the risks described below are inherent to the nature of the Group's operations and to its economic, competitive and regulatory environments. Due to the contingencies and uncertainties associated with these risks, management is not always able to quantify the impact with accuracy.

It has nevertheless implemented numerous processes and risk-management procedures and controls in the aim of monitoring and managing risks permanently. These processes, procedures and controls are set out in the report of the Chairman of the Supervisory Board on internal controls.

In paragraph 5.6.3 hereafter, management gives a presentation of the most significant risks. This presentation aims to reflect management's current views on the potential consequences of each risk to the Group. While management devotes significant resources to risk management on a permanent basis, as described in paragraph 5.6.1 below, the Group's risk-management activities, like any system of control, are subject to inherent limits and cannot provide absolute certainty or protect the Group against the risks described in paragraph 5.6.3.

## 5.6.1 THE RISK MANAGEMENT FUNCTION

### 5.6.1.1 Objectives and principles of risk management

Risks are managed directly by the various functions of the Euler Hermes Group, and followed up by the Group Risk Office to consolidate the main risks to which the Group is exposed.

In a rapidly changing environment, risk perception, as well as the realization of certain major risks, has heightened risk awareness among all companies in the insurance market. The management and quantification of risks have become a major part of the Euler Hermes Group's strategy. The priorities are to protect the Company's solvency and to optimize its risk-reward profile. As such, the goal in optimizing risk management is to reduce earnings volatility and facilitate the optimal allocation of capital, thereby fostering sustainable and consistent growth. This approach forms part of a framework consistent with the demands of the reference shareholder.

Responsibility for risk management lies with the various Group companies. The Group Risk Office liaises with the control structures of each subsidiary in order to monitor risk trends and their quantification, and coordinates the risk management functions across the Group, while at the same time ensuring the proper dissemination of a culture of risk management. It measures any changes or any accumulation of risks that may impact the Group's results.

To accomplish its mission, the Group Risk Office applies a principle of independence in respect to activities that have a direct impact on the income statement, and does not have any operational role; this principle also applies to actuarial teams reporting to the Group Risk Office, which perform controls of reserves estimated locally.

As such, the Group Risk Office is responsible for:

- measuring capital at risk in all risk categories;
- monitoring operational risk;
- taking part in the allocation of resources based on risk measures;
- consolidating Group results;
- coordinating local teams.

It also monitors the return on all types of risk, including the coverage of certain actuarial activities involving estimates of reserves at fair value, measuring the impact of reinsurance and pricing methods based on risk and activity-risk indicators. Lastly, it coordinates and manages the Solvency II framework.

All activities and the results of risk analysis are subject to regular reporting.

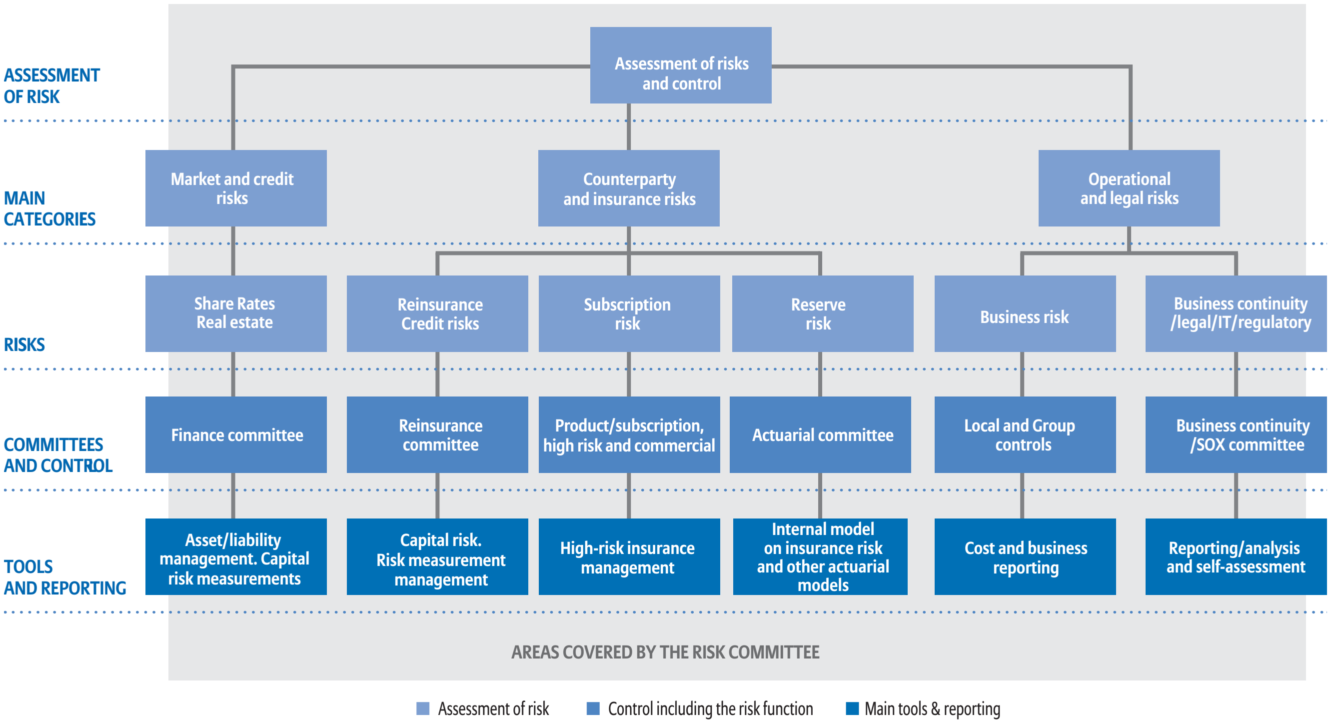
### 5.6.1.2 Risk-management activities

The Group Risk Office is responsible for identifying, measuring, controlling and proactively managing any risks that the Group may face. To achieve this, it relies on each entity and the Group's cross-company functions to monitor and consolidate information. 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 to enable it to optimize resource allocation.

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 its commitments, may guide certain choices such as the contractual terms proposed to policyholders or the concentration of certain risks. The strict management of these risks provides the foundations of a risk-management policy designed to secure the Group's capital base or to reconstitute adequate margins, while at the same time striking a balance between its solvency, especially within the framework of standards imposed under the "Solvency II" directive, and that of its subsidiaries, in addition to resource allocation.

The Groups' main functions and subsidiaries have their own organizational structures, with local committees and Group committees, whose tasks include risk monitoring, with independent oversight by the Group Risk Office. The Group Risk Committee supervises the Group's risk management and risk strategy, using summaries of information reported by the entities as well as consolidated analyses. The Group Risk Committee comprises on the one hand the Group Management Board and on the other hand the Group Risk Officer, a representative of the Group Risk and Information department, a representative of the Group Commercial department, the Group Head of Reinsurance, the Group Chief Investment Officer and the Actuary Chief of the Group. This group of managers sets limits for all categories of risk. Some 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 monitor the business as closely as possible, with regular updates of parameters and the development of new instruments suited to change in the environment.

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




In addition to the structure shown above, the Group Risk Office may place increased emphasis on the analysis or control of specific functions or subsidiaries. As such, besides the need to quantify and analyze the various types of risk, the complexity of the credit insurance business causes the Group Risk Office to strengthen certain measurement tools covering the underwriting of insurance risk and the management of financial investments.

This structure aims to identify and proactively monitor all risks by maintaining responsibility for their management at the operational level.

Risks are accordingly managed at various levels, and limits of cover are set in accordance with the capital allocated by risk, while at the same time benefiting from operational experience. This allows routine risk management to be spread across the operations of the entire Group, while at the same time allowing the function to respond to specific events as efficiently as possible. The Group Risk Office prepares risk reports in collaboration with the operational functions in order to keep management informed. Committees are important channels, as centers of responsibility and decision-making for risk management, but also in spreading a culture of risk awareness and identifying the strengths and weaknesses of the risk-management process. All these elements combine to form an ongoing risk-management mechanism that includes a forward-looking view of major risks, especially with regard to any changes in the environment or trends. As such, Euler Hermes is particularly well prepared to monitor adverse developments and take appropriate action. When launching new products, all these skills come together to assess the internal and external impacts and define action to be taken to reduce risk, minimize costs and set new management limits for the product. The ultimate responsibility for launching new products remains with the business line.

## 5.6.2 OVERVIEW OF RISKS RELATED TO THE GROUP'S ACTIVITIES

### 5.6.2.1 Credit insurance risk

This is the main risk facing Euler Hermes. Credit insurance risk is the risk of incurring losses on the portfolio of credit insurance policies. It is managed globally and for all insurance companies belonging to the Euler Hermes Group on the basis of the impact of sensitivity scenarios measuring the impact of frequency risk and peak risk.

Frequency risk is the risk of a sudden and substantial increase in a multitude of outstanding receivables. It is mainly covered by reserves, and is measured using a statistical model that simulates the loss ratio on the basis of observed and ongoing change in claims.

Peak risk is the risk of abnormally high losses recorded in a single year with a single debtor (or group of debtors), or the accumulation of losses in a single year in a single country exposed to country risk (excluding the most developed countries).

Euler Hermes has a diversified portfolio of credit insurance risks, the aim being to minimize the potential impact on claims stemming from the insolvency of a single debtor, a downturn in a particular sector or a credit event in a specific country.

#### 5.6.2.1.1 Management of credit insurance contracts and service to clients

The management of technical credit insurance risk is based on a strong risk culture combined with contract management and client service. In addition to managing the subscription of contracts, the Group provides a service to policyholders to reduce risks weighing on their receivables.

As such, during the period of insurance, all requests for insurance cover on a given customer are analyzed in accordance with specific solvency criteria for the customer in question (financial analysis, prior claims). Cover is then issued on the basis of the risk profile of the commercial transaction associated with the request. Ultimately, by managing risk coverage on the basis of the solvency of policyholders' customers, Euler Hermes actively modulates the transfer of policyholders' client risk. To this end, each entity has a dedicated department, which, in liaison with policyholders, monitors and analyzes its positions and requests. These departments are coordinated by a Group function that ensures the consistency of the underwriting rules of such cover, including the issuance of an equivalent rating for the entire Group. In addition, insurance-risk underwriting committees in each entity and at Group level determine commitments on the basis of the solvency of debtors, notably regarding the most sensitive risks. On the commercial side, a specific function coordinates contractual changes and all the Group's marketing activities.

Credit insurance contracts are fairly homogenous within the Group, their objective being to cover the risk of non-payment by policyholders' customers. Euler Hermes reviews certain policy terms in order to adjust them to suit the current crisis, when necessary. Such reviews and the conditions of new policies are carried out and decided at local level. Some contracts limit cover to a debtor's formal bankruptcy. The underlying risk is conditioned by local bankruptcy laws, which offer debtors varying degrees of latitude. The insurance company must therefore anticipate the behavior and practices stemming from such laws in order to optimize the control of its own risks.

Credit insurance contracts specify the terms of credit management and parameters (excess, maximum liability, etc.), differentiated in accordance with the specific policyholder's risk profile. They also require the policyholder to declare payment defaults within a given timeframe. During the policy period, there is ongoing collaboration with the policyholder, in particular through the provision of the necessary cover of its customers. The principle of providing comprehensive cover for policyholders' turnover is an important factor in increasing risk diversification, but also in limiting the effects of non-selection. The Euler Hermes Group also offers debt-collection services that enable it to keep track of outstanding sums and to act quickly to collect these amounts. While credit risk relating to the insurance of commercial transactions is the main risk facing Euler Hermes, it must be borne in mind that the crisis has also affected – albeit to a lesser extent – its commercial portfolio, which has seen a decline in premium income and potential insolvencies of policyholders themselves. Such effects have nevertheless been offset by the robustness of the portfolio and the strength of demand for credit insurance during the recent period.

#### 5.6.2.1.2 Insurance portfolio and diversification

Given its leading position in its main markets, Euler Hermes' exposure is spread across many debtors. Moreover, the Group's geographical coverage provides a diversification of risk across many countries, bearing in mind that it factors the notion of country risk into its underwriting. This diversification takes into account not only the policyholder's location but also – and more importantly – that of its customers.

Theoretical gross exposure in credit insurance corresponds to the maximum amount of commitments that the Group has agreed to cover on its policyholders' claims. The actual amounts covered are much lower, in line with the actual turnover generated by the policyholder at a given date. As is the case with the transfer of reinsurance risk, excesses and liability limits also reduce the Group's final exposure.

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

As illustrated in this table of the geographical split of gross exposure, the debtors of a given policyholder may be located in very different geographical areas, and this split contributes to risk diversification. At the Group portfolio level, this diversification limits the effects of insolvencies of individual companies, clearly defined groups of companies or business sectors. The table shows change in exposure in 2010 and an increase of 13% of gross exposure. This growth of covers is directly linked to the proactive policy developed by Euler Hermes in 2010 to support its policyholders in their business development by offering a risk cover in adequacy to their needs.

| (in € millions) | 2010 | % | 2009 | % |
|---|---|---|---|---|
| **Total Europe** | **538,896** | **85.2%** | **487,957** | **86.9%** |
| of which: | | | | |
| France | 186,676 | 29.5% | 175,030 | 31.2% |
| United - Kingdom | 44,763 | 7.1% | 40,131 | 7.1% |
| Germany | 123,326 | 19.5% | 116,130 | 20.7% |
| Italy | 59,186 | 9.4% | 48,127 | 8.6% |
| Belgium Luxembourg | 13,313 | 2.1% | 12,663 | 2.3% |
| Netherlands | 18,144 | 2.9% | 14,677 | 2.6% |
| Spain | 17,468 | 2.8% | 13,268 | 2.4% |
| Eastern Europe | 26,114 | 4.1% | 22,926 | 4.1% |
| Scandinavia | 22,271 | 3.5% | 21,167 | 3.8% |
| Other Europe | 27,635 | 4.4% | 23,838 | 4.2% |
| **Total Americas** | **56,180** | **8.9%** | **45,773** | **8.2%** |
| of which: | | | | |
| United States | 37,494 | 5.9% | 32,368 | 5.8% |
| Canada | 6,521 | 1.0% | 5,137 | 0.9% |
| Other Americas | 12,165 | 1.9% | 8,268 | 1.5% |
| **Asia - Pacific** | **26,498** | **4.2%** | **19,211** | **3.4%** |
| **Near / Middle East** | **5,969** | **0.9%** | **4,619** | **0.8%** |
| **Africa** | **5,012** | **0.8%** | **3,814** | **0.7%** |
| **TOTAL** | **632,555** | **100.0%** | **561,374** | **100.0%** |

The second table shows gross exposure by sector. The sector breakdown highlights another effect of diversification, namely the reduced impact of individual insolvencies. Regular and individual sector analyses are prepared using Group information-management applications.

Change in exposure is reviewed at the most granular level on a debtor-by-debtor basis and at portfolio level, while ensuring that a proper balance is maintained between premiums received and the actual risk represented by the relevant cover.

| (in € millions) | 2010 | % | Variation 2010 in % | 2009 | % |
|---|---|---|---|---|---|
| Metal Industry | 117,162 | 18.5% | 14.0% | 102,773 | 18.3% |
| Agrifood | 92,110 | 14.6% | 13.9% | 80,892 | 14.4% |
| Construction | 75,082 | 11.9% | 10.2% | 68,119 | 12.1% |
| Textiles - leather | 23,226 | 3.7% | 8.6% | 21,386 | 3.8% |
| Electronics | 57,716 | 9.1% | 25.9% | 45,836 | 8.2% |
| Services | 112,372 | 17.8% | 10.6% | 101,609 | 18.1% |
| Wood - Paper | 33,739 | 5.3% | 12.7% | 29,945 | 5.3% |
| Chemicals | 61,652 | 9.7% | 19.6% | 51,560 | 9.2% |
| Other | 59,497 | 9.4% | 0.4% | 59,254 | 10.6% |
| **TOTAL** | **632,555** | **100.0%** | **12.7%** | **561,374** | **100.0%** |

### 5.6.2.1.3 Management of underwriting risk

In recent years, the Euler Hermes Group has developed a specific organizational structure and special-purpose IT applications to optimize its handling of insurance risk, with a dedicated organization across all Group entities. The system receives policyholders' requests for cover, stores details of cover underwritten together with debtor positions, and checks all information received and sent. Underwriting of cover draws on an optimized organization based on a single IT system comprising a database used specifically for the underwriting of cover. The risk-rating system used by specialized staff enables responses to requests for cover to be prepared and submitted to clients very quickly.

The application facilitates the monitoring, both locally and centrally, of cover based on numerous criteria. It makes it easier to analyze details of cover by sector or by country.

While risks are underwritten locally, central monitoring of the most sensitive risks, carried out by a team of experts and credit committees, is used to verify the application of written underwriting rules and change in exposure on a real-time basis. The central risk underwriting function accordingly has access to considerable resources to monitor sensitive risks and risk concentrations and to limit them, both centrally and locally, in accordance with change in solvency. The Internal Audit function has primary responsibility for regularly controlling the application of these rules.

All debtors included in policyholder requests for cover are subject to a solvency assessment accompanied by the issuance of a rating (on a scale ranging from 1, for the most solvent, to 10, in cases of default) on the capacity of the debtor to honor its commitments to suppliers.

In this assessment, information quality and the proximity to the risk 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 other entities, whose policyholders work with debtors located in the geographical region that it covers.

When an assessment is performed for another entity, information is disclosed on the basis of rules set centrally, leading to the determination of a solvency 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 organization provides clients with a high level of service quality and facilitates close control of the underwriting risks.

Some debtors, especially large groups, whose ratings reflect a very high level of solvency, have more substantial theoretical gross exposure. The 50 largest debtors or groups of debtors fall within the most robust 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 terms of the insurance contract and the protection offered by reinsurance. Internal sensitivity tests show that no potential claim net of reinsurance on these exposures would exceed 6% of capital. It is also noteworthy that dynamic management of Euler Hermes' exposure to the bankruptcies of major groups with significant theoretical gross exposure has enabled the Group to avoid the impact resulting from domino effects. After the collapse of Woolworth's in 2008, no major loss occurred either in 2009 or in 2010, in particular thanks to the reinforcement of monitoring guidelines for this type of debtor, more in keeping with the prevailing environment. The permanent balance between the terms and conditions of insurance policies and the management of cover or the transfer of risk ensure steady cash flows at Group level. Policy terms and conditions are appropriate to the risk of each client. In addition to the service provided, the management of insurance cover allows the risks borne by the Group to be modulated on a case-by-case basis, as well as to reflect change in the economic environment. In the event of adverse change in the economic environment, cover is reduced on the least solvent debtors in order to maintain the loss ratio.

The frequency of claims has decreased compared with 2009. This evolution is mainly due to action plans implemented during the crisis, which plans have led to reduce the risks held by Euler Hermes and consequently the claims.

As a reminder, theoretical gross exposure, 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 solvency. The actual exposure depends on the use, which varies over time, of this cover by the policyholders and the terms of each contract (excess, 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.

As such, the progression from the gross exposure on a debtor at a given point in time to the potential claim amount is complex and variable. Likewise, the amount of exposure net of reinsurance can be calculated only in accordance with the excess and maximum liability applicable to specific policyholders.

### 5.6.2.2 Claims reserves

The purpose of claims reserves is to cover on the one hand, claims that have been notified and on the other hand those that have not yet been notified but which relate to the current fiscal year. They are estimated on the one hand for the portion of each individual reported claim or on the other hand by the application of statistical methods based on historical data and claims trends. Claims reserves are not discounted.

As shown in the table below, the Group's claims decreased significantly compared with previous years, a direct consequence of the action plan to reduce risks implemented during the 2009 financial crisis.

| | 2004 | 2005 *pro forma* | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Ratio of Claims/Premiums (1) | 45.9% | 44.8% | 49.2% | 48.1% | 78.1% | 82.1% | 42.1% |

*(1) In accordance with IFRS.*

#### 5.6.2.2.1 Determining claims reserves

As part of their insurance activity, Group subsidiaries are required to establish sufficient reserves to guarantee the payment of future claims. As provided for in the policy, policyholders are required to declare a customer's default or insolvency to Euler Hermes, which, in turn, establishes a reserve for a sufficient amount to cover the payment of the related claim. A collection procedure is implemented when the declaration is made. After the claim has been settled, the loss may also be subject to collection services.

As such, the claims-handling process involves three separate phases.

First, claims relating to a given fiscal year but not yet declared are subject to IBNR (incurred but not reported) estimates to cover future claims payments and costs.

Reported claims are analyzed based on the insurance cover granted. Upon receipt of the specific claims notification, a cover analysis is performed to determine the amount of the provision to be recorded against this claim. Next, the amount in reserve for a claim is updated for each new notification or recovery to cover potential payments on the relevant 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 accordingly established on a claim-by-claim basis.

Once the claim has been settled, the sums may be partially or fully recovered. As such, an estimate of related future cash flows is made.

Reserves for reported claims are established based on the information available at the balance sheet date. Claims are settled rapidly in credit insurance. Moreover, based on the aggregate individual reserve amounts of each claim, the estimates are made using the same statistical methods in all Group entities in order to achieve a more accurate estimate of the final cost, in line with 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 make a distinction between two criteria that have a considerable bearing on the split of claims costs between reserves and claims paid:

First, the type of cover provided by the contracts: Insurance cover based solely on insolvency only covers the policyholder's exposure in the event of insolvency. An analysis of debtor defaults enables the Group to identify insolvencies, thereby helping reduce the uncertainty regarding the potential claim amounts.

Although insurance cover comes into force when an invoice is issued or on delivery, actual payment default must take place before determining the amounts concerned and receipt of the claim notification from the policyholder. The period of uncertainty includes the time taken for payment, which varies depending on the countries or sectors concerned, and the time taken to notify the claim.

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

The second parameter relates to the indemnification period.

When they are estimated, reserves take into account the likelihood of claims occurring, the possible impact of local regulations and foreseeable change in the economic environment. However, due to their nature, reserves include a certain level of uncertainty. Ongoing monitoring is therefore performed to keep existing reserves at an adequate level. Specific technical reserve control committees have been set up in all subsidiaries to ensure the consistency and appropriateness 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 the chain-ladder, Bornhuetter Ferguson and bootstrap methods. Simulation models for calculating potential losses are also used to a certain extent. The chain-ladder method is based on a calculation of claims-development triangles. The Bornhuetter Ferguson method draws on a projection of the loss ratio. The bootstrap method is an extension of the chain-ladder method, using multiple simulations to determine margins of error. Simulation methods estimate the potential loss as a function of exposure and the probability of losses; their probabilistic approach also allows for the calculation of a confidence interval.

The development of claims shows that uncertainty is highest in 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 attributable to the specific nature of IBNR reserves in credit insurance. Claims relating to the fiscal 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 arises on the issuance of the policyholder's invoice, which is also the basis for the premium; the bankruptcy, followed by the notification of the claim, may only occur some months later.

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

The approaches used to calculate the claims reserve cover the two main risks encountered in estimating reserves. The first of these is the short-term nature of credit insurance, with the development of the reserve almost completed at the end of the second year. The second aspect relates to the fact that the liability for any claim is limited to the amount of invoices covered, which limits any errors in the estimate of adjustments to reserves for recovery and the estimate of reserves for unknown claims. As noted in the previous paragraphs, the assessment of the claims or the recovery reserve is based on actuarial techniques, the assumptions and results of which are reviewed by the reserve committee.

Following 2008 that showed a lack of reserves booked at the end of the first period to cover claims to be paid, 2009 shows an over estimation of claims expense at the end of the first year. The importance of this margin compared with 2007 and previous periods is mainly due to the economic uncertainty that existed at 2009 closing date (risk of second phase of recession), anticipation that led to position in the upper part of the reasonable interval of estimation.

Positive trends linked to the economic recovery and the decrease of claims frequency in 2010, have been taken into account for establishing 2010 reserves.

| | Year ended December 31st, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| (in € thousands) | Gross operations | Assignments and special concessions | Net operations | Gross operations | Assignments and special concessions | Net operations |
| **Charges for claims in current year** | **1,092,840** | **(334,480)** | **758,360** | **1,452,108** | **(454,240)** | **997,868** |
| Claims paid | 227,949 | (85,783) | 142,166 | 443,443 | (130,963) | 312,480 |
| Charges for claims provisions | 775,381 | (244,264) | 531,117 | 929,492 | (318,538) | 610,954 |
| Management fees | 89,510 | (4,433) | 85,077 | 79,173 | (4,739) | 74,434 |
| **Sums recovered for the current year** | **(128,609)** | **45,423** | **(83,186)** | **(140,738)** | **39,628** | **(101,110)** |
| Sums recovered | (39,998) | 27,171 | (12,827) | (13,142) | 3,195 | (9,947) |
| Variation in provisions for sums recovered | (88,611) | 18,252 | (70,359) | (127,596) | 36,433 | (91,163) |
| **Charges for claims in previous years** | **(269,805)** | **68,741** | **(201,064)** | **57,620** | **41,612** | **99,232** |
| Claims paid | 694,617 | (205,924) | 488,693 | 944,564 | (186,126) | 758,438 |
| Charges for claims provisions | (954,615) | 273,359 | (681,256) | (878,122) | 228,456 | (649,666) |
| Management fees | (9,807) | 1,306 | (8,501) | (8,822) | (718) | (9,540) |
| **Sums recovered on previous years** | **10,373** | **(4,209)** | **6,164** | **(92,911)** | **9,063** | **(83,848)** |
| Sums recovered | (153,865) | 30,220 | (123,645) | (158,164) | 22,044 | (136,120) |
| Variation in provisions for sums recovered | 164,238 | (34,429) | 129,809 | 65,253 | (12,981) | 52,272 |
| **Charges for claims** | **704,799** | **(224,525)** | **480,274** | **1,276,079** | **(363,937)** | **912,142** |

The claims' costs decreased in 2010 due mostly to a significant decrease of the claims frequency and the absence of major claims.

| | December 31st, 2010 | | | December 31st, 2009 | | |
|---|---|---|---|---|---|---|
| (in € thousands) | Gross operations | Assignments and special concessions | Net operations | Gross operations | Assignments and special concessions | Net operations |
| **Provisions for gross claims** | **1,557,083** | **(470,718)** | **1,086,365** | **1,727,088** | **(494,645)** | **1,232,443** |
| Current year | 819,386 | (247,103) | 572,283 | 978,315 | (322,827) | 655,488 |
| Previous years | 737,697 | (223,615) | 514,082 | 748,773 | (171,818) | 576,955 |
| **Claims to pay** | **(229,888)** | **51,958** | **(177,930)** | **(302,327)** | **67,419** | **(234,908)** |
| Current year | (89,986) | 19,163 | (70,823) | (127,752) | 36,507 | (91,245) |
| Previous years | (139,902) | 32,795 | (107,107) | (174,575) | 30,912 | (143,663) |
| **Provisions for claims** | **1,327,195** | **(418,760)** | **908,435** | **1,424,761** | **(427,226)** | **997,535** |

### 5.6.2.2.2 Development of claims reserves

The claims for a given year follow the process of notification and indemnification, 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. Large claims at year-end impact the development of claims reserves. Major claims such as Moulinex and Kmart in 2001 and Parmalat in 2003 initially impacted the ultimate cost before reinsurance for the year in question 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 for these years.

The information used in claims-development triangles is provided by most Group entities.

### ESTIMATE OF FINAL COST OF CLAIMS FROM DIRECT ACTIVITY, EXCLUDING ACCEPTANCE OF THE MAJORITY OF GROUP ENTITIES (INCLUDING REINSURANCE) [1]

| Year accident / development (in € thousands) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Difference [2] | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | 1,199,660 | 1,064,054 | 1,048,945 | 1,018,887 | 991,728 | 974,651 | 966,002 | 957,142 | 947,088 | 939,913 | 259,747 | 21.7% |
| 2002 | 1,074,320 | 885,987 | 860,735 | 832,950 | 824,542 | 818,679 | 808,282 | 800,194 | 797,674 | | 276,646 | 25.8% |
| 2003 | 989,123 | 769,240 | 702,802 | 698,247 | 690,282 | 684,669 | 656,450 | 654,463 | | | 334,659 | 33.8% |
| 2004 | 820,011 | 675,162 | 629,896 | 621,518 | 616,174 | 609,534 | 614,372 | | | | 205,639 | 25.1% |
| 2005 | 835,604 | 753,293 | 717,036 | 715,393 | 705,182 | 706,368 | | | | | 129,236 | 15.5% |
| 2006 | 840,274 | 788,358 | 744,969 | 730,265 | 740,994 | | | | | | 99,280 | 11.8% |
| 2007 | 852,572 | 843,549 | 828,773 | 833,015 | | | | | | | 19,558 | 2.3% |
| 2008 | 1,344,139 | 1,413,872 | 1,447,934 | | | | | | | | (103,795) | -7.7% |
| 2009 | 1,162,653 | 895,245 | | | | | | | | | 267,408 | 23.0% |
| 2010 | 868,298 | | | | | | | | | | | |

*(1) All figures (for the current year and previous years) have been converted, if necessary, on the basis of the end-of-year conversion rate.*
*(2) Difference: surplus or shortfall of the initial provision in relation to the current estimate of the final cost for the year.*

Aggregate claims-development tables, excluding the elimination of cash flows between entities, cover more than 99% of the technical reserves of all Group entities, but do not include the run-off for years prior to 2001.

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 in terms of 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 33.8% observed for the 2003 insurance year. In 2008, the deepening crisis led to an increase in the cost of claims in the second year compared with the first. The change in the economic cycle was particularly brutal; uncertainty relating to change in claims in a challenging economic environment and trends in 2008 necessitated a more nuanced approach to the calculation of reserves. Reserves were calculated on the basis of a more conservative approach to cover a possible deterioration due to the economic environment, with the possibility of more positive development if the situation stabilized or improved.

### TRIANGLE OF AGGREGATE PAID CLAIMS DEVELOPMENT, NET OF RECOVERIES, OF THE MAJORITY OF GROUP ENTITIES (INCLUDING REINSURANCE) [1].

| Year accident / development (in € thousands) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | 284,164 | 850,299 | 945,107 | 966,214 | 963,865 | 960,828 | 950,794 | 946,902 | 939,385 | 938,861 |
| 2002 | 300,229 | 681,726 | 772,461 | 789,223 | 792,479 | 792,279 | 793,747 | 789,796 | 789,424 | |
| 2003 | 236,960 | 559,671 | 608,472 | 632,426 | 639,429 | 638,115 | 641,262 | 640,963 | | |
| 2004 | 222,797 | 531,200 | 580,499 | 589,783 | 591,496 | 588,852 | 596,626 | | | |
| 2005 | 258,087 | 621,360 | 664,067 | 677,755 | 676,282 | 678,087 | | | | |
| 2006 | 278,571 | 658,853 | 701,155 | 701,391 | 721,456 | | | | | |
| 2007 | 266,584 | 700,081 | 766,085 | 791,691 | | | | | | |
| 2008 | 376,248 | 1,116,744 | 1,274,133 | | | | | | | |
| 2009 | 403,527 | 728,190 | | | | | | | | |
| 2010 | 212,283 | | | | | | | | | |

*(1) All figures (for the current year and previous years) have been converted, if necessary, on the basis of the end-of-year conversion rate.*

The short-term nature of credit insurance is illustrated by the development of claims payments, which take place 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. More than 60% of the claims reserves for the direct business on the balance sheet at year-end will be used in the following year, 80% within two years and more than 95% after six years.

### 5.6.2.3 Investment policy

Each Group entity has an investment portfolio, with investments managed locally in compliance with guidelines laid down at Group level. Compliance with these guidelines is overseen within each entity by a Finance Committee, which reviews the portfolio's performance and selects new investments.

At Group level, governance is provided by a Group investment management function and a Finance Committee, which together lay down short- and medium-term guidelines for the management of the portfolio.

The Group Risk Office helps manage the investment portfolio by establishing and calculating risk indicators associated with different asset classes. These indicators are calculated quarterly. And the resultant risk measures are factored into the Investment Committee's decision-making process, both in defining the allocation of the investment portfolio and in choosing to invest in specific securities. Lastly, the Group Risk Office sets investment limits, so as to avoid concentration risk.

This approach is backed up by the calculation of case-by-case scenarios depending on the options being considered.

The investment portfolio is diversified, both by type of investment (with an emphasis on bonds) and by issuer. Risk concentrations on a single issuer are very rare.

Euler Hermes does not use futures in managing its investment portfolio.

## 5.6.3 KEY RISK FACTORS

### 5.6.3.1 Credit insurance risk

Credit insurance risk measures the risk that premiums charged to policyholders will be inadequate to cover claims and the costs associated with managing the portfolio of policies.

Euler Hermes has developed a pricing system based on the policy's underlying risk. This system helps reduce the risk of inadequate premium income at the portfolio level.

### 5.6.3.2 Reserve risk

Reserve risk measures the risk that claim reserves recorded on the balance sheet may be insufficient to meet future claims.

Euler Hermes guards against this risk through careful management and prudent claim reserves.

### 5.6.3.3 Market risk

Market risk is the risk of losses that may result from fluctuations in the prices of the financial instruments comprising the Group's investment portfolio.

#### 5.6.3.3.1 Interest-rate risk

Interest-rate risk measures the sensitivity of the value of assets and liabilities to changes in the yield curve.

Interest rate risk management, while recognizing 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.

| | December 31st, 2010 | | December 31st, 2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| 0 to 1 year | 421 | 17% | 510 | 23% |
| 1 to 3 years | 862 | 35% | 942 | 43% |
| 3 to 5 years | 522 | 21% | 486 | 22% |
| 5 to 7 years | 314 | 13% | 140 | 6% |
| 7 to 10 years | 291 | 12% | 66 | 3% |
| beyond 10 years | 55 | 2% | 39 | 2% |
| **TOTAL** | **2,465** | **100%** | **2,183** | **100%** |

This table represents the bond portfolio split by maturity.

#### 5.6.3.3.2 Exchange-rate risk

Exchange-rate risk measures the sensitivity of assets and liabilities to changes in the exchange rates of the reporting currency and the currencies in which assets and liabilities are recorded on the balance sheet.

Euler Hermes faces exchange-rate risk in various ways, mainly with respect to:

- limits granted to a policyholder in a currency other than the reporting currency, potentially leading to change in the cash position or the levels of reserves (under the procedures of claims handling or recovery) recorded in currencies other than the reporting currency;
- reinsurance in a currency other than the reporting currency;
- investment in a currency other than the reporting currency;
- presence of divisions or subsidiaries operating in a currency other than the reporting currency of the parent company.

To limit exchange-rate risk, the Group adheres rigorously to matching rules required by local regulators.

As at December 31st, 2010, assets held by Euler Hermes in currencies other than the euro amounted to 19.8% of the market value of the portfolio.

### DISTRIBUTION BY CURRENCY

| | December 31st, 2010 | | December 31st, 2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| EUR | 2,775 | 80.2% | 2,249 | 77.6% |
| GBP | 295 | 8.5% | 215 | 7.4% |
| USD | 210 | 6.0% | 249 | 8.6% |
| Other currencies | 182 | 5.3% | 185 | 6.4% |
| **TOTAL** | **3,462** | **100%** | **2,898** | **100%** |

Assets comprise the investment portfolio, technical reserves recorded as assets and the sold portion of technical reserves recorded as liabilities.

Liabilities comprise technical reserves and financial liabilities.

The principle of matching assets and liabilities at the local level and the emphasis on the euro in the Company's business has allowed the Group to avoid the need of hedging residual exchange-rate risk.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Currency risk** (in € millions) | United States | United Kingdom | Group | United States | United Kingdom | Group |
| Net income Group share in thousands of euros at 12/2010 | 21,333 | 4,448 | 294,452 | 2,636 | 12,111 | 18,988 |
| Exchange rate at year end | 0.7484 | 1.1618 | | 0.6942 | 1.1260 | |
| **Net income Group share in local currency** | **28,505** | **3,829** | | **3,797** | **10,756** | |
| Variation in exchange rate of 100 basis points (sign of Net result) | 0.7384 | 1.1718 | | 0.6842 | 1.1360 | |
| Net income in euros after exchange rate variation | 21,048 | 4,486 | 294,129 | 2,598 | 12,219 | 18,842 |
| **% Variation in relation to initial result** | **-1.34%** | **0.86%** | **-0.11%** | **-1.44%** | **0.89%** | **-0.77%** |

#### 5.6.3.3.3 Equity-market risk

Equity-market risk measures the sensitivity of the value of assets to change in equity prices.

By extension, minority stakes in unlisted companies and investments in funds dominated by equities or convertible bonds are deemed to be equities.

| | December 31st, 2010 | | December 31st, 2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| Bonds | 2,465 | 65% | 2,183 | 65% |
| Shares | 142 | 4% | 130 | 4% |
| Real estate investment | 23 | 1% | 57 | 2% |
| Loans, deposits and other financial investments | 832 | 22% | 528 | 16% |
| **TOTAL FINANCIAL INVESTMENTS** | **3,462** | **92%** | **2,898** | **87%** |
| Cash | 306 | 8% | 442 | 13% |
| **TOTAL FINANCIAL INVESTMENTS + CASH** | **3,768** | **100%** | **3,340** | **100%** |

Equities accounted for around 4% of the Euler Hermes Group's investment portfolio at end-2010.

The strategic allocation of the investment portfolio, in addition to the tactical allocation defined by the Investment Committee, sets the limits to which the Company may invest in equities or funds dominated by equities or convertible bonds.

It is then up to the Asset Manager to make investments within these limits, without breaching limits placed on the concentration of risk on individual counterparties, in the aim of outperforming the benchmark index used by the Investment Committee for the equity asset class.

#### 5.6.3.3.4 Liquidity risk

Liquidity risk is the risk of Euler Hermes' financial resources not being sufficient to cover its cash needs. Euler Hermes' financial resources include the resources generated by its operations and those obtained externally.

Each entity carries out projections of the cash flows derived from its insurance operations, its investment portfolio and any dividends received from subsidiaries, and then monitors these flows. These cash-flow projections are reviewed during Finance Committee Meetings.

With the exception of Euler Hermes' German entity, which pools cash with the various German entities comprising the Allianz group, Group entities manage their liquidities on an independent basis.

As at December 31st, 2010, there were no special clauses attached to the Euler Hermes Group's financial liabilities (except for general clauses related to the existence of reserves or refusal of accounts certification) that would, if realized, lead to unanticipated cash flows.

Sources of liquidity available to Euler Hermes (excluding the divestment of its investment portfolio) are mainly as follows:

- the excess liquidity of a company;
- shareholders;
- the banking market;
- the bond market.

Based on short- and medium-term cash projections and sensitivity tests applied to these projections (liabilities as well as assets), Euler Hermes considers its liquidity risk to be low.

#### 5.6.3.3.5 Property risk

Property risk measures the sensitivity of the value of property assets to change in the value of the property market.

This risk covers buildings housing the Group's operations as well as properties leased to other parties.

Property assets or products account for 1% of the value of the investment portfolio, i.e. €23 million.

### 5.6.3.4 Counterparty risk

Counterparty risk is the loss Euler Hermes would incur in the event of the insolvency of one of its business partners, namely the failure of a reinsurer, a bank, a bond or equity counterparty, or the non execution by a policyholder of its commitments.

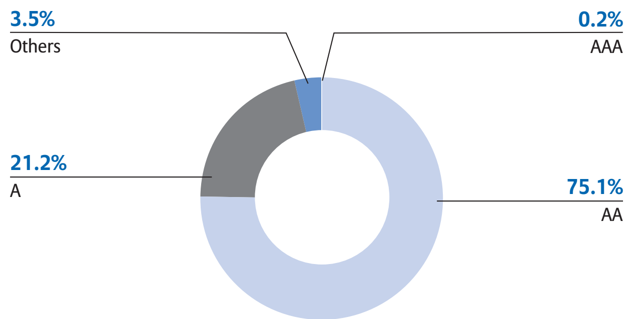
#### 5.6.3.4.1 Failure of a reinsurer

Euler Hermes acts at different levels to limit the impact of failures of reinsurers:

- selection of reinsurers on the basis of their counterparties (rated A or higher or subject to the special prior approval of the Euler Hermes Board of Management in the event of the rating being below A);
- limits on concentration risk on a single reinsurer;
- constant monitoring by the various operational entities via maturity analysis of reinsurers' credits and debits, and the amount of technical reserves transferred to them;
- requests for letters of credit or security deposits from reinsurers;
- cut-offs of reinsurance treaties a few years after the implementation of the reinsurance contract.

In the event of the failure of a reinsurer or any event that may result in the failure of a reinsurer, the Company would conduct a risk analysis of the event. It would then take steps, on the basis of its findings, to minimize the negative impact on Euler Hermes.

In such cases, assets carried by Euler Hermes in connection with the relevant counterparty would be impaired.




**DISTRIBUTION OF TECHNICAL PROVISIONS CEDED BY RATING OF REINSURERS (THE PERIMETER COVERED REPRESENTS 94.2% OF THE PROVISIONS CONSIDERED OUT OF THE GROUP TOTAL AT DECEMBER 31ST, 2010)**

| | |
|---|---|
| AAA | 809 |
| AA | 353,988 |
| A | 99,807 |
| Others | 16,724 |
| **TOTAL** | **471,328** |

#### 5.6.3.4.2 Failure of a bank

Euler Hermes acts at different levels to limit the impact of failures of banks:

- selection of banks on the basis of their rating (rated A or higher);
- limits on the available cash held in bank accounts;
- increase in the number of banks with which companies deal.

In the event of the failure of a banking counterparty, all the Company's cash on the accounts held by the bank in question would be impaired.

#### 5.6.3.4.3 Failure of a bond or equity counterparty

To limit the impact of failures of a bond or equity counterparty, Euler Hermes has a very strict investment policy by limiting the total investment in a same private issuer up to 5% of the total of the assets.

| | December 31st, 2010 | | December 31st, 2009 | |
|---|---|---|---|---|
| | (in € millions) | (in %) | (in € millions) | (in %) |
| AAA | 1,679 | 68% | 1,411 | 65% |
| from AA+ to AA- | 367 | 15% | 499 | 23% |
| from A+ to A- | 363 | 15% | 261 | 12% |
| Others | 56 | 2% | 12 | 1% |
| **TOTAL** | **2,465** | **100%** | **2,183** | **100%** |

#### 5.6.3.4.4 Failure of a policyholder

The Company has established procedures for the proactive management of funds held with policyholders, in particular to avoid a financial loss in the event of the default of a policyholder.

**MATURITY**

| | December 31st, 2010 | | | | |
|---|---|---|---|---|---|
| (in € thousands) | < 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| Gross receivables | 368,530 | 2,040 | - | - | 370,570 |
| Reinsurers' share | 132,231 | 20 | - | - | 132,250 |
| Net receivables from guaranteed debtors | 88,513 | - | - | - | 88,513 |
| Total credit insurance receivables | 589,273 | 2,060 | - | - | 591,333 |

The receivables are carefully taken care of and 99% of these receivables have a maturity below three months. Any outstanding receivable above six months is fully reserved.

### 5.6.3.5 Operational risks

#### 5.6.3.5.1 Risk related to the business

A risk related to the business can be defined as an inherent factor of any business and its preservation at a level sufficient to avoid impacts on earnings or capital. Credit insurance, involving insurance cover and the analysis of debtors' solvency, does not inherently amplify procyclical effects. However, economic crises can have direct effects by increasing claims, or indirect effects on the portfolio of policyholders. Indirect effects are seen in the increase of cancellations, which may stem from the Company or from the policyholder's declining revenues, which provide the foundations for the price of premiums. In periods marked by a surge in corporate failures, this risk can be limited by good management of insurance cover, but also by the price of premiums. This is how Euler Hermes has sought to contain the indirect impact in the current phase of the cycle. In difficult situations, such as the Baltic countries, Euler Hermes has significantly scaled down its operations to reduce risks related to the business, and potential future impacts are therefore very limited.

#### 5.6.3.5.2 Legal risks

##### 5.6.3.5.2.1 CONSTRAINTS RELATING TO SPECIFIC LEGISLATIVE AND REGULATORY ASPECTS BEARING ON INSURANCE ACTIVITIES

The credit insurance business is subject to specific regulations in different countries. Changes to the laws and regulations governing the insurance business could significantly affect the conduct of operations and Euler Hermes' offer of insurance products.

Euler Hermes' subsidiaries are structured to comply with the regulations of the countries in which they are located. They apply the laws of their country of establishment and comply with administrative requirements or those set by local supervisory authorities, as well as specific prudential rules.

In addition, each entity has appointed a correspondent tasked with implementing the EU directive on data protection, and the Group has strengthened its control over the application of regulations by making a person within the Group responsible for this function, in conjunction with correspondents within each entity. The Group's international dimension exposes it to changes that must be managed with great responsiveness so as to reduce any possible adverse effects at all levels of the Group structure.

Furthermore, the insurance business has recently been the subject of new European regulations with significant implications for internal risk management at Group level. Following the Solvency I directive, which imposed a solvency margin determined on the basis of percentages of premiums and claims, the Directive of the European Parliament and Council no 2009/138/EC dated November 25th, 2009, known as "Solvency II," requires insurers and reinsurers to measure their risks and ensure they have sufficient capital to cover them (Solvency Capital Requirement). Solvency II, which will become effective on January 1st, 2013, will be implemented either by applying a standard formula or by the use of an internal model. Euler Hermes is particularly active in implementing measures to comply with the requirements of this reform. The Group is currently developing its own internal model to be submitted for validation to France's Prudential Regulatory Authority ("ACP") and the German financial regulator ("BaFin"). It has also established a steering committee within its Group Risk Office. Lastly, the Group has undertaken the restructuring of its European units in order to streamline carrier risks into a single entity located in Belgium, with a view to maintaining its AA-rating from Standard & Poor's.

At the time of establishment of this document, Euler Hermes could not be certain of obtaining the validation of its internal model by the ACP or BaFin. Should its internal model not be approved, the need to apply the standard formula defined under the Solvency II directive could result in additional operating costs.

##### 5.6.3.5.2.2 ONGOING LITIGATION AND LITIGATION RISK

Euler Hermes SA is not involved in any judicial proceedings in any of the countries in which it operates.

However, certain Group subsidiaries are involved in various legal proceedings. Only disputes representing a threshold of materiality of more than €1 million will be discussed below.

**America**

In the United States, Euler Hermes' subsidiaries (Euler Hermes ACI and Euler Hermes UMA) are involved in five main disputes in the various states in which they operate. These disputes involve claims totaling roughly €8.8 million, which Euler Hermes is contesting.

In Canada, Euler Hermes ACI is facing claims in two disputes, for a total of roughly €3.8 million.

**Europe**

In Germany, Euler Hermes Kreditversicherungs-AG has been cited in two disputes, with claims totaling €2 million, for which reserves have been set aside. Euler Hermes' German subsidiary is facing demands for indemnification, including two that were lodged in the year ended December 31st, 2010, totaling €7.79 million and €2.2 million respectively, both of which have been fully provisioned.

In Switzerland, Euler Hermes KV Niederlassung in Zurich is facing demands for indemnification in two cases, totaling €9 million and €1.34 million respectively, provisioned in the amount of €3 million and €1.2 million respectively.

In Italy, SAFIM FACTOR (in liquidation) filed a claim for damages against Euler Hermes SIAC, the Italian subsidiary, on November 18th, 1996, alleging its partial responsibility in the financial difficulties that led to its liquidation. SAFIM FACTOR is claiming damages in the amount of €77.5 million. After a favorable ruling at the first trial on September 14th, 1999, followed by the July 21st, 2009 decision by an appeals court in Rome to order a retrial, a final decision is expected in the first half of 2011. Euler Hermes has undertaken a detailed review of this issue. It has accordingly reappraised, with the help of its legal advisors, the financial risks associated with this dispute. It set aside the sum of €24 million to cover this risk in 2010.

The unfavorable outcome of any pending or future litigation could have an adverse impact on Euler Hermes' business, financial position, consolidated net income, reputation or image. Euler Hermes carefully manages its relationships with external parties, and each entity has a local structure or the necessary legal means to take the appropriate action in the event of disputes.

There are no other governmental, judicial or arbitration proceedings, including any proceedings of which the Company is aware, either pending or threatened, which have had over the last 12 months or may in the future have a material impact on the financial position or profitability of the Company and/or Group.

#### 5.6.3.5.3 Risk of rating downgrades

Ratings of capacity to settle claims or financial strength have increasingly become important elements in determining insurance companies' relative competitive positions. Rating agencies review their ratings and methodologies on an ongoing basis, and can revise their ratings at any time. Accordingly, our current ratings may vary. Amidst a financial crisis and given the deteriorating financial markets in recent months, some rating agencies have downgraded their outlook on the life insurance industry and have cut the ratings of an increasingly large number of companies. However, the Standard & Poor's AA- rating of Euler Hermes was not revised by Standard & Poor's throughout the 2008-2009 financial crisis.

A ratings downgrade or the potential for one, and more importantly the loss of the AA rating, could have adverse effects on the Company, by (i) undermining its competitive position, (ii) preventing it from distributing new insurance policies, (iii) increasing the rate of redemption or termination of existing insurance policies, (iv) lifting the cost of reinsurance, (v) limiting its access to sources of financing and/or increasing the cost of such financing, (vi) imposing the need to provide additional guarantees for certain contracts, (vii) having an adverse impact on relations with creditors or trading counterparties and/or (viii) having a significantly adverse impact on public confidence. Any of these outcomes could have an adverse impact on Euler Hermes' operations, liquidity, consolidated net income, turnover and financial position.

#### 5.6.3.5.4 Compliance risk

Compliance risk relates to the application of appropriate rules of behavior for a given period or situation. To deal with this risk, a Group Head of Compliance, working in conjunction with correspondents in every region, monitors compliance with rules governing ethics, fraud, money laundering and the observance of periods during which trading in Euler Hermes securities is suspended.

#### 5.6.3.5.5 Environmental risk

The insurance business is inherently non-polluting. Moreover, no fact or information pertaining to this risk and liable to have a material impact on Euler Hermes' financial statements, results or business has been identified.

### 5.6.3.6 Capital risk

The Group Risk Office has undertaken, in coordination with the reference shareholder, the implementation of risk measures aimed at determining the amount of capital necessary to cover the Group's operations. These measures also form the basis of the calculation of economic value added, one of the performance indicators of each entity. EVA is a crucial instrument in the implementation of a risk strategy aimed at protecting the capital base, in the management of resource allocation and in the transfer of risk. It enables the Group Risk Office to compare the Company's needs with the available resources in order to offer management a base that defines available resources and to establish guidelines for the management of the credit insurance business, in addition to the necessary level of risk transfer and possible asset allocation.

The calculation of insurance risk is a prerequisite in defining an internal credit insurance model. It is the most difficult calculation to carry out because it must factor in all the parameters affecting contracts, debtors and risk transfers. The classification of debtors by rating, combined with a probability of default, provides a basis for complex processing aimed at simulating actual exposure to insurance risk cover derived from theoretical credit insurance cover.

Each entity regularly performs a detailed calculation of its own positions. Individual results are subsequently aggregated and modulated on the basis of the diversification effect (by entity and by risk category). The calculation of the capital necessary to cover quantifiable risks is based on an economic approach. The consistency of this model is expected to make it a key instrument in risk management. The model measures all aspects of credit insurance risk, and the comparison of results over time can ensure its validity and robustness.

The current approach is relatively conservative, both in defining the parameters used in the calculation method and in applying them. It is a genuine management system: it delivers information at the aggregate level to determine capital requirements by entity, as well as detailed information at the most granular level for risk-management purposes. It also provides the basis for developing models for calculating premiums and calculating quantitative limits applied to all risk categories. All Euler Hermes entities keep the Group Risk Office informed of their regulatory solvency position. Regulatory limits are well below the current capital of individual entities. If this were not the case, appropriate action, in terms of trading or capital, would be considered.

The new internal model currently in development aims to improve the approach used to date, which was inspired by Standard & Poor's methodology.

The model assigns risk factors to different balance sheet items. As such, portfolio securities are classified by rating, as well as exposure to reinsurers. Insurance and reserve risk is deduced by the direct application of factors to net amounts, after reinsurance, of net premiums and claim reserves respectively. Standard & Poor's updated the factors in 2007, increasing the weighting of credit insurance. While some assumptions may be questionable and involve a weighting that may be deemed excessive in the absence of an adjustment by an analyst, it nevertheless provides a basis for calculating the capital required to cover risks. Simulation was therefore carried out using this new model for 2009 and 2010 evidencing a slight increase of the capital risk of 2.6% compared to 2009.

The amounts needed to achieve an A rating, simulated on the basis of this method, are presented in the following table:

| **Capital Risk** (in € millions) | **2010** | **2009** |
|---|---|---|
| C1: Financial risks | 254 | 195 |
| C2: Counterparty risks | 56 | 109 |
| C4: Premium risks | 1,083 | 1,054 |
| C5: Reserve risks | 319 | 310 |
| **S&P RAC* SIMULATION** | **1,712** | **1,668** |

* *New S&P model simulation for an A rating.*

The model shows that Euler Hermes' risk capital requirements increase marginally compared with 2009. This simulation is based on an internal approach and adjustments potentially made by rating-agency analysts could alter the outcome slightly.

The Euler Hermes Group is present in many countries, and each entity complies with local regulatory constraints. The consolidated amount resulting from local constraints is well below the amount of the Group's consolidated equity.

### Sensitivity tests

In addition to calculating the capital required to cover risk, the Group performs regular sensitivity tests to ensure the consistency of its protection and its sensitivity to scenarios involving heightened risk. The results are illustrative of the risk under consideration, but they also, like all simulations, have limits. The simulation is based on the situation at a given date, the year-end in the present case. As such, the results do not reflect the possibility that events could be managed gradually or ex-post. The lack of dynamic management precludes simulations of all but extreme cases, with no capacity to adapt positions or structures in the event of significant adverse change.

| Risk of shares and bonds in portfolio at 12/31/2010 (in € millions) | Market value at December 31st, 2010 | Impact of 100 basis point rate rise * | Impact of 10% fall in equity market | Market value at December 31st, 2009 | Impact of 100 basis point rate rise ** | Impact of 10% fall in equity market |
|---|---|---|---|---|---|---|
| Bonds | 2,465 | (81.1) | 0.0 | 2,183 | (50.2) | 0.0 |
| Shares | 142 | 0.0 | (12.6) | 130 | 0.0 | (11.4) |
| **TOTAL** | **2,607** | | | **2,313** | | |

* *Average sensitivity 3%, calculated on the main subsidiaries representing over 99% of the bond portfolio at the end of 2010.*
** *Average sensitivity 3%, calculated on the main subsidiaries representing over 99% of the bond portfolio at the end of 2009.*

| Risk of shares in portfolio at 12/31/2010 (in € millions) | Market value at 12/31/2010 / scenarios impact | Revaluation reserve / shareholders' equity impact | Amortized cost / economic account impact |
|---|---|---|---|
| Total | 142 | 22 | 120 |
| Impact of 10% fall in equity markets | (13) | (13) | 0 |
| Impact of 30% fall in equity markets | (38) | (23) | (15) |

*Shareholders' equity impact does not take account of deferred taxes. Income statement impact is before tax.*

| (in € millions) | Net income 2010 | Fall in premiums -10% | 10% rise in cost of claims in 2010 | Increase in management costs of 10% | Net income 2009 | Fall in premiums -10% | 10% rise in cost of claims in 2009 | Increase in management costs of 10% |
|---|---|---|---|---|---|---|---|---|
| **Variation in net income** | **294** | **(45)** | **(44)** | **(52)** | **19** | **(15)** | **(63)** | **(49)** |

*Assumption: Constant effective tax rate in 2010 and 2009.*

# 5.7 Statutory Auditors' report on the consolidated financial statements

Euler Hermes SA

Head office: 1, rue Euler 75008 Paris

Share capital: €14,432,874

Statutory Auditors' report on the consolidated financial statements

Fiscal year ended on December 31st, 2010

Ladies and Gentlemen,

In performance of the task entrusted to us by your Shareholders, we are presenting our report to you for the fiscal year ended December 31st, 2010 on:

- the audit of the consolidated financial statements of Euler Hermes SA, as appended to this report;
- the substantiation of our assessments;
- the specific verifications required by law.

The consolidated financial statements were drawn up by the Group Management Board. We are required to express an opinion on these financial statements on the basis of our audit.

## Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require us to perform such tests and procedures as to obtain reasonable assurance that the annual financial statements are free from material misstatement. An audit includes examining, on a test basis or by using any other sampling techniques, the evidence supporting the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the accounting policies used and any significant estimates made in drawing up the consolidated financial statements, plus an evaluation of the overall presentation of these statements. We believe that our audit provides a reasonable basis for the opinion expressed below.

We certify that the consolidated financial statements for the fiscal year are, with respect to the IFRS standards adopted in the European Union, true and fair and accurately present the assets and liabilities, the financial position and the results of the Group constituted by the persons and entities included in the consolidation.

Without wishing to call the above opinion into question, we draw your attention to Note 2.1. § "Change of accounting method" in the Notes to the financial statements which explains the change in the accounting method for the presentation of the sector-based information.

## Substantiation of our assessments

The context in which the 2010 financial statements were drawn up continues to be particularly difficult, notably because of the persisting deteriorated and uncertain economic environment and the developments in the economic downturn, which now include monetary repercussions inside the Euro zone.

It is in this context that, pursuant to the provisions of Article L. 823-9 of the French Commercial Code, we draw your attention to the following items:

- your Group set up actuarial liabilities to cover its commitments. The methods used are explained in paragraphs 2.7 and 2.23 of Note 2 "IFRS accounting and valuation rules" and Note 18 of the Notes to the financial statements. Using the information available on the closing date, our assessment of the actuarial liabilities was based on an analysis of the calculation methodology used by the different companies in the Group, as well as an assessment of the assumptions made;
- investments are recognized and valued using the methods described in paragraph 2.14 of Note 2 "IFRS accounting and valuation rules" and in Note 6 of the Notes to the financial statements. We checked that the valuation methods used had been applied correctly and then assessed, firstly, the data and assumptions used to value them, and secondly, the classification methods adopted on the basis of the documentation compiled by the Group;

- the Group performs an impairment test on goodwill on each year end, or when there is a indication of a loss in value using the methods described in paragraphs 2.7 and 2.11 of Note 2 "IFRS accounting and valuation rules" and in Note 3 of the Notes to the financial statements. We examined the methods used to perform this impairment test as well as the cash flow forecasts and other assumptions made;
- Note 1 "Highlights" describes the impact the recognition of a restructuring provision for the Excellence project, i.e. €56.6 million had on the consolidated financial statements. Our work mainly involved examining the data used, assessing the assumptions made and reviewing the calculations.

The assessments thus made form part of our procedure for auditing the consolidated financial statements taken as a whole and therefore contributed to the formation of our opinion as expressed in the first section of this report.

## Specific verification

We also performed the specific verification required by law of the computer data in the Group's management report in accordance with the professional standards which apply in France. We have no comments to make on their fairness and consistency with the consolidated financial statements.

The Statutory Auditors

Paris, La Défense, April 12th, 2011

KPMG Audit
*Département de KPMG S.A.*

Régis Tribout
*Partner*

Paris, April 12th, 2011

ACE - Auditeurs et Conseils d'Entreprise

François Shoukry
*Partner*

# FINANCIAL STATEMENTS

# 6.1 Balance Sheet as at December 31st, 2010

| **Assets** (in euros) | Notes | Gross | Amort & depr. | Net 12/31/2010 | Net 12/31/2009 |
|---|---|---|---|---|---|
| Intangible assets | 3.1 | 8,948,546 | 7,532,483 | 1,416,063 | 5,335,611 |
| Property & Equipment | 3.1 | 378,133 | 296,722 | 81,411 | 55,421 |
| Long-term investments | | | | | |
| Participating interests | 3.2 | 1,685,977,272 | 0 | 1,685,977,272 | 1,519,863,636 |
| Other long-term investments | 3.3 | 118,565,425 | 0 | 118,565,425 | 129,323,798 |
| **Non-current assets** | | **1,813,869,376** | **7,829,205** | **1,806,040,171** | **1,654,578,466** |
| Receivables | 3.4 | 59,996,486 | | 59,996,486 | 32,217,421 |
| Cash and cash equivalent | 3.5 | 137,974,129 | | 137,974,129 | 44,090,012 |
| **Current assets** | | **197,970,615** | | **197,970,615** | **76,307,433** |
| **Translation differences** | **3.11** | **0** | | **0** | **256,149** |
| **TOTAL ASSETS** | | **2,011,839,991** | **7,829,205** | **2,004,010,786** | **1,731,142,048** |
| *Off-balance sheet commitment received* | *5.3* | | | *0* | *0* |

| **Liabilities and shareholders' equity** (in euros) | Notes | 12/31/2010 | 12/31/2009 |
|---|---|---|---|
| Share capital | 3.6.1 | 14,432,874 | 14,426,627 |
| Additional paid-in capital | | 452,624,791 | 451,958,549 |
| Reserves | | | |
| • Legal reserve | | 1,443,614 | 1,442,631 |
| • General reserve | | 77,473,535 | 77,473,535 |
| • Reserve for treasury shares | | 85,517,335 | 84,697,534 |
| • Other reserves | | 180,871,405 | 181,691,206 |
| Retained earnings brought forward | | 345,675,158 | 173,801,408 |
| Net earnings for the year | | 166,830,268 | 171,874,733 |
| Regulated provisions | | 37,810 | 0 |
| **Shareholders' equity** | **3.6.2** | **1,324,906,790** | **1,157,366,223** |
| **Provisions** | **3.7** | **37,710** | **291,654** |
| Borrowings and other financial liabilities | 3.8 | 640,218,664 | 537,316,790 |
| Trade payables | 3.9 | 5,353,759 | 3,190,795 |
| Social security, tax and other liabilities | 3.10 | 29,987,118 | 32,130,194 |
| **Liabilities** | | **675,559,541** | **572,637,779** |
| **Translation differences** | **3.11** | **3,506,745** | **846,392** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **2,004,010,786** | **1,731,142,048** |
| *Off-balance sheet commitments given* | *5.3* | *13,573,313* | *12,496,849* |

# 6.2 Income Statement

| (in euros) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Operating and financial revenues** | | | |
| Revenues from participating interests | 4.1 | 193,935,031 | 174,776,476 |
| Other financial revenues | 4.2 | 3,561,072 | 4,865,608 |
| Writebacks of provisions for foreign exchange losses | 3.7 | 256,149 | 0 |
| Writebacks of provisions for impairment of treasury shares | 3.3.2 | 4,770,414 | 26,162,342 |
| Writebacks of provisions for impairment of participating interests | 3.2.2 | 6,171,768 | 0 |
| Net income from sale of securities | | 50,117 | 183,056 |
| Sundry services | 4.3 | 4,975,192 | 7,200,368 |
| Expenses capitalized | 3.1.1 | 0 | 3,055,232 |
| **Total I** | | **213,719,743** | **216,243,082** |
| **Operating and financial expenses** | | | |
| External charges | 4.4 | 32,945,566 | 23,410,115 |
| Taxes, duties and similar payments | | 418,998 | 312,829 |
| Payroll and social security contributions | 4.5 | 8,982,907 | 3,411,991 |
| Other ordinary management expenses | 5.2 | 450,000 | 360,000 |
| Depreciation and amortization of non-current assets | 3.1.2 | 907,929 | 930,716 |
| Provisions for foreign exchange losses | 3.7 | 0 | 256,149 |
| Other financial expenses | 4.6 | 16,539,109 | 16,165,712 |
| **Total II** | | **60,244,509** | **44,847,512** |
| **Ordinary income (I - II)** | | **153,475,234** | **171,395,570** |
| **Exceptional revenues** | | | |
| Proceeds from sale of participating interests | | 0 | 1,200,045 |
| Other exceptional revenues | 4.8 | 2,847,862 | 369,341 |
| Writebacks of provisions | 3.7 | 2,893 | 50,584 |
| **Total III** | | **2,850,755** | **1,619,970** |
| **Exceptional charges** | | | |
| Carrying amount of participating interests sold | 4.7 | 909 | 639,104 |
| Other exceptional charges | 4.8 | 2,414,779 | 105 |
| Amortization of acquisition expenses | 3.6.2 | 37,810 | 0 |
| Provision | 3.7 | 5,098 | 9,162 |
| **Total IV** | | **2,458,596** | **648,371** |
| **Net exceptional income (III - IV)** | | **392,159** | **971,599** |
| **Corporation tax** | **4.9** | **12,962,875** | **( 492,436 )** |
| **Net income** | | **166,830,268** | **171,874,733** |

# 6.3 Notes to the Parent Company Financial Statements

These notes should be read in conjunction with the consolidated statement of financial position before the allocation of net income for the fiscal year ended December 31st, 2010, which shows total assets of €2,004,010,786, and the consolidated income statements, which show net income of €166,830,268.

The fiscal year covers the 12 month period from January 1st to December 31st, 2010.

These notes comprise:

- the accounting policies and principles applied;
- significant events during the fiscal year;
- notes to the consolidated statement of financial position;
- notes to the consolidated income statement;
- other information.

These notes and tables form an integral part of the annual financial statements as approved by the Group Management Board and reviewed by the Supervisory Board at its meeting of February 15th, 2011.

## 1 ACCOUNTING POLICIES AND PRINCIPLES

The 2010 financial statements have been prepared in accordance with Articles L. 123-12 to L. 123-28 of the French Commercial Code, the provisions of decree No. 83 - 1020 of November 29th, 1983 taken in accordance with the French Commercial Code, the regulations of the Comité de la réglementation comptable (French Accounting Regulations Committee - CRC), and in particular with CRC regulation no. 99–03 of April 29th, 1999 relating to the revision of the French General Chart of Accounts.

## 2 SIGNIFICANT EVENTS DURING THE FISCAL YEAR

The following events occurred during 2010:

### Participating Interests

In 2010, Euler Hermes fully subscribed to the capital increases staged by Euler Hermes Reinsurance AG at a cost of €122,859,000 and Euler Hermes World Agency at a cost of €1,500,000.

During the year, Euler Hermes acquired all of the shares in the following companies:

- Euler Hermes Magyar Követeléskezelö Kft, for €6,514,000;
- Euler Hermes Servicii Financiare SRL, for €993,000;
- Euler Hermes Servis s.r.o., for €2,067,000;
- Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o., for €26,009,000;
- Euler Hermes Servis s.r.o., for €2000.

The position of Euler Hermes UK Plc made it possible to write back the provision for impairment recognized at December 31st, 2009 for €6,172,000. (*See 3.2.1 Participating Interests, 3.2.2 Impairment of Participating Interests*)

### IT Project

The Collection project launched in 2009 was centralized within the subsidiary Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o. The corresponding IT development costs, which had been recognized as an asset, were written back in full and re-invoiced to Euler Hermes Tech. *(See 3.1.1 Intangible Assets and Property, Plant, and Equipment 4.3 Sundry Services)*

### Excellence project

The Excellence project was launched in 2010. It is a three-year transformation program initiated by the Group to consolidate competitive advantage in all areas of the Euler Hermes Group. The project fees are recorded as external expenses. (*See 4.4 External Expenses)*

### Provision for Treasury Stocks

Because of changes in the financial markets, €4,770,000 of the impairment provision recognized in respect of treasury shares held by Euler Hermes was written back in full as at December 31st, 2010. *(See 3.3.2 Impairment of Other Long-Term Investments)*

# 3 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## A - Assets

## 3.1 Intangible Assets; Property, Plant, and Equipment; and Amortization and Depreciation

### 3.1.1 Intangible Assets; Property, Plant, and Equipment

Intangible assets and property, plant, and equipment were as follows as at December 31st, 2010:

| (in euros) | Gross amount at start of year | Increase | Decrease | Gross amount at year-end |
|---|---|---|---|---|
| **Intangible assets** | **11,980,546** | **0** | **3,032,000** | **8,948,546** |
| Intangible assets in progress - Collection (1) | 3,032,000 | 0 | 3,032,000 | 0 |
| Software - IRP | 8,489,681 | 0 | 0 | 8,489,681 |
| Software - Global Reporting | 439,191 | 0 | 0 | 439,191 |
| Software - Other | 19,674 | 0 | 0 | 19,674 |
| **Property and equipment (2)** | **331,762** | **46,371** | **0** | **378,133** |
| **TOTAL** | **12,312,308** | **46,371** | **3,032,000** | **9,326,679** |

*(1) Expenses corresponding to software programming for the Collection project recognized as an asset were written back in full for the sum of €3,032,000 (See 2 Significant Events During the Fiscal Year).*
*(2) Property, Plant, and Equipment comprises IT equipment, which includes two production and receipt servers, fixtures, fittings, and transportation equipment.*

### 3.1.2 Amortization and Depreciation of Intangible Assets and Property, Plant, and Equipment

The breakdown of amortization and depreciation at December 31st, 2010 was as follows:

| (in euros) | Provision at start of year | Charge | Writeback | Provision at year-end |
|---|---|---|---|---|
| **Intangible assets** | **6,644,935** | **887,548** | **0** | **7,532,483** |
| Software - IRP (1) | 6,538,569 | 799,710 | 0 | 7,338,279 |
| Software - Global Reporting (2) | 86,693 | 87,838 | 0 | 174,531 |
| Software - Other (3) | 19,673 | 0 | 0 | 19,673 |
| **Property and equipment (4)** | **276,341** | **20,381** | **0** | **296,722** |
| **TOTAL** | **6,921,276** | **907,929** | **0** | **7,829,205** |

*(1) The IRP software is amortized on a straight-line basis over a period of seven years corresponding to its estimated useful life.*
*(2) The Global Reporting software is amortized on a straight-line basis over a period of five years corresponding to its estimated useful life.*
*(3) Other software is amortized in full.*
*(4) IT and transportation equipment are amortized on a straight-line basis over a three-year period; fixtures and furniture are amortized on a straight-line basis over a period of one to seven years.*

## 3.2 Participating Interests and Impairment of Participating Interests

### 3.2.1 Participating Interests

Participating interests are long-term investments that are deemed to contribute to Euler Hermes' business, particularly because they enable Euler Hermes to influence the management or assume control of the company concerned.

Participating interests are recognized at historical cost (purchase cost or contribution value) including any related purchase costs.

Movements in the gross carrying amount of participating interests were as follows:

| (in euros) | Gross amount at start of year | Increase | Decrease | Gross amount at year-end |
|---|---|---|---|---|
| **Shares** | | | | |
| Euler Hermes SFAC | 170,240,381 | | | 170,240,381 |
| Euler Hermes Services | 38,112 | | | 38,112 |
| Euler Hermes Credit Insurance Belgium SA | 53,408,321 | | | 53,408,321 |
| Euler Hermes UK Plc | 238,683,768 | | | 238,683,768 |
| Euler Hermes SIAC | 94,535,667 | | | 94,535,667 |
| Euler Hermes Inc., USA | 909 | | 909 | 0 |
| Euler Hermes ACI Inc. | 143,541,100 | | | 143,541,100 |
| Euler Hermes Kreditversicherungs-AG | 540,816,011 | | | 540,816,011 |
| Euler Hermes Kredietverzekering NV | 28,492,950 | | | 28,492,950 |
| Euler Hermes Reinsurance AG (1) | 253,437,745 | 122,858,747 | | 376,296,492 |
| Euler Hermes World Agency (2) | 2,840,440 | 1,500,000 | | 4,340,440 |
| Euler Hermes Magyar Követeléskezelö Kft (3) | | 6,514,000 | | 6,514,000 |
| Euler Hermes Servicii Financiare SRL (4) | | 992,800 | | 992,800 |
| Euler Hermes Servis s.r.o. (5) | | 2,067,000 | | 2,067,000 |
| Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o. (6) | | 26,008,590 | | 26,008,590 |
| Euler Hermes Services Sp. z o.o. | | 1,640 | | 1,640 |
| **TOTAL** | **1,526,035,404** | **159,942,777** | **909** | **1,685,977,272** |

*The main movements during the year were as follows:*
*(1) Subscription to the capital increase by the company Euler Hermes Reinsurance AG for the amount of €122,858,747;*
*(2) Subscription to the capital increase by the company Euler Hermes World Agency for the amount of €1,500,000;*
*(3) Buy-back of all shares in Euler Hermes Magyar Követeléskezelö Kft by the German subsidiary Euler Hermes Kreditversicherungs-AG, for the amount of €6,514,000;*
*(4) The acquisition by Euler Hermes Kreditversicherungs-AG of all the shares in Euler Hermes Servicii Financiare SRLfor the amount of €716,000 and OeKB Sudosteuropa Holding for €276,800;*
*(5) The acquisition by the subsidiary Euler Hermes Kreditversicherungs-AG of all the shares in Euler Hermes Servis s.r.o., for the amount of €2,067,000;*
*(6) The acquisition of all of the shares in Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o. by Euler Hermes Kreditversicherungs-AG for €26,008,590, including €246,590 for share purchase costs.*
*(See 2 Significant Events During the Fiscal Year, 3.6.2 Consolidated Statement of Changes in Equity 4.7 Carrying Amount of Participating Interests)*

### 3.2.2 Impairment of Participating Interests

At each year-end, participating interests are re-measured based on their value in use. When necessary, an impairment provision is recognized on an individual investment basis, taking into account both the value in use and the general prospects of the subsidiary concerned.

The impairment for the sum of €6,172,000 in Euler Hermes UK Plc. as at December 31st, 2009, was written back in full (*See 2 Significant Events During the Fiscal Year*).

## 3.3 Other Long-Term Investments

### 3.3.1 Other Long-Term Investments

This item mainly comprises:

- a Swiss franc-denominated advance equivalent to €13,596,000 intended to cover the organizational funding of Euler Hermes Reinsurance AG, including an unrealized foreign exchange gain of €2618,000 *(See 3.11 Translation Difference);*

- two loans in pounds sterling granted to Euler Hermes UK Plc. in 2009, totaling €37,874,000, including accrued interest for the amount of €697,000 and an unrealized foreign exchange gain of €889,000 *(See 3.11 Translation Difference);*
- treasury stock with a gross value of €67,094,000.

As part of Euler Hermes' treasury stocks buy-back program, authorized by the Extraordinary Shareholders' Meeting of April 7th, 2000, the Company held own shares at the year-end representing 2.81% of the share capital, as shown below:

| (in euros) | Gross value at start of year | Increases | Decreases | Gross value at year-end |
|---|---|---|---|---|
| **Purpose for which held** | | | | |
| **Unrestricted use** | | | | |
| • number of shares | 1,267,444 | | | 1,267,444 |
| • average price | 52.937 | | | 52.937 |
| • total | 67,094,475 | | | 67,094,475 |
| *% of capital* | *2.81%* | | | *2.81%* |
| **Adjustment of share price (1)** | | | | |
| • number of shares | 300,500 | 189,778 | 490,278 | 0 |
| • average price | 61.307 | | | 0 |
| • total | 18,422,860 | 11,413,518 | 29,836,378 | 0 |
| *% of capital* | *0.67%* | | | *0%* |
| **TOTAL** | **85,517,335** | **11,413,518** | **29,836,378** | **67,094,475** |

*(1) Given the increase in the Euler Hermes share price, all of the treasury stock allocated to the liquidity contract was sold, thereby adjusting the share price.*

### 3.3.2 Impairment of Other Long-Term Investments

For the purposes of the statement of financial position, treasury stocks are measured using the average market price during the last month of the fiscal year.

The impairment was written back in full in the consolidated income statement for the amount of €4,770,000 *(See 2 Significant Events During the Fiscal Year)*:

| (in euros) | Provision at start of year | Charge | Writeback | Provision at year-end |
|---|---|---|---|---|
| *Impairment of treasury shares: general adjustment* | *1,822,883* | *0* | *1,822,883* | *0* |
| *Impairment of treasury shares: share price adjustment* | *2,947,531* | *0* | *2,947,531* | *0* |
| **TOTAL** | **4,770,414** | **0** | **4,770,414** | **0** |

## 3.4 Receivables

As in 2009, this item mainly includes the balances of transactions between subsidiaries included in the Euler Hermes tax group *(See 4.9.1 Tax Liability)*.

All receivables are due within one year.

## 3.5 Cash and Cash Equivalents

Cash and cash equivalents comprise demand deposits, money market funds, and certificates of deposit.

## B - Liabilities

## 3.6 Shareholders' Equity

### 3.6.1 Composition of the Share Capital

At December 31st, 2009, the share capital comprised 45,083,210 shares with a total nominal value of €14,426,627.

During 2010, 19,522 options relating to share subscription option plans were exercised for an amount of €672,000, corresponding to a capital increase of €6247 and additional paid-in capital of €666,000 *(See 5.4 Share Subscription Option Plans)*.

At year-end, the share capital thus comprised 45,102,732 fully subscribed shares with a total nominal value of €14,432,874.

### 3.6.2 Consolidated Statement of Changes in Equity

Movements during the year were as follows:

| (in euros) | 12/31/2009 | Allocation of 2009 income | Dividends paid | Other movements during the year | 12/31/2010 |
|---|---|---|---|---|---|
| Share capital | 14,426,627 | | | 6,247 | 14,432,874 |
| Additional paid-in capital | 451,958,549 | | | 666,242 | 452,624,791 |
| Reserves | | | | | |
| • Legal reserve | 1,442,631 | 983 | | | 1,443,614 |
| • General reserve | 77,473,535 | | | | 77,473,535 |
| • Reserve for treasury shares | 84,697,534 | | | 819,801 | 85,517,335 |
| • Other reserves | 181,691,206 | | | (819,801) | 180,871,405 |
| Retained earnings brought forward | 173,801,408 | 171,873,750 | | | 345,675,158 |
| Net earnings for the year | 171,874,733 | (171,874,733) | | 166,830,268 | 166,830,268 |
| Regulated provisions | 0 | | | 37,810 | 37,810 |
| **TOTAL** | **1,157,366,223** | **0** | **0** | **167,540,567** | **1,324,906,790** |

#### RESERVE FOR TREASURY STOCKS

The treasury stock reserve was increased by €820,000 to take into account, in respect of the 2009 fiscal year, share purchases and sales carried out under the terms of the liquidity contract. This provision was deducted in full in the "Other Reserves" item, in accordance with the decision of the Shareholders' Meeting of May 21st, 2010.

As at December 31st, 2010, the treasury stock reserve amounted to €85,517,000.

#### REGULATED PROVISIONS

Regulated provisions correspond to the depreciation of the purchase costs of shares in Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o. over a five-year period, for a total sum of €246,590 *(See 3.2.1 Participating Interests)*.

## 3.7 Provisions

Provisions were as follows:

| (in euros) | Provisions at start of year | Charge | Writeback | Provisions at year-end |
|---|---|---|---|---|
| Provision for risk on treasury shares | 256,149 | 0 | 256,149 | 0 |
| Other provisions | 35,505 | 5,098 | 2,893 | 37,710 |
| **TOTAL** | **291,654** | **5,098** | **259,042** | **37,710** |

The provision for foreign exchange loss recorded at the end of 2009 on loans granted to Euler Hermes UK Plc in pounds sterling, for the sum of €256,000, was written down in full as at December 31st, 2010, in view of the change in the exchange rate *(See 3.11 Translation Difference)*.

## 3.8 Loans and Other Borrowings

The breakdown of "Loans and Other Borrowings" by maturity is as follows:

| (in euros) | 12/31/2010 | 12/31/2009 | CHANGE |
|---|---|---|---|
| Less than one year | 125,218,664 | 400,316,790 | (275,098,126) |
| One to five years | 380,000,000 | 137,000,000 | 243,000,000 |
| Over five years | 135,000,000 | 0 | 135,000,000 |
| **TOTAL** | **640,218,664** | **537,316,790** | **102,901,874** |
| *Of which due to related companies* | *386,064,052* | *537,252,885* | *(151,188,834)* |

In 2010, Euler Hermes took out two loans with credit institutions for a total sum of €250,000,000, over a period of 5 years.

The portion beyond five years corresponds to the renewal of a loan from Allianz to be paid in full on maturity.

Interest totaled €16,123,000 as at December 31st, 2010 *(See 4.6 Other Financial Expenses)*.

### 3.9 Trade Payables

Trade payables consisted solely of accruals for supplier invoices not yet received at the balance sheet date totaling €5,354,000.

### 3.10 Social Security, Tax, and Other Borrowings

As in 2009, this item mainly includes the balances of transactions between subsidiaries included in the Euler Hermes tax group (*See 4.9.1 Tax Liability*).

The maturity of borrowings is as follows:

- borrowings maturing in less than one year: €28,726,000;
- borrowings maturing in one to five years: €1,261,000.

### 3.11 Translation Difference

Unrealized foreign exchange gains and losses on foreign currency transactions are netted by currency.

As at December 31st, 2010, the translation difference for liabilities corresponds to an unrealizable foreign exchange gain and breaks down as follows:

| (in euros) | Currency | 12/31/2010 | 12/31/2009 |
|---|---|---|---|
| Other long-term investments *(cf. 3.3.1 Other long-term investments)* | CHF | 2,617,992 | 480,957 |
| | GBP | 888,753 | 0 |
| Other receivables | CHF | 0 | 365,435 |
| **TOTAL** | | **3,506,745** | **846,392** |

The translation difference (assets) recorded in 2009 was written down in full in 2010, as was the corresponding provision for foreign exchange loss *(See 3.7 Provisions)*.

## 4 NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 4.1 Revenues from Participating Interests

This item comprises dividends received from associated companies, as follows:

| (in euros) | 2010 | 2009 |
|---|---|---|
| Euler Hermes Kreditversicherungs-AG | 101,504,000 | 90,000,000 |
| Euler Hermes SFAC | 73,393,437 | 73,376,615 |
| Euler Hermes ACI | 15,037,594 | 11,286,682 |
| Euler Hermes Magyar Követeléskezelö Kft. | 0 | 113,179 |
| Euler Hermes Kredietverzekering NV | 4,000,000 | 0 |
| **TOTAL** | **193,935,031** | **174,776,476** |

### 4.2 Other Financial Income

This item mainly comprises:

- interest on loans granted to Euler Hermes UK Plc *(See 3.3.1 Other Long-Term Investments);*
- a foreign exchange gain on foreign currency debts to associated companies;
- income from cash investments.

The share corresponding to associated companies amounts to €1,784,000.

### 4.3 Sundry Services

This item includes €2,182,000 recharged to subsidiaries that are not included in the cost-sharing agreement for IRP system license fees.

It also includes recharges of €2,793,000 to the same subsidiaries for IRP system maintenance.

The charges incurred in 2009 within the Collection project were recharged in full to Euler Hermes Tech as part of the transfer of costs to Euler Hermes Zarzadzanie Ryzykiem Sp. z o.o., for €3,032,000 *(See 2 Significant Events During the Fiscal Year)*.

## 4.4 External Expenses

This item comprises the external structural charges of Euler Hermes, as well as expenditure incurred on the operating costs for the IRP and GRP systems.

Fee costs for the Excellence project are also included in this item.

*(See 2 Significant Events During the Fiscal Year).*

## 4.5 Payroll and Social Security Contributions

This item comprises remuneration and all bonuses for corporate officers and company employees.

## 4.6 Other Financial Expenses

This item mainly comprises interest on loans from associated companies in an amount of €11,971,000, including €2,811,000 of accrued interest on loans taken out with credit institutions, amounting to €4,151,000 *(See 3.8 Loans and Other Financial Borrowings)*.

## 4.7 Carrying Amount of Participating Interests

Euler Hermes showed a loss of €909 following the liquidation of Euler Hermes Inc., USA *(See 3.2.1 Participating Interests)*.

## 4.8 Other exceptional Income and Expenses

This item mainly comprises the surplus and deficit from the buy-back of treasury stock for €2,848,000 and €2,406,000 respectively.

## 4.9 Income Tax Expense

The breakdown of the tax expense for the year is as follows:

| (in euros) | 2010 | 2009 |
|---|---|---|
| Corporation tax | 0 | (1,123,775) |
| Tax grouping surplus | 11,441,298 | 1,621,990 |
| Deferred tax | 1,521,577 | (990,651) |
| **TOTAL** | **12,962,875** | **(492,436)** |

### 4.9.1 Tax Liability and Tax Grouping Surplus

Euler Hermes is the head of the tax group formed with its subsidiaries Euler Hermes SFAC, Euler Hermes SFAC Credit, Euler Hermes SFAC Recouvrement, Euler Hermes Services, Euler Hermes Tech, Euler Hermes SFAC Asset Management, CCA, Euler Hermes World Agency, Financière Sirius, and Financière Aldébaran. Each company pays the parent company the tax that it would have paid to the authorities if it had been taxed individually *(See 3.4 Receivables and 3.10 Social security, Tax and Other Liabilities)*.

The current tax liability is calculated at the rate of 34.43%, including the 3.3% social security contribution on profits (based on the tax expense after deducting an allowance of €763,000).

To calculate the taxable income of Euler Hermes itself, dividends received from the subsidiaries are deducted in accordance with the parent company/subsidiary tax regime and the share of corresponding expenses and charges is added back. After all deductions and amounts added back, taxable income was negative.

As the total of the individual tax liabilities of the members of the tax group was higher than the tax expense for the tax group, a tax grouping surplus of €11,441,000 was generated in favor of Euler Hermes.

### 4.9.2 Deferred Tax

Deferred tax arises from timing differences between the year in which an income or expense item is recognized in the accounts and its inclusion in the taxable income or loss of a subsequent year. Deferred tax is calculated using the following preferential methods:

- application of the balance sheet liability method, under which unrealized differences are added to the timing differences;
- use of the full provision method, under which recurring differences and differences that will only reverse in the long term are included;
- application of the liability method, under which deferred tax recognized in prior years is adjusted for any changes in the tax rates; the rate used for 2010 and subsequent years is 34.43%.

As none of the significant deferred tax assets and liabilities has a set maturity, discounting has not been applied to any items.

Deferred tax assets and liabilities are offset only when they have the same nature and maturity.

# 5 OTHER INFORMATION

## 5.1 Consolidation

Euler Hermes SA, whose shares are listed on the Paris Stock Exchange, is the parent company of the Euler Hermes subgroup and as such publishes consolidated financial statements.

The Company's financial statements are fully consolidated within the financial statements prepared by Allianz (Munich Trade and companies Registry no. 164 232).

## 5.2 Attendance Fees

Attendance fees paid to members of the Supervisory Board in accordance with the resolution passed by the Combined Shareholders' Meeting of May 21st, 2010 amounted to €450,000.

## 5.3 Commitments Not Included in the Statement of Financial Position

These comprise:

- commitment for a total of €12,923,000 for the debts of GIE Euler Hermes SFAC Services, whose head office is at 1 rue Euler, 75008 Paris; in fact, as a member of this economic interest group, Euler Hermes has a joint and several obligation for the total liabilities of this group reduced by the latter's debts with other members (Article 4 paragraph 1 of ordinance no. 67 821); Euler Hermes shares this commitment with the following subsidiaries and sub-subsidiaries: Euler Hermes SFAC, Euler Hermes SFAC Credit, Euler Hermes SFAC Recouvrement, Euler Hermes Services, Euler Hermes Tech, Euler Hermes SFAC Asset Management, Euler Hermes World Agency, Euler Hermes SFAC Direct;
- commitment given to Group employees in respect of the liquidity of share subscription option plans in force in subsidiaries for a total of €650,000;
- commitment given to Euler Hermes Reinsurance AG guaranteeing the payment of financial commitments given by the subsidiary to beneficiaries of a proportional or non-proportional reinsurance policy;
- commitment given to Euler Hermes Reguaranteeing the payment of financial commitments given by the subsidiary to beneficiaries of a proportional or non-proportional reinsurance policy.

## 5.4 Share Subscription Option Plans

A share subscription plan was adopted at the Extraordinary Shareholders' Meeting of April 23rd, 2003. Following resolutions of the Group Management Board, 380,000 options were granted during fiscal years 2003 and 2004.

In accordance with the resolution adopted by the Group Management Board on June 27th, 2005, 160,000 share subscription options were granted during 2005.

Movements during the fiscal year are as follows *(See 3.6.1 Composition of the Share Capital)*:

| Year of allocation | 2003 | 2004 | 2005 |
|---|---|---|---|
| Options still to be exercised at start of year | 50,845 | 89,355 | 143,450 |
| Options exercised (1) | 11,400 | 8,122 | 0 |
| Options allocated | 0 | 0 | 0 |
| Options cancelled (2) | 0 | 600 | 0 |
| **Options still to be exercised at end of year** | **39,445** | **80,633** | **143,450** |
| Exercise price | 27.35 | 44.41 | 63.08 |

*(1) See Note 3.6 Shareholders' equity*
*(2) Options renounced by beneficiaries*

## 5.5 Share Acquisition Option Plans

The Extraordinary Shareholders' Meeting of May 22nd, 2006 approved a mixed share subscription and acquisition option plan for employees and corporate officers of Euler Hermes and of its more than 50%-owned subsidiaries.

In accordance with the resolution passed by the Group Management Board Meeting of September 18th, 2006, 160,000 share acquisition options were awarded in September 2006.

In accordance with the resolution passed by the Group Management Board Meeting of June 20th, 2008, 130,000 share acquisition options were awarded in June 2008.

The movements during the fiscal year were as follows *(See 3.3 Other Long-Term Investments)*:

| | 05/22/2006 | |
|---|---|---|
| Date of General Meeting | (1st allocation) | (2nd allocation) |
| **Date of Management Board Meeting** | **9/18/2006** | **6/20/2008** |
| Options still to be exercised at start of year | 153,100 | 130,000 |
| Options exercised | 0 | 0 |
| Options allocated | 0 | 0 |
| Options cancelled | 800 | 800 |
| **Options still to be exercised at end of year** | **152,300** | **129,200** |
| Exercise price (1) | 91.82 | 55.67 |

*(1) For options still to be exercised at end of year.*

# 6.4 Table of subsidiaries and interests

| Subsidiaries and participating interests | Capital | | Other Treasury stock | | Share of capital held% | Carrying amount of securities held gross (in euros) | Carrying amount of securities held net [1] (in euros) |
|---|---|---|---|---|---|---|---|
| **A. Detailed information concerning securities whose gross value exceeds 1% of the share capital** | | | | | | | |
| Euler Hermes SFAC<br>1, rue Euler -75008 Paris | EUR | 90,330,400 | EUR | 157,162,697 | 99.99% | 170,240,380 | 170,240,380 |
| Euler Hermes UK Plc<br>1, Canada Square - London E14 5DX<br>ENGLAND | GBP | 50,614,000 | GBP | 55,796,000 | 100.00% | 238,683,768 | 238,683,768 |
| Euler Hermes Credit Insurance Belgium SA<br>15, rue Montoyer 1000 - Brussels<br>BELGIUM | EUR | 27,916,000 | EUR | 65,221,000 | 99.99% | 53,408,321 | 53,408,321 |
| Euler Hermes ACI Holding Inc.<br>800 Red Brook Boulevard - Owings Mills MD 21117<br>USA | USD | 129,526,334 | USD | 2,519,000 | 100.00% | 143,541,100 | 143,541,100 |
| Euler Hermes SIAC S.p.A.<br>Via Raffaello Matarazzo, 19 00139 - Rome<br>ITALY | EUR | 28,000,000 | EUR | 45,655,000 | 100.00% | 94,535,667 | 94,535,667 |
| Euler Hermes Kreditversicherungs AG<br>Friedensallee 254, 22763 - Hamburg<br>GERMANY | EUR | 54,080,000 | EUR | 646,507,000 | 100.00% | 540,816,011 | 540,816,011 |
| Euler Hermes Reinsurance AG<br>Tödistrasse, 65 - CH-8002 Zürich<br>SWITZERLAND | CHF | 376,236,000 | CHF | (122,743,000) | 100.00% | 376,296,492 | 376,296,492 |
| Euler Hermes Kredietverzekering NV<br>Pettelaarpark 20,<br>Postbus 70571 PD's-5201 Hertogenbosch<br>NETHERLANDS | EUR | 3,999,000 | EUR | 17,290,000 | 100.00% | 28,492,950 | 28,492,950 |
| Euler Hermes World Agency<br>8 rue Euler - 75008 Paris | EUR | 1,540,000 | EUR | (899,835) | 100.00% | 4,340,440 | 4,340,440 |
| Euler Hermes Magyar Követeléskezelö Kft<br>Kiscelli u.104 - H-1037 Budapest<br>HUNGARY | HUF | 30,000,000 | HUF | 302,629,000 | 100.00% | 6,514,000 | 6,514,000 |
| Euler Hermes Zarzadzanie Ryzykiem Sp. z.o.o<br>ul.Domaniewska50B - 02-672 Warsaw<br>POLAND | PLN | 580,000 | PLN | 26,744,000 | 100.00% | 26,008,590 | 26,008,590 |
| Euler Hermes Servicii Financiare SRL<br>Str Petru Maior,6 sector - 1 - 011262 Bucharest<br>ROMANIA | RON | 2,962,000 | RON | 241,000 | 100.00% | 992,800 | 992,800 |
| Euler Hermes Servis s.r.o<br>Plynarenska 4659/1 - 82109 Bratislava<br>SLOVAKIA | EUR | 136,000 | EUR | 128,000 | 100.00% | 2,067,000 | 2,067,000 |
| **B. Summary information concerning other securities whose gross value does not exceed 1% of the share capital** | | | | | | | |
| French subsidiaries | EUR | 40,000 | EUR | 1,929,145 | | 38,112 | 38,112 |
| Foreign subsidiaries | PLN | 5,000 | PLN | - | | 1,640 | 1,640 |

*(1) Impairment of securities is recorded at year-end when the carrying amount of the securities is greater than the Company's going concern value (see 3.2.2 Impairment of Participating Interests)*
*(2) The exchange rate used for companies outside the euro zone is the closing rate on December 31st, 2010*
*(3) Amounts corresponding to the sub-group Euler Hermes UK, of which Euler Hermes UK Plc is the holding company*
*(4) Amounts corresponding to the sub-group Euler Hermes SIAC, of which Euler Hermes SIAC S.p.A. is the holding company*
*(5) Corresponds to organizational funding (See 3.3.1 Other long-Term Investments)*

| Outstanding loans and advances (in euros) | Sureties and Guarantees given (in euros) | Net turnover for last fiscal year (2) (in euros) | Income for last fiscal year (2) (in euros) | Dividends Received during the fiscal year (in euros) |
|---|---|---|---|---|
| | | | | |
| - | 0 | 358,668,076 | 88,869,583 | 73,393,437 |
| 37,176,881 | 649,990 | 198,166,715 (3) | 13,236,131 (3) | - |
| - | - | 81,811,000 | (3,941,000) | - |
| 192,140 | - | - | 14,678,940 | 15,037,594 |
| 284,079 | - | 179,011,000 (4) | (914,000) (4) | - |
| - | - | 818,839,000 | 117,742,000 | 101,504,000 |
| 13,595,649 (5) | - | 719,387,396 | 96,070,058 | - |
| 18,048 | - | 54,292,000 | 4,339,000 | 4,000,000.00 |
| 0 | - | 6,843,629 | (1,250,665) | - |
| 20,131 | - | 3,580,011 | 250,541 | - |
| 45,097 | - | 16,524,780 | (1,325,283) | - |
| 0 | - | 1,436,180 | 425,622 | - |
| 0 | - | 2,021,000 | 423,000 | - |
| | | | | |
| - | - | 44,230,899 | 1,939,491 | - |
| - | - | - | (10,314) | - |

# 6.5 The Company's results over the last five fiscal years

| (in euro) | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Share capital** | | | | | |
| Share Capital | 14,384,358 | 14,416,804 | 14,426,313 | 14,426,627 | 14,432,874 |
| Number of shares in issue | 44,951,118 | 45,052,513 | 45,082,230 | 45,083,210 | 45,102,732 |
| Maximum number of future shares to be created | 434,358 | 325,748 | 284,630 | 283,650 | 263,528 |
| **Transactions and Income for the Fiscal Year** | | | | | |
| Income from ordinary operations (1) | 217,548,315 | 145,271,036 | 233,530,713 | 174,776,476 | 193,935,031 |
| Income before tax, depreciation, amortization, and provisions | 202,980,447 | 125,460,795 | 202,993,323 | 146,691,430 | 142,931,187 |
| Income tax expense | (6,189,278) | (5,859,876) | (23,800,042) | 492,436 | (12,962,875) |
| Income after tax, depreciation, amortization, and provisions | 214,151,289 | 135,597,447 | 193,457,034 | 171,874,733 | 166,830,268 |
| Dividends paid (2) | 179,804,472 | 225,262,565 | 67,623,345 | 0 | 180,410,928 |
| **Earnings per share** | | | | | |
| Income after tax but before depreciation, amortization, and provisions | 4.65 | 2.91 | 5.03 | 3.24 | 3.46 |
| Income after tax, depreciation, amortization, and provisions | 4.76 | 3.01 | 4.29 | 3.81 | 3.70 |
| Dividend per share | 4.00 | 5.00 | 1.50 | 0.00 | 4.00 |
| **Employees** | | | | | |
| Average number of employees | 2 | 2 | 2 | 1 | 1 |

*(1) In accordance with CNC notice dated March 27th, 1985 and COB bulletin no. 181 of May 1985, in view of Euler Hermes' activity as a holding company, this item comprises ordinary revenues from equity investments instead of turnover.*
*(2) Includes dividends on treasury stocks, which will be credited to "Retained Earnings" upon payment.*

# 6.6 Other information

## 6.6.1 Breakdown of trade payables

In accordance with Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the breakdown of outstanding debt by maturity in respect of the Group's suppliers at the close of the last two years is provided below:

| **Liabilities** (in euros) | | 12/31/2009 | | 12/31/2010 |
|---|---|---|---|---|
| | **Settlement terms** | | **Settlement terms** | |
| *Suppliers* | 30 days | 8,946.14 | 30 days | 0.00 |
| *Supplier invoices not received* | - | 3,181,848.50 | - | 5,353,758.66 |
| **Trade payables and related accounts** | **-** | **3,190,794.64** | **-** | **5,353,758.66** |

## 6.6.2 Dividends distributed

The table below shows the dividends distributed in the last five fiscal years. Pursuant to Article 158, 3-2° of the General Tax Code, these sums are eligible for 40% tax relief.

| Fiscal year | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Total Dividends (in euros) | 180,410,928 (1) | 0,00 | 67,623,345 | 225,262,565 | 179,804,472 |
| Number of shares on December 31 (including treasury shares) | 45,102,732 | 45,083,210 | 45,082,230 | 45,052,513 | 44,951,118 |
| Dividend per share (in euros) | 4,00 | 0,00 | 1,50 | 5,00 | 4,00 |

*(1) Proposal to the General Meeting on May 20th.*

The Company's dividend policy in the future will depend on its results and financial position. The Group Management Board decided on the dividend which was put to the vote of the General Meeting on May 20th, 2011, after the Supervisory Board's approval. Although the Group Management Board intends to maintain this dividend policy over the long-term, a dividend which is distributed for a given year will depend on different factors, in particular the Company's performance, the market's conditions and the general economic climate. Euler Hermes' dividend policy is based on a prudent management of capital (to ensure an AA-rating level) and the attractiveness of the dividend for shareholders.

# 6.7 Statutory Auditors' report

**Euler Hermes SA**

Registered office 1, rue Euler - 75008 Paris

Share capital €14,432,874

Statutory Auditors' report on the annual financial statements

Fiscal year closed December 31st, 2010

Ladies and Gentlemen,

In performance of the task entrusted to us by your General Meetings, we are presenting our report to you for the fiscal year closed on December 31st, 2010 on:

- the audit of the annual financial statements of Euler Hermes SA, as appended to this report;
- the substantiation of our assessments;
- the specific checks and information required by law.

The annual financial statements were drawn up by the Group Management Board. We are required to express an opinion on these financial statements on the basis of our audit.

## 1 Opinion on the annual financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require us to perform such tests and procedures as to obtain reasonable assurance that the annual financial statements are free from material misstatement. An audit includes examining, on a test basis or by using any other sampling techniques, the evidence supporting the amounts and disclosures in the annual financial statements. It also includes an assessment of the accounting policies used and any significant estimates made in drawing up the annual financial statements, and an evaluation of the overall presentation of these statements. We believe that our audit provides a reasonable basis for the opinion expressed below.

We certify that the annual financial statements, drawn up in accordance with generally accepted accounting principles in France, are true and fair and accurately present the Company's results at the end of the fiscal year, as well as the Company's financial position and its assets and liabilities at that date.

## 2 Substantiation of our assessments

The context in which the 2010 financial statements were drawn up continues to be particularly difficult, notably because of a persistent, deteriorated and uncertain economic environment and the repercussions from the economic downturn, which now include monetary repercussions inside the Euro zone.

It is in this context that, pursuant to the provisions of Article L. 823-9 of the French Commercial Code, we draw your attention to the following items:

Note 3.2.2 to the annual financial statements sets out the accounting principles and methods relative to the impairment of equity interests. As part of our assessment of the accounting principles and methods adopted by your company, we verified the appropriate nature of the accounting methods set out above and the information provided in the above-mentioned Note, and satisfied ourselves that they had been applied correctly.

The assessments thus made form part of our procedure for auditing the annual financial statements taken as a whole and therefore contributed to the formation of our opinion as expressed in the first section of this report.

## 3 Specific checks and information

We also carried out the specific checks in accordance with the professional practice applicable in France.

We have no comments to make on the accuracy and consistency with the financial statements of the information provided in the management report drawn up by the Group Management Board and in the documents sent to the shareholders on the Company's financial position and the annual financial statements.

Regarding the information provided pursuant to Article L. 225-102-1 of the French Commercial Code, we checked the accuracy of the information provided in the management report relating to the compensation and benefits paid to the corporate officers concerned and to commitments given in their favor when assuming, ceasing or changing functions or subsequent to these functions. Based on these controls, we certify that this information is accurate and genuine.

As required by law, we verified that the management report contains the information relating to participating and controlling interests acquired and the identity of the owners of the Company's share capital.

The Statutory Auditors

| Paris, La Défense, April 12, 2011 | Paris, April 12, 2011 |
|---|---|
| KPMG Audit<br>*Département de KPMG S.A.* | ACE - Auditeurs et Conseils d'Entreprise |
| Régis Tribout<br>*Partner* | François Shoukry<br>*Partner* |

7

# INFORMATION ON THE COMPANY AND ITS CAPITAL

# 7.1 General information about the Company

## 7.1.1 LEGAL STATUS, LEGISLATION

### (a) Company law

Euler Hermes is a Limited Company under French law with a Group Management Board and a Supervisory Board. It is subject to existing and future legislation and regulations and governed by its articles of association.

Shares of the Company are traded on the Eurolist of Euronext Paris.

The Company, which has its headquarters in Paris, is subject to strict regulations due to its listing on the Euronext Paris market. The Company is also bound by the General Rules of the French market watchdog, the AMF (Autorité des marchés financiers).

### (b) Insurance law

Euler Hermes has regulated activities worldwide through numerous operating subsidiaries. The group's main activities, credit insurance and asset management, are subject to strict regulations and rigorous controls in all countries where Euler Hermes is present.

The Group's subsidiaries, being active in the credit insurance market, are subject to laws and regulations relating to insurance law and are overseen by the relevant authorities in each country where these activities are carried out. The subsidiaries conform to all legislative, administrative and regulatory requirements and respect specific prudential rules.

The regulatory authorities have the right to carry out controls without warning. In France, the regulatory body is the ACP (*Autorité de Contrôle Prudentiel*).

As a shareholder of these companies, Euler Hermes is subject to certain aspects of these regulations and to control by the above-cited authorities.

The following provisions are specifically applicable:

- articles L. 322-4 and R. 322-11-1 of the Insurance Code stipulate that any operation for the takeover, enlargement or disposal of a holding, whether direct or indirect, in companies that have received government authorization to operate direct insurance in France, and that would enable a person or several persons acting in concert either to acquire or to lose effective power or control over such a company, or to cross in either direction the thresholds of one half, one third, one fifth or one tenth of the voting rights in that company, must first obtain approval from the Minister for the Economy and Finance. The Minister has three months in which to raise any objections to the proposal, on the advice of the Insurance Companies Commission (*Commission des entreprises d'assurance*).

  Furthermore, any transaction that results in one person, or several persons acting in concert, being able to acquire or dispose of one twentieth of the voting rights in such a company must be reported to the Minister for the Economy and Finance prior to completion.

  These provisions are applicable to Euler Hermes SFAC, a wholly-owned subsidiary of Euler Hermes and authorized as an insurance company in France;
- regulation no. 96-16 of December 20th, 1996 of the Banking and Finance Regulatory Committee stipulates that any person or group of persons acting in concert must obtain authorization from the CECEI prior to the realization of any operation for the takeover, enlargement or disposal of a holding, whether direct or indirect, in a company authorized by that Committee, if such an operation enables that person or those persons to acquire or to lose effective power or control over the management of that company, or to acquire or to lose one third, one fifth, or one tenth of the voting rights in that company.

  The Committee then has three months to inform the applicant if the proposed operation necessitates a reassessment of the operating license awarded to the company in question.

Furthermore, any transaction that results in one or several persons acting in concert being able to acquire one twentieth of the voting rights in such a company must be immediately reported to the CECEI.

These provisions are applicable to Euler Hermes SFAC Credit, a wholly-owned subsidiary of Euler Hermes SFAC, authorized as a financial company in France.

These provisions are applicable to transactions in the Company's shares as a direct and indirect shareholder of Euler Hermes SFAC and Euler Hermes SFAC Credit.

### (c) Obligations related to minimum capital requirements

In accordance with European Union directives, credit insurance companies with headquarters in a European Union country are required to maintain minimal solvency margins. The required solvency margin is made up primarily of the Company's capital and reserves and the net latent capital gains on fixed and intangible assets, as they appear in placements in France or with the agreement of the regulatory authorities in certain countries. Subsidiaries of the Group that are located outside the European Union are also subject to solvency requirements defined by local regulators.

### (d) European rules – Solvency II Project

Solvability II is the European project to reform prudential regulation in the insurance sector. Its goal is to encourage organizations to better know and evaluate the risks they face, particularly by adapting the regulatory requirements to the risks that businesses face in the pursuit of their activity. Solvency II is built around three pillars: (i) quantitative minimum capital requirements, (ii) monitoring of company's risk assessment procedures and (iii) stricter rules on publication and transparency, rounded out by a fourth aspect which will consist of a novel control mechanism for groups.

The European texts have to be adopted according to the Lamfalussy framework, which means the adoption of the general principles («level 1») followed by implementation measures («level 2»).

In July 2007, after the passing of the directive for the level 1 measures covering the regulation of the solvency of insurers and reinsurers, the implementation measures (level 2 measures) have to be determined as defined by the European Commission with the help of the European Insurance and Occupational Pensions Authority (EIOPA, successor of the CEIOPS) is the new priority. These measures are further refined with successive Quantitative Impact Studies (QIS) and Consultation Papers (CP). Effectively, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), through numerous CPs, worked to determine the practical requirements for applying the methods to be implemented. These implementation measures following the CPs were then subject to a European Commission consultation between November 2010 and January 2011, and should be completed by mid-2011.

At the same time, the EIOPA has taken on the practical recommendations (level 3 measures) that were considered in CPs starting in January 2010. These recommendations are entirely handled by the EIOPA and consist of informal dialog with market authorities from mid-2010 prior to the scheduled publication following consultations on level 2 measures. These recommendations should also be definitively completed by mid-2011 so that they take effect 18 months later, on January 1, 2013.

Through CP and QIS, those in the market have been very much in demand in order to fine tune as much as possible the risks underlying the insurance and reinsurance business to the standard formulas that will govern the new prudential rules of these entities in the European Union.

## 7.1.2 INCORPORATION AND EXPIRY DATES

The Company was incorporated on March 28th, 1927 for a term of 99 years, which will expire on March 27th, 2026.

## 7.1.3 TRADE AND COMPANIES REGISTER

RCS number: 552 040 594 RCS Paris – APE number: 741 J.

## 7.1.4 FINANCIAL YEAR

Each financial year has a duration of twelve months. It begins on January 1st and ends on December 31st.

## 7.1.5 OWNERSHIP OF THE "EULER HERMES" TRADEMARK

The Company is owner of the following trademarks in France: "Euler Hermes", "EH" and "EH Euler Hermes", registered in class 35 (management of commercial affairs), 36 (insurance and financial affairs) and 42 (computer software).

The trademark, the logo and the trademark associated with the logo are registered as a European brand (marque communautaire) in the countries of the European Union.

The three registered trademarks were filed on the basis of the "Madrid System for the Registration of International Trademarks" in the following countries: Algeria, Australia, Brazil, Bulgaria, China, Croatia, Czech Republic, Egypt, Estonia, Hungary, Japan, Korea, Latvia, Liechtenstein, Lithuania, Montenegro, Morocco, Norway, Poland, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, Switzerland, Turkey and Vietnam.

In addition, the trademark, the logo and the trademark associated with the logo are currently being registered in Malaysia.

For the countries not covered by the Madrid Agreements, a registration of the trademark, the logo and the trademark associated with the logo has been conducted individually in the national registers of the following countries: Argentina, Canada, Chili, Colombia, Hong Kong, India, Indonesia, Mexico, New Zealand, Taiwan and Thailand.

The trademark has been registered individually in the national register of the United States rather than on the basis of the Madrid system.

# 7.2 Articles of Association

## 7.2.1 COMPANY NAME

With respect to the Group's evolution, the original corporate name, "Société Française d'Assurance-Crédit" (SFAC), was adopted in 1989 by the subsidiary responsible for its credit insurance business in France, then changed to "Compagnie Financière SFAC". In 1996, it adopted the corporate name "Euler".

Following the takeover of the German credit insurance company Hermes AG, the Shareholders' Meeting of April 17th, 2002 approved a change in the corporate name from "Euler" to "Euler & Hermes". The Shareholders' Meeting of April 23rd, 2003 decided to simplify the name to "Euler Hermes".

For the sake of harmonization, "Euler Hermes" is incorporated into the name of each of the group's subsidiaries.

## 7.2.2 CORPORATE PURPOSE

Under the terms of Article 3 of the Articles of Association, the purpose of the Company, directly or indirectly, in France and internationally, is financial services and insurance and especially any activities contributing to companies' management of their accounts receivable, and in this respect, activities regarding credit insurance, factoring and debt collection.

In addition to investments, the Company may take holdings in any companies whose activity relates to this purpose or participate in any operations likely to facilitate its expansion or development.

The Company may acquire any property or assets in any form.

## 7.2.3 STATUTORY STIPULATIONS RELATING TO THE GROUP MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The description below summarizes the principal stipulations of the Articles of Association and of the Company's Internal Regulations with respect to the Supervisory Board, with a particular focus on how it functions and its powers.

It also summarizes the statutory stipulations relating to the Group Management Board.

### 7.2.3.1 The Supervisory Board

**Composition**
**(extract from Article 11 of the Articles of Association)**

The Supervisory Board exercises a permanent control over the Group Management Board's management of the Company, in accordance with the legal requirements. The Supervisory Board has at least three and no more than twelve members who are appointed by Ordinary Shareholders' Meetings.

No member of the Supervisory Board may be over 70 years of age. When a member of the Supervisory Board reaches this age, his or her resignation shall be automatic.

**Length of Mandates**
**(extract from Article 11 of the Articles of Association)**

Unless otherwise provided for by special provisions for first appointments so as to comply with the regular replacement of its members, Supervisory Board members are elected for three-year mandates.

Supervisory Board members may always be re-elected.

The composition of the Supervisory Board is adjusted each year at the Ordinary Shareholders' Meeting, depending on the number of members in office, so that changes are made as regularly as possible and so that all members have changed by the end of each three-year period.

In the event of a vacant position, following the death or resignation of one or more members of the Supervisory Board, a provisional replacement may be elected by the remaining members, with the appointment being subject to ratification by the next Ordinary Shareholders' Meeting.

**Chairing of the Supervisory Board - Non-voting members**
**(extract of Article 11 of the Articles of Association)**

The Supervisory Board elects a Chairman and a Vice-Chairman, who must be individuals, from among its members. The Chairman, and in his absence the Vice-Chairman, is responsible for convening Board Meetings and chairing its deliberations.

If the Supervisory Board considers it useful, it may, when so proposed by its Chairman, appoint one or more non-voting members of the Board (censors), for a term that it chooses. These non-voting members may be individuals or legal entities and may or may not be shareholders. The Board determines their responsibilities and the terms and conditions of their remuneration. This remuneration is taken from the annual amount for Supervisory Board members' fees allocated to the Supervisory Board by the Ordinary Shareholders' Meeting. These non-voting members may be called to and may participate in the deliberations of all Supervisory Board Meetings in an advisory capacity.

**Supervisory Board Deliberations (extract of Article 14 of the Articles of Association)**

The Supervisory Board meets as often as required by the interests of the Company. Meetings are convened by the Chairman or, if this is not possible, the Vice-Chairman.

Meetings may be convened in any way, including verbally.

Any member of the Supervisory Board may appoint another member to represent him. Each member may hold only one proxy.

Decisions are taken under the quorum and majority conditions provided for by law. In the event of a tie, the Chairman of the meeting shall have the casting vote.

For the calculation of the quorum and the majority, are considered present any members of the Supervisory Board who attend the meeting by video-conference in accordance with the conditions specified in a decree issued by the French Council of State.

However, the provisions in the foregoing paragraph do not apply to the approval of the decisions provided for in Articles L. 225-59 (appointment of members of Group Management Boards), L. 225-61 (removal from office of members of Group Management Boards) and L. 225-81 (appointment of Chairmen and Vice-Chairmen of Supervisory Boards) of the French Commercial Code.

Members of Management may attend Board Meetings in an advisory capacity, on the Chairman's initiative.

An attendance register is kept and minutes of meetings are drawn up in accordance with the law.

**Mission and powers of the Supervisory Board (extract of Article 12 of the Articles of Association)**

In accordance with French law, the Supervisory Board exercises a continuous supervision of the Company's management by the Group Management Board and gives this Board the prior authorizations required by law or by the Company's Articles of Association.

The Supervisory Board appoints the members of the Group Management Board, decides on their number, and appoints the Chairman and Chief Executive Officers where appropriate.

It also sets their remuneration. It may revoke the mandates of one or more members of the Group Management Board or recommend that the Ordinary Shareholders' Meeting do so.

Throughout the year, it makes the checks and controls it considers appropriate and can arrange to receive any documents that it considers useful for the completion of its mission.

At least once a quarter, the Group Management Board delivers a report to the Supervisory Board.

Within three months of the financial-year end, the Group Management Board must present the annual financial statements to the Supervisory Board for verification and control and must submit its recommendations for the allocation of the year's distributable income to the Supervisory Board for its prior approval.

The Supervisory Board presents its observations on the Group Management Board's report and on the annual financial statements to the Shareholders' Meeting.

The Supervisory Board can convene Shareholders' Meetings and set their agendas.

The Supervisory Board is empowered to create internal committees and to determine their composition and duties. The activity of these committees is exercised under the Board's responsibility, but the duties cannot be interpreted as a delegation of the powers attributed to the Supervisory Board by law or by the Articles of Association and nor may they have the effect of reducing or limiting the powers of the Group Management Board.

In addition, the following decisions taken by the Group Management Board are subject to prior authorization from the Supervisory Board:

- the sale of property, and the total or partial sale of shareholdings and the constitution of sureties on company assets;
- direct transactions or equity holdings that might significantly affect the group's strategy and materially modify its financial structure or scope of activity;
- the issue of securities, of any kind, that may result in a change in the share capital;
- transactions with the objective of granting or contracting any borrowings or loans, credits or advances, granting of sureties, guarantees, endorsements or deposits.

The Supervisory Board authorizes the Group Management Board to carry out the above-cited transactions within the limits of an amount it shall determine for each such transaction. Where a transaction exceeds the specified amount, the approval of the Supervisory Board is required in each case.

## 7.2.3.2 The Group Management Board

**Composition (extract from Article 15 of the Articles of Association)**

In accordance with the law, the Company is managed by the Group Management Board, which is composed of at least two and no more than six members, who may but need not be shareholders, appointed by the Supervisory Board.

Members of the Group Management Board must be individuals no more than 65 years old.

A member of the Supervisory Board cannot be a member of the Group Management Board.

**Length of Mandates (extract from Article 15 of the Articles of Association)**

The Group Management Board is appointed for a period of three years and its members may be re-appointed. Their mandates may be revoked by the Supervisory Board or by the Shareholders' Meeting on the recommendation of the Supervisory Board. The Supervisory Board sets the method and amount of remuneration for each of the members of the Group Management Board.

**The Chair of the Group Management Board (extract from Article 16 of the Articles of Association)**

In accordance with the law, the Supervisory Board appoints one of the members of the Group Management Board as Chairman. The Chairman exercises his/her functions for the period of his/her office as a member of the Group Management Board. He or she represents the Company in its relations with outside parties. The Supervisory Board can grant the same power of representation to one or more other members of the Group Management Board who then bear the title of Chief Executive Officer.

Agreements concerning the Company and any commitments undertaken in its name are signed by the Chairman of the Group Management Board, or by any member of the Group Management Board who has been appointed Chief Executive Officer by the Supervisory Board or by any representative especially empowered for this purpose.

#### Mission and powers of the Group Management Board (extract from Article 17 of the Articles of Association)

In accordance with the law, the Group Management Board is vested with the most extensive powers to act in all circumstances in the name of the Company. It exercises these powers within the limits defined by the corporate purpose, subject to those expressly allocated to the Supervisory Board and Shareholders' Meetings by the law and the Articles of Association.

The Group Management Board may appoint one or more of its members or any non-member of the Group Management Board to carry out such special permanent or temporary missions as it shall determine, and may delegate to them the powers it considers necessary for one or more particular purposes, with or without the power to sub-delegate.

The Group Management Board can instigate committees and decide on their composition and attributes. These committees conduct their activities under the responsibility of the Group Management Board, but the latter cannot delegate its powers to such committees.

#### Assignments and powers of the Group Management Board (Internal regulations)

The Group Management Board operates according to "internal regulations" which are designed to complement the operating principles stipulated in the Articles of Association, while respecting the collegial principle of the Group Management Board and facilitating the work of the Supervisory Board.

These internal regulations stipulate the Group Management Board's powers and the distribution of its tasks, and, in accordance with Article 12 of the Articles of Association, the decisions which require prior authorization by the Supervisory Board.

#### Group Management Board Deliberations (Article 18 of the Articles of Association)

The Group Management Board meets as often as required by the interests of the Company. Meetings are convened by the Chairman or, if this is not possible, at least two of its members.

Meetings take place either at the registered office or in any other location indicated in the notice of meeting.

Meetings may be convened in any way, including verbally.

Meetings of the Group Management Board are chaired by the Chairman or, if this is not possible, by a member chosen by the Group Management Board at the beginning of the meetings.

Any member of the Group Management Board may appoint another member to represent him/her. Each member may hold only one proxy.

For its decisions to be valid, the number of members of the Group Management Board present must be at least equal to half the number of members in office.

Decisions are voted by a simple majority of the members present or represented.

In the event of a tie, the Chairman shall have the casting vote.

Group Management Board Meetings are reported in minutes registered in a special register and signed by the Chairman of the meeting and at least one member of the Group Management Board.

Copies or excerpts from the minutes are certified as true copies by the Chairman of the Group Management Board or by any of its members.

In addition, the Internal Regulations define the practical procedures for holding meetings and recording minutes.

## 7.2.4 RULES APPLICABLE TO AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

When the Company's Articles of Association need to be amended, they are amended in accordance with the law.

## 7.2.5 RIGHTS, PRIVILEGES AND CONSTRAINTS ATTACHED TO COMPANY SHARES

### Voting rights

The Company's capital is divided into shares, all of the same category.

There is no clause in the Articles of Association providing for double voting rights for company shareholders.

Each share entitles the holder to a portion of the ownership of corporate assets and to a share in the profits equal to the proportion of the share capital that it represents.

### Statutory restrictions to the exercise of voting rights and share transfers

The Articles of Association of the Company do not contain any stipulation limiting share transfers.

The shares may be freely traded and may be sold under the legal and regulatory conditions in force.

Subject to the stipulations of Article 8, final paragraph of the Articles of Association relating to the surrender of voting rights in cases of non-respect of the obligations concerning threshold declarations, the Articles of Association do not contain restrictions to the exercise of voting rights.

## 7.2.6 MODIFICATIONS OF SHAREHOLDERS' RIGHTS

Shareholder's rights, as described in the Company's Articles of Association, can only be modified by an Extraordinary Shareholders' Meeting (ESM) of the shareholders of the Company.

## 7.2.7 STATUTORY THRESHOLD DISCLOSURE (EXTRACT FROM ARTICLE 8 OF THE ARTICLES OF ASSOCIATION)

Apart from the legal obligation provided for in Articles L. 233-7 of the French Commercial Code to inform the Company when certain fractions of the share capital are held and to make any consequent declaration of intention, the Articles of Association provide for an additional disclosure obligation whereby any individual or corporate entity acting alone or in concert that comes to hold a number of shares and/or voting rights in the Company greater than or equal to:

1) 1% of the total number of shares and/or voting rights must, within fifteen days from the date of crossing this threshold, inform the company of the total number of shares and/or voting rights held. This disclosure should be sent by recorded letter with reception receipt (or equivalent means in countries outside France), or by fax or telex. This declaration must be renewed each time a new 1% threshold is crossed upwards to 50% inclusive and each time a new 1% threshold is crossed downwards to 1% inclusive.

2) 5% of the total number of shares and/or voting rights must, within fifteen days from the date of crossing this threshold, apply to the Company to have all the shares held in registered form. This obligation for shares to be held in registered form is applicable to all shares already held and to those that have just been acquired taking the shareholder over the threshold. The request for shares to be registered shall be sent by letter, fax or telex to the Company within fifteen days of crossing the threshold. The declaration due under the preceding point (1) on crossing the threshold that is prescribed in this paragraph shall be the equivalent of a request for shares to be registered.

In determining the thresholds prescribed in (1) and (2), shares and/or voting rights held indirectly and shares and/or voting rights equivalent to shares and/or voting rights owned as defined by the provisions of Articles L. 233-7 *et seq*. of the French Commercial Code shall be taken into account.

For each of the aforementioned disclosures, the declarant must certify that the disclosure made includes all the securities owned or held pursuant to the previous paragraph. He must also specify the date(s) of acquisition.

Investment fund management companies are required to provide this information for all the voting rights attached to shares in the Company held by the funds they manage.

## 7.2.8 SHAREHOLDERS' MEETINGS

In accordance with the law and the terms of Article 20 of the Articles of Association, Shareholders' Meetings are convened and take place under legally prescribed conditions.

The Meetings are held either at the registered office or at some other location specified in the convening notice.

Ordinary and Extraordinary Shareholders' Meetings are open to all shareholders who hold at least one share.

Special General Meetings are open to all shareholders who hold at least one share of the share class concerned.

However, shares that are not fully paid up do not count for admission to Shareholders' Meetings and are deducted for purposes of the quorum calculation.

Subject to the aforementioned provisions, every shareholder is entitled, on proof of identity, to participate in Shareholders' Meetings, either by attending in person, by returning a postal voting form, or by appointing a proxy, who may be his/her spouse or another shareholder, provided that the shares have been recorded in the accounts in the name of the shareholder or of the intermediary acting on his behalf:

- for registered shareholders: in the registered share accounts held by the Company;
- for registered shareholders: in the registered share accounts held by the custodian.

These formalities must be completed by midnight (Paris time) on the third working day before the date of the Shareholders' Meeting.

Shareholders' Meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice-Chairman or a member of the Supervisory Board specially delegated by the Supervisory Board for this purpose. Failing this, the Shareholders' Meeting appoints its own Chairman.

The duties of teller are performed by the two members of the Shareholders' Meeting who have the greatest number of votes and who accept this role.

The officers of the Shareholders' Meeting appoint the secretary who may or may not be a shareholder. Each member of the Shareholders' Meeting is entitled to as many votes as he/she owns or represents.

# 7.3 General information about the Company's share capital

The Company's share capital may be increased, reduced or amortized under the conditions stipulated by law.

## 7.3.1 COMPANY CAPITAL STRUCTURE

As at December 31st, 2010, the Company's share capital amounted to €14,832,474.20, divided into 45,102,732 shares of the same class, fully subscribed and paid up, with a par value of €0.32. This total number of outstanding shares includes 1,267,444 treasury shares.

All the shares have been fully subscribed and paid up. The shares are in registered form until fully paid up. Shares must be fully paid up on subscription.

Shares are held in registered or bearer form at the choice of the shareholder, subject to the particular stipulations prescribed by law.

Any shareholder holding 5% or more of the total number of shares and/or voting rights in the Company must request his/her shares to be registered with the Company.

The Company is authorized to apply the provisions of Article L. 228-2 I of the French Commercial Code and Article 7 paragraph 3 of the Articles of Association at any time to identify the holders of securities giving immediate or deferred voting rights at its Shareholders' Meetings.

The Company's securities and assets are not subject to any pledges.

## 7.3.2 SHARE CAPITAL AUTHORIZED BUT NOT ISSUED

The delegations that are currently valid granted by the Shareholders' Meeting to the Group Management Board in the area of capital increases are the following:

| ESM of May 15th, 2008 | Purpose | Duration | End | Limit | Used at December 31st, 2010 | Unused balance at December 31st, 2010 | Overall limit (in €) |
|---|---|---|---|---|---|---|---|
| 15th | Authorization to freely allocate shares in the company | 38 months | July 15th, 2011 | 3% of the equity capital on the day of the allocation decision | No | 3% of the equity capital on the day of the allocation decision | N/A |

| ESM of May 15th, 2009 | Purpose | Duration | End | Limit | Used at December 31st, 2010 | Unused balance at December 31st, 2010 | Overall limit (in €) |
|---|---|---|---|---|---|---|---|
| 13th | Authorization to approve share subscription or purchase options | 38 months | July 15th, 2012 | 3% of the equity capital on the day of the allocation decision | No | 3% of the equity capital on the day of the allocation decision | N/A |

| ESM of May 21st, 2010 | Purpose | Duration | End | Limit | Used at December 31st, 2010 | Unused balance at December 31st, 2010 | Overall limit (in €) |
|---|---|---|---|---|---|---|---|
| 19th | Authorization to reduce the equity capital by canceling shares purchased within the framework of the share buyback program | 24 months | May 21st, 2012 | 10% of the equity capital per 24-month period | No | 10% of the equity capital per 24-month period | N/A |
| 20th | Delegation of powers to issue shares and other securities giving access to the capital with preservation of preferential subscription right | 26 months | July 21st, 2012 | 4.4 million | No | N/A | 4.4 million |
| 21st | Delegation of powers to increase capital by capitalizing reserves, profits or premiums or other sums which may be capitalized | 26 months | July 21st, 2012 | | | | |
| 22nd | Delegation of powers to increase capital for the benefit of savings plan members | 26 months | July 21st, 2012 | €132,000 per issue | | | |

# 7.4 Share capital and voting rights

As at December 31st, 2010, the Company's share capital was made up of 45,102,732 shares, majority-owned by the Allianz France Group (68.16% of the share capital representing 70.14% of the voting rights). The total number of voting rights is 43,835,288.

At the end of 2010, 29.03% of the share capital, i.e. 29.86% of the voting rights, was held by the public and the Company owned 2.81% of the share capital.

The table below shows changes to the Company's share capital and voting rights in the past three years:

**SHARE CAPITAL AND VOTING RIGHTS AT DECEMBER 31ST, 2010**

| | At December 31st, 2008 | | | | At December 31st, 2009 | | | | At December 31st, 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | | Voting rights | | Shares | | Voting rights | | Shares | | Voting rights | |
| | number | % | number | % | number | % | number | % | number | % | number | % |
| Allianz Vie | 3,879,818 | 8.61% | 3,879,818 | 8.91% | 3,879,818 | 8.61% | 3,879,818 | 8.92% | 3,879,818 | 8.60% | 3,879,818 | 8.85% |
| Allianz SA | 26,864,230 | 59.59% | 26,864,230 | 61.70% | 26,864,230 | 59.59% | 26,864,230 | 61.74% | 26,864,230 | 59.56% | 26,864,230 | 61.28% |
| **Total Allianz France** | **30,744,048** | **68.20%** | **30,744,048** | **70.61%** | **30,744,048** | **68.19%** | **30,744,048** | **70.65%** | **30,744,048** | **68.16%** | **30,744,048** | **70.14%** |
| **Treasury shares** | **1,540,644** | **3.42%** | **0** | **0.00%** | **1,567,944** | **3.48%** | **0** | **0.00%** | **1,267,444** | **2.81%** | **0** | **0.00%** |
| **Public** | **12,797,538** | **28.39%** | **12,797,538** | **29.39%** | **12,771,218** | **28.33%** | **12,771,218** | **29.35%** | **13,091,240** | **29.03%** | **13,091,240** | **29.86%** |
| **TOTAL** | **45,082,230** | **100.00%** | **43,541,586** | **100.00%** | **45,083,210** | **100.00%** | **43,515,266** | **100.00%** | **45,102,732** | **100.00%** | **43,835,288** | **100.00%** |

## 7.4.1 DIRECT OR INDIRECT INVESTMENTS IN THE COMPANY (TO THE BEST OF ITS KNOWLEDGE) AND CHANGES DURING THE FINANCIAL YEAR

### 7.4.1.1 Stake held by Allianz

The AGF Group, renamed Allianz France in 2009, has been a wholly-owned subsidiary of Allianz SE since July 2007, following the minority buy-out launched in January 2007.

Until its privatization in May 1996, AGF was a major shareholder of the Company, alongside Partner Re, Swiss Re, SCOR and Coface. Under the capital restructuring following the privatization of the AGF Group, AGF became the Company's majority shareholder.

On April 27th, 2000, when the Company was floated on the stock market, the principal shareholders sold 9,850,534 shares in total, divided between the AGF Group (4,978,054 shares), Swiss Re (3,480,665 shares) and SCOR (1,391,815 shares).

Following this transaction, the Company created a holding of its own shares, acquiring 1,720,857 shares from the three major shareholders, in proportion to their shareholdings. Since that date, SCOR has sold its entire holding by placing its shares on the market. Swiss Re significantly reduced its holding in 2005.

Apart from these transactions, the following events have altered the share capital structure and voting rights during the past five years.

Following the decision of the Shareholders' Meeting on April 23rd, 2003 to propose the payment of dividends with the choice between payment in cash or in shares, the distribution gave rise to the creation of 1,172,431 new shares. At that time, AGF chose to receive all dividends paid in shares. As at December 31st, 2003, the AGF Group held 67.7% of the Company. Likewise, following identical decisions by the Shareholders' Meetings on April 28th, 2004 and April 22nd, 2005, the distribution of a dividend gave rise to the creation of 1,502,151 and 1,661,023 new shares, respectively. Having chosen to receive its dividend in shares, the AGF Group held 68.6% of the Company as at December 31st, 2005.

During 2006, 2007, 2008 and 2009, the Allianz group's percentage holding was reduced slightly following the creation of shares as a result of the exercise of subscription options.

As at December 31st, 2010, companies in the Allianz France Group owned, directly and indirectly, a total of 68.16% of the share capital and 70.14% of the voting rights in the Company.

The existence of independent members on the Supervisory Board, in line with the AFEP/MEDEF recommendations on corporate governance to which Euler Hermes adheres, is a deliberate decision by the majority shareholder to prevent any risk of abuse of position. Both the Audit Committee and the Remuneration and Appointments Committee have a majority of independent members. The dual structure of the corporate bodies makes it possible to separate the management functions performed by members of the Group Management Board from the control functions performed by members of the Supervisory Board.

### 7.4.1.2 Crossing of ownership thresholds

Capital World Growth and Income Fund, Inc., acting on behalf of investment funds, reported that, following the acquisition on the stock market of shares in the Company on June 26th, 2002, it had crossed the threshold of 5% of the share capital and voting rights and henceforth held 1,759,281 shares representing 5.04% of the share capital and 5.3% of the existing voting rights.

On August 19th, 2002, the same company reported that it had crossed the threshold of 5% of the share capital and voting rights downwards and henceforth held 1,796,848 shares representing 4.46% of the share capital and 4.66% of the existing voting rights.

In a letter dated May 22nd, 2003, the companies FMR Corporation and Fidelity International Limited, acting on behalf of investment funds managed by their subsidiaries, declared that following the sale of Euler Hermes shares on the market on March 21st, 2003 they had fallen below the 5% threshold of the share capital of the Company, and owned on behalf of those funds 2,002,270 shares representing 4.97% of the capital on that date.

In a letter dated September 24th, 2009, Jupiter Asset Management Ltd acting as manager of investment funds, declared that they had fallen below the 2% threshold of the share capital of the Company, and henceforth held 883,762 shares representing 1.96% of the share capital of Euler Hermes.

Since those dates, no further declarations concerning the crossing of the 5% threshold either way have been made, and the Company is unaware of the number of shares still held by these companies as at December 31st, 2010.

In a letter dated November 24th, 2010, in accordance with the Articles of Association, the Company Threadneedle Asset Management Holdings Ltd declared that it had crossed the 1% threshold and as at that date held 451,373 shares, or 1.001% of the capital of Euler Hermes.

As far as the Company is aware, there are no other shareholders or groups of shareholders who hold or are likely to hold, directly or indirectly, alone, jointly or in concert, 5% or more of the share capital and voting rights.

### 7.4.1.3 Treasury shares

As at December 31st, 2010, treasury shares represented a total of 2.81% of the Company's share capital, i.e. 1,267,444 shares. During the year, no purchases or sales were made within the framework of the share buyback programs authorized by the Shareholders' Meetings on May 9th, 2007 and May 15th, 2008.

For a period of one year from May 11th, 2007, renewable by tacit agreement, the Company entrusted Rothschild & Cie Banque with the implementation of a liquidity contract in accordance with the ethics charter established by the French securities association (Association française des entreprises d'investissement) and approved by the AMF by virtue of a decision taken on March 22nd, 2005 and published in the French Official Journal (Bulletin des annonces légales obligatoires) on April 1st, 2005. As part of this contract, in 2010 the Company bought 189,778 and sold 490,278 treasury shares. The table below shows the change in the transaction price for treasury shares and the breakdown of treasury shares by purpose. Commission on security transactions paid to Rothschild & Cie Banque under the liquidity contract amounted to €210,000 for 2010.

| Month | Average weighted purchase price (in euros) | Average sale price (in euros) | Number of shares purchased | Number of shares sold |
|---|---|---|---|---|
| January 2010 | - | - | - | - |
| February 2010 | - | - | - | - |
| March 2010 | - | - | - | - |
| April 2010 | 59.723 | 62.377 | 1,090 | 214,090 |
| May 2010 | 53.550 | 62.672 | 28,327 | 13,601 |
| June 2010 | 53.874 | 59.743 | 34,954 | 4,642 |
| July 2010 | 53.253 | 58.618 | 11,277 | 140,815 |
| August 2010 | 59.322 | 59.881 | 5,745 | 8,495 |
| September 2010 | 59.813 | 59.946 | 24,662 | 24,912 |
| October 2010 | 66.375 | 66.420 | 12,769 | 11,769 |
| November 2010 | 64.857 | 65.076 | 41,521 | 42,521 |
| December 2010 | 67.660 | 67.577 | 29,433 | 29,433 |

### 7.4.1.4 Transactions carried out by corporate officers involving the Company's shares

#### Transactions carried out by members of the Supervisory Board

In accordance with the Articles of Association, each member of the Supervisory Board owns at least five shares.

On November 25th, 2010, Clement Booth purchased 255 shares at the price, per share of €63.87396, making a total of €16,310.91.

#### Transactions carried out by members of the Group Management Board

The number of share subscription options granted to members of the Group Management Board, as it existed on December 31st, 2010, in connection with the share subscription plans, in the period from 2003 to 2008, breaks down as follows:

| | 2003 | 2004 | 2005 | 2006 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Wilfried Verstraete | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Gerd-Uwe Baden | N/A | 7,000 | 9,000 | 10,000 | 7,000 | N/A | N/A |
| Nicolas Hein | N/A | 7,000 | 9,000 | 17,500 | 6,300 | N/A | N/A |
| Michel Mollard | 4,500 | 4,000 | 6,000 | 10,000 | 6,300 | N/A | N/A |
| Dirk Oevermann | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **TOTAL** | **4,500** | **18,000** | **24,000** | **37,500** | **19,600** | **N/A** | **N/A** |

The members of the Group Management Board as it existed on December 31st, 2010 did not hold any share acquisition options allocated under the share option plan implemented when the Company was floated on the stock market in 2000. In 2002, no new options were allocated, apart from those granted following the Company's capital increase, pursuant to the legal and regulatory provisions.

The Shareholders' Meeting of April 23rd, 2003 voted to implement a new share subscription or purchase plan that effectively cancelled, for its unused portion, the option plan implemented in 2000. The Shareholders' Meeting of May 22nd, 2006 voted to implement a new share subscription or purchase option plan that effectively cancelled, for its unused portion, the option plan implemented in 2003. No options were granted in 2007, 2009 or 2010.

Since the Group has neither renewed the share subscription/purchase options nor implemented a system of granting free shares, there are no rules requiring management beneficiaries to hold shares.

### 7.4.1.5 Employee sharing in the capital

At December 31st, 2010, the Group's employees held 542,828 shares through a company savings plan, representing 1.20% of the share capital.

In preceding years and until 2008, employees and the members of the Group Management Board were granted share acquisition and subscription options.

History of share subscription or option allocations:

| | 2003 | 2004 | 2005 | 2006 | 2008 |
|---|---|---|---|---|---|
| Date of General Meeting | 04/23/2003 | 04/23/2003 | 04/23/2003 | 05/22/2006 | 05/22/2006 |
| Date of Supervisory Board Meeting | 05/20/2003 | 05/20/2003 | 05/24/2005 | 08/30/2006 | 05/15/2008 |
| Date of Group Management Board Meeting | 07/08/2003 | 07/06/2004 | 06/27/2005 | 09/18/2006 | 06/20/2008 |
| Number of beneficiaries | 91 | 97 | 103 | 104 | 92 |
| Number of beneficiaries who have not yet exercised their options | 24 | 60 | 86 | 96 | 92 |
| of which, members of the Group Management Board (1) | 1 | 3 | 3 | 3 | 4 |
| Total number of options allocated | 250,000 | 130,000 | 160,000 | 160,000 | 130,000 |
| of which, to members of the Group Management Board (1) | 4,500 | 18,000 | 24,000 | 37,500 | 23,000 |
| *Gerd-Uwe Baden* | | *7,000* | *9,000* | *10,000* | *7,000* |
| *Nicolas Hein* | | *7,000* | *9,000* | *17,500* | *6,300* |
| *Michel Mollard* | *4,500* | *4,000* | *6,000* | *10,000* | *6,300* |
| Start date of exercise period | 07/08/2003 | 07/06/2004 | 06/27/2005 | 09/18/2006 | 06/20/2008 |
| Expiry date | 07/07/2011 | 07/05/2012 | 06/26/2013 | 09/17/2014 | 06/19/2016 |
| Exercise price (€) | 27.35 | 44.41 | 63.08 | 91.82 | 55.67 |
| Type of option | Subscription | Subscription | Subscription | Purchase | Purchase |
| Options to be exercised at 01/01/2010 | 50,845 | 89,355 | 143,450 | 153,100 | 130,000 |
| Options allocated in 2010 | 0 | 0 | 0 | 0 | 0 |
| Options exercised in 2010 | 11,400 | 8,122 | 0 | 0 | 0 |
| Options cancelled in 2010 | 0 | 600 | 0 | 800 | 800 |
| Options to be exercised at 12/31/2010 | 39,445 | 80,633 | 143,450 | 152,300 | 129,200 |

*(1) Group Management Board as at 12/31/10.*

The following options were granted in recent years to the ten employees that received the largest number of options:

- 2003: 48,300 options at a weighted average price of €27.35;
- 2004: 23,800 options at a weighted average price of €44.41;
- 2005: 60,400 options at a weighted average price of €63.08;
- 2006: 68,550 options at a weighted average price of €91.82;
- 2007: no options were allocated;
- 2008: 21,533 options at a weighted average price of €55.67;
- 2009: no options were allocated;
- 2010: no options were allocated.

Within the framework of these share subscription or purchase plans, the balance of options not exercised at December 31st, 2010 are as follows:

- share subscription plan of July 8th, 2003: 39,445 options not exercised;
- share subscription plan of July 6th, 2004: 80,633 options not exercised;
- share subscription plan of June 27th, 2005: 143,450 options not exercised;
- share option plan of September 18th, 2006: 152,300 options not exercised;
- share option plan of June 20th, 2008: 129,200 options not exercised.

There have been no new plans since 2008.

No adjustment mechanism was applied to these share subscription and purchase plans during 2010.

## 7.4.2 AGREEMENTS BETWEEN SHAREHOLDERS KNOWN TO THE COMPANY AND WHICH MAY ENTAIL RESTRICTIONS ON THE TRANSFER OF SHARES AND THE EXERCISE OF VOTING RIGHTS

To the Company's knowledge, no shareholder agreements are currently in existence. However, there are a number of regulated agreements and commitments in place; for details *see paragraph 8–3 of this document*.

Moreover, Allianz, the majority shareholder of Allianz France, is one of the Group's reinsurance companies. The Company accords its reinsurer shareholders the same treatment as the many other reinsurance companies with which group companies are reinsured in the normal course of their business, both regarding the selection of reinsurers and in the negotiation of the terms of their contracts. Allianz's proportion of the group's reinsurance therefore corresponds to its role in this market, and the reinsurance contracts cover ongoing operations and are signed under normal market conditions.

There are no provisions in the Euler Hermes Articles of Association, nor in any of the Company's charters or regulations, that may delay, defer or prevent a change in control

## 7.4.3 AGREEMENTS CAPABLE OF LEADING TO A CHANGE IN THE CONTROL OF THE COMPANY

To the Company's knowledge, at the time of publication of this document, there exists no agreement whose application could, at some date in the future, lead to a change in the control of the Company.

# 7.5 Factors likely to have an impact on a public tender offer

France has no laws regulating takeover bids that can be compared to those that exist in certain states in the USA. Nevertheless, certain requirements in French law, including certain measures contained in the European Directive of April 21st, 2004 concerning public takeover bids, which entered French law in 2006, are capable of having the same effect. In particular the provisions relating to:

- the Company's capacity to buy back its own shares pursuant to Article L. 225-107 of the French Commercial Code;
- the approval of mergers and certain other restructuring operations by two thirds of shareholders present or represented at an Extraordinary General Meeting called for that purpose;
- the requirement in the event of a merger of a favourable vote by shareholders of the other company at an Extraordinary General Meeting.

# 7.6 Equity interests of the Company outside of the Group

The Company did not make any investments in or take control of any French companies outside of the Euler Hermes Group.

8

# SHAREHOLDERS’ MEETING

# 8.1 Report of the Group Management Board on the draft resolutions

To the Shareholders,

We have convened the Ordinary and Extraordinary Shareholders' Meeting in order to submit the following resolutions for your approval:

### Ordinary resolutions

1. Approval of the financial statements for the year ended December 31st, 2010.
2. Approval of the consolidated financial statements for the year ended December 31st, 2010.
3. Recording of the absence of any non-deductible expenses and charges during the financial year ended December 31st, 2010.
4. Allocation of income for the year ended December 31st, 2010 and payment of a dividend of €4 per share.
5. Adjustment of treasury share reserve.
6. Approval of regulated agreements pursuant to Article L. 225-86 of the French Commercial Code.
7. Authorization to be granted to the Group Management Board in the context of the Company's share buyback program.
8. Approval of the specific agreement in Group Management Board member Dirk Oevermann's contract, regarding the introduction of a performance criterion related to the payment of compensation in the event of his removal from office.
9. Allocation of attendance fees.
10. Appointment of KPMG Audit FS II as principal Statutory Auditors.
11. Renewal of Auditeurs et Conseils d'Entreprise (SA)'s appointment as principal Statutory Auditors.
12. Appointment of KPMG Audit FS I as alternate Statutory Auditors.
13. Renewal of Emmanuel Charrier's appointment as alternate Statutory Auditor.

### Extraordinary resolutions

14. Authorization to be given to the Group Management Board regarding the allocation of free Company shares.
15. Delegation of powers to the Group Management Board to increase the share capital for the benefit of members of a savings plan.
16. Amendment to Article 14 of the Articles of Association regarding the deliberations of the Supervisory Board: Conference call and video conference call principle.
17. Powers for formalities (ordinary resolution).

## ORDINARY RESOLUTIONS

### Approval of the financial and consolidated financial statements; recording of the absence of any non-deductible expenses and charges; and allocation of income for the year ended December 31st, 2010

#### First, Second, Third and Fourth resolutions

In view of the 2010 registration document, which includes the management report and the report of the Statutory Auditors, the Shareholders' Meeting is asked to approve:

- the 2010 financial statements and the income statement therein, which shows a positive net income for 2010 of €166,830,268;
- the 2010 consolidated financial statements, which show a positive net income, Group share, of €294,452,284 at December 31st, 2010.

Details are provided in the 2010 registration document and the main items in the notice convening the Shareholders' Meeting of May 20th, 2011.

In view of the 2010 registration document, which includes the management report and the report of the Statutory Auditors, the Shareholders' Meeting is asked to take due note of the absence of non-deductible expenses and charges during the fiscal year.

The fiscal year ended December 31st, 2010 shows distributable income of €512,505,425.47, made up of €166,830,267.75 from income for the year just ended and €345,675,157.72 from previous retained earnings. The Group Management Board proposes to the Shareholders' Meeting the payment of a dividend of €4 per share, representing a total distribution of €180,410,928. The remaining distributable income of €332,094,497.47 would be allocated to "Retained Earnings".

The dividend would be detached from the share on May 25th, 2011 and the dividend would be payable in cash as of May 30th, 2011 on positions established as of the evening of May 27th, 2011. The proposed dividend is eligible for a 40% rebate pursuant to Article 158-3 2 of the French General Tax Code, for all eligible shareholders with the exception of those that opt for the lump-sum option as stipulated under Article 117 *quater* of the French General Tax Code.

### Adjustment of treasury share reserve

#### Fifth resolution

The Group Management Board proposes an adjustment of the treasury share reserve to the Shareholders' Meeting, by raising a provision of €819,800.71 to take account of share sales linked to the exercise of stock options and share purchases and sales carried out as part of the liquidity contract managed by Rothschild et Cie Banque during the year just ended. The treasury share reserve, which stood at €85,517,334.52 at December 31st, 2010 would thus be adjusted to €86,337,135.23.

### Approval of regulated agreements

#### Sixth resolution

Certain agreements signed by the Company as part of its operations are subject to specific formulation: These concern, notably, agreements signed by the Company and one of the members of the Group Management Board or of the Supervisory Board, or with a shareholder that owns over 10% of the share capital. In accordance with Article L. 225-86 of the French Commercial Code, such agreements must be the object of a special report by the Statutory Auditors, receive prior approval from the Supervisory Board, and be approved by the Shareholders' General Meeting. The Shareholders' General Meeting is therefore asked, after taking due note of the special report of the Statutory Auditors with regard to the agreements stipulated in Article L. 225-86 of the French Commercial Code, to approve the agreements mentioned therein.

### Company treasury share buyback authorization

#### Seventh resolution

Details of the operations conducted as part of the Group's share buyback programs and a description of the authorization submitted for vote are shown in paragraphs 7.4.1.3 and 8.5 of the 2010 registration document.

The Shareholders' Meeting is asked to grant the Group Management Board the authority to (i) continue to boost the market for the Company's shares, (ii) allocate shares, where it sees fit, to employees and/or corporate officers, (iii) keep shares or use them as payment or exchange in acquisitions and/or (iv) use shares in the context of the exercise of rights attached to securities that give access to the Company's shares, (v) cancel shares in full or in part with a view to optimizing cash management, the return on shareholders' equity and earnings per share, as part of a capital reduction decided or authorized by the Shareholders' Meeting, and (vi) more generally to carry out any other operations covered by the regulations in force.

The share repurchase price cannot exceed €123 per share. Any authorization will be for a maximum of 10% of the Company's share capital and a total of €180.7 million, it being understood that the Company can at no time own more than 10% of its own share capital.

The Group Management Board proposes that the present authorization be made valid for a period of eighteen (18) months from the date of the present Shareholders' Meeting. This authorization cancels and replaces any previous authorizations with the same object, and renders ineffective any remaining unused portion under previous authorizations, notably that granted by the Shareholders' Meeting of May 21st, 2010.

## Approval of the specific agreement in the contract of Dirk Oevermann, member of the Group Management Board, to introduce a performance criterion

### Eighth resolution

In view of the special report of the Statutory Auditors, the Shareholders' Meeting is asked to approve the payment of an amount equal to two years of his variable compensation in the event he is removed from office following a change in control or strategy. The payment of this sum is dependent on a performance criterion and complies with the recommendations of AFEP/MEDEF.

## Establishment of annual amount of attendance fees

### Ninth resolution

The Group Management Board proposes that the Shareholders' Meeting does not increase the amount of attendance fees allocated, compared with 2010, and consequently that it sets the annual attendance fee for members of the Supervisory Board, for the 2011 and subsequent fiscal years, at €450,000, until the Shareholders' Meeting sees fit to change it again.

## Appointments and renewal of appointments of the Statutory Auditors

### Tenth, Eleventh, Twelfth and Thirteenth resolution

The Group Management Board proposes that the Shareholders' Meeting appoints KPMG Audit FS II as principal Statutory Auditors, replacing KPMG SA, and KPMG Audit FS I as alternate Statutory Auditors, replacing SCP de Commissaires aux comptes Jean-Claude André et Autres.

The Group Management Board also proposes that the Shareholders' Meeting renews the appointment of Auditeurs et Conseils d'Entreprise (SA) as principal Statutory Auditor and the appointment of Mr. Emmanuel Charrier as alternate Statutory Auditor

The appointments and the renewal of appointments would be for a period of six financial years, and would expire at the end of the Ordinary Shareholders' Meeting convened in 2017 to approve the annual financial statements for the year ended December 31st, 2016.

# EXTRAORDINARY RESOLUTIONS

## Authorization to allocate free shares in the Company

### Fourteenth resolution

The Shareholders' Meeting is asked to authorize the Group Management Board to proceed with the allocation of free shares, existing or new, in the Company to the beneficiaries of its choice among the employees and/or corporate officers of the Company or related companies.

The total number of freely allocated shares cannot represent more than 3% of the Company's share capital, as it stands on the date of allocation. The allocation of shares to the beneficiaries is definitive, the choice of the Group Management Board, for all or part of the shares allocated after a minimum acquisition period of two years. These freely allocated shares shall, in all cases, be conserved for a minimum period of two years, it being specified that the minimum conservation period shall be cancelled by the Group Management Board for shares for which the acquisition period is set at least four years.

The definitive allocation of the shares shall take immediate effect, before the end of the acquisition period, in the event of invalidity of the beneficiary corresponding to the 2nd or 3rd category classification of Article L. 341-4 of the French Social Security Code.

The Group Management Board proposes that this authorization, which cancels and replaces with immediate effect the authorization granted under resolution fifteen of the Shareholders' Meeting of May 15th, 2008, be granted for a duration of thirty-eight (38) months from the date of the present Shareholders' Meeting.

## Delegation of powers to increase the share capital for the benefit of members of a savings plan

### Fifteenth resolution

In accordance with the law, any decision to increase the capital through a cash contribution (even in the context of a delegation of authority), unless it results from a prior issuance of securities giving access to the capital, must be the subject of a draft resolution submitted to the Shareholders' Meeting as per the conditions set out in Article L. 3332-1 *et seq.* of the French Labor Code.

The fifteenth resolution, which is submitted for vote at an extraordinary session, meets this legal requirement. Its purpose is to authorize the Group Management Board to increase share capital by issuing Company shares that are reserved for company or group savings plans subscribers, from the Company and related French or foreign companies, as stipulated in Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labor Code. The authorization would result in the cancellation of shareholders' preferential subscription right to said new shares, and benefit company savings plan subscribers.

Therefore, you will be asked to vote on a draft resolution that authorizes the Group Management Board to decide on and implement such capital increases, for the periods and dates the Group Management Board considers appropriate.

This authorization covers a maximum nominal amount of one hundred and thirty two thousand euros (€132,000) per issuance of new shares or securities giving access to the Company's capital. This maximum nominal amount will be deducted from the total nominal capital increase limit of €4.4 million set by the twenty-second resolution of the Shareholders' Meeting of May 21st, 2010.

The subscription price for each capital increase carried out under this authorization will be decided by the Group Management Board in accordance with the law. A discount of 20% and 30% respectively will be set, compared with the average of the opening prices of the Company's shares on Euronext Paris in the 20 trading days prior to the date of the decision setting the date for the start of subscriptions, depending on whether the securities thus subscribed to, directly or indirectly, correspond to assets for which the period of unavailability is less than ten years or at least ten years. However, the Shareholders' General Meeting expressly authorizes the Group Management Board, if it considers it appropriate, to reduce the abovementioned discount and in particular to limit or cancel said discount in order to take into account new international provisions or statutory, accounting, tax or employment-related provisions that may apply locally. The Group Management Board may also decide to allocate free shares to subscribers of new shares as a substitution for a discount and/or bonus shares.

This authorization shall be valid for twenty six (26) months from the date of the present Shareholders' Meeting. This authorization cancels with immediate effect and replaces the authorization granted to the Group Management Board by the Shareholders' Meeting of May 21st, 2010 in its twenty-second resolution.

Pursuant to Article L. 225-138 of the French Commercial Code, the Statutory Auditors will present a report on the capital increase reserved for employees.

Nevertheless, we propose this draft resolution solely with a view to complying with the applicable laws. Consequently, we invite you to reject the draft tenth resolution that we propose.

## Amendment to Article 14 of the Articles of Association

### Sixteenth resolution

The Group Management Board requests that the Shareholders' Meeting amend Article 14 of the Company's Articles of Association in order to harmonize it with the internal regulations of the Supervisory Board, and thereby allow the members of the Supervisory Board to participate in meetings by video conference or conference call, or by any other method of communication provided for by law.

## Powers to perform formalities

### Seventeenth resolution

This resolution looks to confer all the powers necessary to accomplish the formalities that will follow the Shareholders Meeting.

# 8.2 Comments by the Supervisory Board on the management report by the Group Management Board and on the financial statements

To the Shareholders,

As provided by law, the Group Management Board has submitted to the Supervisory Board the 2010 Euler Hermes parent company and consolidated financial statements together with its report on the position of the business of the Company and the Group during the fiscal year ended.

The Supervisory Board indicates to the Shareholders' Meeting that it has no particular comment to make on the financial statements or the report submitted to it by the Group Management Board.

The Supervisory Board approves the Euler Hermes strategy based on adequate management of the commercial portfolio and the risk portfolio, strict cost controls and a reinsurance policy protecting the Group's capital base, involving the adequate disposal of severity risks in particular. It also approves the prudent management of the financial portfolio with priority given to low-risk investments with a stable return.

In general, the Supervisory Board approves without exception the strategic choices and the initiatives of the Group Management Board.

The Audit Committee, on which the Supervisory Board bases its opinion, paid very special attention to the fact that the Group's technical reserves match its commitments and to the fact that accounting standards were properly applied. It was pleased with the cautious approach used by Euler Hermes in setting up its provisions.

Consequently, the Supervisory Board suggests that you approve the financial statements for fiscal year 2010 as well as all the resolutions submitted by the Group Management Board to the Shareholders' Meeting.

Thus the Supervisory Board renews its confidence in the Group Management Board. Lastly, it wishes to thank all the employees of Euler Hermes for the quality of their work in contributing to the success of the Group. It will continue to encourage them in their efforts to achieve the ambitious goals set by the Group for the long term.

# 8.3 Special report of the Statutory Auditors on regulated agreements and commitments

**Shareholders' General Meeting approving the financial statements for the fiscal year ended December 31st, 2010**

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby submit our report on regulated agreements and commitments.

Based on the information given to us, we must inform you of the essential characteristics, and the terms and conditions of the agreements and commitments of which we have been informed, or which we discovered during our audit. We are not responsible for assessing their utility or merits or for searching for the existence of other agreements and commitments. You are responsible, under the terms of Article R. 225-58 of the French Commercial Code, for assessing the potential benefit of such agreements and commitments in order to approve them.

If necessary, we must also inform you of the information stipulated in Articles R. 225-58 of the French Commercial Code regarding the execution of agreements and commitments during the past fiscal year, which your General Meeting has already approved.

We performed the reviews we considered were necessary under the rules of the National Statutory Auditors' Association for this assignment. These reviews involved checking that the information we were given was consistent with the basic documents it was taken from.

## AGREEMENTS AND COMMITMENTS PUT TO THE SHAREHOLDERS' GENERAL MEETING FOR ITS APPROVAL

### Agreements and commitments authorized during 2010

Pursuant to Article L. 225-88 of the French Commercial Code, we were informed of the agreements and commitments which the Supervisory Board had given its prior authorization to.

#### 1. Letter of guarantee between Euler Hermes SA and Euler Hermes Credit Insurance Belgium et Euler Hermes Services Belgium

**PERSON CONCERNED: MR. NICOLAS HEIN**

The Supervisory Board meeting on November 4th, 2010 authorized a guarantee agreement to be set up between Euler Hermes SA and Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium, within the scope of setting up a early-retirement plan in the Belgium subsidiaries.

This letter guarantees that the beneficiaries of the pension plan in the above named companies would be paid the supplementary payments owed to them, if Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium were definitely unable to honor their payment obligations.

#### 2. Specific agreement concerning the term of office of a member of the Group Management Board

**PERSON CONCERNED: MR. DIRK OEVERMANN**

The Supervisory Board approved the following provisions concerning the term of office of Mr. Dirk Oevermann, a member of the Group Management Board, at its meeting on February 7th, 2010 if Mr. Dirk Oevermann is dismissed from office following a change of control or strategy, which should be supported by reasons, and to guarantee the principle of removal from office adnutum, he shall receive a payment of two years of his variable remuneration to cover all prejudice, and in particular prejudice caused by unjustified grounds or methods when dismissing him, such as vexatious circumstances. The base for this payment shall be all his variable remuneration (last annual bonus paid +1/3 of the last Mid term bonus, excluding Allianz GEI) paid by Euler Hermes during the year prior to dismissal.

This payment shall be subject to a performance criterion.

The performance condition shall be considered to have been met if the average rate of return on risk-adjusted capital (RORAC), as recorded by the Supervisory Board in the audited consolidated financial statements for the two years preceding the cessation of activity equals or exceeds a percentage set annually by the Supervisory Board.

If the dismissal were to occur between the date of this General Meeting and December 31st, 2011, the performance condition would be considered to have been met, if the annualized rate of return on risk-adjusted capital (RORAC), recorded by the Supervisory Board in the audited consolidated financial statements for 2010 exceeds or equals 6.23% for 2010.

### 3. Euler Hermes group Long-Term Incentive Plan 2000

**PERSONS CONCERNED: ALLIANZ IN ITS CAPACITY AS SHAREHOLDER, MR. WILFRIED VERSTRAETE, CHAIRMAN OF THE GROUP MANAGEMENT BOARD, MR. MICHEL MOLLARD, MEMBER OF THE GROUP MANAGEMENT BOARD, MR. GERD-UWE BADEN, MEMBER OF THE GROUP MANAGEMENT BOARD, MR. NICOLAS HEIN, MEMBER OF THE GROUP MANAGEMENT BOARD AND MR. DIRK OEVERMANN, MEMBER OF THE GROUP MANAGEMENT BOARD**

The Supervisory Board meeting on November 4th, 2010, resolved to change the compensation methods for the members of the Group Management Board for 2011, so that the portion corresponding to the long-term bonus plan is comprised of 50% of RSUs, whose value is indexed to fluctuations in Euler Hermes share price with a four-year vesting period for the rights from the allotment date to remunerate performance for year N-1.

Each Euler Hermes group company must bear the cost of this plan for the portion relating to the Company in question.

## AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' GENERAL MEETING

### Agreements and commitments approved in prior years and still in force during the current year

Pursuant to Article R. 225-57 of the French Commercial Code, we were informed that the following agreements and commitments which the General Meeting had already approved in previous fiscal years, continued to be in force during the past fiscal year.

#### 1. Guarantee agreement between Euler Hermes SA and Euler Hermes Kreditverzekering NV (Netherlands)

The Supervisory Board of November 9th, 2007 authorized the signature of a guarantee agreement between Euler Hermes SA and Euler Hermes Kreditverzekering NV (Netherlands), in connection with Standard & Poor's rating of Euler Hermes SA.

This guarantee was established to enable the Dutch company to benefit from the same rating as that of other Group companies.

Euler Hermes SA undertakes to settle the guaranteed commitments, under the terms and conditions applicable to all policies issued by Euler Hermes Kreditverzekering NV, if Euler Hermes Kreditverzekering NV were unable to pay the guaranteed commitments to the Policyholder. Euler Hermes SA's financial commitment is limited to the amount of the guaranteed commitments due from Euler Hermes Kreditverzekering NV to the Policyholder.

#### 2. Guarantee agreement between Euler Hermes SA and Euler Hermes Kreditverzekering NV (Switzerland)

The Supervisory Board meeting of November 5th, 2008 authorized the signature of a guarantee agreement between Euler Hermes SA and Euler Hermes Reinsurance AG (Switzerland) enabling Euler Hermes SA to guarantee the commitments of Euler Hermes Reinsurance AG, in connection with Standard & Poor's rating of Euler Hermes SA.

Euler Hermes SA undertakes to settle the guaranteed commitments, under the terms and conditions applicable to all the corresponding proportional and non-proportional reinsurance treaties, if Euler Hermes Reinsurance AG were unable to pay the guaranteed commitments. Euler Hermes SA's financial commitment is limited to the amount of the guaranteed commitments due from Euler Hermes Kreditverzekering NV to the Policyholder. Euler Hermes SA may reduce its financial commitment by any financial claim Euler Hermes Reinsurance AG may have on the Policyholder.

#### 3. Guarantee agreement between Euler Hermes SA and Euler Hermes Kreditverzekering NV (Luxembourg)

The Supervisory Board meeting of November 5th, 2008 authorized the signature of a guarantee agreement between Euler Hermes SA and Euler Hermes Ré (Luxembourg) enabling Euler Hermes SA to guarantee the commitments of Euler Hermes Ré (Luxembourg), in connection with Standard & Poor's rating of Euler Hermes SA.

Euler Hermes SA undertakes to settle the guaranteed commitments, under the terms and conditions applicable to all the corresponding proportional and non-proportional reinsurance treaties, if Euler Hermes Reinsurance Ré were unable to pay the guaranteed commitments. Euler Hermes SA's financial commitment is limited to the amount of the guaranteed commitments due from Euler Hermes Ré to the Policyholder. Euler Hermes SA may reduce its financial commitment by any financial claim Euler Hermes Ré may have on the Policyholder.

### 4. Loan agreement between Euler Hermes SA and Allianz France International SA

On September 3th, 2009, a €110 million loan was contracted by Euler Hermes SA with Allianz France International SA, under the following terms:

| | |
|---|---|
| Term | Three years |
| Maturity | September 10th, 2012 |
| Rate | Fixed, equal to the three year Mid-Swaps rate recorded on Bloomberg on September 2nd, 2009 |
| Interest | Annual |

An interest expense of €3,049,169.44 was recognized in 2010.

### 5. Loan agreement between Euler Hermes SA and Allianz Belgium

The €135 million loan with Allianz France SA, contracted on June 24th, 2005, was transferred to Allianz Belgium from May 11th, 2009. The final maturity date was renegotiated on June 23rd, 2010. The terms are as follows:

| | |
|---|---|
| Term | Ten years |
| Maturity | June 24th, 2020 |
| Rate | Fixed at 4.04% |
| Interest | Annual |

An interest expense of €3,661,406.25 was recognized in 2010.

### 6. Loan agreement between Euler Hermes SA and Allianz France SA

Euler Hermes repaid the €90 million loan, which was drawn in three €30 million tranches during the 2003 and 2004 fiscal years to Allianz France SA. on June 19th, 2010

An interest expense of €693,322.50 was recognized in 2010.

### 7. Loan agreement between Euler Hermes SA and Allianz France SA

Euler Hermes SA repaid Allianz France SA the €67 million loan taken out on December 12th, 2006 on June 21st, 2010.

An interest expense of €525,302.34 was recognized in 2010.

### 8. Euler Hermes group Long-Term Incentive Plan 2000

The Supervisory Board approved the arrangements to establish a global incentive plan for senior managers of the Euler Hermes group at its meeting of September 26th, 2000.

Each Euler Hermes group company must bear the cost of this plan for the portion relating to the Company in question.

The Supervisory Board authorized the allocation of 12,948 SAR and 6,426 RSU at a price of €87.36 per share to the Group Management Board in 2010 at its meeting on May 7th, 2010 on the recommendation of the Remuneration Committee.

These SAR and RSU required a hedging contract to be set up with Allianz, and the €296,810.22 costs of the SAR and the €628,266.45 costs of the RSU were booked by Euler Hermes and its subsidiaries.

### 9. Mid Term Bonus plan

At its meeting of March 4th, 2005, the Supervisory Board approved the arrangements for implementing a Mid-Term Bonus system to enhance senior management loyalty. This is a system spread over three years. If the targets are achieved over a three-year period, an additional bonus will be awarded at the end of the period. The potential bonus is a set amount, corresponding to a fraction of the fixed remuneration plus a possible 20% upside. The calculation consists of two parts, each equally weighted and based on EVA (economic value added) and strategic objectives. If an average rate of between 70% and 120% is achieved for both parts, a proportional calculation will be made according to the degree to which the targets are achieved.

### 10. Specific agreement relating to the contract with Mr Wilfried Verstraete

The Supervisory Board approved the following arrangement concerning the term of office of Mr. Wilfried Verstraete, Chairman of the Group Management Board, at its meeting on July 28th, 2009: If Mr. Verstraete is dismissed from office following a change of control or strategy, which should be supported by reasons, and to guarantee the principle of removal from office adnutum, he shall receive a payment, equal to two years of his remuneration to cover all prejudice, and in particular prejudice resulting from unjustified grounds or methods when dismissing him, such as vexatious circumstances. The basis for this indemnity comprises all the fixed and bonus remuneration paid by Euler Hermes during the fiscal year preceding the dismissal.

This payment shall be subject to a performance criterion.

The performance condition shall be considered to have been met if the average rate of return on risk-adjusted capital (RORAC), as reported by the Supervisory Board in the audited consolidated financial statements for the two years before the cessation of activity exceeds 9%.

If a dismissal occurs between January 1st, 2010 and December 31st, 2011, the performance condition shall be considered to have been met if the annualized rate of return on risk-adjusted capital (RORAC), as recorded by the Supervisory Board in the interim consolidated financial statements, available as from the second half of 2009 inclusive, exceeds the rate adopted in the Strategic Dialogue for 2010, i.e. 7%.

### 11. Specific agreement relating to the contract with Mr. Gerd-Uwe Baden

In the event of retirement, Mr. Gerd-Uwe Baden, a Member of the Euler Hermes SA Group Management Board and also Chairman of the Management Board of the Group's German subsidiary, Euler Hermes Kreditversicherung AG, shall receive, under his employment contract with the subsidiary Euler Hermes Kreditversicherung AG, a gross payment equal to 50% of the latest fixed and variable annual compensation paid to him.

At its meeting of February 15th, 2008, and on the advice of the Remuneration and Appointments Committee, the Supervisory Board introduced a performance clause making conditional the compensation to be paid in the event of cessation of activity. This performance condition is deemed to be met if the following criterion is fulfilled:

The average rate of return on risk-adjusted capital (RORAC), as recognized by the Supervisory Board in the audited consolidated financial statements for the last two financial years prior to the cessation of activity, is at least 8%.

Paris la Défense and Paris, April 12th, 2011

| KPMG Audit | ACE – *Auditeurs et Conseils d'Entreprise* |
|---|---|
| *A division of KPMG SA* | |
| Régis Tribout | François Shoukry |
| Partner | Partner |

# 8.4 Resolutions submitted to the vote of the General Meeting of May 20th, 2011

## DRAFT RESOLUTIONS

### Resolutions within the authority of the Ordinary Meeting of Shareholders

#### First resolution

**APPROVAL OF THE STATUTORY FINANCIAL STATEMENTS OF THE COMPANY FOR THE FISCAL YEAR ENDED DECEMBER 31ST, 2010**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the management report of the Management Board on the Company's activity and financial situation during the fiscal year ended December 31st, 2010, the observations of the Supervisory Board as well as the general report of the statutory auditors on the completion of their assignment during such fiscal year, hereby approves the statutory financial statements of the Company for the fiscal year ended December 31st, 2010, which include the balance sheet, the income statement and the notes, as presented, as well as the transactions reflected in these financial statements and summarized in the reports. The General Meeting of Shareholders acknowledge that the earnings from the ended fiscal year amount to €166,830,268.

#### Second resolution

**APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31ST, 2010**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the management report of the Management Board on the Company's activity and financial situation during the fiscal year ended December 31st, 2010, the observations of the Supervisory Board as well as the report of the statutory auditors on the completion of their assignment during such fiscal year, hereby approves the consolidated financial statements of the Company for the fiscal year ended December 31st, 2010, as presented, as well as the transactions reflected in these financial statements and summarized in the reports. The General Meeting of Shareholders acknowledges that the earnings from the ended fiscal year amount to €294,452,284.

#### Third resolution

**ACKNOWLEDGEMENT THAT THERE WERE NO NON-DEDUCTIBLE EXPENSES AND CHARGES DURING THE FISCAL YEAR ENDED DECEMBER 31ST, 2010**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the management report of the Management Board on the Company's activity and financial situation during the fiscal year ended December 31st, 2010 and the observations of the Supervisory Board, state that in accordance with provisions of Article 223 *quater* of the French Tax Code (Code général des impôts) there were no non-deductible expenses and charges from the taxable profits as referred to in Article 39-4 of the French Tax Code during the fiscal year ended December 31st, 2010.

#### Fourth resolution

**ALLOCATION OF THE EARNINGS FOR THE FISCAL YEAR ENDED DECEMBER 31ST, 2010 AND SETTING OF THE DIVIDEND AT €4.00 PER SHARE**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the management report of the Management Board on the Company's activity and financial situation during the ended fiscal year as well as the general report of the statutory auditors and after having heard the observations of the Supervisory Board acknowledges that the distributable earnings amount to:

- unappropriated earnings €345,675,157.72;
- profits for the fiscal year ended December 31st, 2010 €166,830,267.75;

or, €512,505,425.47;

decide to allocate the earnings as follows:

- legal reserve €0;
- proposed dividend: €4 per share €180,410,928.00;
- unappropriated earnings €332,094,497.47;

or, €512,505,425.47.

The General Meeting of Shareholders therefore decides to distribute a dividend of €4.00 per share for the fiscal year ended December 31st, 2010, i.e., a total amount of €180,410,928. The amount distributed among the shareholders is eligible in its entirety for the 40% abatement provided for in Article 158-3.2° of the French Tax Code (Code général des impôts) for those shareholders who may benefit from it, except should they opt for the flat-rate withholding tax provided for in Article 117 *quater* of the French Tax Code (Code général des impôts).

The dividend to be distributed will be detached from the share on May 25th, 2011 and will be payable in cash as from May 30th, 2011 on positions established as of the evening of May 27th, 2011.

In accordance with the provisions of Article L. 225-210 of the French Commercial Code (Code de commerce), the General Meeting of Shareholders decides that the amount of the dividend corresponding to the shares held by the Company on the payment date will be allocated to the "unappropriated earnings" account.

As in accordance with the law, the dividends distributed for the past three fiscal years are presented below:

| | 2009 (1) | 2008 (1) | 2007 (1) |
|---|---|---|---|
| Global amount (in euros) | 0 | 67,623,345 | 225,262,565 |
| Dividend per share (2) | €0 | €1.50 | €5.00 |
| Amount of the distributions eligible for the 40% abatement | €0 | €1.50 | €5.00 |

*(1) Dividend with respect to the fiscal year, paid out the following year.*
*(2) The dividend per share is calculated on the basis of the total number of shares.*

## Fifth resolution

### ADJUSTMENT OF THE RESERVE FOR TREASURY SHARES

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, acknowledging that there was no purchase and sales of the Company's treasury shares during the fiscal year ended December 31st, 2010 in connection with the Company's share buyback program as authorized by the Shareholders' Ordinary General Meeting held on May 15th, 2009, and noting in particular, the terms under which the Company may purchase its own treasury shares according to the provisions of Article L. 225-209 *et seq.* of the French Commercial Code (Code de commerce), hereby decides according to the provisions of Article L. 225-210 paragraph 3 of the French Commercial Code (Code de commerce) to adjust the reserve for treasury shares by allocating €819,800.71 to take into account on the one hand the sales related to the exercise of stock options and on the other hand the sales and purchases of shares conducted in connection with the liquidity contract managed by Rothschild et Cie Banque during the ended fiscal year.

Therefore, the General Meeting of Shareholders acknowledges that the reserve for treasury shares that amounted to €85,517,334.52 at December 31st, 2010 will be adjusted to €86,337,135.23.

## Sixth resolution

### APPROVAL OF THE REGULATED AGREEMENTS REFERRED TO IN ARTICLE L. 225-86 OF THE FRENCH COMMERC IAL CODE (CODE DE COMMERCE)

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the special report of the statutory auditors concerning the agreements referred to in Article L. 225-86 of the French Commercial Code (Code de commerce), acknowledges the findings of such report and expressly approve the agreements described thereto.

## Seventh resolution

### AUTHORIZATION TO BE GRANTED TO THE MANAGEMENT BOARD IN CONNECTION WITH THE COMPANY'S PROGRAM TO BUY BACK ITS SHARES

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the report of the Management Board and the observations of the Supervisory Board, hereby authorizes, pursuant to the provisions of Articles L. 225-209 et seq. of the French Commercial Code (Code de commerce) and European Regulation no. 2273/2003 of December 22, 2003 implementing European Directive n°2003/6/EC of January 28th, 2003 and Articles 241-1 to 241-6 of the general regulations of the Autorité des marchés financiers, the Management Board to purchase a number of shares of a nominal value of €0.32 representing a maximum of 10% of the share capital as of the date hereof and according to the following conditions:

- this authorization is valid for a period of eighteen months as from the date of this General Meeting of Shareholders, i.e., until November 19th, 2012, or until the date of its renewal by the Ordinary General Meeting of Shareholders convened prior to such date. This resolution invalidates the unused portion of the authorization granted by the Ordinary General Meeting of Shareholders held on May 21st, 2010 under its sixteenth resolution;
- the total amount that the Company may allocate to the purchase of its own shares during the term of this authorization is a maximum of €180.7 million;
- the maximum purchase price (excluding expenses) is set at €123 per share which corresponds to the share price reached on December 31st, 2010, multiplied by a multiplying factor equal to the largest increase in share price recorded by the security over a fiscal year since its initial listing, i.e., 73% in 2003, it being provided that in the event of transactions on the share capital, particularly the incorporation of reserves of profits resulting in either the increase in the nominal value of the shares or the free grant of shares, or a reverse split or a stock split, the Management Board will have all powers, where needed, to adjust the aforementioned purchase price accordingly;
- the maximum number of shares that may be purchased by the Company under this authorization may not at any point exceed 10% of its share capital;
- the purchase, sale, transfer or exchange of these shares may be carried out by any means according to the conditions provided by the market regulators as well as by legal and regulatory provisions, including on a regulated or non-regulated market, on a multilateral trades facilities (MTF), via systematic internaliser or through the purchase or sale of blocks of shares, as applicable, over-the-counter, or through the use of financial derivatives, particularly options or warrants, in accordance with applicable regulations and at the times that the Management Board or the individual acting upon delegation deems appropriate;
- purchases of the Company's shares may be executed for the purpose of:

(i) creating a market or liquidity conditions for the Company's share by a financial service provider acting independently pursuant to a liquidity contract in conformity with the ethic charter recognized by the Autorité des marchés financiers (AMF),

(ii) honoring the commitments related to the stock option plans, the free share plans and other share grants for employees or directors and officers (mandataires sociaux) of the Company or a related company,

(iii) the purchase for the conservation and the subsequent delivery of shares in payment or exchange in connection with any potential external growth transactions in accordance with securities regulations; it be specified that the number of shares acquired by the Company for their conservation and subsequent delivery in payment or exchange as part of a merger, demerger or contribution may not exceed 5% of its share capital,

(iv) the delivery of shares at the time of exercise of the rights attached to the securities giving access to the Company's share capital,

(v) the cancellation of these shares,

(vi) implementing any market practice that has become recognized by law or the Autorité des marchés financiers, in which case the Company will inform the public, in accordance with legal and regulatory requirements, of any changes to the program with respect to the modified objectives.

The portion of the program that may be completed through block trades is unlimited.

The Company may carry out transactions (i) to (vi) above during a tender or public exchange offer in accordance with the applicable legal provisions.

Pursuant to Article L. 225-212 of the French Commercial Code (Code de commerce), the Company shall inform the Autorité des marchés financiers on a monthly basis of any completed purchases, sales, transfers, and/or cancellations.

The Management Board should seek the Supervisory Board's prior approval on the policy that it intends to follow with respect to the purchase of shares in accordance with this resolution.

All necessary powers to carry out these transactions are granted to the Management Board, with the power to sub-delegate to its Chairman or, at his/her discretion, to one or several of its members, and in particular to place all orders on or off the market, allocate or re-allocate the acquired shares to the various objectives undertaken in accordance with the legal and regulatory provisions, enter into any agreements notably for maintaining the purchase and sale registers, prepare any disclosure documents, carry out any filing procedures and disclosures with the Autorité des marchés financiers and any other entities, complete any other formalities, and, in a general manner, do all that it necessary to set the terms and the conditions according to which the security holders' rights giving access to the Company's share capital and the rights of the options holders will be preserved, if necessary, in accordance with the regulatory provisions.

The Management Board shall inform the General Meeting of Shareholders of the transactions carried out under this authorization.

## Eighth resolution

### APPROVAL OF THE SPECIFIC AGREEMENT FOR THE CONTRACT OF MR. DIRK OEVERMANN, MEMBER OF THE MANAGEMENT BOARD, TO INTRODUCE A PERFORMANCE CONDITION LINKED TO THE PAYMENT OF AN INDEMNITY IN THE EVENT HIS APPOINTMENT IS TERMINATED

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the special report of the statutory auditors, hereby approves the Supervisory Board's decision on July 28th, 2009 with respect to the contract between Mr. Dirk Oevermann, member of the Management Board, and Euler Hermes SA.

In the event Mr. Oevermann's appointment is terminated following a change of control or of strategy, whose cause should be motivated, and to comply with the *ad nutum* revocation principle, he will be allocated an indemnity equal to two years of his variable remuneration, to cover any prejudice, including those resulting from an unjustified revocation or the manner in which he is revoked such as vexatious revocation. The basis of this indemnity is composed of his variable remuneration (last annual bonus paid out + 1/3 of the most recently paid mid term bonus and excluding Allianz GEI) paid by Euler Hermes during the fiscal year preceding his revocation.

Payment of this indemnity is contingent upon a performance condition.

The performance condition is considered satisfied if the average of the return rates on risk adjusted capital (RORAC), as acknowledged by the Supervisory Board in the audited consolidated financial statements of the last two fiscal years preceding the termination of his appointment, is equal or greater than a percentage yearly defined by the Supervisory Board.

In the event that his appointment is terminated as from the date of this General Meeting of Shareholders up until December 31st, 2011, the performance condition is deemed satisfied if the annualized return rate on risk adjusted capital (RORAC), as acknowledged by the Supervisory Board in the 2010 audited consolidated financial statements, is equal to or greater than 6.23% for the 2010 fiscal year.

## Ninth resolution

### ALLOCATION OF DIRECTORS' ATTENDANCE FEES (JETONS DE PRÉSENCE)

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, hereby sets the total amount for directors' attendance fees as €450,000 to be distributed among the members of the Supervisory Board.

This amount is allocated for the 2011 fiscal year and will remain as such until a further decision of the General Meeting of Shareholders.

## Tenth resolution

### APPOINTMENT OF KPMG AUDIT FS II AS PRINCIPAL STATUTORY AUDITORS

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the report of the Management Board, and

Having noted that the term of office of KPMG SA as principal statutory auditors expires at the end of this General Meeting of Shareholders,

Hereby decides to appoint KPMG Audit FS II as principal statutory auditors. KPMG Audit FS II registered on the Companies Register in Nanterre under number 512 802 539 and having its corporate office at 3, Cours du Triangle, Immeuble le Palatin, Puteaux, 92939 Paris La Défense cedex, is appointed for a term of six fiscal years that will expire at the end of the Ordinary General Meeting of Shareholders convened to approve on the financial statements for the fiscal year ended December 31st, 2016.

## Eleventh resolution

### RENEWAL OF THE TERM OF OFFICE OF AUDITEURS ET CONSEILS D'ENTREPRISE (SA) AS PRINCIPAL STATUTORY AUDITORS

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the report of the Management Board, and

Having noted that the term of office of Auditeurs et Conseils d'Entreprise (SA) as principal statutory auditors expires at the end of this General Meeting of Shareholders,

Hereby renews the term of office of Auditeurs et Conseils d'Entreprise (SA) as principal statutory auditors for a term of six fiscal years that will expire at the end of the Ordinary General Meeting of Shareholders convened to approve on the financial statements for the fiscal year ended December 31st, 2016.

## Twelfth resolution

### APPOINTMENT OF KPMG AUDIT FS I AS ALTERNATE STATUTORY AUDITORS

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the report of the Management Board, and

Having noted that the term of office of SCP de Commissaires aux Comptes Jean-Claude André et Autres as alternate statutory auditors expires at the end of this General Meeting of Shareholders,

Hereby decides to appoint KPMG Audit FS I as alternate statutory auditors. KPMG Audit FS I registered on the Companies Register in Nanterre under number 512 802 596 and having its corporate office at 3, Cours du Triangle, Immeuble le Palatin, Puteaux, 92939 Paris La Défense cedex, is appointed for a term of six fiscal years that will expire at the end of the Ordinary General Meeting of Shareholders convened to approve on the financial statements for the fiscal year ended December 31st, 2016.

### Thirteenth resolution

**RENEWAL OF THE TERM OF OFFICE OF MR EMMANUEL CHARRIER AS ALTERNATE STATUTORY AUDITORS**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the report of the Management Board, and

Having noted that the term of office of Mr Emmanuel Charrier as alternate statutory auditors expires at the end of this General Meeting of Shareholders,

Hereby renews the term of office of Mr Emmanuel Charrier as alternate statutory auditors for a term of six fiscal years that will expire at the end of the Shareholders' Ordinary General Meeting convened to approve on the financial statements for the fiscal year ended December 31st, 2016.

## Resolutions within the authority of the Extraordinary Meeting of Shareholders

### Fourteenth resolution

**AUTHORIZATION TO BE GRANTED TO THE MANAGEMENT BOARD TO GRANT FREE SHARES OF THE COMPANY**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Extraordinary General Meetings, having reviewed the report of the Management Board and the special report of the statutory auditors:

- authorizes the Management Board, to grant, pursuant the provisions of Article L. 225-197-1 *et seq.* of the French Commercial Code (Code de commerce), after having received the prior approval of the Supervisory Board according to provisions of the bylaws, existing shares or newly-issued shares of the Company, free of charge, on one or more occasions, to beneficiaries whom it shall determine among the salaried employees of the Company and companies related to it within the meaning of Article L. 225-197-2 of the French Commercial Code (Code de commerce) and among the corporate officers (mandataires sociaux) of the Company and companies related to it as provided for in Article L. 225-197-1 II of the aforementioned Code, according to the conditions defined below;
- decides that the Management Board shall identify the beneficiaries of the grants and the number of shares to be granted to each one of them and shall determine the conditions for the grants and, where applicable, the criteria for granting the shares and shall have the option to make these grants of shares subject to certain individual or collective performance conditions;
- decides that the total nominal amount of free shares that may be granted pursuant to this resolution may not exceed 3% of the Company's share capital (as determined on the date of the Management Board's decision with respect to the grant), such limit being increased by the number of shares necessary for any adjustments that may be made in the event of a transaction on the share capital in order to preserve the beneficiaries' rights;
- decides that the grant of shares to their beneficiaries will become definitive at the end of a vesting period whose length will be set by the Management Board, with the understanding that this period may not be less than two years and that the beneficiaries must hold these shares for a time period set by the Management Board, with the understanding that the holding period may not be less than two years. Notwithstanding the foregoing, the Management Board may decide that for certain beneficiaries the grant of the shares shall become definitive after a vesting period of a minimum of four years after which there no holding period will apply. With respect to shares granted free of charge to corporate officers (mandataires sociaux), the Management Board must decide either that the granted shares cannot be sold or transferred by the corporate officers until they leave office or decide on a number of granted free shares that they shall be required to hold in registered from until they leave office.

  The General Meeting of Shareholders decides that in the event of a beneficiary's disability corresponding to the second and third categories of classification provided for in Article L. 341-4 of the French Social Security Code (Code de sécurité sociale), the shares will be definitively granted to the beneficiary before the end of the remainder of the vesting period. The Management Board may, however, cancel or provide for conditions to this early vesting under certain circumstances, particularly to take into account foreign constraints. These shares may be freely transferred or sold as from their delivery;
- authorizes the Management Board to proceed with, as applicable, any potential adjustments in the event of transactions on the share capital in order to preserve the beneficiaries' rights. The shares granted under such adjustments will be deemed as having been granted on the same date as the shares initially granted;
- acknowledges, that in event of a free grant of newly-issued shares, this authorization shall gradually entail during the course of the definitive grant of these new shares a capital increase by incorporation of reserves, profits or issue premiums in favor of the beneficiaries of these shares and the corresponding waiver of the shareholders of the preferential subscription right on such shares in favor of the beneficiaries of the newly-issued shares.

This resolution immediately invalidates the unused portion of the authorization to grant free shares of the Company granted to the Management Board by the General Meeting of Shareholders on May 15th, 2008 in its fifteenth resolution.

This authorization is granted for a period of thirty-eight months as from the date of this General Meeting of Shareholders.

The General Meeting of Shareholders confers full powers to the Management Board, with the power to sub-delegate in accordance with legal provisions, to use this authorization, to take all necessary actions and enter into any agreements to ensure the successful completion of the envisaged grants, acknowledge the capital increase(s) resulting from any grant made pursuant to this delegation, amend the bylaws accordingly and accomplish all formalities necessary to the issuance, listing and provision of financial services of the issued securities, and, in a general manner, do all that is necessary.

The Management Board shall report to the next General Meeting of Shareholders on the use of this authorization in accordance with legal and regulatory provisions.

### Fifteenth resolution

**DELEGATION OF POWER GRANTED TO THE MANAGEMENT BOARD TO INCREASE THE SHARE CAPITAL IN FAVOR OF MEMBERS OF A COMPANY SAVINGS PLAN**

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Extraordinary General Meetings, having reviewed the report of the Management Board and the special report of the statutory auditors, and pursuant to the provisions of Article

L. 225-138-1, L. 225-129-2 and L. 225-129-6 of the French Commercial Code (Code de commerce), and in accordance with the provisions of Article L. 3332-1 *et seq.* of the French Labor Code (Code du travail):

- delegates power to the Management Board to increase, on one or more occasions, the Company's share capital, within 26 months as from the date of this General Meeting of Shareholders, by a maximum nominal amount of €132,000 (one hundred and thirty two thousand euros) through the issuance of shares or securities giving access to the Company's share capital, reserved for members of a company savings plan of the Company or of the French or foreign companies that are related to the Company in accordance with Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labor Code;
- decides that the maximum nominal amount of the share capital increases that may be carried out pursuant to this resolution will be applied toward the global nominal ceiling for capital increases of €4.4 million set forth in the twenty second resolution of the General Meeting of Shareholders held on May 21st, 2010;
- decides, pursuant to Article L. 3332-19 of the French Labor Code (Code du travail), to set the discount respectively at 20% to 30% in relation of the average of the Company's opening share prices on Euronext Paris over the 20 trading days preceding the date of the decision setting the opening date of the subscription period, depending upon whether the securities subscribed to directly or indirectly correspond to assets with a lock-up period of less than 10 years or with a lock-up greater than or equal to 10 years. However, the General Meeting of Shareholders expressly authorizes the Management Board to reduce the aforementioned discount, should it deem appropriate, in order to take into account the legal, accounting, tax and social charges regimes applicable locally;
- decides that the characteristics of the other securities giving access to the Company's share capital shall be determined by the Management Board in accordance with regulatory provisions;
- decides, pursuant to Article L. 3332-21 of the French Labor Code (Code du travail), that the Management Board may also decide to grant, free of charge, existing or newly-issued shares, or other existing or newly-issued securities giving access to the Company's share capital, as a matching contribution, provided that their cash value, as compared to the subscription price, does not exceed the limits set forth in Articles L. 3332-19 and L. 3332-11 of the French Labor Code (Code du travail);
- decides to eliminate the preferential subscription right of shareholders with respect to the new shares to be issued or other securities giving access to the share capital and to the securities to which such securities give right, which are issued pursuant to this resolution, in favor of the aforementioned beneficiaries. Furthermore, in the event of a free grant of shares or other securities giving access to the share capital, the shareholders waive all their rights to these shares or securities including the portion of reserves, profits or premiums or that will be incorporated into the share capital for their payment in full.
- decides that the Management Board shall have all powers, with the power to delegate or sub-delegate pursuant to applicable legal and regulatory provisions, to implement this resolution and, in particular:

– determining the scope and the terms and conditions of the transactions,

– deciding on the dates and terms of the issuances to be carried out pursuant to this authorization,

– setting the price and the opening and closing dates of the subscription period as well as the dividend entitlement date (even retroactive) of the issued securities,

– determining the terms and conditions for paying up the shares and other securities granting rights over the Company's share capital, determining the timeframe for such paying up of shares and, as applicable, of the securities granting rights over the Company's share capital,

– requesting the created securities' admission to trading on the stock market wherever appropriate,

– acknowledge the completion of the share capital increases in the amount of the shares that will be actually subscribed, completing, directly or through an agent, any transactions and formalities in connection with share capital increases and,

– at its sole discretion and if it sees fit, deducting the costs of the share capital increases from the amount of premiums associated with those increases and withholding from that amount the sums necessary to increase the legal reserve to one-tenth of the new share capital after each share capital increase.

This resolution immediately invalidates the unused portion of the authorization granted to the Management Board by the General Meeting of Shareholders on May 21st, 2010 in its twenty-second resolution.

### Sixteenth resolution

#### AMENDMENT TO ARTICLE 14 OF THE BYLAWS RELATING TO THE POWERS OF THE SUPERVISORY BOARD: PRINCIPLE OF VIDEOCONFERENCING, TELECOMMUNICATIONS

The General Meeting of Shareholders, acting under the conditions of quorum and majority required for Extraordinary General Meetings, having reviewed the report of the Management Board, hereby decides to amend paragraph 6 of Article 14 of the Company's bylaws as follows:

Current text: "members of the Supervisory Board attending the meeting by means of a videoconference, the nature and conditions or which are specified by decree of the Conseil d'Etat, are counted as present for the purpose of calculating quorum and majority."

New text: "Members of the Supervisory Board attending the meeting by videoconference, telephone, enabling them to be identified and ensuring their attendance or any other similar means of communication allowed by applicable legislation shall be counted as present for the purpose of calculating quorum and majority."

The remainder of Article 14 of the Company's bylaws remains unchanged.

### Seventeenth resolution (within the authority of the Ordinary Meeting of Shareholders)

#### POWERS TO ACCOMPLISH FORMALITIES

The General Meeting of Shareholders gives full power to any bearer of an original, a copy or an excerpt of these minutes to make all legal and administrative formalities and carry out all filings and any publicity required by law.

# 8.5 Description of the share buyback programme

Euler Hermes, a company listed on Euronext Paris (compartment A), wishes to retain a share buyback programme. With this objective in mind, the seventh resolution to be submitted to the Mixed General Meeting of Shareholders on May 20th, 2011 will seek to authorise the creation of a new share buyback programme, in accordance with Article L. 225-209 of the French Commercial Code (Code de commerce), rule no. 2273/2003 of the European Commission of December 22nd, 2003 taken in application of Directive 2003/6/CE of January 28th, 2003 and Articles 241-1 to 241-6 of the General regulations of the French Financial Markets Authority (AMF).

This programme will replace the existing programme implemented by the Mixed General Meeting of May 21st, 2010, which authorised the Management Board of Euler Hermes to use all means to buy back the Company's own shares.

## 8.5.1 DATE OF THE GENERAL MEETING OF SHAREHOLDERS CALLED TO AUTHORISE THE NEW SHARE BUYBACK PROGRAMME

The new share buyback programme will be submitted for approval to the Mixed General Meeting of the shareholders to be held on May 20th, 2011.

## 8.5.2 NUMBER OF SHARES AND PROPORTION OF CAPITAL HELD DIRECTLY OR INDIRECTLY BY THE COMPANY

The total number of shares held directly by Euler Hermes at March 31st, 2011 is 1,320,644, or 2.93 % of the capital at that date.

Euler Hermes holds no shares indirectly.

## 8.5.3 NATURE OF SHARE CAPITAL HELD

The share capital can be placed within three categories on March 31st, 2011:

- 279,700 treasury stock to be granted to employees and management of the Company and its subsidiaries in reward for their participation in the expansion of the Company or as part of a share purchase plan, the free granting of existing shares or a company savings scheme;
- 985,944 shares to be used in swap operations within the framework of external growth operations or in the event of share issues giving access to the Company's capital;
- 55,000 shares used as part of a liquidity contract concluded with Rothschild & Cie Banque, shares that were initially earmarked for external growth operations.

## 8.5.4 THE AIMS OF THE NEW SHARE BUYBACK PROGRAMME

The share buybacks will be authorised for all legal purposes, particularly with a view to:

(i) stimulating the market or the liquidity of the Company's stock through the use of an independent investment professional acting within the framework of a liquidity contract that is in accordance with the rules of conduct of the AMF;

(ii) honouring obligations linked to share option schemes or other share allocations for employees or social representatives or an associated company;

(iii) purchasing in order to hold in reserve for later use as payment or in a share swap as part of an external growth operation, in accordance with stock market regulations, with the stipulation that the number of shares to be acquired by the Company and then held with a view to their later delivery as payment or in an exchange as part of a merger, a break-up or an acquisition must not exceed 5% of the capital;

(iv) delivering shares in the exercise of rights attached to transferable securities giving access to the Company's capital;

(v) cancelling said shares, conditional, in the latter case, on adoption of the seventh resolution by the upcoming Extraordinary General Meeting;

(vi) using any market techniques authorised by law or the AMF to draw the public's attention, in accordance with the relevant legal requirements and regulations, to the eventual modification of the programme's objectives.

There is no limit to what proportion of the programme can be used for block trading.

The Company may proceed with operations (i) to (vi) described above while a public bid or share swap are underway, in accordance with regulations.

## 8.5.5 MAXIMUM PROPORTION OF CAPITAL TO BE ACQUIRED AND THE MAXIMUM NUMBER OF SHARES LIABLE TO BE PURCHASED, THE NATURE OF SHARES LIABLE TO BE BOUGHT BACK AND MAXIMUM PURCHASE PRICE

### 1 Maximum proportion of capital to be acquired by Euler Hermes

In accordance with the law, Euler Hermes commits to not buying back, either directly or indirectly, more than 10% of its capital (consisting of 45,128,067 shares on March 31st, 2011).

In accordance with Article L. 225-210 of the French Commercial Code, the number of shares that Euler Hermes will hold at any given time must not exceed 10% of the total shares making up the Company's capital on that date.

Based on the number of shares already held, being 1,320,644 shares at March 31st, 2011 (2.93 % of the capital), and dependent on eventual adjustments to the Company's capital following the Mixed General Meeting on May 20th, 2011, the buybacks may not exceed 3,192,163 shares (7.07 % of the capital).

Note also that the maximum sum that Euler Hermes may commit to this programme will be €180.7m, in accordance with the seventh resolution to be submitted to the Mixed General Meeting of May 20th, 2011.

### 2 Characteristics of the shares concerned

Nature of the bought-back stock: ordinary shares.

Code: ELE.

ISIN code: FR 0004254035.

### 3 Maximum purchase price

In accordance with the seventh resolution to be submitted at the Mixed General Meeting on May 20th, 2011, the maximum purchase price (excl. costs) within the framework of the new share buyback programme is fixed at €123 per share (which corresponds to the share price at end-December 2010, multiplied by a factor equivalent to the largest rise in the share price in a single year since the share listing began, i.e. 73% in 2003). The resolution specifies that in the event of operations on the capital, particularly the incorporation of premiums, reserves or profits that would either increase the par value of the shares or lead to the creation and granting of free shares, the consolidation of shares or a division of the par value of the shares, the Management Board will have the authority, where required, to adjust the price and number of shares accordingly, and that, if the shares that are subsequently purchased are then granted free of charge in accordance with Article L. 443-5 of the French working code, the value of the attributed shares would then be determined according to the applicable legal requirements.

## 8.5.6 DURATION OF THE PROGRAMME

In accordance with the seventh resolution to be submitted at the Mixed General Meeting on May 20th, 2011, the programme will last no longer than 18 months from the date of the above-mentioned Meeting and must therefore terminate no later than November 19th, 2012 or a new date determined by an Ordinary General Meeting held before that date.

# ADDITIONAL INFORMATION

# 9.1 Person responsible for the registration document

Wilfried Verstraete, Chairman of the Group Management Board.

# 9.2 Declaration of person responsible

I declare, having taken all reasonable measures to this effect and to the best of my knowledge, that the information contained in this registration document is correct and true and that there are no omissions that might alter the scope of the document.

I declare, to the best of my knowledge, that the accounts have been compiled in accordance with applicable accounting standards and that they provide an accurate reflection of the assets, the financial position and the earnings of the Company and all the companies in the consolidation group, and that the management report, the different sections of which are mentioned in paragraph 9.7.1 of this registration document, presents an accurate picture of the business trends, the results and the financial position of the Company and all the companies in the consolidation group and a description of the main risks and uncertainties that these companies are confronted with.

I have received from the independent auditors a letter of completion attesting that they have verified all information related to the financial position and accounts provided in this registration document and that they have read the entire document.

The historic financial information presented in this registration document is the subject of reports by the independent auditors in Chapter 5 of this registration document.

The Statutory Auditors' report on the consolidated financial statements as of December 31st, 2008, on pages 175 of the Company's registration document for the 2008 fiscal year recorded by the AMF on April 20th, 2009 under the number D 09-0276 does not contain any observations or reserves.

The Statutory Auditors' report on the consolidated financial statements as of December 31st, 2009 on page 180 of the Company's registration document for the 2009 fiscal year recorded by the AMF on April 20th, 2010 under the number D 10-0293 does not contain any observations or reserves.

The Statutory Auditors' report on the consolidated financial statements as of December 31st, 2010 in paragraph 5.7 of this registration document contains the following observations: "Without wishing to call the opinion given above into question, we draw your attention to Note 2.1. § "Change of accounting method which explains the changes in the accounting method for presenting the sector-based information".

Paris, April 13, 2011.

Wilfried Verstraete

Chairman of the Group Management Board

# 9.3 Independent auditors

## 9.3.1 STATUTORY AUDITORS

**ACE Audit**

5, avenue Franklin-Roosevelt

75008 Paris

Represented by François Shoukry.

ACE Audit is registered with the Paris Regional Auditors office (Compagnie régionale des commissaires aux comptes de Paris).

The Shareholders' Meeting of April 22nd, 2005 appointed ACE, Auditeurs et Conseils d'Entreprise, represented by Alain Auvray, as the Statutory Auditor for a period of six financial years, ending at the Shareholders' Meeting that approved the financial statements for the year ended December 31st, 2010. Since the fiscal year 2009, ACE, Auditeurs et Conseils d'Entreprise, has been represented by François Shoukry.

**KPMG SA**

1, cours Valmy

92923 Paris la Défense Cedex

Represented by Régis Tribout.

KPMG SA is registered with the Versailles Regional Auditors office (Compagnie régionale des commissaires aux comptes de Versailles).

The Shareholders' Meeting of April 22nd, 2005 renewed the mandate of KPMG SA as the Statutory Auditor for a period of six years, ending at the Shareholders' Meeting that approved the financial statements for the year ended December 31st, 2010. Since 2009, KPMG has been represented by Régis Tribout.

## 9.3.2 ALTERNATE STATUTORY AUDITORS

**Emmanuel Charrier**

5, avenue Franklin-Roosevelt

75008 Paris

An alternate Statutory Auditor for ACE, Auditeurs et Conseils d'Entreprise, Emmanuel Charrier is registered with the Paris Regional Auditors Office.

The Shareholders' Meeting of April 22nd, 2005 appointed Emmanuel Charrier as an alternate Statutory Auditor for ACE, Auditeurs et Conseils d'Entreprise, for a period of six years, ending at the Shareholders' Meeting that approved the financial statements for the year ended December 31st, 2010.

**SCP Jean-Claude André and Autres**

1, cours Valmy

92923 Paris la Défense Cedex

An alternate Statutory Auditor for KPMG SA, SCP Jean-Claude André et Autres is registered with the Versailles Regional Auditors office.

The Shareholders' Meeting of April 22nd, 2005 also appointed SCP Jean-Claude André et Autres as alternate Statutory Auditor to KPMG SA for a period of six years, ending at the Shareholders' Meeting that approved the financial statements for the year ended December 31st, 2010.

## 9.3.3 INDEPENDENT AUDITORS' FEES

The total remuneration for the Statutory Auditors and members of their networks totaled €3,697,000. This remuneration includes the fees paid for the audit, the certification and verification of the individual and consolidated financial statements, i.e. 3,177,000, and the incidental assignments connected with the audit, i.e. 466,000. A total of €54,000 was also paid in fees for other services provided by the Statutory Auditors.

In accordance with Article 222-8 of the General Regulations of the AMF, please refer to Note 33 ("Auditing fees") of the consolidated financial statements in paragraph 5.5 of this registration document, which contains a table outlining the total fees paid by Euler Hermes to each of the Group's independent auditors, and which distinguishes between the fees related to the auditors' legal duties and the due diligence related to these duties, and the fees paid for other services.

# 9.4 Annual information document

In accordance with Article 222-7 of the General Regulations of the AMF, the annual information document below lists all the information published by the Company or made public in the last 12 months, in one or more countries of the European Economic Area or in one or more other countries in order to meet its legislative and regulatory obligations pertaining to financial securities, the issuing of financial securities and the financial securities markets.

| List of information published in the last 12 months | Method of consultation |
|---|---|
| **Press release** | **www.eulerhermes.com** |
| Euler Hermes and China Pacific Insurance (Group) Co., Ltd team up to provide Chinese Companies credit risk transfer solutions | |
| Euler Hermes appoints CEO in China<br>03/14/2011 | |
| Euler Hermes launches a credit insurance company in Turkey<br>03/09/2011 | |
| Pharmaceuticals: an industry on the defensive<br>02/24/2011 | |
| Euler Hermes appoints CEOs in Russia and Mexico<br>01/17/2011 | |
| Although threatened, the global economic recovery is likely to win through – Corporate insolvencies will continue to decline in 2011<br>12/15/2010 | |
| How has the 2009 fall in air traffic affected players in the air industry?<br>11/22/2010 | |
| SMEs in both France and Italy have withstood the crisis by adapting their costs more quickly than in previous downturns<br>11/15/2010 | |
| The crisis is durably reshaping the global landscape of the automobile sector<br>09/24/2010 | |
| Euler Hermes begins operations in Chile<br>07/22/2010 | |
| Catherine Zeller joins Euler Hermes as Head of Group Legal and Corporate Secretary<br>07/19/2010 | |
| Euler Hermes wins "Best Export Credit Agency" award for the sixth time<br>07/15/2010 | |
| Euler Hermes enhances its political and trade risk cover<br>06/07/2010 | |
| Global economic recovery is already under pressure<br>06/28/2010 | |
| José Maria Cadenas is appointed as CEO of Euler Hermes Spain<br>05/27/2010 | |
| New members are appointed to the Supervisory Board of Euler Hermes<br>05/21/2010 | |
| Brazil, India and China: the new leaders of the global economy<br>05/20/2010 | |
| Jules Kappeler is appointed as Managing Director of Euler Hermes Switzerland<br>05/05/2010 | |
| World economy: New sources of growth are slow to emerge; risks and uncertainties persist<br>04/15/2010 | |
| HSBC and Euler Hermes join forces to support UK exporters<br>04/12/2010 | |
| Bruno Verhofstede appointed CEO of Euler Hermes Belgium<br>03/30/2010 | |
| Appointments at Euler Hermes<br>01/18/2010 | |

| List of information published in the last 12 months | Method of consultation |
|---|---|
| **Periodic regulated information** | **www.eulerhermes.com** |
| Euler Hermes publishes results for the first nine months of 2010<br>11/24/2010 | |
| Interim financial report June 2010<br>08/30/2010 | |
| Euler Hermes: Results of the Ordinary Shareholders' Meeting vote<br>05/31/2010 | |
| Euler Hermes results for the first quarter of 2010 Turnover: €505.5 million Technical result: €24.5 million Operating income: €67.1 million Net income: €47.6 million<br>05/07/2010 | |
| Euler Hermes: Notice of Combined Shareholders' Meeting on May 21st, 2010 AT 11.00 am<br>04/29/2010 | |
| Euler Hermes: 2009 registration document<br>04/20/2010 | |
| **Permanent regulated information** | **www.eulerhermes.com** |
| Declaration of voting rights on March 31, 2011<br>04/08/2011 | |
| Declaration of voting rights on February 28, 2011<br>03/30/2011 | |
| Euler Hermes 2010 results<br>02/15/2011 | |
| Declaration of voting rights on December 31, 2010<br>01/29/2011 | |
| Statement establishing half-yearly control of Company's liquidity contract on December 31st, 2010<br>01/10/2011 | |
| Declaration of voting rights on November 30th, 2010<br>12/23/2010 | |
| Declaration of voting rights on October 31st, 2010<br>12/23/2010 | |
| Declaration of voting rights on September 30th, 2010<br>12/22/2010 | |
| Individual declaration pertaining to operations on the Company's stock by persons mentioned in Article L. 621-18-2 of the Monetary and Financial Code<br>12/01/2010 | |
| Euler Hermes results for the first nine months of 2010<br>11/09/2010 | |
| Declaration of voting rights on August 31st, 2010<br>09/09/2010 | |
| Declaration of voting rights on July 31st, 2010<br>09/03/2010 | |
| Announcement of publication of Euler Hermes interim financial statements<br>08/30/2010 | |
| Euler Hermes results for the first half of 2010<br>Turnover: €1,038.69 million<br>Technical result: €120.2 million<br>Operating income: €194.1 million<br>Net income €147.4 million<br>07/29/2010 | |
| Declaration pursuant to Article 223-16 of the General Regulations of the AMF<br>07/15/2010 | |
| Half-yearly control of liquidity contract<br>07/06/2010 | |
| Euler Hermes: Announcement of publication of 2009 registration document<br>04/29/2010 | |
| Euler Hermes: Publication in accordance with articles L. 225-41-1 and L. 225-90-1 of the Commercial Code<br>02/22/2010 | |

| List of information published in the last 12 months | Method of consultation |
|---|---|
| Euler Hermes results for 2009<br>Turnover: €2,085.7 million<br>Technical result: €-64.8 million<br>Operating income: €83.6 million Net income: €19.0 million<br>02/17/2010 | |
| Declaration pursuant to Article 223-16 of the General Regulations of the AMF<br>01/14/2010 | |
| Euler Hermes: Declaration of voting rights on 01/2010<br>01/14/2010 | |
| Half-yearly control of liquidity contract<br>01/06/2010 | |
| **Documents accessible on the website of the AMF** | **www.eulerhermes.com**<br>**www.amf-france.org** |
| 2009 registration document<br>04/20/2010 | |
| **Documents published by the BALO** | **www.journal-officiel. gouv. fr** |
| Turnover and quarterly performance<br>11/17/2010 | |
| Annual accounts<br>07/23/2010 | |
| Notice of meeting (Shareholders' Meeting of May 21st, 2010)<br>05/03/2010 | |
| Notice of meeting (Shareholders' Meeting of May 21st, 2010)<br>04/14/2010 | |
| **Documents filed with the registry of the Paris commercial court** | **www.infogreffe.fr** |
| Extract from the minutes related to the capital increase and changes to the Articles of Association<br>10/04/2010 | |
| Updated Articles of Association<br>10/04/2010 | |
| Minutes of the Ordinary and Extraordinary Shareholders' Meetings related to changing of members of the Supervisory Board<br>05/21/2010 | |
| Extract from the minutes related to changes to the Articles of Association<br>05/21/2010 | |
| Updated Articles of Association<br>01/12/2010 | |
| Extract from the minutes related to the capital increase<br>01/11/2010 | |

# 9.5 Documents available to the public

The following documents can be consulted at the Legal department of Euler Hermes, 1 rue Euler 75008 Paris, France, up until the publication of the next registration document:

- the Articles of Association;
- reports and other documents drawn up by experts at the Company's request, extracts from which are included or referred to in this registration document;
- the separate and consolidated financial statements of Euler Hermes for each of the two fiscal years preceding the publication of the current registration document.

# 9.6 Glossary

**Approval:** response given by Euler Hermes to the request of a policyholder to cover all or part of the outstandings of one of its customers.

**Bond:** a bond is a negotiable debt security representing a fraction of a loan issued by a company, public sector entity or state. Bondholders are repaid before shareholders if the issuing company goes bankrupt. However, bondholders are not entitled to any of the rights attached to shares (rights to earnings and the right to manage the company via voting rights).

**Broker:** an independent intermediary who canvasses companies in order to offer them a credit insurance policy or factoring agreement. Brokers advise policyholders during the implementation of the policy or agreement and in its day-to-day administration.

**Capital increase:** when a company needs funds, it may make a capital increase. It offers the opportunity, notably to existing shareholders, to subscribe to new shares at a given price.

**Capital:** total assets owned by a company less its liabilities.

**Cash pooling:** a method of centralized management at a single point of all of a group's bank accounts. The goal is to optimize cash requirements and surpluses; it may be domestic or international, notional or involve the actual transfer of funds.

**CET:** time-saving plan (compte épargne temps) used by employees to set aside accrued leave.

**Claim:** situation in which a risk is realized. This entitles the policyholder to compensation and triggers the compensation mechanism provided for in the credit insurance policy.

**Collection:** extra-judicial and/or judicial procedure conducted by Euler Hermes to secure payment of a receivable by the debtor.

**Combined ratio:** sum of the expense ratio and the loss ratio.

**Cox Ross Rubinstein model (CRR):** simplified binomial model. The model represents a basic and fairly simplistic financial market in which the instantaneous return on risky assets falls within two points at any given time.

**Credit insurance:** a technique whereby a company protects itself against the risks of non-payment of its trade receivables.

**Dilutive effect:** effect that decreases earnings per share (for example by increasing the number of shares).

**Dividend:** the portion of a company's earnings attributable to the shareholder. A distinction is made between the net dividend, i.e. the amount actually paid by the company to the shareholder, and the gross dividend, which also includes the tax credit.

**Earnings per share:** calculated as consolidated net income divided by the number of shares comprising share capital, net of any treasury stock.

**Expense ratio:** overheads as a proportion of premiums.

**IAS (International Accounting Standards)/IFRS (International Financing Reporting Standards):** the set of accounting standards drawn up by the IASB until 2002.

**IASB (International Accounting Standards Board)**: a private body founded by the accounting institutes of nine countries in 1973. Its main objectives are to establish internationally acceptable accounting standards, to promote their use and, more generally, to work towards the international harmonization of accounting practices and the presentation of financial statements. The IASB comprises 14 independent members.

**Indemnification:** reimbursement by Euler Hermes of losses sustained by a policyholder as the result of the insolvency of one or more of its customers, provided they are covered by an existing policy.

**Index:** instrument used to measure and compare the performance of shares or bonds.

**Insolvency:** legally recognized incapacity of the debtor to meet his or her commitments and, as such, to pay his or her debts.

**Integrated group:** group with an exclusive network of affiliates that pool their resources and skills to provide seamless service quality and local management.

**Interest-rate swap:** the principle behind an interest-rate swap is to compare a variable interest rate with a guaranteed interest rate and for the two parties to pay each other the interest rate differential without exchanging nominal amounts.

**Issue premium:** as part of a capital increase, the premium is the difference between the subscription amount (valuation of the company) and the nominal value of share capital. The issue premium forms part of a company's shareholders' equity.

**Loss ratio:** claims as a proportion of premiums.

**Market capitalization:** a company's stock market value. It is calculated by multiplying the share price by the number of shares comprising share capital.

**Merger premium:** premium equal to the difference between the capital increase of the acquiring company and the contribution of the acquired company.

**Net book value:** a company's net assets or total assets less total debts. In some respects, it represents a company's value. It can be calculated for the parent company (net book value) or for an entire group of companies (consolidated net book value).

**PER:** price-earnings ratio, ratio of the share price to earnings per share. It is also referred to as the capitalization multiple.

**Permanent difference:** difference between accounting and tax rules that has no impact on the subsequent year's taxable profit.

**Policy:** credit insurance contract between Euler Hermes and the policyholder.

**Premium:** amount paid by the policyholder to the insurance company in exchange for risk coverage. A distinction is made between:

- written premiums: the amount billed during the period to cover the risks under the contract; and
- earned premiums: the portion of the premium written during the period or earlier corresponding to the coverage of risks during the period concerned.

**Prevention:** process by which the policyholder may, based on information provided by Euler Hermes on the solvency of its customers, select its customers and reduce its own losses.

**Proprietary information:** information prepared by Group companies and owned exclusively by Euler Hermes. It is a guarantee of the service quality offered to its clients.

**Receivables management:** suite of services offered to companies aimed at ensuring the collection of receivables after invoicing to the debtor and up to the litigation phase, where applicable.

**Reinsurance:** transaction whereby an insurance company self-insures with a third party (the reinsurer) against some of the risks that it has guaranteed, in exchange for the payment of a premium.

**Risk:** object of the insurance, probability of a claim occurring.

**RSU (Restricted Stock Units):** the economic equivalent of bonus share plans.

**SAR (Stock Appreciation Rights):** the economic equivalent of stock option plans *(see definition of stock option)*.

**Share:** a share is a title of ownership.

**Solvency margin:** regulatory amount to be constituted, in addition to technical reserves, to ensure that commitments towards the Group's clients are met.

**Stock option:** options to purchase or subscribe stock at a fixed price, usually distributed to executives of a company to give them a vested interest in increasing the company's value.

**Sums recovered:** all collections after indemnification, when the insurance company takes over the policyholder's rights to receivables that are insured and have been indemnified.

**Surplus claims reserve before reinsurance:** the difference between the estimated final cost of claims at the end of the first year and the actual estimate for a given year of occurrence. The difference is calculated before reinsurance. This definition refers to the first table on page 129.

**Sustainable development:** launched in 1987 by the Brundtland Commission of the United Nations, this concept is based on the precept that we should "meet the needs of the present without compromising the ability of future generations to meet their own needs." When applied to a company, a sustainable-development policy assumes the simultaneous pursuit of three objectives: "economic growth, preservation of the environment and social well-being."

**Tax proof:** explanation of the passage between the theoretical tax rate corresponding to that of the parent company and the actual tax recorded in the income statement.

**Technical reserves:** amount of an insurer's commitments to its clients. They appear as liabilities in the balance sheet.

**Time difference:** difference between the accounting and tax rules that has an impact on the subsequent year's taxable profit.

# 9-7 Cross-reference tables

## 9.7.1 MANAGEMENT REPORT OF THE GROUP MANAGEMENT BOARD – CROSS-REFERENCE TABLE

This registration document contains all the elements of the management report of the Euler Hermes Management Board required by Articles L. 225-100 and L. 225-100-2 of the Commercial Code.

Please find hereafter references to the extracts from the registration document corresponding to the different parts of the management report as approved by the Company's Group Management Board.

## 9.7.2 EUROPEAN REGULATION OF APRIL 29TH, 2004 – CROSS-REFERENCE TABLE

Registration document filed with the AMF on April 13, 2011.

| Items of Annexe 1 of European Regulation no. 809/2004 | | Page(s) |
|---|---|---|
| **20** | Financial information concerning the assets, financial position and results of the issuer | |
| **20.1** | Historical annual financial information | 109 to 198, 201 to 213 |
| **20.2** | *Pro forma* financial information | N/A |
| **20.3** | Financial statements | 109 to 198, 201 to 213 |
| **20.4** | Verification of historical annual financial information | 199 to 200, 216 |
| **20.5** | Date of most recent financial information | 258 |
| **20.6** | Intermediate and other financial information | N/A |
| **20.7** | Dividend policy and payouts | 215 |
| **20.8** | Legal procedures and arbitration | 105 to 106 |
| **20.9** | Significant changes to the Group's financial or commercial position | 61 to 62 |
| **21** | Supplementary information | |
| **21.1** | Share capital | 207, 225 to 231 |
| **21.2** | Memorandum of association and Articles of Association | 221 to 224 |
| **22** | Major contracts | N/A |
| **23** | Information from third parties, declarations by experts and declarations of interest | N/A |
| **24** | Documents available to the public | 260 |
| **25** | Information on shareholdings | 121 to 125, 212 to 213, 233 |

## 9.7.3 OTHER PERIODIC INFORMATION REQUIRED UNDER THE TERMS OF THE AMF'S GENERAL REGULATIONS

| Items | Page(s) |
|---|---|
| Annual information document (Art. 222-7) | 257 to 259 |
| Amount of fees paid to Statutory Auditors in 2009 and 2008 (Art. 222-8) | 182, 256 |
| Description of share buyback programmed (Art. 241-2) | 250 to 251 |

## 9.7.4 ANNUAL FINANCIAL REPORT – CROSS-REFERENCE TABLE

This registration document integrates all elements of the annual financial report mentioned in section I of Article L. 451-1-2 of the Monetary and Financial Code and in Article 222-3 of the General Regulations of the AMF.

Please find below references to the extracts from the registration document corresponding to the different sections in the annual financial report.

| Items | Page(s) |
|---|---|
| Separate financial statements | 201 to 215 |
| Consolidated financial statements | 109 to 198 |
| Management report | 263 |
| Declaration by the person responsible for the annual financial report | 255 |
| Statutory Auditors' report on the separate financial statements | 216 |
| Statutory Auditors' report on the consolidated financial statements | 199 to 200 |
| Statutory Auditors' fees | 182, 256 |
| Report of the Chairman of the Supervisory Board on the way in which the Board prepares for and organizes its work and on internal control procedures | 42 to 56 |
| Statutory Auditors' report on the report of the Chairman of the Supervisory Board | 57 |

# 2011 FINANCIAL CALENDAR

**FEBRUARY 15, 2011**

**2010 annual results. Analysts' presentation, press release, webcast.**

**MAY 6, 2011**

**Q1 2011 results. Press release, webcast.**

**MAY 20, 2011**

**General Meeting of shareholders. Paris, 11:00 a.m.**

**JULY 26, 2011**

**H1 2011 results. Analysts' presentation, press release, webcast.**

**NOVEMBER 9, 2011**

**Q3 2011 results. Press release, webcast.**

# BLACKOUT PERIODS

**JANUARY 4 – FEBRUARY 15, 2011**

**2010 annual results.**

**APRIL 1 – MAY 6, 2011**

**Q1 2011 results.**

**JUNE 27 – JULY 26, 2011**

**H1 2011 results.**

**OCTOBER 3 – NOVEMBER 9, 2011**

**Q3 2011 results.**

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